

INSIDE THE BOX: WHY STORAGE UNITS ARE A SAFE ALTERNATIVE

If you're finding the market unaffordable, or want to diversify your portfolio, a storage unit could be just the ticket, writes James Mitchell.



The idea of a storage unit as an investment might not sound that exciting. But when you consider you can get into the market for \$100,000 and achieve a 7 per cent net return, this alternative purchase starts to look a little more attractive.

You will never achieve the same capital growth that you would on a residential property, but the storage unit works well as a 'buy and forget' type of investment.

One of the downsides of residential property is the ongoing maintenance costs, which can quickly eat away at your gross rental yield.

There are also restrictive tenancy laws and land tax to consider.



But with a little 25 sqm storage unit, you'd have to own a heck of a lot of them to get over the land tax threshold.

For investors looking for a hassle-free investment the storage unit is a good choice.

More and more storage facilities are popping up in and around Australia's capital cities as 21st century consumers struggle to find enough space for their 'stuff'. Businesses also frequently require storage space to stockpile products, office furniture and even vehicles.

Storage units therefore have two strong tenant pools: business and consumer.

This presents an exciting, if slightly off beat opportunity for savvy investors looking for a bankable alternative to a residential property investment.

HOW MUCH TO GET IN?

The entry level price for a storage unit will vary depending on location, which is just as important in the storage world as it is for residential investments.

Not surprisingly, the highest yields and lowest

norm across the country as both investors and tenants are demanding a higher standard of facility.

"What we've learned over time is that if you offer people large driveways they can use a truck and get around you," Mr Iverach says.

Aside from the accessibility options, a storage unit should also be in a desirable location, close to a large population centre.

As with residential property, the demand – and price – for storage units increases the closer you get to a CBD as city tenants increasingly require a close and convenient storage option.

LOCATION IS IMPORTANT

Unlike investing in residential property, when you might be competing with a hundred other homes in one area, the number of storage facilities currently available is limited.

And while there are more facilities being built, the supply shortage is still in the investor's favour.

The buyer mix is around 30 per cent investors, with 70 per cent owner users – much the same as with residential property, Mr Iverach says, adding

Most of those sales were off the plan, which brings with it a slight discount on price.

As a result there has been a surge in buyer competition as investors look to secure the most affordable, high yield units in the right location.

FINANCING AND FIGURES

For those attracted to the idea of buying an investment storage unit, there are several purchasing options available.

You can buy a storage unit using a self managed super fund (SMSF), where a quick \$100,000 outlay can achieve returns of seven or eight per cent.

These figures are much more compelling than the returns currently coming out of the share market and compare favourably with the higher yields of the residential property sector.

Obtaining financing, however, can sometimes be challenging.

Credit lending is already becoming tight and the banks are even less likely to lend against a left of field investment like storage space.

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vacancy rates are in the major cities. Depending on where you plan on investing, the starting price for a storage unit in any capital city is about \$100,000.

Mystorageunit.com.au sales and leasing agent Jim Iverach has been selling storage units for six years and has seen them achieve considerable growth in that time.

"Properties that sold for \$79,000 in 2005 have been resold this year for \$98,000," Mr Iverach says. "If you look at the growth over that period of time, it's four per cent a year.

"That's good steady growth and those units have been rented out to businesses for their stock and gear."

The net returns to the individual investors who own these properties are about seven per cent, Mr Iverach says.

"So over time I've been able to sell these units to investors who have consequently achieved a combined income growth of 11 per cent per annum," he says.

A strata-titled facility on Sydney's North Shore offers storage units with 24 hour access and security cameras, giving tenants greater accessibility and peace of mind.

These features have virtually become the

that more and more investors are seeing the benefit of buying storage space in the more sought after suburbs.

"The big thing about a strata storage unit is location," he says. "It's a bit like buying a one bedroom apartment at Bondi Beach. There's always going to be plenty of people who want it, whereas if you have a one bedroom apartment out in Liverpool you might be there for two weeks looking for a tenant or buyer unless you drop the price."

Similarly, storage requires proximity to people and, specifically, people with money.

In Sydney, the money that's most readily available is in the Eastern Suburbs, the CBD and on the North Shore, Mr Iverach says.

"That is why I have been receiving a lot of interest from the North Shore facility, and there is currently a development being built at Caringbah near Cronulla Beach," he says.

"There's also the Northern Beaches and a Marrickville facility where you have quite a big population of people, living mostly in units, who have a need for storage."

In Alexandria, just south of the Sydney CBD, Mr Iverach has been selling units in a facility that holds a total of 46 spaces. Now, only four are left.

Some good news for investors is that with regular tenants and strong rental records, storage units are becoming easy for valuers to hang a price tag on.

LEASING AND GST

The entry level price per square metre currently sits at around \$4,000, meaning that a 25 square metre unit will likely start at about \$100,000.

"Some people expect it to cost \$40,000 and when you tell them it's \$100,000 they go, 'Oh, that's a bit much,'" Mr Iverach says. "But when you tell them the returns are at seven to eight per cent net, they see that whether it's a million dollars or a \$100,000, the return on the money makes it a good investment."

Investors with a bit more cash to spend could even purchase four units for \$400,000 and spread the income – and the risk – across four separate tenants.

"I've had a client actually come to me and buy seven at a time," Mr Iverach says.

In terms of leasing, storage works like any other commercial space, with a contract stipulating the weekly rent at the beginning of the tenancy period.

THE BENEFITS

STARTING PRICE: \$100,000

- ✓ **No maintenance costs**
- ✓ **No land tax**
- ✓ **Low vacancy rate**

**NET
RENTAL
YIELD
7%**



“Most tenants sign six- to 12-month leases but they usually stay for much longer,” Mr Iverach says. “It’s not like you have a high turnover rate.”

Before you rush out to buy a bunch of empty boxes, however, you might like to know that all prices indicated in this feature, along with those advertised online and elsewhere, do not include GST. As with most investment opportunities, there is a downside and with storage units it’s the fact that investors are unlikely to buy one in a GST-registered entity such as an SMSF or private business.

But there is a loophole: Investors who intend to lease out the unit can register for GST before settlement and then get it back within the first month of ownership.

TROUBLE IN PARADISE

The demand for storage space, particularly in residential areas, is largely pegged to the performance of the residential property market and local economic conditions.

In Mandurah, WA, the residential market has experienced a serious contraction and demand for storage units has experienced similar stagnation.

Mandurah experienced huge over-development between 2004 and 2007, which has left a housing glut that is pushing down property values to cost price levels, according to the director of Sunset Coast Real Estate, Tom O’Rourke.

“There is really not much activity around the Mandurah area,” Mr O’Rourke says. “We have been selling strata-titled units for a number of years but are now finding them hard to move.

“The market is now totally depressed.”

The oversupply in Mandurah has had a negative effect both on houses and storage facilities.

In addition, Mr O’Rourke has noticed that strata-titled units are inherently difficult and investors have continually experienced problems with them.

“The issue with strata-titled units is that any modifications the owner wishes to make, such as installing mezzanine flooring, have to go through each individual owner in the strata complex,” he says.

“The local market is certainly against us but in and around Perth, storage units are doing okay – particularly those that are not strata-titled.”

Mr O’Rourke believes the demand for units in Mandurah will pick up again, bringing investors back into the market.

“In the long term, Mandurah is a good growth area, and that rings true for storage units too,” he says. “Self storage has a huge future and is really coming into vogue.”

In terms of prime real estate, the storage unit is certainly at the bottom of the property food chain – but people do need them and can afford them too.

It’s not too hard to justify this investment and as long as you have ticked all the right boxes the returns will be well worth it. ■