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TAPPING INTO GERMANY'S UNDEVELOPED MARKET

First Elephant Self Storage leads the charge

Like many international self-storage markets, Germany remains largely underdeveloped. Although the country now boasts more than 150 facilities—and more in the pipeline—operators face a number of challenges, such as finding financing and land, as well as educating customers on the product. Christian Lohmann, co-founder and managing partner of First Elephant Self Storage GmbH, provides an overview of the market, the obstacles operators face, and how his company is overcoming them to help the business flourish.

Tell us about yourself and your company.

I'm 49 years old and live in Hamburg, Germany. Before working at First Elephant, I was engaged as chief operating officer of Secur Self Storage Group. I'm also chairman of the German Self Storage Association.

As an operator and franchisor, First Elephant Self Storage has been established as win-win for customers as well as operators and investors. There were elephants 60 million years ago, and they still exist today. Why? Elephants are herd animals and usually live in groups. They're led by their most experienced and strong members, who by their long memory know about vital behaviors, feeding areas and water courses. Their good mind and keen social behavior benefit young and old as well as injured herd members.

This proven strategy of survival serves as the role model for the First Elephant brand. Our company

was founded in April 2015. On one hand, we're an operator and owner of self-storage facilities; on the other, we're a community/alliance of active operators and a partner for newcomers who wish to establish new facilities in a co-branding/franchise situation. The First Elephant group aims to provide investors and operators access to the maximum growth potential in the German self-storage market.

With six locations established in 2015, First Elephant is now proud to unite 11 sites in Albstadt, Berlin, Bremerhaven, Hamburg, Kassel (2), Landshut, Lübeck and Munich (3). There are also four new sites in the pipeline to be built and opened in the second half of 2016 and first quarter of 2017.

What's the state of the self-storage industry in Germany?

The German self-storage market is definitely a growth market. We count about 165 sites in the country, most of them (103) members of the association.

The German economy as a whole is on the upswing. The federal government assumes the economy will pick up by 1.6 percent this year. We see rising demand, mainly in capital and big cities with increasing population. We also see that even smaller cities can develop demand for self-storage solutions as they grow.

Our stable, growing economy increases the interest of foreign companies and institutional investors to invest into the German self-storage



First Elephant Self Storage in Kassel, Germany

market. Shurgard (Public Storage Inc.) and Homebox are outstanding examples.

Here are some basic figures about the self-storage industry in Germany, which has an excess of 80 million inhabitants:

- 0.05 square foot per person
- 1.6 storage facilities per million of population
- Average yield is greater than \$29 per occupied square foot per year

What challenges do operators face and how is First Elephant meeting them?

There are several. The main challenges are to increase the awareness of the product/brand and find financing solutions to expand the business. Additionally, prices for properties have increased massively, so it's more difficult to find available land in good locations.

Compared to the rest of Europe, the German self-storage market is still very underdeveloped. Because of high construction costs and land prices at premium locations, new buildings or conversions in large cities are only feasible for a few larger companies. For many, bank financing is the limiting factor to expansion.

First Elephant invests in innovative self-storage concepts, products, software and marketing solutions. We're still looking for investors to help us realize our own expansion. Additionally, we provide development, operations, management and license concepts to newcomers and start-up companies. We open the German self-storage market for small,

big and institutional investors as well as property owners who want to convert an existing building.

What do you see happening in the market moving forward?

The German self-storage industry will definitely continue to grow. I assume that with increasing technical progress, a time will come when German storage companies will be more innovative than those in many other parts of Europe. Here's what I predict:

- In the short-term, we'll see an above-average increase of self-storage facilities, mostly in B-grade cities (100,000 to 300,000 inhabitants).
- In the mid-term, I assume the total number of self-storage facilities in Germany will increase to above average levels in the next five years. The average rentable area per store/facility, however, will decrease due to smaller facilities and kiosk use.
- In the long-term, competition in bigger and capital cities will lead to lower prices/yields. B-grade cities will become the new A-grade cities. I see the potential for an additional 150 to 200 common stores, as well as about 300 or more small (and very small) stores that are more or less unmanned (satellite facilities).

“
The main challenges are to increase the awareness of the product/brand and find financing solutions to expand the business.”

All operators think about or are already working on special software solutions to allow e-commerce possibilities and enable kiosks. The goal is, on one hand, to reduce payroll costs and, on the other, to allow smaller stores at the heart of residential areas. We're also working on mobile-storage products, especially in Berlin, Hamburg and Munich.

How is self-storage design evolving in Germany?

Nowadays in Germany, mom-and-pop storages, garage parks and drive-ups (like in the United States) are rare. The most typical sites are new builds with metal facades, five to six floors, and lettable space ranging from 53,819.55 to 64,583.46 square feet.

Like in the U.S. or United Kingdom, German facilities function best if located on main roads (with 25,000 vehicles or more per day) with close proximity to residential areas. At these prominent locations, however, the government has special concerns regarding façades and so on. This often results in very high construction costs. We find the authorities are more often requiring high-grade buildings.



The Lübeck, Germany, office

Another challenge is there are different building codes in the various federal (Bundesländer). Every Bundesland has its own code. The construction of commercial facilities like self-storage within residential areas is mostly only possible in exceptional cases. Because of this, buildings will be more hotel-like. Friendly designs and high-quality buildings will become more important.

Buildings in B- and C-grade locations (industrial areas) won't have these problems; but, of course, they often won't meet customers' requirements. Lower yields and less growth are the consequences. It depends on the investors, which strategy is preferred and which investment horizon is leading.

Are lenders more readily providing funding for self-storage?

Not really! Most banks have difficulties with our business. The success of the operator plays an important role here. Companies that already operate self-storage facilities and have reliable figures have an easier time. Newcomers and start-ups need a very high equity ratio. Business plans must be extremely detailed in these cases.

What are self-storage customers looking for when they seek storage?

In Germany, the ratio of commercial to private customers is about 30 percent to 70 percent. Commercial customers are looking for flexible

storage solutions for goods and tools as well as long-term storage for documents and so on. Some private customers look for long-term space because their habitations are too small and lack storage. There are also those who need flexible, short-term space because of a relocation, renovation, divorce or new partnership.

What's on the horizon for the industry and First Elephant?

It depends on several things. I'm sure both the industry and our company will grow. The risks are negligible. I'm sure there's a risk that demand will reduce, but I don't believe this will happen.

For example, there are futurists who predict that in 2050, the same number of people will live in cities as on the entire planet today. Today's big cities will become mega cities. That means housing will become increasingly scarce. Shortage of housing leads to higher rental rates and demand for external storage solutions.

The only risk I can see for our business is the German removal companies. They continue to lose more and more customers and surely will try to get a piece of the self-storage cake.

I'm quite sure the potential for self-storage is enormous. First Elephant's target, of course, is to become the biggest player in Germany. **ISS**

For more information about First Elephant, visit www.firstelephant.de/selfstoragegroup.

