

# SELF STORAGE MARKET OVERVIEW

## Second Quarter 2014 Results

*Analysis of the Public Self Storage Companies*



### SELF STORAGE GROUP

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### Overview

- Occupancy levels for all public companies near all-time records; Public Storage at 94.8% at July 31.
- Revenue increases ranging from 5.3% to 8.6%; Net Operating Income increases from 6.9% to 10.0%.
- Street rates up significantly and discounts dropping.
- Emerging market for purchasing newly developed properties at certificate-of-occupancy in lieu of in-house development

### Acquisition Market Very Competitive

- New private equity capital and institutional capital joint ventures competing with public companies for properties leading to further going-in cap rate compression for existing properties.
- “The single most valuable asset this company owns is now its data.”  
*- Spencer Kirk, CEO, Extra Space Storage*

### New Development De Minimis

- “Demand continues to trend up. New supply... coming to some markets but most of it appears to be demand-driven and pretty sensibly thought out. We expect impact on us and the industry to be de minimis at least for the next couple of years”  
*- David Rogers, CEO, Sovran Self Storage*
- The number of new projects remains well below the level of new supply historically. Despite the uptick in development, public companies believe new supply will not be impactful for another two to four years. According to F.W. Dodge, about 345 new self storage construction projects are underway or recently completed including additions, alterations, and renovations.

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

<b>Public Storage (PSA)</b>	<b>4.2%</b>
<b>Extra Space Storage (EXR)</b>	<b>4.9%</b>
<b>CubeSmart (CUBE)</b>	<b>5.6%</b>
<b>Sovran Self Storage (SSS)</b>	<b>6.2%</b>

- BMO Capital Markets

**Macroeconomic Trends Impacting Self Storage**

- Non farm payrolls increased 209,000 in July after surging by 298,000 in June. July marked the sixth straight month that employment has expanded by more than 200,000 jobs, a stretch last seen in 1997, according to the U.S. Labor Department.
- Seasonally adjusted existing-home sales on an annualized pace of 4.87 million during the quarter, a 3.8% decline from a year earlier, according to the National Association of Realtors.
- New-home sales fell 8.1% in June, to an annual rate of 406,000, according to the U.S. Commerce Department.
- Aggregate wealth of U.S. households, including stocks and real estate holdings, just hit new high of \$81.8 trillion. That's more than \$26 trillion in wealth added since 2009 (more wealth to acquire goods to store).

- Kevin Warsh, Stanford University's Hoover Institution

**Mobile Spending Reaching Milestones**

- Spending on mobile advertising, which includes both smartphones and tablets, will increase 83% to nearly \$18 billion in 2014. After less than one decade of existence, mobile advertising will draw more advertising dollars than newspapers' nearly \$17 billion and radio's \$15.5 billion, according to eMarketer.

**Television advertising spending**

- Of the public companies, only Public Storage spends significantly through television in select markets.

### United Kingdom Public Self Storage Companies

- The European self storage market has yet to mature as compared to the U.S. market. There are an estimated 1,500 self storage facilities throughout Europe compared to about 45,000 in the U.S. The U.K. self storage market represents the largest in Europe, and has grown from about 350 stores ten years ago to 850 nationwide presently.
- The U.K. is more concentrated than the U.S., with the top 5 operators controlling nearly one-half of the overall market, versus about 12% in the U.S.

The two U.K.-based public companies have larger share of their market than U.S. companies, although much lower storage use per capita, about 0.5 square feet versus 7.3 square feet.

### Big Yellow Group (BYG)

- Big Yellow is a premier self storage portfolio within the U.K. and owns or has stakes in 77 properties throughout the country. Current market capitalization for Big Yellow is approximately £710 million (\$1.2 billion U.S.). Big Yellow stores are 80% concentrated in affluent and densely populated London and South East markets. Overall portfolio rents average about £25.63 per square foot (\$43.15).
- Big Yellow's overall occupancy is 71%, which represents a 1.7% increase over the previous quarter, and on pace for 500 basis point increase this year. The 22 new stores in lease-up recently saw occupancy grow from 54.3% to 62.8%.

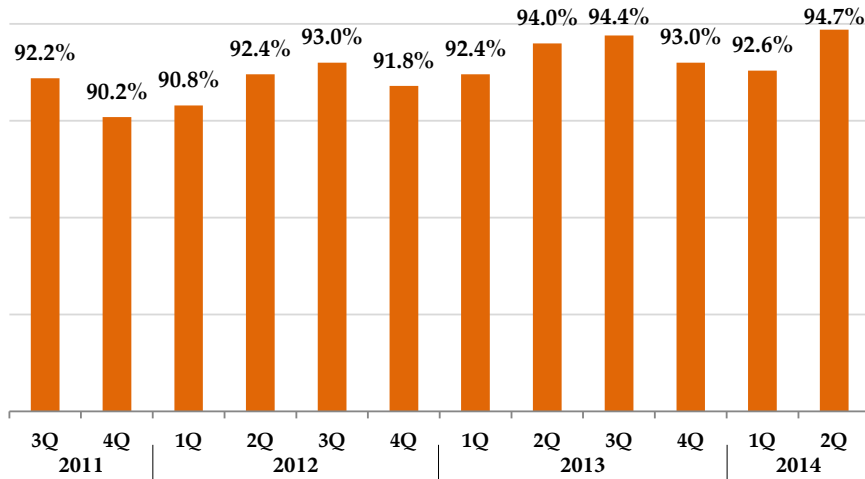
### Safestore (SAFE)

- Safestore is the largest operator in the U.K., with over 100 properties throughout the U.K. and 25 in Paris, France. Current market capitalization is approximately £425 million (\$715 million).
- Safestore has more short leasehold stores than Big Yellow, comprising about 35% of all of their properties. The portfolio features overall occupancy of about 65.3%, representing an increase of 2.2% over the previous year.

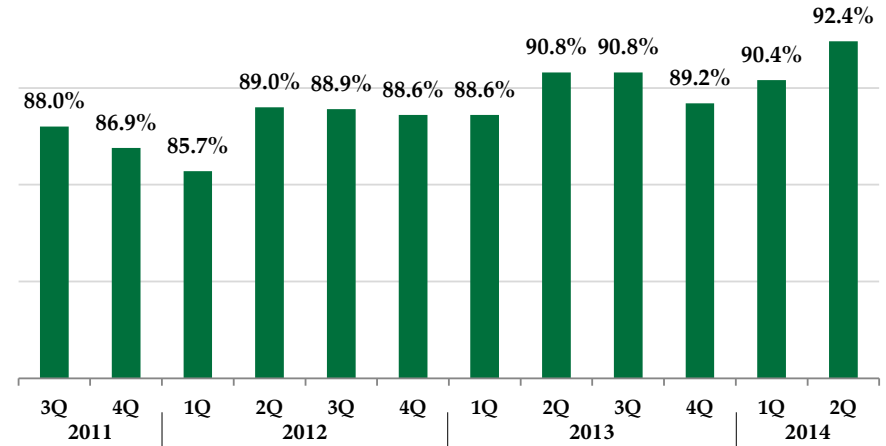
	<u>PUBLIC STORAGE</u>	<u>EXTRA SPACE</u>	<u>CUBESMART</u>	<u>SOVRAN</u>
<b>Number of Properties:</b> (approximate)	2,200 U.S. 187 Europe	1,071	539	500
<b>Third-Party Management:</b>		264		23
<b>Joint Venture Management:</b>		<u>272</u>		<u>55</u>
<b>Total Managed:</b>	42	536	173	79
<b>Revenue:</b>	+5.3%	+7.9%	+7.6%	+8.6%
<b>Net Operating Income:</b>	+6.9%	+9.9%	+9.7%	+10.0%
<b>Occupancy:</b> vs. previous year:	94.7% 94.0%	92.4% 90.8%	92.4% 90.1%	91.0% 88.3%
<b>Rent Per Occupied Square Foot:</b>	\$14.52	\$14.41	\$13.76	\$11.36

Portfolio Occupancies

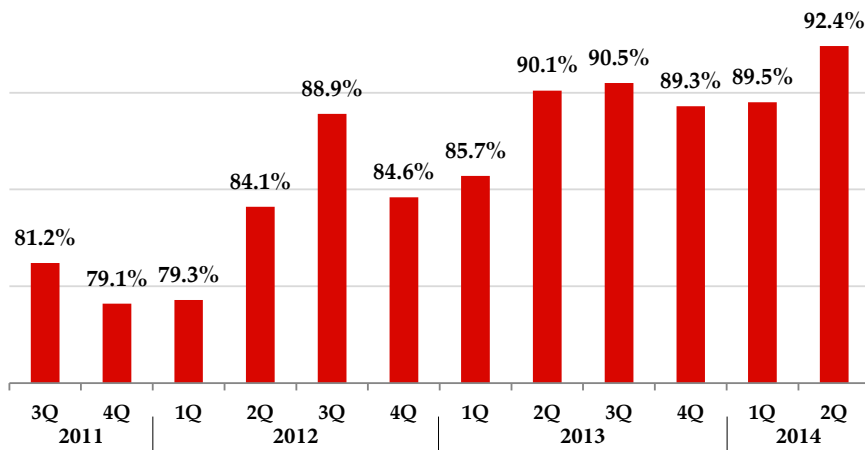
PUBLIC STORAGE



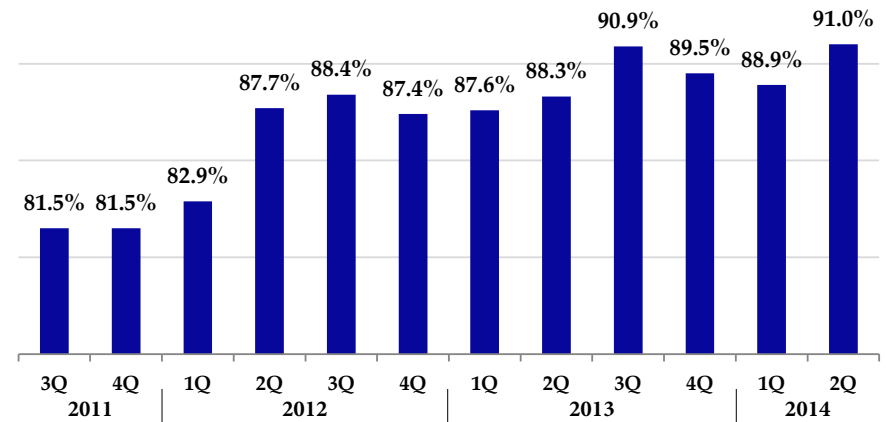
EXTRA SPACE STORAGE



CUBESMART



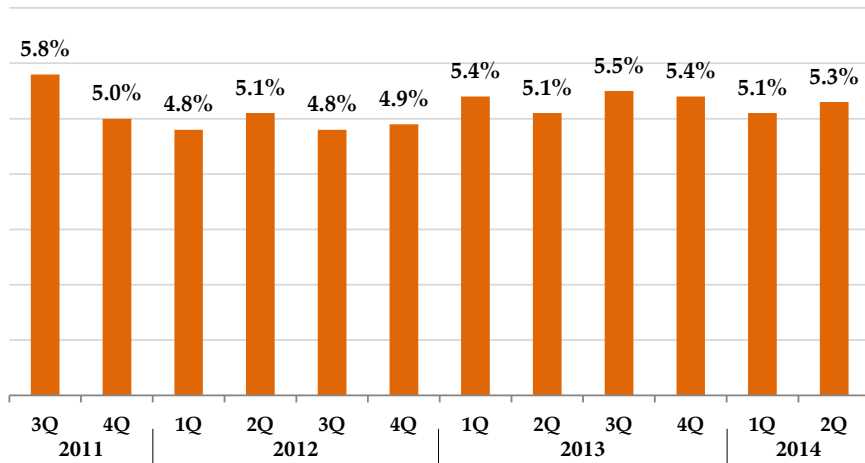
SOVRAN



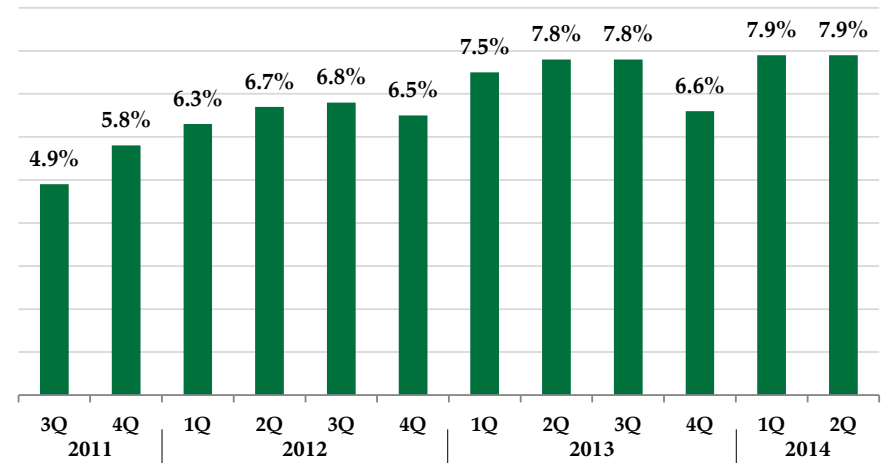
**Revenues**

Changes from same quarter a year earlier

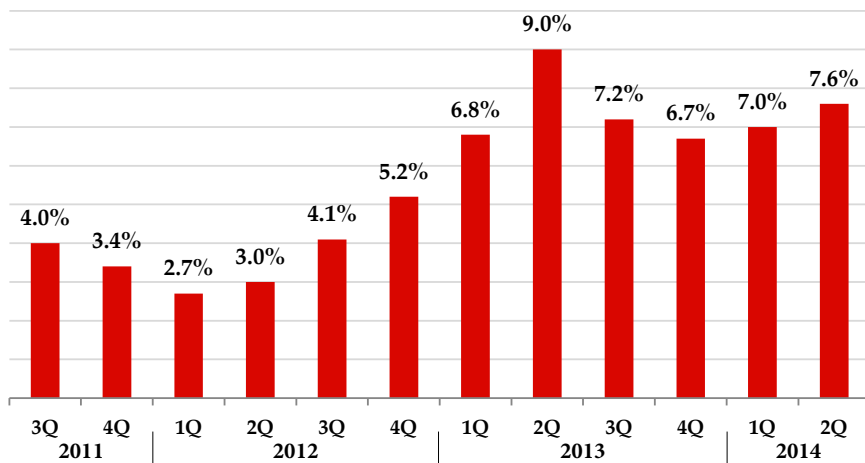
**PUBLIC STORAGE**



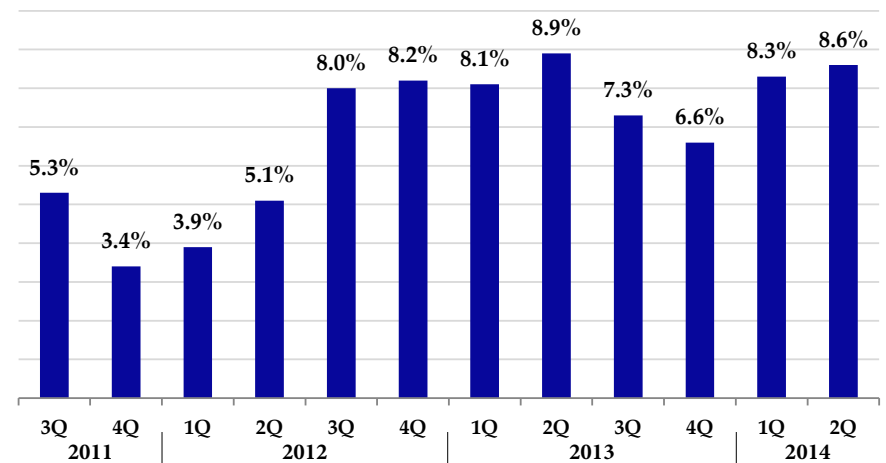
**EXTRA SPACE STORAGE**



**CUBESMART**

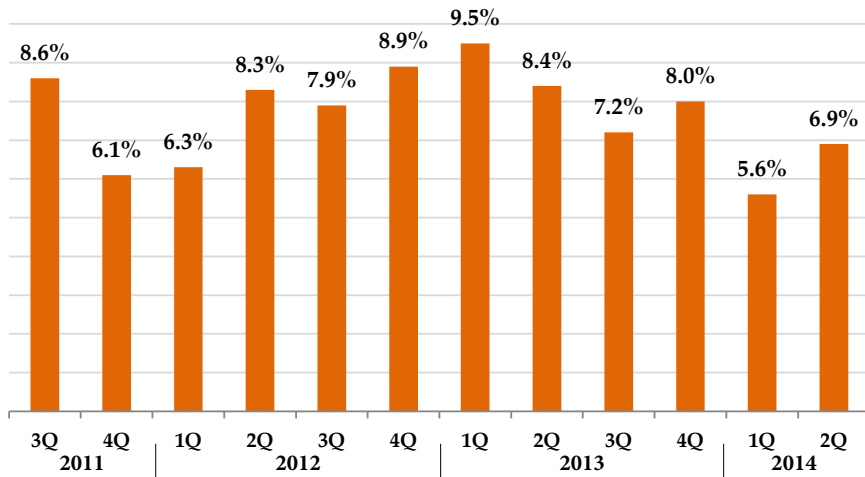


**SOVRAN**

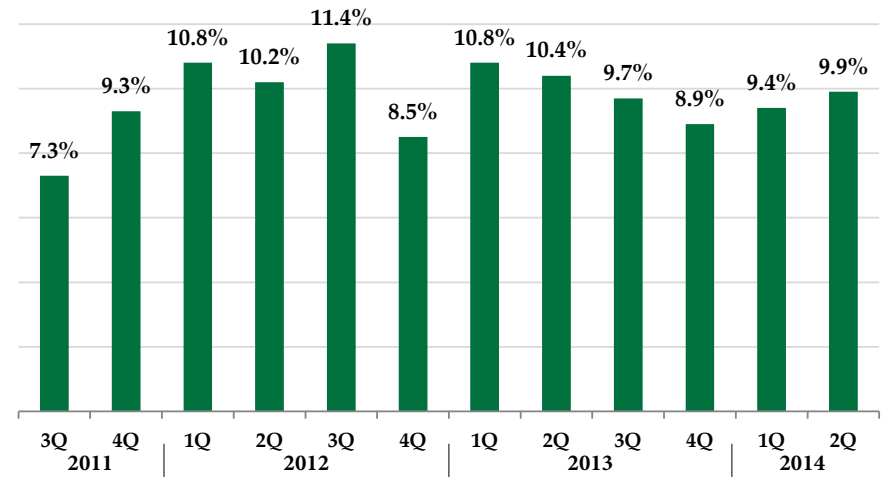


**Net Operating Income**  
Changes from same quarter a year earlier

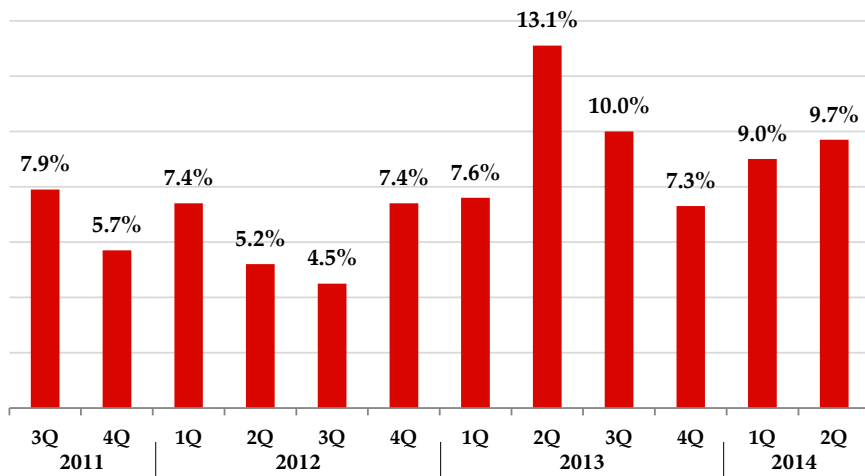
**PUBLIC STORAGE**



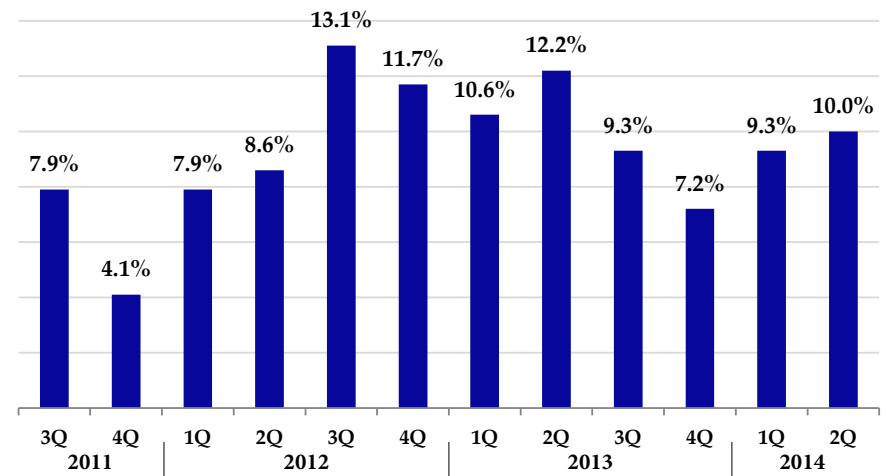
**EXTRA SPACE STORAGE**



**CUBESMART**



**SOVRAN**





	<u>PUBLIC STORAGE</u>	<u>EXTRA SPACE</u>	<u>CUBESMART</u>	<u>SOVRAN</u>
<b>Market Capitalization</b>	<b>\$30.31 billion</b>	<b>\$6.23 billion</b>	<b>\$2.78 billion</b>	<b>\$2.58 billion</b>
<b>Funds From Operations</b> (Adjusted Quarter)	<b>\$1.99/share</b> (+8.7%)	<b>\$0.64/share</b> (+25.5%)	<b>\$0.27/share</b> (+17.4%)	<b>\$1.08/share</b> (+14.9%)
<b>Dividend Per Common Share</b> (Quarter)	<b>\$1.40/share</b>	<b>\$0.47/share</b> (+17.5%)	<b>\$0.13/share</b>	<b>\$0.68/share</b>
<b>Dividend Yield</b>	<b>3.20%</b>	<b>3.60%</b>	<b>2.80%</b>	<b>3.50%</b>
<b>Common Stock Price</b> September 2, 2014: 52-Week Range:	<b>\$175.30</b> <b>\$147.14 to \$178.26</b>	<b>\$53.37</b> <b>\$40.13 to \$54.87</b>	<b>\$18.74</b> <b>\$15.06 to \$19.69</b>	<b>\$78.30</b> <b>\$62.66 to \$80.24</b>

**PUBLIC STORAGE:**

- For 2013 property acquisitions, yield of 5.1% in first six months this year, excluding merchandise and tenant insurance. By next year, Public Storage confident this yield will go higher.
- Year-to-date, acquired six facilities with aggregate 431,000 net rentable square feet for approximately \$37 million. Five properties in North Carolina and one in Texas.
- Since January 2013, acquired 127 facilities.
- On July 1st, acquired 25 properties containing 1.8 million net rentable square feet for approximately \$240 million in cash. Primarily one portfolio with a variety of different names. Locations include 19 throughout Florida, three in Maryland and one each in North Carolina, New Jersey, and Virginia. Average overall occupancy of 92%, ranging from 96.9% down to 68.8%. The properties were without internet presence and brand name - good quality real estate.
- Under contract for four additional properties with 374,000 net rentable square feet for aggregate purchase price of approximately \$40 million, with estimated closing date in fourth quarter. Locations include two in Virginia, one in North Carolina, and one in South Carolina.
- Public Storage Development
  - Started about 2 to 2.5 years ago, remains a slow process:
    - Six months to find a site
    - Six to twelve months to build
    - Two to three years to lease-up
- Development pipeline of approximately 28 properties with capital deployment currently about \$240 million and could have new target of \$300 million to \$350 million or even \$400 million - looking at sites in key markets. Most projects are \$7 million to \$8 million.

**PUBLIC STORAGE:**

- Approximately 42% common equity interest in Public Storage Business Parks (PSB). PSB owns and operates 29.7 million rentable square feet of commercial space in eight states.

**EXTRA SPACE STORAGE:**

- Closed or under contract year-to-date acquisitions total \$382.3 million.
- During the quarter, acquired eight properties for approximately \$91.2 million. Locations in California, Florida, Georgia, North Carolina, and Washington.
- Currently five properties under contract for a total purchase price of approximately \$41.4 million. Purchase of these properties expected to occur by the end of the third quarter.
- **Certificate-of-Occupancy Acquisitions:**
  - Acquired two ground-up development properties upon completion in first quarter, one in Texas and one in Connecticut.
  - Three properties under contract, two in Boston, one in Phoenix, scheduled to be built and opened in 2015 and 2016. Properties will be purchased upon completion. Yields compared to existing cap rates 150 to 200 basis points higher, i.e. if 6.5% cap rate add 150 to 200 basis points.
  - Considering joint ventures for future acquisitions at certificate-of-occupancy.
  - Willing to tolerate 2% to 3% dilution to FFO for these newly developed properties.
  - Less new supply than when Extra Space developing properties in last cycle.

**EXTRA SPACE STORAGE:**

- **Third-Party Management:**

264 Third-party owners  
272 Owned and operated in joint ventures  
536 Total managed

- Lease up of new properties currently faster than historical average of 3 to 5 years.
- As street rates have increased, enables raising rent more on existing customers. Existing properties have done better than originally estimated. Acquisitions have recently slowed.

**CUBESMART:**

- Year-to-date, acquired 21 properties for \$246.5 million.
- Acquired nine properties in second quarter for \$127.4 million with four locations in Florida, two in New York, and one each in Massachusetts, Indiana, and Texas.

**Facility Acquisitions at Certificate-of-Occupancy:**

<u>Location</u>	<u>Contract Price</u>	<u>Expected Opening</u>
Brooklyn, New York	\$48.5 million	Q2 2015
Long Island City, New York	\$38.0 million	Q3 2014
Dallas, Texas	\$15.8 million	Q2 2015
TOTAL:	\$102.3 million	

- When purchasing properties on projected stabilized cap rates, CubeSmart wants 150 to 200 basis point discount to prevailing cap rates of stabilized properties to account for lease-up risk.

**New Joint Venture Development Facilities:**

<u>Location</u>	<u>Total Investment Anticipated</u>	<u>Expected Opening</u>
Queens, New York	\$32.100 million	Q3 2015
Queens, New York	\$19.011 million	Q2 2015
Brooklyn, New York	\$10.712 million	Q1 2015
Arlington, Virginia	\$18.062 million	Q1 2015
TOTAL:	\$79.885 million	

- Three different partners for these, typically structured in 90/10 relationship where CubeSmart is 90% of the equity capital and partner is 10%.
- Looking to target joint venture development program on average about \$75 million worth of openings in any year.

**CUBESMART:**

**New Joint Venture Development:**

- About \$0.02 a share dilution first full year impact of the drag from development.
- Targeting stabilized yields 275 to 300 basis points above acquisition yield in each submarket.
- For deals purchasing at certificate-of-occupancy, targeting yields a little lower since taking less risk. Underwriting to a 3-year lease-up stabilization.
- In certain markets such as the burroughs of New York and metro D.C., quality of assets that could be available for acquisition don't meet company criteria, so development and C-of-O acquisitions are viewed as an excellent way to add share in certain growth markets.
- Don't see development having an impact on portfolio through at least end of next year. Have only seen 7 properties open in top 5 MSA's this year and about another 20 currently under construction.
- Sold one asset in London, England owned by USIFB, LLP, a joint venture in which CubeSmart owns a 97% interest, for an aggregate sale price of £4.1 million (\$7 million). Portion of proceeds repaid loan made to the venture, recording a gain of \$500,000.

**Third-Party Management:**

- Added three properties to third-party management program, and subsequent to quarter end, added 14 properties.
- Year-to-date, awarded contracts to manage 20 new properties.
- Acquired five properties from third-party management program participants.

**SOVRAN:**

- Acquired 26 properties this year, 23 stores for own portfolio at cost of \$190 million, and three for a joint venture totaling \$34 million.
- This quarter acquired 19 self storage facilities comprising 1.3 million square feet for total cost of approximately \$130 million. New properties located in markets with existing presence including seven in New Jersey, seven in St. Louis, one each in Metro New York, Philadelphia, Atlanta, Chicago and San Antonio.
- 16 of the properties purchased on behalf of Sovran for \$96 million, and three acquired in conjunction with Heitman, HHF Storage Holdings LLC, a joint venture in which Sovran owns a 20% interest.

For the 16 properties overall occupancy about 82%. Trailing cap rate about 5.7% and expecting year-over-year growth of 40 or 50 basis points to about 6.3% or 6.4% cap rate. Expect second year growth of another 50 basis points to nearly 7%.

- Subsequent to quarter end, acquired one 78,000 square foot facility in New Jersey for \$11.87 million.
- Currently evaluating about \$63 million – including three potential certificate-of-occupancy deals, and anticipate to consider more at summer's end.



**SOVRAN:**

- Only about 55 recently opened properties or in some type of entitlement phase will compete with Uncle Bob's existing stores nationwide. Not concerned with new supply until at least second-half of 2016. Texas, and specifically Houston, new development discussions heating up.
- Maturing \$5 billion CMBS loans not likely a boon for acquisitions.
- **Certificate-of-Occupancy Transactions:**
  - Purchased one newly developed property in Chicago and looking at three more currently.
  - Stabilized yields on certificate-of-occupancy acquisitions, seek 300 basis point spread to prevailing market cap rates, in three to four years.
- Intends to spend up to \$25 million on expansion and enhancement program. Budgeted \$16 million for recurring capitalized expenditures, including roofing, paving, and office renovations.

**PUBLIC STORAGE:**

- Unique Branding Strength  
  
70% of Public Storage's internet searches are organic - someone typing "Public Storage" into a search engine, which is a "free" search and company not paying for this as SEO strategy.
- Portfolio occupancy in U.S. end of July 94.8% versus 94.4% last year.
- After June, net move-outs for the year.
- Anticipate at least another year or two of great operating fundamentals.
- About 65% of move-ins receive some type of promotional discount - could be 50% off first month or \$1 for first month. Down from percentages in the 70's last year.
- Street rates up about 7%.
- Aggregators helping smaller operators with occupancies and internet visibility. Public Storage would prefer not to compete with them bidding for search terms.

**Rent Roll-Downs**

\$121.97	average monthly move-in rate
<u>\$124.00</u>	average move-out rate
\$2.03	negative

Reduction from last year's negative spread of \$5.50.

- Payroll costs declined 4% in same-store portfolio, primarily due to fewer hours.

**PUBLIC STORAGE:**

- For 2014, expect to incur approximately \$75 million for capital expenditures.
- Tenant reinsurance revenue in same-store portfolio increased by \$38.5 million in first half of year due to more insured tenants, and to lesser extent higher average premiums.
- Select Same-Store Markets Revenue Growth:
  - Los Angeles (197 facilities) +4.8%
  - Chicago (129) +4.4%
  - San Francisco (128) +6.6%
  - Dallas-Ft. Worth (98) +6.6%
  - New York (79) +3.2%
  - Miami (61) +6.6%
  - Philadelphia (55) +6.6%
  - Denver (47) +7.4%
  - Minneapolis-St. Paul (41) +6.5%

**Shurgard Europe Facilities Improving**

- Positive traction in Europe (187 facilities) since Q3 2013 with changes in pricing strategy and aggressive promotional programs. Occupancy up 7.3% year-over-year to 85.6%. Even facilities in the laggard Holland market have increased occupancy to 74.2% from 69.2% last year.
- Realized annual rent per occupied square foot in 174 same-stores in Europe at \$26.49, down 3.8%. In comparison, U.S. same-store pool of 1,983 facilities annual rent per occupied square foot at \$14.52, up 4.6%.
- Wish more opportunities to acquire in Europe (but much smaller supply base than the U.S.). Only about 1,500 facilities overall, with about 850 in the U.K. Longer term expectation may consider development with lack of acquisition opportunities, focus mainly in London.

**EXTRA SPACE STORAGE:**

- August 12, 2014 represents Extra Space Storage ten-year anniversary as a public company. Started with 136 properties and has grown to 1,071.
- 15 consecutive quarters of double-digit FFO growth. Second quarter 25.5% FFO growth.
- Street rates up 5% in second quarter, and 7% for the year.
- Discounts down an average of 18% for the quarter, aided by limited new supply and occupancy gains, a climb of 160 basis points to 92.4%.
- Major Markets With Revenue Growth Above Company's Portfolio Average:
  - Sacramento (5) +12.50%
  - San Francisco (22) +10.51%
  - Miami (19) +10.17%
  - Denver (6) +8.76%
- Major Markets With Revenue Growth Below Company's Portfolio Average:
  - Washington D.C./Baltimore (32) +5.99%
  - Las Vegas (5) +5.05%
  - Philadelphia (14) +2.39%
  - Indianapolis (5) +2.27%
- Average length of stay slightly longer than five years ago.
- Tenant insurance penetration overall 78%, and 90% of new move-ins.

**EXTRA SPACE STORAGE:**

- Added 99 properties to same-store pool - 90 from acquisitions and nine from legacy development pipeline.
- Revenue growth coming from several different components:
  1. Occupancy: About 2% year-to-date
  2. Pricing: About 4%
  3. Discounts: 0.5% to 1%
  4. Existing Customer Rate Increases: 0.5%

Occupancy growth delta will go down, currently 1.5% versus 2% first six months of year. Discount growth has been about 1%, going down closer to 0.5%.

**CUBESMART:**

- Reached peak occupancy for same-store portfolio of 93% on August 2, 2014.
- Asking rent “street” growth varies by sub-market. Houston +9%, Miami +7.5%, reductions in Albuquerque and El Paso.
- Discounts 4.2% of in-place rents, down from 5.4% second quarter last year.
- Average response time to internet inquiry across the country about 3 to 5 hours.
- Major Markets Same-Store Occupancies on June 30, 2014:
  - Florida (55 stores) 93.0%
  - Texas (45) 93.2%
  - California (37) 90.2%
  - New York (30) 91.4%
  - New Jersey (21) 92.5%
  - Illinois (27) 93.4%
  - Arizona (24) 90.3%
  - Ohio (14) 92.7%

**SOVRAN:**

- Same-store occupancy increased to 91.8% as of June 30th.
- Discounting down 46% from previous year.
- Penetration for tenant insurance about 58.8%, up 1% this quarter. Not expected to change much more.
- Tenant insurance income for same-store pool continues to show strong growth increasing almost \$500,000 in second quarter as compared to last year.
- Markets with strongest revenue impact:
  - Texas
  - Florida
  - New York
  - Illinois
  - Georgia
- Select Markets Same-Store Occupancies:

	<b>Ended June 30</b>	
	<b><u>2014</u></b>	<b><u>2013</u></b>
Texas (94 stores)	92.7%	91.5%
Florida (60)	89.1%	86.4%
New York (28)	93.2%	89.0%
Georgia (28)	91.6%	81.9%
Illinois (9)	88.1%	81.0%

- Annual general and administrative expenses expected to be approximately \$40 million due to need for additional personnel required for recent acquisitions, income taxes on its taxable REIT subsidiaries, and expanding internet marketing presence, Corporate Alliance and third-party management programs.

**SOVRAN:**

- **Guidance For Full Year 2014:**

- Revenue Growth: 7.0% to 8.0%
- Net Operating Income: 8.0% to 9.0%
- Property Taxes: 8.5% to 9.5%



**PUBLIC STORAGE:**

- On June 4th issued 6.0% Series Z Preferred Shares for gross proceeds of approximately \$288 million.
- Public Storage has been one of the largest and most frequent issuers of preferred equity in the U.S.; credit ratings of each series of preferred shares A3/BBB+.

**Shurgard Europe Stores**

In July, completed the following financing transaction:

1. Issued €300 million (\$402.5 million) of unsecured Senior Notes, in equal tranches of 7, 10 and 12 year maturities.
  2. Fully repaid €311 million (\$417.4 million) shareholder loan. As a result, received \$205 million for 49% share of the shareholder loan and \$200 million to repay portion of outstanding term loan reducing balance down to \$122 million.
  3. Amended bank loan, expanding borrowings to €125 million (\$167.7 million) from €82.9 million (\$111.2 million) and extend the maturity to January 2018.
- Foreign currency loss of \$1.7 million in second quarter versus a gain of \$5.9 million same period last year.

**EXTRA SPACE STORAGE:**

- Percentage of fixed-rate debt to total debt 73.7%.
- Weighted Average Interest Rates:

Fixed rate debt:	4.2%
Variable rate debt:	<u>2.0%</u>
Combined:	3.6%

Weighted Average maturity ~5 years

**CUBESMART:**

- Obtained \$100 million non recourse loan secured by 34 facilities owned by joint venture with Heitman, HHF, each with 50% interest. Seven-year loan with 3.59% annual interest rate. Loan-to-value only about 30% to 40%.
- Increased number of common shares via “at the market” (ATM) equity program from 12 million to 20 million shares.
- Sold 4.5 million common shares through ATM equity program at an average sale price of \$18.05 per share, resulting in net proceeds of \$80.1 million, to help fund acquisitions.
- For first months of the year, sold 7.2 million common shares at average sales price of \$17.79, raising \$126.1 million of net proceeds through ATM program. Company has 7.2 million shares available for issuance.
- Total debt balance of approximately \$1.18 billion.
  - 95.2% fixed-rate debt at 4.38% weighted average interest rate
  - 4.8% floating-rate debt with 1.75% weighted average interest rate
  - Maturity averages 5.9 years
- Series A Redeemable Preferred Shares at 7.75% interest rate.
- Investment-grade credit ratings of BBB-/Baa3.
- Approximately \$15 million cash and restricted cash on hand, and about \$243 million of availability under \$300 million revolving line of credit.

**SOVRAN:**

- 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.
- Issued 250,000 shares of common stock via ATM (at-the-market) program at an average price of \$77.08 per share, resulting in net proceeds of \$18.9 million after issuance costs. Used to fund acquisition of 16 stores.
- Issued 43,092 shares at an average price of \$73.45 through dividend reinvestment plan.
- \$7 million cash on hand, and \$166 million available on line of credit which carries interest rate of LIBOR plus 1.5%. Additional \$75 million expansion feature.
- Sovran with 33.2 million shares of common stock outstanding and 200,000 Operating Partnership Units (OP Units) outstanding.
- **Key Financial Ratios:**
  - Debt to Enterprise Value (@ \$77.25/share): 22.7%
  - Debt to Book Cost of Facilities: 36.8%
  - Debt to EBITDA: 4.5x
  - Debt Service Coverage (DSC): 4.9x