



Store First Investments:
Note Issued by the Self Storage Association of the UK
First Issued May 2014 – Amended January 2015

The Self Storage Association (SSA UK) is the principal trade association representing both self storage operators and industry supplier members' interests in the UK. The mission of the SSA UK is to set the standard for the industry and promote the self storage industry in the UK. The SSA UK is directed by experienced non-executive Directors from member organisations and has close affiliations with the Federation of European Self Storage Associations (FEDESSA). Store First Ltd nor any other trading entities of the Group First company is not a member of the SSA UK. The SSA UK wish to be dissociated from this group of companies who operate a business model which is at variance with what the SSA UK wish to promote.

The Self Storage Association UK (SSA UK) is concerned that people may be investing in the various investment vehicles which trade as Store First, unaware of the potential risks that may be associated with such investment. It is also concerned that the material that Store First distributes to market this investment, which refers to figures from SSA UK's Annual Survey, does not accurately represent the state of the industry and may lead investors to make unrealistic assumptions about the industry and this specific investment opportunity.

To address these concerns SSA UK commissioned Deloitte LLP ("**Deloitte**") to undertake a review of the material made available to potential investors by Store First. A number of important questions were raised as a result of this review which the SSA UK have asked Store First to clarify. Store First failed to respond to our initial requests for information, the concerns raised in this note in May 2014, or our invitation to comment on those concerns directly prior to releasing the note. However, a response was posted on the Store First website after our paper was released and gained media attention. The statement issued by Store First did not duly answer the issues raised in this paper and instead made further incorrect statements in terms of online pricing. For example, the SSA UK does not discourage its members from publishing prices online as claimed by Store First. Store First is not the only self storage business in the UK to have their prices displayed online as they claim. A number of SSA UK members also have full pricing online. This is a business decision for the operator to make and is neither actively encouraged nor discouraged by the SSA UK, contrary to the Store First claim.

Since originally publishing this paper, numerous investors in Store First have contacted the SSA UK confirming that their investment was not performing as expected after the second year, and that they had no viable options for re-selling the units. Store First has also received much coverage in the media in regards to its investment model and the Capita Oak Pension Scheme, which claimed to invest money into Store First on behalf of Pensioners. Unfortunately, it would appear that a proportion of pensioner funds have simply disappeared. A number of links to related articles published by independent third parties, including the BBC and the FT, are reprinted at the end of this note.

The SSA UK strongly encourages potential investors to get independent investment advice from regulated brokers before considering any investment, and urges caution when considering investing in unregulated investments such as Store First. We would also highlight the points raised in this paper in relation to Store First, and urge proper investigation into these by any would-be investors. Finally, we caution investors in comparing Store First and the Store First investment model with other established self storage investment models, such as those employed by publically listed companies or property trusts, which operate entirely different investment models.

Key Factors For Potential Store First Investors To Consider

SSA UK recommend that any potential investors in Store First storage units consider the following key points before taking any investment decision:

- What will the impact be on the business model if VAT is charged on the rental of storage units to customers following a review by HMRC?
- How is Store First funding guaranteed returns to investors? Is this from operating profits, the proceeds from the sale of other storage pods to investors, or a different source?
- Compare the total value being paid for all the units in a Store First self storage site against the price at which stand-alone self-storage businesses have been valued and sold at recently.
- Consider if there is a realistic re-sale opportunity for, and exit, from this investment, particularly if Store First exits the business.
- Research the performance of investments based on a similar investment model that have been offered primarily in Australia, such as Ikin Self Storage in Townsville, Queensland (Alan Ikin) and Strata Self Storage in Melbourne (Mark Baranov).

More detail on these points is provided below.

VAT Exemption

Store First claims that storage fees are exempt from VAT, based on individual unit holders being below the VAT threshold. However, if an investor has a large group of units then they could in fact be above the threshold in which case VAT must be charged on storage fees. It is not clear how this is managed at store level. Furthermore it appears that the contract for storage is not between the self storage customer and the individual unit owner but between the self storage customer and Store First Management Ltd, in which case the VAT threshold would almost certainly be exceeded and VAT should be applied to fees payable by all self storage customers. The precise VAT position is unclear and there are a number of ways in which HMRC could potentially attack the favourable VAT analysis put forward by Store First. The application of VAT to storage fees would significantly affect the projected returns described by Store First.

The SSA UK works closely with a number of public bodies including HMRC. Following consultation with HMRC regarding the application of the changes to VAT on self storage through 2014, it remains abundantly clear to us that VAT should be levied on self storage fees. We do not believe the VAT arrangements operated by Store First would stand up to scrutiny by HMRC and await further information in this regard.

Occupancy predictions

The majority of the Store First portfolio consists of relatively new facilities which would be likely to take time to reach a mature occupancy level. The industry benchmark for reaching maturity is currently around 4 years for a 45,000 sq ft facility, meaning that facilities are often significantly cash flow negative in the first few years of their operation. According to the 2014 SSA UK Annual Survey, conducted over 403 self storage sites in the UK, the average occupancy rate for a self-storage business is 71% and only 38% of stores have an occupancy rate above 75%. Store First indicates that it is able to achieve 80% occupancy after just 2 years by out-competing other operators on price. However, the uncertainty over the VAT position poses a serious risk to the Store First pricing model. In addition, given the vital role played by site location in attracting customers (made very clear by the 2014 SSA UK Annual Survey), SSA UK question the ability of Store First to achieve its predicted occupancy levels within the quoted timescales across its existing portfolio of stores without discounting the product below profitability levels.

It also should be noted that some documentation distributed by Store First contains comparison prices from other self storage operators, most of whom are members of SSA UK. SSA UK research shows that these price comparisons are inaccurate and often the prices quoted for the other self storage businesses are either simply incorrect or compares stores in different markets or with different features from Store First's facilities. Self storage pricing varies markedly depending on the location of the store, the services provided and the size of the unit. In all but exceptional situations, larger units are rented out at a lower price per square foot than smaller units, but the impact of this factor is not made clear in Store First's documentation.

Number of sites that Store First have operational

There have continually been discrepancies between the number of sites Store First claim to have trading, against sites actually open, owned or under development. It is unclear whether investors are being asked to invest in sites that are not yet constructed and if so how this might affect their title (ownership) rights or rental guarantee. How can Store First fund a rental guarantee on a site that is not yet developed, has no customers and hence no income stream? There are some locations, such as London, that Store First has declared as being under development for over a year, and yet there is no evidence of any Store First site being developed within London.

Profitability of Store First and its ability to continue to pay rent

The investment documentation indicates that Store First leases the units from investors at £17 per square foot per annum, potentially increasing to £25 per square foot over time. The documentation also indicates that the units will then be rented out to the general public at the same rate. SSA UK's investigations indicate that these storage units are being rented to the general public at approximately £18 - £21 per square foot including insurance. Normally the rent paid by a self-storage operator would be at most half of the income per square foot earned through storage fees. Presuming the Store First sites were at industry average occupancy levels, SSA UK believe that they would have to be earning £23.95 per square foot just to pay the guaranteed rent to investors, excluding operating costs such as **insurance, staff, business rates, utilities, marketing and management fees for Store First**. Furthermore, this does not factor in the losses incurred by each site as it takes some years to reach a mature occupancy level. During

this time, Store First is obliged to pay the guaranteed returns to investors, yet there does not appear to be sufficient income from the operations of the business to fund these returns.

In addition, the analysis SSA UK has seen indicates that the purchase price being paid per square foot by investors to Store First for these self-storage units taken together equates to a much higher value than they would be worth if the whole sites were sold as stand-alone self-storage stores.

Considering all of the above, a very serious question arises over how Store First is funding the guaranteed returns to existing investors, considering the absence of bank funding and the likely level of losses that require funding in each new store. It may yet prove to be the case that the rental returns being paid to investors are in fact being funded from the sale proceeds of new units, and not the operation of the self-storage business. If this is indeed the case, then the Store First business model would not appear to be sustainable.

Resale Value

The Store First investors' documentation states "Many storage pod resales have already taken place giving a minimum 25% gross profit back to the investor." This suggests that new investors are purchasing resale units at a price which is 25% greater than that at which Store First is itself offering brand new units, complete with rental guarantees. SSA UK does not understand the valuation logic behind this. Furthermore, SSA UK has not seen any evidence of these sales actually occurring between investors. In fact it has been contacted by investors seeking to re-sell their units and finding they were unable to do so without incurring huge losses.

Similar Schemes Abroad

When similar schemes have been established within self storage businesses in Australia, after a period of time the management companies have exited the business and the investors have been left holding storage units with considerably less income and virtually no re-sale value. The Ikin investment in Townsville Queensland and Strata Self Storage in Melbourne are examples. Store First mentions the possibility of buying back the storage units from investors but there are no guarantees and there is up to 5 years lead time for buy back.

Management Fee

Store First is proposing to charge a 15% management fee, if the investor opts for Store First to manage letting of their units. This is well above the going market rate for full management of a self-storage business. Other major brand self storage businesses that offer management services in the UK charge fees of between 6% and 8% of revenue.

SSA UK encourages investors to consider self storage as a potential investment opportunity, and there is a range of investment options available for investors, from publically listed self storage companies to individual ownership of a self-storage business. The purpose of this paper is to encourage potential investors to consider the risks involved with purchasing individual self storage pods based on guaranteed returns that may not accurately reflect the actual income likely to be generated through the self storage operations of those investments.



Neither Store First nor any company known to be related to it are members of the SSA UK or in any way affiliated with the SSA UK and its members. Store First have been provided with the details of this Note and asked for comment and have not yet responded.

Disclaimer

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Amendment note

A previously issued version of this note mentioned that some sites that Store First claimed to have owned were not listed as being owned by them according to the land title registry records. Since then the land title records have been updated and Store First are now owners of these properties. We still encourage potential investors to investigate the land title registry records of the properties they are investing into prior to making any investment. These records will show whether Store First already owns property prior to it being resold, as well as the value Store First paid for the property, providing potential investors with more information on which to base their decision.

Further Reading

The below links lead to other media articles regarding Store First investments

1. <http://www.thisismoney.co.uk/money/experts/article-2512352/TONY-HETHERINGTON-They-want-money---trouble-store-Desperate-sales-pitch-sets-alarm-bells.html>
2. <http://www.bbc.co.uk/news/business-29687817>
3. <http://www.professionaladviser.com/professional-adviser/news/2364256/warning-issued-over-celeb-marketed-store-pod-investment>
4. <http://www.bbc.co.uk/programmes/b041xbb2>
5. <http://www.ftadviser.com/2015/01/21/pensions/personal-pensions/when-liberation-does-not-mean-freedom-ESUKqWwB806y0torUuX8IM/article.html>
6. <https://www.pensions-ombudsman.org.uk/wp-content/uploads/PO-3590.pdf>
7. <http://www.alternative-confidential.com/site/?p=481>
8. <http://www.candidmoney.com/askjustin/913/storage-pod-investment-a-good-idea>