

# SELF STORAGE MARKET OVERVIEW

## First Quarter 2014 Results

*Analysis of the Public Self Storage Companies*



### SELF STORAGE GROUP

Marc A. Boorstein  
mboorstein@mjpartners.com

Steven Schwartz  
sschwartz@mjpartners.com

Jeffrey L. Jacobson  
jjacobson@mjpartners.com

Greg Owens  
gowens@mjpartners.com

David E. Kohn  
dkohn@mjpartners.com

Dennis Nyren  
dnyren@mjpartners.com

Benjamin Johnson  
bjohnson@mjpartners.com

### Overview

- Revenue growth in first quarter for each of four public companies ranging from 5.1% to 8.3%.
- New Operating Income growth ranging from 5.6% to 9.4%.
- Very competitive acquisition market for all quality of existing properties from both private and public companies. Cap rates continue to trend lower.
- Nominal new supply, less discounting and customers staying longer.

### Future Optimism

- “There is still virtually no new supply.... (and) because of the power and potency of our internet platform, we’re taking market share from the smaller (operator).”  
*- Spencer Kirk, CEO, Extra Space Storage*
- “Times are good and we expect that to continue”  
*- David Rogers, CEO, Sovran Self Storage*

### New Development Subdued

- Difficulty obtaining construction financing
- Rising land prices in major metropolitan markets.
- Undercapitalized private developers.
- Emerging market for acquisitions of newly built properties at certificate-of-occupancy.

**Implied Cap Rates** based on common share prices:

<b>Public Storage (PSA)</b>	<b>4.3%</b>
<b>Extra Space Storage (EXR)</b>	<b>5.1%</b>
<b>CubeSmart (CUBE)</b>	<b>5.4%</b>
<b>Sovran Self Storage (SSS)</b>	<b>6.4%</b>

- BMO Capital Markets

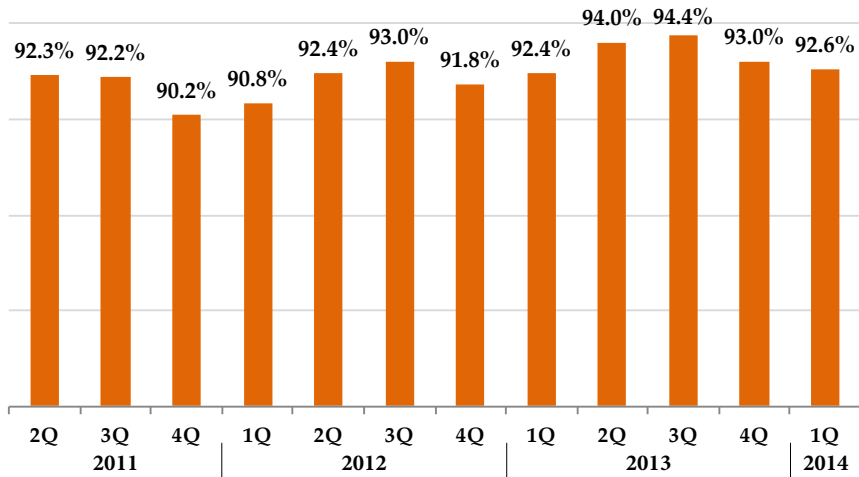
**Macroeconomic Trends Impacting Self Storage**

- U.S. businesses finally added enough jobs to replace the 8.8 million positions lost during the recession.
- Nonfarm employment grew by 288,000 in April and unemployment sank to 6.3% from 10.0% in 2009 – now just a little higher than at the same time of Lehman Brother’s collapse in September 2008.  
*- U.S. Labor Department*
- Job growth over the past three months has averaged 238,000 – far above last year’s pace.
- Nation’s payroll employment now totals 138.3 million, just shy of a record reached in January 2008.  
*- U.S. Labor Department*
- Sales of previously owned homes fell slightly in March and were down 7.5% from a year earlier.  
*- National Association of Realtors*
- The labor-force participation rate peaked at 67.2% in 2000, hovered at 66% at start of recession in December 2007. It has fallen steadily, hitting 62.8% in April. The biggest factor is the aging baby-boomer generation.  
*- Paul Ashworth, Chief U.S. Economist, Capital Economics*

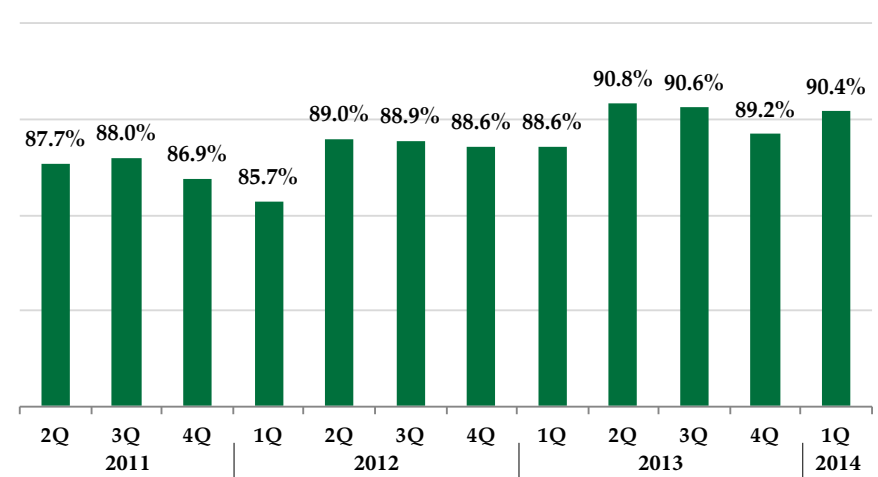
	<u>PUBLIC STORAGE</u>	<u>EXTRA SPACE</u>	<u>CUBESMART</u>	<u>SOVRAN</u>
<b>Number of Properties:</b>	2,200 U.S. 188 Europe	1,052	539	487
<b>Third-Party Management:</b>		252		24
<b>Joint Venture Management:</b>		<u>273</u>		<u>55</u>
<b>Total Managed:</b>	35-40	525	161	79
<b>Revenue:</b>	+5.1%	+7.9%	+7.0%	+8.3%
<b>Net Operating Income:</b>	+5.6%	+9.4%	+9.0%	+9.3%
<b>Occupancy:</b>	92.6%	90.4%	89.5%	88.9%
vs. previous year:	91.9%	88.4%	85.6%	85.8%
	(weighted average)	(quarter end)	(quarter end)	(weighted average)
<b>Rent Per Occupied Square Foot:</b>	\$14.41	\$14.09	\$13.54	\$11.16

Portfolio Occupancies

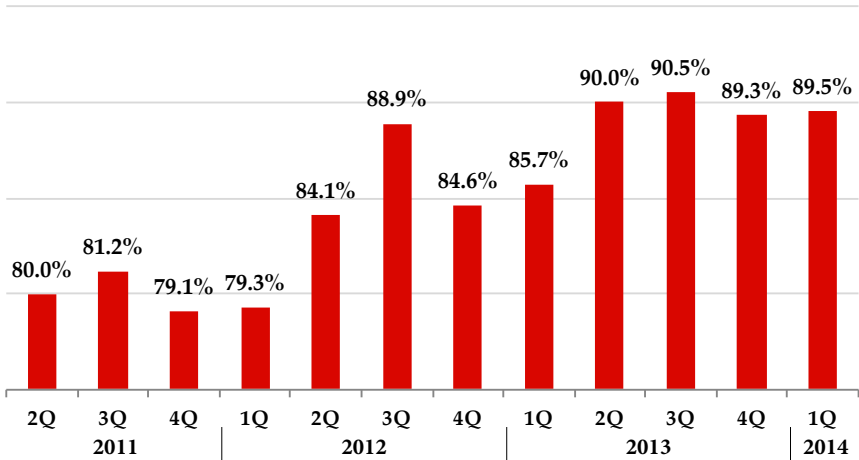
PUBLIC STORAGE



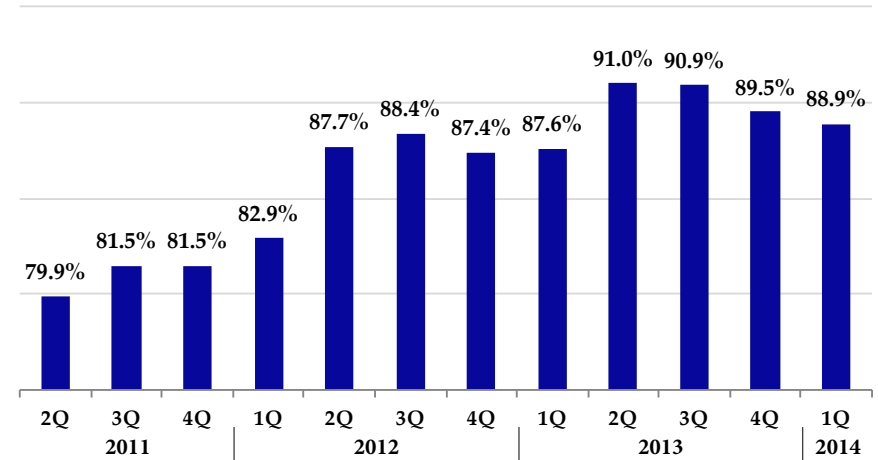
EXTRA SPACE STORAGE



CUBESMART



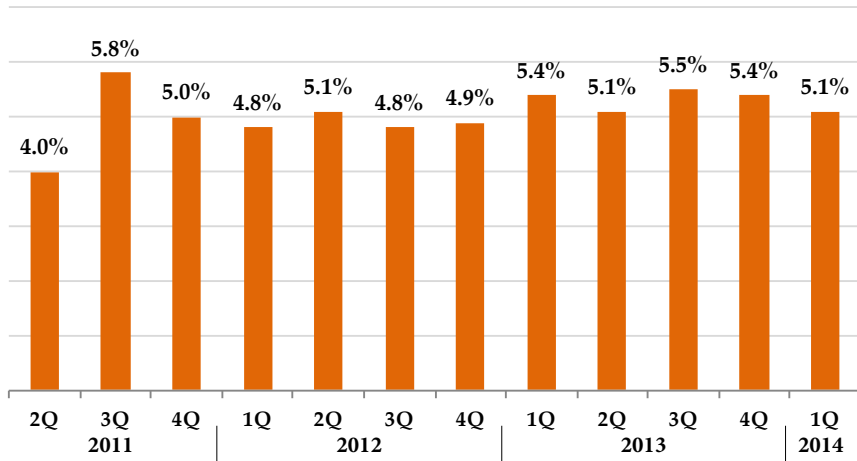
SOVRAN



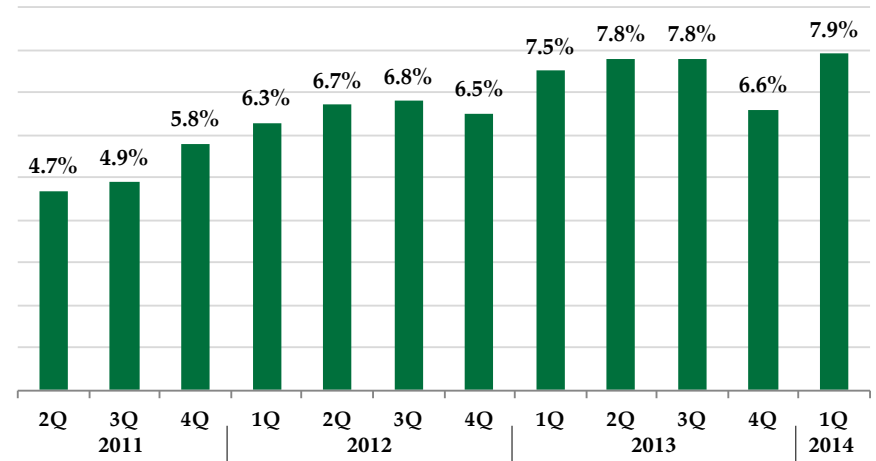
**Revenues**

Changes from same quarter a year earlier

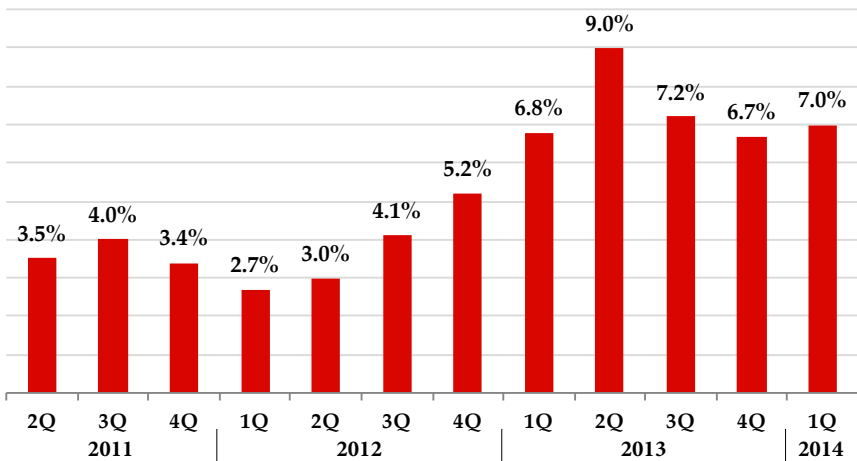
**PUBLIC STORAGE**



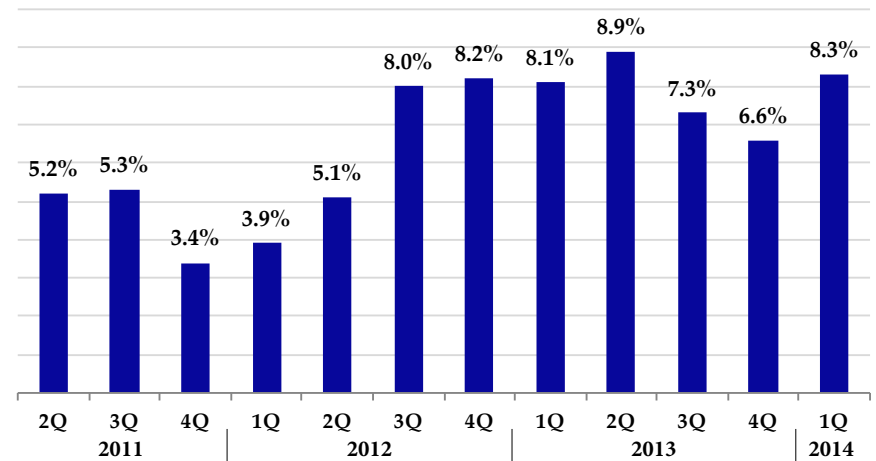
**EXTRA SPACE STORAGE**



**CUBESMART**

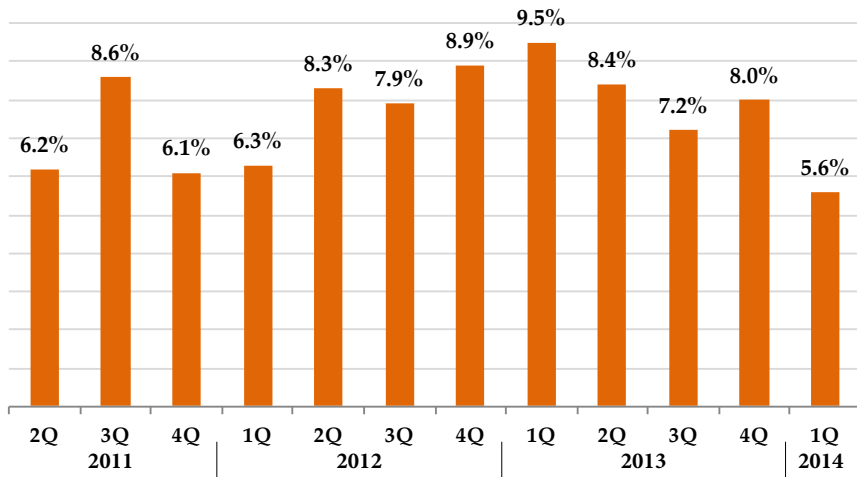


**SOVRAN**

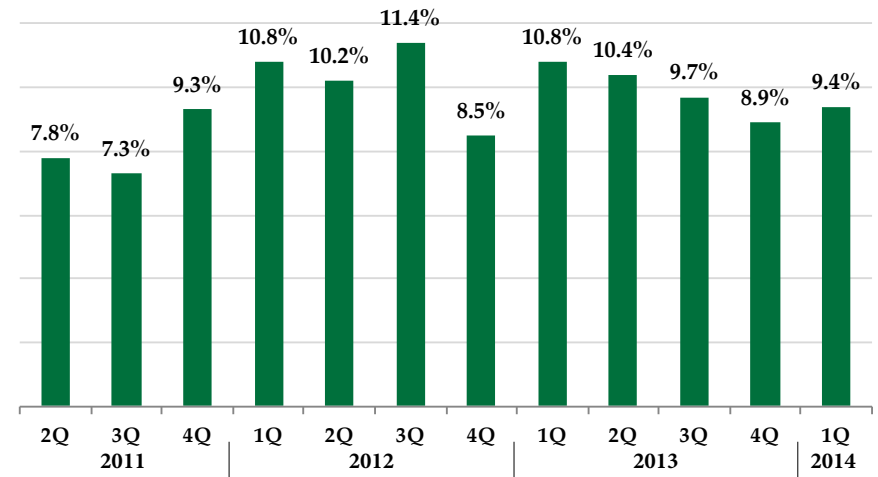


**Net Operating Income**  
Changes from same quarter a year earlier

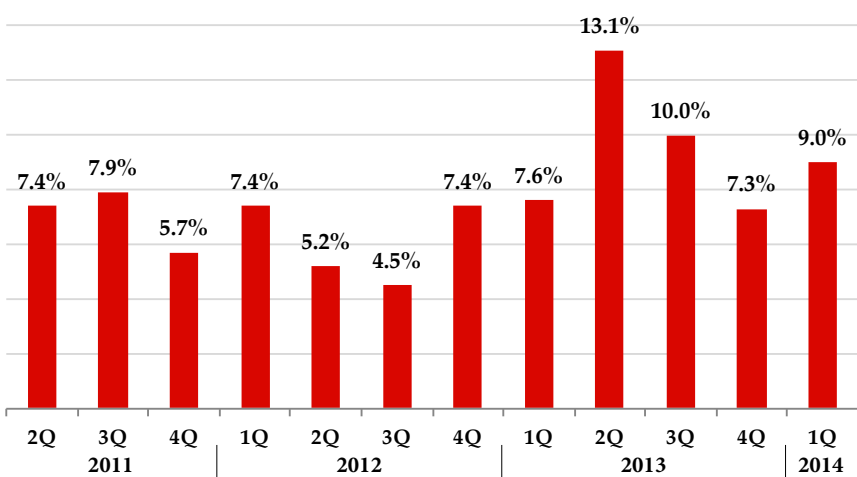
**PUBLIC STORAGE**



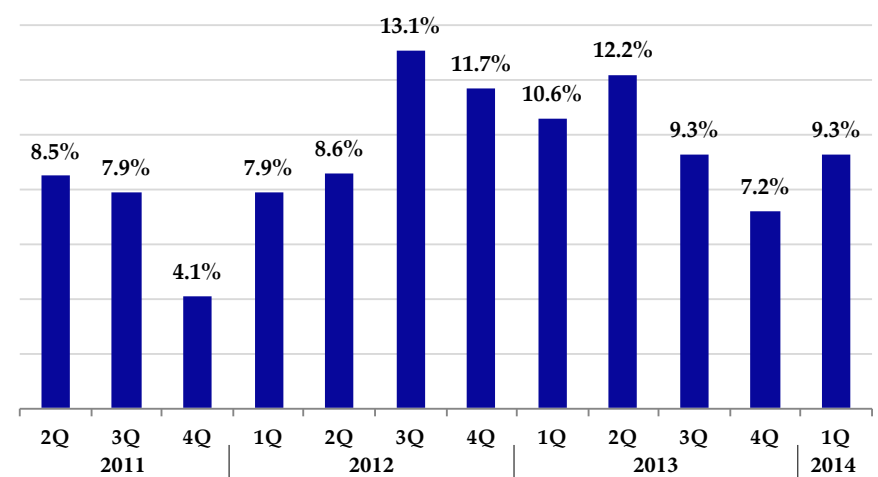
**EXTRA SPACE STORAGE**



**CUBESMART**



**SOVRAN**



	<u>PUBLIC STORAGE</u>	<u>EXTRA SPACE</u>	<u>CUBESMART</u>	<u>SOVRAN</u>
<b>Market Capitalization</b>	<b>\$29.61 billion</b>	<b>\$5.99 billion</b>	<b>\$2.54 billion</b>	<b>\$2.46 billion</b>
<b>Funds From Operations</b> (Adjusted Quarter)	<b>\$1.80/share</b> (+9.1%)	<b>\$0.57/share</b> (+23.9%)	<b>\$0.25/share</b> (+25%)	<b>\$0.98/share</b> (+16.7%)
<b>Dividend Per Common Share</b> (Quarter)	<b>\$1.40/share</b>	<b>\$0.40/share</b>	<b>\$0.13/share</b>	<b>\$0.68/share</b>
<b>Dividend Yield</b>	<b>3.30%</b>	<b>3.10%</b>	<b>2.80%</b>	<b>3.60%</b>
<b>Common Stock Price</b> May 5, 2014: 52-Week Range:	<b>\$171.93</b> <b>\$145.04 to \$176.72</b>	<b>\$51.69</b> <b>\$38.98 to \$52.99</b>	<b>\$18.10</b> <b>\$15.06 to \$19.69</b>	<b>\$76.05</b> <b>\$62.11 to \$80.24</b>



**PUBLIC STORAGE:**

- As of March 31st, development and expansion projects in process which will add approximately 1.9 million net rentable square feet of storage space at a total cost of approximately \$195 million, to be incurred primarily in 2014.
- Completed two new development facilities and one expansion project in first quarter, adding 335,000 net rentable square feet at a cost of approximately \$40 million.
- In April, acquired one facility in Austin, Texas with 86,000 net rentable square feet for approximately \$11 million - \$6 million in cash and \$5 million in assumed debt.
- As of May 1st, currently under contract to acquire five facilities in North Carolina with 342,000 net rentable square feet for total cost of approximately \$26 million in cash. Expect to complete acquisition in second quarter.
- Gerard property in Bronx, New York leased over 3,000 units in about one year and end of April 67% occupied. Rates about 60% to 70% of forecast, helping lease up so quickly, can be more aggressive on rates when stabilized soon.
- Would be willing to pay 175% of replacement costs in certain markets such as lower Manhattan, where there are higher incomes, very little competition, and great population density. May only pay 50% to 60% of replacement costs in Reno, Nevada.
- Not doing new certificate-of-occupancy buyouts, although acquired one new project in Boston and acquired one under development.
- Maybe less than 20 large institutional portfolios available nationwide.
- Two of largest transactions last year were private without brokers.

**EXTRA SPACE STORAGE:**

- Year-to-date \$350 million of properties either closed or under contract.
- During the first quarter, acquired 21 properties for approximately \$249.7 million. 17 of the properties acquired in the Mini Price Storage portfolio in Virginia for \$213.8 million, consisting of 1.5 million rentable square feet, 14,000 units, with overall occupancy of 90%.

Remaining four properties located in Alabama, California, Connecticut, and Texas.

- Four additional properties under contract for approximately \$39.3 million, expected closing by end of second quarter.
- Cap rates from 6% to 7% in Year One looking forward, with NOI growth expected of 5% to 8% in first year.
- Two properties acquired at certificate-of-occupancy phase with no occupancy.
- Two deals acquired from joint venture partner relationship.
- Some cap rate compression in secondary markets.
- Third party managed properties: 252  
Owned and managed in joint ventures: 273  
Total managed: 525  
Wholly Owned Properties: 496  
Total Properties: 1,052
- Same-Store Pool: 443
- Not adding significant total square feet via expansion projects, but upgrading certain properties to remain relevant.

**CUBESMART:**

- Closed on 16 property acquisitions year-to-date in 14 separate transactions for an aggregate purchase price of just over \$187 million. Acquired ten assets for \$103.3 million during first quarter. Three properties located in Florida, two in Maryland and one each in Arizona, California, Connecticut, Pennsylvania, and Texas.
- Subsequent to quarter's end, acquired \$84 million of properties. Two facilities in New York and one each in Texas, Florida, and Massachusetts.
- Opened two new properties for total cost of approximately \$41.6 million. One property in The Bronx, New York, and second a mixed-use facility in Malvern (Philadelphia), Pennsylvania containing storage space and office space for the Company's corporate headquarters. Projecting 36 months lease-up for both stores. (Bronx store 10% occupied in about 40 days. Malvern about 34% occupied since January.)
- The first 12 to 14 months after new acquisition typically capture most of impact from new systems, branding, and marketing.
- Added three new management contracts to third-party management program, now operating third-party management of 161 facilities totaling 9.8 million square feet.
- For 2014, increasing acquisitions target of \$250 million to \$300 million of acquisitions, up from previous target of \$150 million to \$200 million.
- Investment activity a combination of stabilized acquisitions and lease-up opportunities. Project \$50 million to \$75 million per year on each co-investment in new development, and separately on only taking lease-up risk of newly built properties at certificate-of-occupancy. Currently, about \$200 million total, including:
  - Three built-to-suit properties will close in 2015 and 2016.
  - Four development projects opening in late 2015.

**SOVRAN:**

- Total property acquisitions in first quarter of \$95.4 million
- Early in 2014 acquired six properties for \$86.7 million. Two located in Southeast Florida, two in Portland, Maine, and one each in San Antonio and Austin, Texas. The properties total 460,000 square feet of rentable space and all located in markets with existing presence.
- On March 31st, acquired Hometown Storage, an 87,000 square foot facility in Chicago suburb St. Charles, Illinois, for \$8.7 million.
- Under contract to acquire 17 facilities from Lackland Self Storage for approximately \$120.7 million. May assign the purchase of four of the properties located in New Jersey, with a combined price of \$47.1 million, to a Sovran HFF joint venture with Heitman, LLC in which the company has a 20% interest for cash contribution of \$9.4 million. Expect first year cap rate to be about 6.5% to 6.75%.
- Anticipated to acquire an additional \$100 million of properties in 2014.
- Working with select developers in larger MSA's on different models to value acquiring properties at certificate-of-occupancy, based on the cap rate at stabilization and implementing a discounted cash flow. Few to probably close this year at \$5 million to \$10 million, and hope \$10 million to \$15 million more next year.
- With Sovran's operating platform more confidence to grow occupancy quicker than previously projected four years, in certain markets.
- The 28 properties acquired in 2012 that recently entered the company's same-store pool featured occupancy gain from about 70% to about 85%.

**PUBLIC STORAGE:**

- End of April occupancy 93.9% versus 92.9% last year within same-store pool.
- Expected peak occupancy at 95% to 95.5%.
- Costs of operating for same-store facilities increased 4.0% compared to same period last year, due primarily to weather related increases in snow removal and increased property tax expense, partially offset by lower advertising and selling costs – due to high occupancy levels.
- 58% of customer move-ins came through an internet channel, up from 51% last year's first quarter.
- Move-in rate was up about 3% whereas in April up over 6%.
- Street rates in April up about 6% to 7%.
- 56% of customer base currently staying over one year.
- About 80% of new move-ins receive some type of promotional discount – either \$1 for first month or 50% off.
- Last summer, sent out about 55% of customers a rent increase, and expect slightly more this summer. Rate increases average about 8% to 9%.

**Rent Roll-Downs**

- Average move-in rate in first quarter same-stores about \$114 per move-in. Average move-out same period about \$123 - representing about \$9 negative.
- Last year, move-in rate about \$111 versus a move-out rate of \$119.

**PUBLIC STORAGE:**

**Shurgard Europe**

- Same-Store pool of 174 facilities consisting of 9.2 million net rentable square feet.
- Square foot occupancy (weighted average) up to 86.1% versus 79.5% last year, but rent per occupied square foot down to \$26.77 versus \$27.58 last year.
- Same-store revenue growth of 1.3%, and NOI growth of 1.3%.

**EXTRA SPACE STORAGE:**

- 14 consecutive quarters of double-digit FFO growth, with another strong year expected.
- Same-store revenues increased due to gains in occupancy, lower discounts to new customers and higher rents for both new and existing customers.
- Expenses higher for same period due to increases in snow removal and utility expenses, related primarily to severe weather in the Midwestern and Eastern U.S.
- Maximum occupancy for Extra Space low to mid 90's.
- Major Markets With Revenue Growth Above Company's Portfolio Average:
  - Chicago
  - Denver
  - Houston
  - Miami
- Major Markets Below Company's Portfolio Average:
  - Detroit
  - Indianapolis
  - Las Vegas
  - Seattle
- Rent increases of existing customers average 8% to 10%, but depends on length of stay and unit occupancy.

**EXTRA SPACE STORAGE:**

- Stabilized Property Performance

	Average Occupancy	
	<u>First Quarter</u>	<u>2013</u>
Los Angeles - Riverside - Orange County (132)	85.7%	82.6%
New York - Northern New Jersey - Long Island (90)	91.5%	90.0%
Washington - Baltimore (64)	89.8%	87.6%
Boston - Worcester - Laurence (50)	91.3%	90.3%
Tampa - St. Petersburg - Clearwater (24)	85.2%	83.4%
Chicago - Gary - Kenosha (18)	90.9%	91.0%

- Select State Occupancy Levels of All Properties Operating As Of March 31, 2014:

- Arizona (22)	88.0%	- Michigan (11)	91.1%
- California (248)	87.6%	- New Jersey (68)	92.1%
- Colorado (28)	91.2%	- New York (33)	90.4%
- Florida (105)	87.9%	- Ohio (34)	89.5%
- Illinois (29)	89.6%	- Pennsylvania (34)	88.5%
- Maryland (49)	87.9%	- Texas (69)	86.1%
- Massachusetts (50)	90.8%	- Virginia (46)	86.2%



**EXTRA SPACE STORAGE:**

- Net tenant reinsurance income projected at \$44 million to \$45 million for 2014, up over \$3 million projected earlier.
- Overall tenant reinsurance penetration rate about 70%. Majority of revenue increase in tenant reinsurance from increase in dollars per policy (higher coverage of goods insured).
- Street rates up 3% at end of March, and discounts – down over 10% since last June, making for difficult upcoming comparisons.
- 20% of customers commercial accounts – about the same past 16 years.
- Added 99 stores to same-store pool, now 443 same-stores for comparisons.

**CUBESMART:**

- As of March 31st, company has 378 wholly-owned facilities containing 25.5 million square feet with occupancy of 88.6%.
- Same-store street rents averaged 2.4% growth in first quarter.
- Strongest Markets For Street Rate Growth:
  - New York with very few 5' X 5' and 10' X 10' units available can increase street rates 10% to 13%
  - Colorado +10% to 13%
  - Dallas, Fort Worth +8% and above
  - Chicago +5.5%
  - All Florida, led by Miami
  - Most challenging market El Paso, Texas
- Discounts on same-store pool as a percentage of rents declined to 5% from 5.3% last year.
- Added 48 stabilized properties to same-store pool in 2014, increasing the same-store pool total to 346. 2013 same-store pool was 298 assets, and 2012 was 274. Same-store pool now representing 91% of company's total NOI in first quarter.
- Peak occupancy for same-stores anticipated to be 92% to 93%.
- Rate increases on about 5% to 6% of total base each month. Rate increases average about 9% on existing customers. Provide notice of increase in the sixth month, and then every 12 months thereafter.
- Effective rents for customers moving in up about 3%.
- New customer moving in about 1.5% higher than customer vacating, only 0.3% higher last year.

**CUBESMART:**

- About 81.6% of customers received promotional discounts versus 82.2% last year in same-store pool.
- Business customers represent about 30% of customer base, projected to stay about the same.
- Average length of stay about 14 months, up about six days versus a year ago.
- About 10% of third-party managed stores have adopted CubeSmart brand.
- Almost no impact on any stores nationwide with little new supply added, not expected to change for at least 12 months.

• Operating Performance by Region: Same-Stores

	March 31, 2014 <u>Ending Occupancy</u>	March 31, 2013 <u>Ending Occupancy</u>
New York/Northern New Jersey (41)	89.0%	85.4%
Non-Miami Florida Markets (39)	90.7%	85.3%
Texas Major Markets (36)	90.8%	87.6%
Chicago (27)	90.3%	88.8%
Miami/Ft. Lauderdale (16)	93.6%	86.5%
Southern California (12)	90.4%	85.5%

**SOVRAN:**

- Intends to spend up to \$30 million on expansion and enhancement program. Also budgeted \$16 million for recurring capitalized expenditures including roofing, paving, and office renovations.
- Revenue growth due to 310 basis point increase in average occupancy, a 3.4% increase in rental rates, and strong growth in insurance commissions.
- In first quarter, experienced positive same-store revenue and NOI growth in every state in which company operates.

Strongest revenue impact:

- Texas
- Florida
- Georgia
- New York
- North Carolina

- Concession reductions added about 50 basis points to revenue growth.
- Occupancy may top out at 93% to 94% during peak quarters.
- Customers staying more than one year increased to 57.4% compared to last March's 55.3% within same-store group.
- Customers staying more than two years increased to 39.45% from 37.6% last year.
- Rate increases given to about 2.7% of customers with net average rate increase of 11%.
- Reviews every month once customer stays past the 10th month to decide if customer meets criteria from internal algorithms for potential rate increase.

**PUBLIC STORAGE:**

- On January 28th, joint venture partner in Europe, New York State Common Retirement Fund, purchased their 51% in the loan Public Storage extended to Shurgard Europe at face value of €158.6 million (\$216.2 million) in cash.
- On March 17th, issued 6.375% Series Y Preferred Shares resulting in gross proceeds of \$235 million. On April 10th issued additional Series Y Preferred Shares at par for \$50 million in gross proceeds.
- At end of the quarter, roughly \$100 million cash on hand and about \$300 million revolving line of credit.
- Repaid \$328 million of recent bank term loan, leaving a balance of \$322 million.

**EXTRA SPACE STORAGE:**

- Fixed-rate debt to total debt 74.2%.
- Weighted Average Interest Rates:

Fixed Rate:	4.1%
Variable Rate:	<u>2.0%</u>
Combined Weighted Average:	3.6%

Weighted Average maturity about 5.2 years

- Ended quarter with approximately \$67 million cash on hand, more than \$200 million of availability on four revolving lines of credit, and a total capacity of \$290 million.

**CUBESMART:**

- Sold 2.7 million common shares through “at-the-market” equity program at average price of \$17.34 per share, resulting in net proceeds of \$46.2 million. Another 3.7 million shares available for issuance.
- On May 1st, HFF joint venture with Heitman, LLC, obtained a \$100 million loan secured by 35 facilities owned by the venture. A seven-year non-recourse loan with fixed interest rate of 3.59%. CubeSmart owns 50% share of joint venture, and recieved 50% of loan proceeds to reduce borrowings and create additional capacity under revolving credit facility.
- At end of the quarter, approximately \$7 million cash on hand, and approximately \$229 million of availability under \$300 million revolving line of credit.

	<u>Rate</u>	<u>Weighted Average Maturity</u>
Floating Rate Debt	1.76%	3.2 years
Fixed Rate Debt	<u>4.37%</u>	<u>6.3 years</u>
Total Debt	4.21%	6.1 years

**SOVRAN:**

- Issued 359,102 shares of common stock via ATM (at-the-market) program at an average price of \$74.32 per share, resulting in net proceeds of \$26.3 million after issuance costs. Used proceeds to fund acquisitions. In January, issued 47,583 shares at an average price of \$62.69 through Dividend Reinvestment Plan.
- On April 8th, issued \$175 million of ten-year unsecured notes at fixed rate of 4.533%. \$115 million of the proceeds used to pay down line of credit, and remainder to fund acquisitions and expansions.
- As result of financing, approximately \$60 million cash on hand for purchases expected later in the year, and \$60 million available on line of credit with an interest rate of LIBOR plus 1.5%, with additional \$75 million expansion feature.

- Key Financial Ratios:

- Debt to EBITDA:	4.8x
- Debt to Enterprise Value (@ \$73.45/share):	22.1%
- Debt to Book Cost of Facilities:	35.3%
- Debt Service Coverage (DSC):	5.0x