HMW Real Estate Insights

Headwinds and Tailwinds for the Self-Storage Industry in SEQ

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HMW REAL ESTATE ADVISORY

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Headwinds and Tailwinds for the Self-Storage Industry in SEQ

The self-storage industry has benefited over recent years from strong consumer and business demand. This has raised occupancy levels and resulted in strong growth in self-storage rates. However, inflationary pressures and higher interest rates are heavily impacting the discretionary spending power of consumers at present, with the latest national accounts showing household discretionary spending falling (for the third consecutive quarter) by 0.5% during the June quarter 2023. Our conversations with industry participants suggest that the weaker economic environment has impacted storage demand from some users over the past year, flowing through to softer occupancy rates. Similar to conditions post GFC, recent anecdotal evidence has suggested that this softening has been more pronounced in lower socio-economic areas compared with higher socio-economic areas.

It is difficult to place self-storage in a black-and-white discretionary- / non-discretionary-expense box. The evolution of the industry over the past five years has resulted in storage being increasingly viewed as an essential cost-of-living or business expense for many users. This means that whilst softer economic conditions are impacting storage demand for some consumers, the industry is also being supported by customers (both business and personal) who view storage as an essential cost-of-living.

This article briefly examines the headwinds and tailwinds of self-storage occupancy and rental growth in South East Queensland (SEQ) going forward. It is our view that despite heightened uncertainty and the potential for further weakening in demand over the short-term (and provided we are not about to experience a significant deterioration in economic conditions), the medium- to long-term outlook in SEQ is positive.

Drivers of Self-Storage

	Short-term	Medium- to Long-term
Population Growth	• Population growth remains strong, being boosted by both overseas and interstate arrivals.	• Expected to remain robust, albeit decline from the strong levels seen during the pandemic and post-pandemic period. The strongest growth is forecast to occur in Ipswich, Logan, Moreton, and the Gold and Sunshine Coasts.
Discretionary Income	• Discretionary incomes are being squeezed, and as a result, discretionary spending has declined for three consecutive quarters due to interest rate increases and high inflationary pressures.	• IBISWorld are forecasting discretionary income to increase as inflationary pressures ease and economic conditions improve.
Consumer Sentiment	• Consumer sentiment remains deeply negative.	• Sentiment it expected to lift as economic conditions improve.
New Housing Supply	• The housing market remains undersupplied relative to demand. The construction industry has come under significant pressure over the past 18 months due to cost pressures and project delays and the number of dwelling unit commencements declined 6.6% nationally during the March 2023 quarter.	• The housing market is expected to remain undersupplied into the medium-term, with delays in construction and substantial drops in dwelling approvals over the past year continuing to have an influence. Over the longer-term and as confidence returns to the market, new supply / demand is expected to be more evenly matched.
Housing Tenure	• Home ownership (with or without a mortgage) has trended downwards as a proportion of total households over recent decades. This trend is expected to continue, largely because of affordability constraints (with dwelling demand continuing to exceed supply) and other factors such as growth in the Build to Rent sector encouraging longer-term rentals.	
Dwelling Sizes / Structure	• Smaller lot sizes, the inclusion of home offices (with more people working hybridly), and urban densification are contributing to reduced space at home. Apartments and townhouses are growing as a share of total dwellings.	
Online Retailing and Other Business Demand	• Online retail spending is contracting due to weak economic conditions impacting the discretionary spending power of consumers.	• Online retailing is expected to grow as a share of total retailing. Demand from the trade industry is expected to strengthen in the lead-up to the 2032 Olympic Games.
New Supply	• A record level of new self-storage is planned/under construction for SEQ.	• The major operators are expected to continue to add to their portfolios through new developments, extensions, and acquisition, albeit paying close attention to the local area's supply and demographic factors.

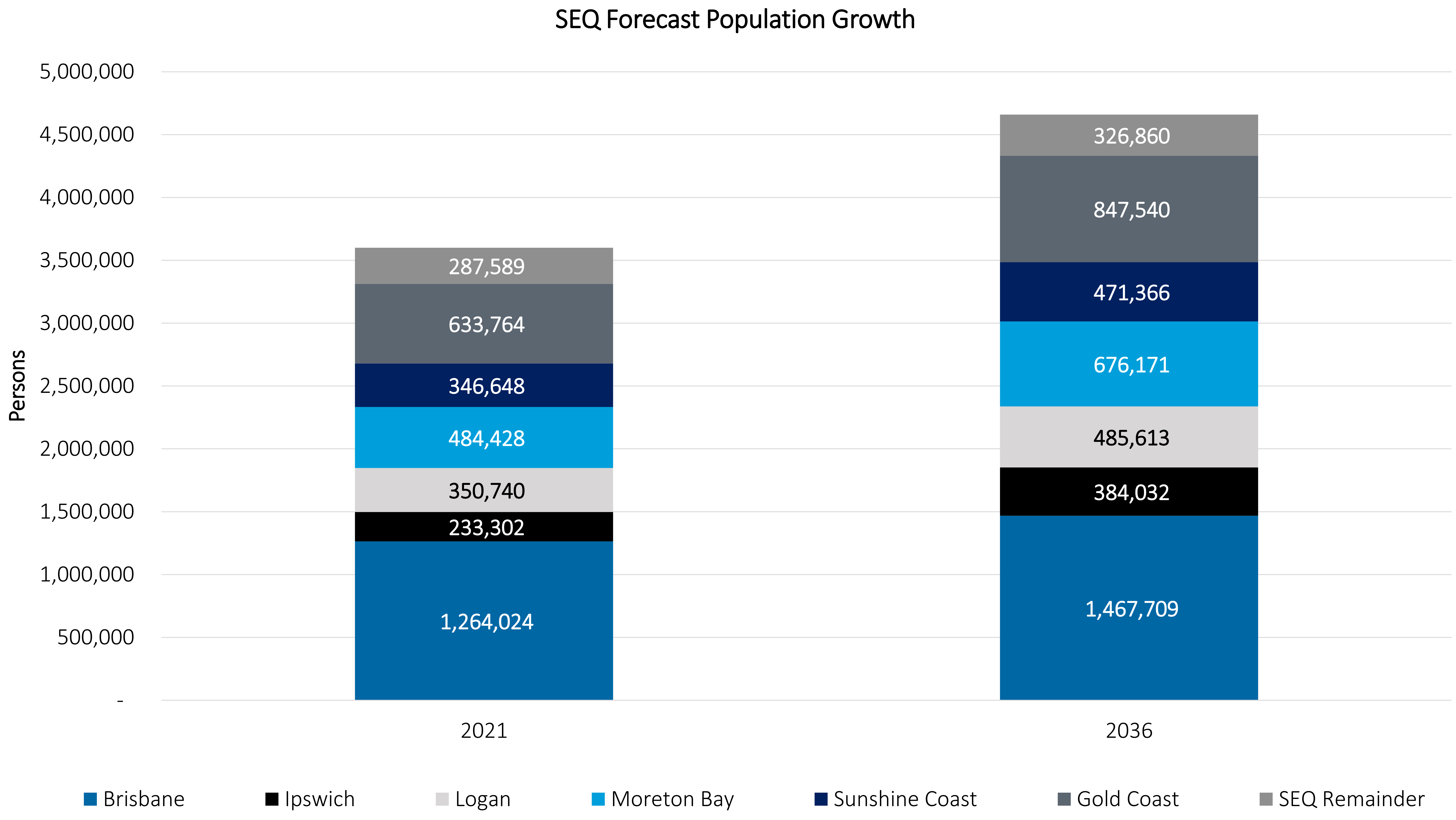
Headwind Mixed Tailwind

Population Growth

The SEQ population is forecast to grow by a strong 1.73% per annum between 2021 and 2036, outperforming State growth of 1.47% per annum over the same period.

Ipswich, Logan, Moreton Bay, and the Sunshine Coast are all expected to see annual growth of over 2 per cent per annum during this time.

Population growth is expected to contribute to increased demand for storage services across SEQ.

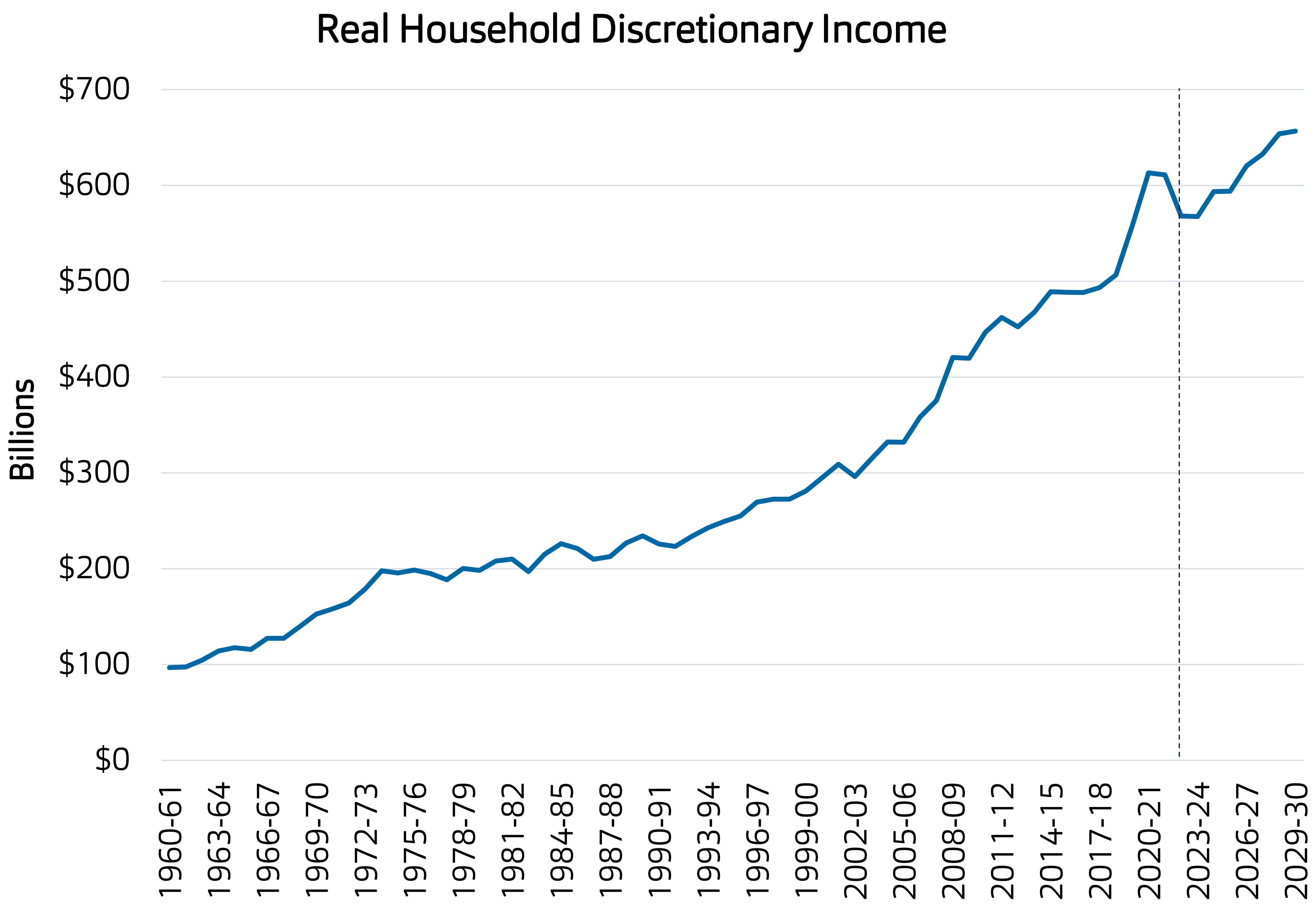


Source: Queensland Government Statistician's Office, HMW Real Estate Advisory
Note: SEQ Remainder includes the Redland Bay, Noosa, Somerset, and Scenic Rim LGAs.

Economic Conditions

Real household discretionary income has decreased over the past 18 months due to inflationary pressures, interest rate rises, deeply pessimistic consumer sentiment, and relatively subdued wages growth. This has resulted in consumers being more cautious about their personal spending patterns, particularly spending on non-essential items. The latest National Accounts showed discretionary spending decline for the third consecutive quarter. Our discussions with industry participants and the latest data available show that self-storage demand has weakened over the past year, reflected in lower average occupancy rates. Anecdotally, weaker economic conditions and the impact on demand has had a more pronounced impact in lower socio-economic areas. However, we also note that storage is becoming less viewed as a discretionary expense than it is as an essential cost of living for some users.

Whilst challenging economic conditions are likely to continue over the near- to short-term, the medium- to longer-term economic forecast is more positive. Inflation has now peaked and is on a downward trajectory. Furthermore, three of the four major banks are forecasting that the official cash rate has now peaked. IBISWorld are forecasting discretionary income and consumer sentiment to increase as inflationary pressures ease and economic conditions improve.



Source: IBISWorld, HMW Real Estate Advisory

Housing Supply and Dwelling Tenure

Housing Supply

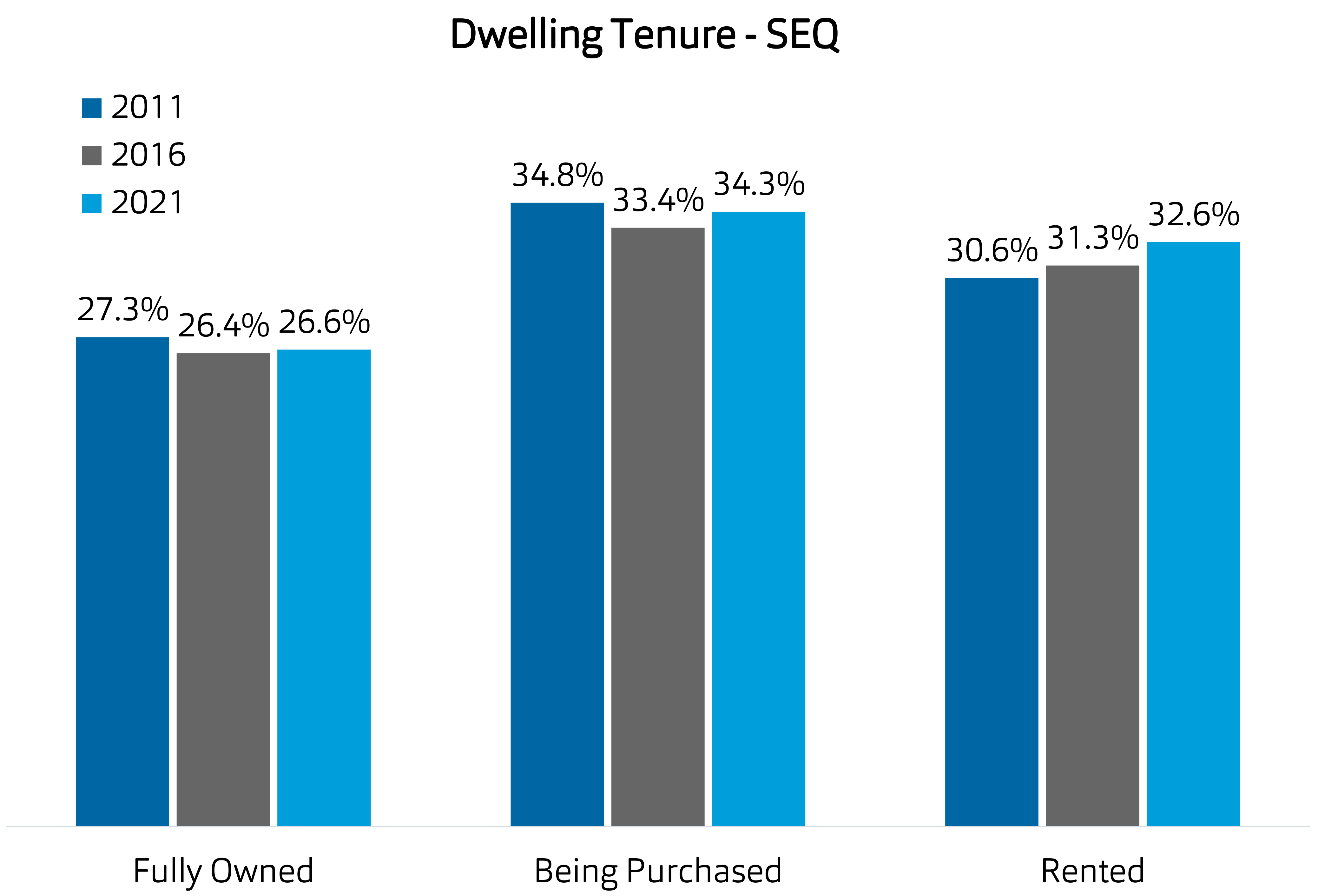
SEQ is experiencing a shortage of housing that is forecast to deteriorate further over coming years due to reduced construction activity and the continued inflow of new persons from overseas and interstate. The housing shortage has the potential to encourage more people to live with parents for longer, more persons to live in temporary rental accommodation or share house arrangements, and families to squeeze into smaller-than-ideal dwellings. All these factors have potential to increase personal demand for self-storage.

Dwelling Tenure

The proportion of dwellings rented across SEQ increased by two percentage points between 2011 and 2021. House prices have increased considerably across SEQ over recent years, significantly reducing the affordability of home ownership. Looking forward, robust population growth is expected to continue to drive housing demand and house price growth across SEQ. The increased unaffordability of home ownership will likely see renters continue to account for a growing share of dwellings.

Added to this, residential vacancy rates remain extremely tight across SEQ, and rents have increased substantially as a result. Tight rental conditions are expected to continue over coming years due to subdued levels of completions. These factors reduce the choice of dwellings available to renters and will likely result in some renters being forced to lease smaller dwellings or with co-tenants.

However, we note that the growing Build to Rent sector has potential to take some demand away from self-storage over the long-term given its offering of a more long-term rental solution (thus potentially reducing movements in and out of dwellings and the associated need for temporary storage).



Source: QSGO, HMW Real Estate Advisory

Housing Structure

Houses are declining as a share of total dwellings, the floor area of new houses is declining, and home offices have become more common, contributing to dwellings having less space than they previously had for storage purposes.

More attached and semi-attached dwellings

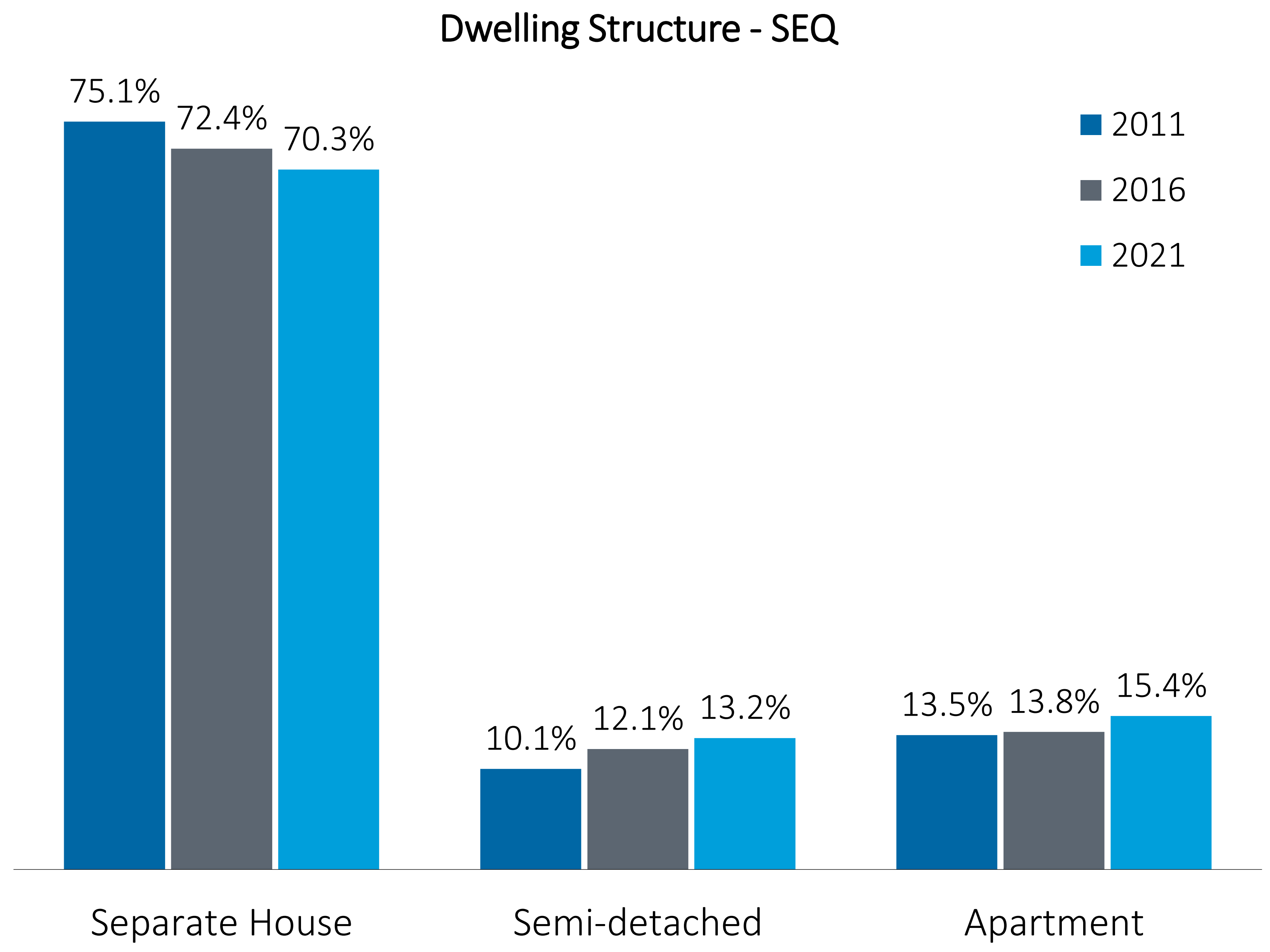
The 2021 Census showed growth across SEQ of 64.5% and 44.1% for the number of semi-attached and apartment dwellings respectively (from 2011), compared to 17.7% for separate houses. Units and townhouses continue to grow as a proportion of total dwellings across SEQ whilst the share accounted for by separate houses is declining. The rising unaffordability of home ownership will potentially encourage first home buyers to purchase a more affordable attached or semi-detached dwelling (with typically a smaller floor area) instead of a separate house.

Home offices

Following forced 'work from home' orders during the COVID-19 pandemic, many office workers continue to engage in hybrid working arrangements. This has resulted in spare rooms and spaces being converted to home offices / workstations, and anecdotally, contributed to increased demand for self-storage. This trend is likely to continue in one shape or another, with many office workers continuing to work hybridly.

Lot and house sizes

According to latest data from the Australian Bureau of Statistics, house sizes in Queensland have trended downwards since the 2008-09 financial year. Over this time, the average floor area of new houses built has decreased by just over 9%. This has occurred as average lot sizes have decreased (with residential land becoming increasingly expensive) and as more new dwellings are developed as part of master planned communities.



Source: ABS Census of Population and Housing, HMW Real Estate Advisory

Online Retailing and Other Business Demand

According to NAB, online retailing accounted for an estimated 12.7% of total retail trade during the year ending July 2023.

Online retail sales grew rapidly during the pandemic before going through a period of contraction. Whilst up year-on-year in July (from a low base after the period of contraction), online retail trade has declined for the past two months, and the past six months show a moderation in consumer sending behaviour consistent with the broader retail market.

Medium- to long-term forecasts are for online retail to gradually grow as a share of total retail spending, with many retailers having invested heavily in their distribution centres and online retail platforms over recent years. Growth in online retail is expected to drive self-storage demand from small online retailers needing flexible space to store stock as well as act as a distribution point and or shopfront.

There is also potential for demand from trade professionals to increase as new infrastructure and facilities are constructed in the lead up to the 2023 Olympics.

What this means for the self-storage industry in SEQ going forward

- Record supply to be delivered across Australia over coming years.
- In SEQ, most new supply is concentrated in the Brisbane, Ipswich, Logan, Moreton Bay, and Gold Coast LGAs.
- Some softening in demand expected due to weaker economic conditions and oversupply in some sub-markets.
- Positive medium- to long-term outlook for self-storage demand.

The medium- to long-term outlook for self-storage demand in SEQ is positive. This positive outlook is predominantly driven by robust population growth projections, and the flow on effects of population growth to housing structure, density, tenure, and availability. Other factors such as increasing discretionary income (over the medium-term), growth in online retailing, and continued growth in awareness of the storage industry, are also expected to contribute to the compelling demand outlook.

However, we note that the largest industry operators (Kennards Self-Storage, Abacus Storage King, and National Storage) have rapidly expanded their portfolios of facilities over the past five years through acquisitions, but also, new developments, and the expansion of existing facilities. According to IBISWorld, 20.5% of self-storage facilities are in Queensland, and the State accounts for 20.0% of the population, indicating a relatively even distribution of population to facilities.

The 2022 State of the Industry Report from the Self-Storage Association of Australia (SSAA) reported that a record level of new supply is to be delivered across Australia over coming years. According to the SSAA, the rate of supply to population across the Brisbane region is expected to increase from 0.21m^2 per capita in 2022 to 0.26m^2 per capita in 2024, the highest of all capital cities. The SSAA's Self Storage Supply tracker states that there are currently 31 new facilities proposed or under construction across Greater Brisbane, Gold Coast, and the Sunshine Coast. If all of these facilities are developed, Net Storage Area across this market would increase by 77,313 square metres or circa 8.6%. Most of the proposed facilities are in LGAs where the strongest population growth is expected to occur (Ipswich, Logan, Moreton Bay, and Gold Coast). However, we note that high construction prices continue to hinder the progression of projects (with some DA approved sites having been put on hold) and it is therefore considered unlikely that all proposed projects will proceed to development, at least within their original timeframes.

We are anticipating some further softening in self-storage demand over the short-term, predominantly driven by the soft economic conditions and in some sub-markets, an oversupply of self-storage space. This will likely result in weaker rental growth, and for new facilities in oversupplied catchments, a longer time to reach sustainable occupancy levels. However, and in contrast, some sub-markets across SEQ have not seen a reduction in occupancy rates over the past year and these conditions may continue provided new supply complements demand. Whilst the supply side of the picture is less certain, the outlook for demand across SEQ over the medium- to long-term is positive due to forecast population growth, changing household tenure and structural trends, urban densification, and growth in online retailing, all against the backdrop of continuing growth in consumer awareness of self-storage.

HMW Real Estate Advisory Services

Property Valuation Services

- Commercial property (office, retail, industrial); specialised assets (self-storage, disabled housing, petrol stations, retirement villages etcetera); and health care assets.
- Non-mortgage, trust, asset (Government and private) and GST valuations.
- Pre-acquisition valuations and consultancy advice, in addition to disposal strategic solutions and advice.
- Tactical advice on portfolio balance and strategies.

Property Economic and Research Services

- Catchment analysis for proposed business and property ventures.
- Supply and Demand research for proposed business and property ventures.
- Property market research.

NDIS Disabled Housing Project Consultation and Advice

- Independent review and advice in relation to NDIS development and funding.

Property Portfolio Valuer/Valuation Management

- Valuation management services including obtaining quotes and selection.
- Preparation of a program for communication and deliverables.
- Provision of a structured reporting process.
- Review of valuation methodology, rationale and sales for appositeness.

Highest and Best Use Assessments

- Identification of potential uses of the property for either redevelopment, repositioning or refurbishment.
- Review town planning and zoning constraints impacting on future development and use the site.
- Supply and demand / needs analysis for the perceived highest and best uses of the site.

Project Feasibility Analysis

- Highest and best use of the site.
- Gross Realisable value of the project based on highest and best use.
- Residual analysis studies to establish Project Related Site value.
- Market value of the site on the basis of a third-party, independent of the proponent.

Rental Review, Determinations and Assessments

- Strategic advice on tenant lease Terms and Conditions and recommendations for negotiations of leases.
- Market analysis of rental transactions to assess the Current Market Rental value.
- Market rent assessment based on the proposed/existing lease terms and conditions.

Tenant Representation Activities

- Engagement of appropriate consultants for new leases and/or lease renewals.

Project and Investment Funding Sourcing

- *Quintessential Finance* overseen by Tony Rickards, Partner, HMW Group.
- Credit assessments or loan submissions to supplement internal resources and skills.
- Independent review and advice on loan submissions, credit assessments and underwriting policies, specialising in property development and investment finance.
- Genuine and considered insights into the performance and outlook of industry sectors.
- Hindsight reviews of loans to give opinion on the health of your loan exposures and underwriting practices.
- Loan portfolio impairment stress testing / modelling.
- Origination of lending opportunities (e.g. broking)

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