

# SELF STORAGE MARKET OVERVIEW

## Second Quarter 2011

*Analysis of the Industry's Public Companies*



SELF STORAGE GROUP

---

Marc A. Boorstein mboorstein@mjpartners.com	Jeffrey L. Jacobson jjacobson@mjpartners.com	Dennis Nyren dnyren@mjpartners.com	David E. Kohn dkohn@mjpartners.com	Steve Schwartz sschwartz@mjpartners.com	Benjamin S. Johnson bjohnson@mjpartners.com
--	---	---------------------------------------	---------------------------------------	--	--

150 South Wacker Drive • Suite 450 • Chicago, Illinois 60606 • (312) 726-5800 • [www.mjpartners.com](http://www.mjpartners.com)

# SELF STORAGE MARKET OVERVIEW

## Second Quarter 2011 Summary

- **All four public companies** show strong revenue growth versus second quarter 2010 of between 3.5% and 5.2%, and near record net operating growth of 6.2% to 8.5%.
- Full year guidance raised for revenue growth.
- **Property acquisitions** continue at a rapid pace. Top markets going in cap rate compression, fueled by capital availability and spreads from low interest rates.
- **“People don’t enjoy renting self storage – they need to do it. Discretionary customers are gone.”**  
-Dean Jernigan, CEO CubeSmart
- Implied cap rates based on common share prices:

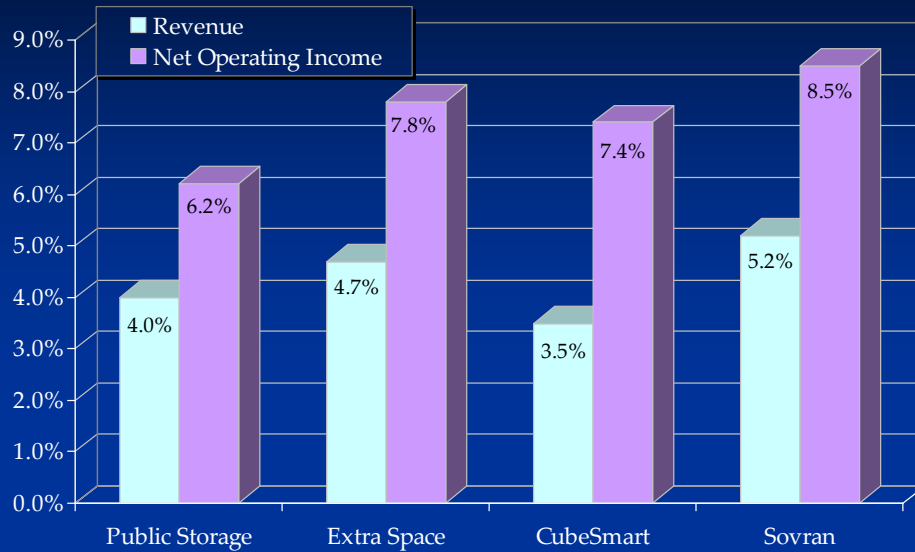
Public Storage (PSA)	5.47%
Extra Space (EXR)	6.97%
CubeSmart (CUBE)	7.82%
Sovran (SSS)	8.08%

# PUBLIC SELF STORAGE COMPANIES

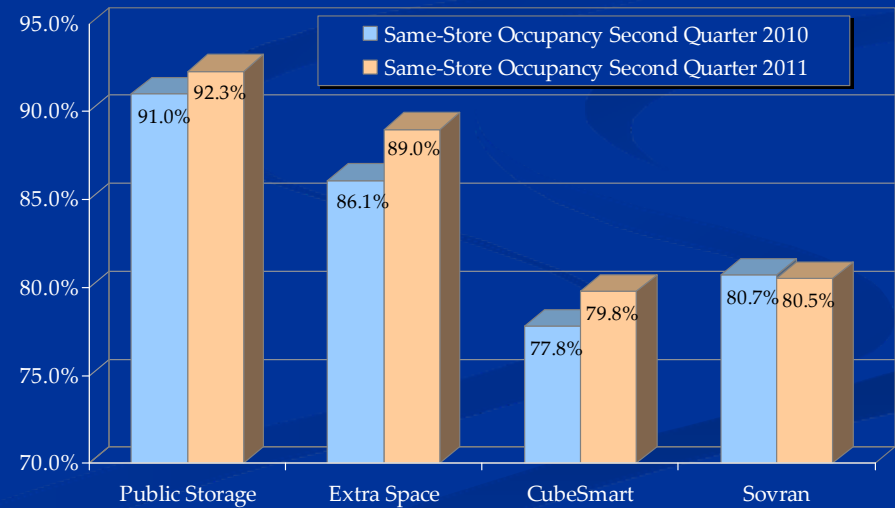
## Second Quarter 2011 Earnings Results

	<u>Public Storage (PSA)</u>	<u>Extra Space (EXR)</u>	<u>CubeSmart (CUBE)</u>	<u>Sovran (SSS)</u>
Number of Properties:	2,089 U.S. 188 Europe	860 180 3 <sup>rd</sup> party managed	454 85 3 <sup>rd</sup> party managed	380 47 3 <sup>rd</sup> party managed
Same-Store Revenue vs. 2 <sup>nd</sup> Quarter 2010:	+4.0%	+4.7%	+3.5%	+5.2%
Same-Store Net Operating Income vs. 2 <sup>nd</sup> Quarter 2010:	+6.2%	+7.8%	+7.4%	+8.5%
Same-Store Occupancy:				
2 <sup>nd</sup> Quarter 2011	92.3%	89.0%	79.8%	80.5%
2 <sup>nd</sup> Quarter 2010	91.0%	86.1%	77.8%	80.7%
Average Rent Per Occupied Square Foot:	\$12.58	\$12.95	\$10.99	\$10.56

## Revenue and Net Operating Income 2<sup>nd</sup> Quarter 2011 vs. 2<sup>nd</sup> Quarter 2010



## Occupancy 2<sup>nd</sup> Quarter 2011 vs. 2<sup>nd</sup> Quarter 2010



# PUBLIC SELF STORAGE COMPANIES

## Second Quarter 2011 Earnings Results

	<u>Public Storage (PSA)</u>	<u>Extra Space (EXR)</u>	<u>CubeSmart (CUBE)</u>	<u>Sovran (SSS)</u>
Market Capitalization:	\$20.54 billion	\$2.00 billion	\$957.67 million	\$1.14 billion
Quarterly Funds from Operations:	\$1.39/share	\$0.27/share	\$0.15/share	\$0.67/share
Quarterly Dividend:	\$0.95/share	\$0.14/share	\$0.07/share	\$0.45/share
Common Stock Price:				
October 21 <sup>st</sup> , 2011	\$119.66	\$20.98	\$9.58	\$40.76
October 21 <sup>st</sup> , 2010	\$102.86	\$16.11	\$8.60	\$38.67

# PUBLIC SELF STORAGE COMPANIES

## Recent Investment Activity

### Public Storage (PSA):

- **Acquired** facility in New York for \$18 million consisting of 133,000 net rentable square feet (\$135.34 per sq. ft.). Assumed \$10 million of debt.
- In July, **acquired** two facilities, one in California and one in Florida, in aggregate about \$23 million, consisting of 145,000 square feet rentable space.
- **Merger Agreements** to acquire remaining partnership interests in five public partnerships for \$154.3 million. These partnerships owned 47 properties with 2.7 million square feet. Payouts were \$54.6 million for Hughes Family interests, and \$99.7 million in third-party interests.
- **Acquired** Hughes Family interests in 18 limited partnerships for \$13.3 million.
- In early March, **acquired** remaining 8% interest in 2 European joint ventures that owned 72 properties for \$238 million.

# PUBLIC SELF STORAGE COMPANIES

## Recent Investment Activity

### Extra Space (EXR):

- **Purchased** 24 properties in for \$84.8 million, and now have purchased or are under contract for \$240 million in acquisitions this year.
- **Purchased** a 15-property portfolio, American Self Storage, with locations throughout greater Cincinnati, including northern Kentucky and Indiana. Other 9 properties purchased located in Nevada, New Jersey, Tennessee, Texas, Utah, and Virginia.
- Subsequent to end of quarter, **purchased** one property in Maryland for \$5.7 million.
- 24 additional properties **under contract** for \$143.6 million with locations in California, Colorado, Maryland, Massachusetts, New Jersey, and Texas. Cap rates in mid-7's.
- 60% of **acquisitions** from third-party managed or joint venture programs.

# PUBLIC SELF STORAGE COMPANIES

## Recent Investment Activity

### CubeSmart (CUBE):

- Year-to-date **acquisitions**, including properties under contract, total \$113.6 million, 86% of total stabilized properties, 14% in lease-up.
- In second quarter **acquired** four facilities for \$45.6 million in White Plains, New York, Miami, Houston, and Phoenix, containing 257,000 rentable square feet.
- In third quarter thus far, **acquired** four facilities in suburban Atlanta and Jacksonville containing 227,000 rentable square feet for about \$11 million.
- **Dispositions** in 2011 expected to be near \$50 million.
- Going-in acquisition rates about 7.3%, and dispositions at 8.3% due to smaller markets and older properties.
- Properties in lease-up 3% cap rate, but expected above 10% upon stabilization.



# PUBLIC SELF STORAGE COMPANIES

## Recent Investment Activity

### Sovran (SSS):

- Announced \$164 million **acquisition** of 19 properties for second joint venture with Heitman, LLC. 17 class A stores in New Jersey and two in eastern Pennsylvania, totaling 1.4 million rentable square feet. Heitman contributed 85% of equity, and Sovran contributed 15% (\$64 million/\$11 million). PNC bank financed \$89 million at a cap rate of 6.8%, all to be re-branded "Uncle Bob's Storage."
- **Under contract** to acquire \$129 million of properties in Georgia, Texas and Virginia. Occupancy just under 80% with two in high-60%. Will be funded by new line of credit.
- **Acquired** one store in West Deptford, New Jersey (Philadelphia) for \$4.2 million.
- **Acquired** two stores in Newark, New Jersey for \$14.6 million, and one in High Ridge, Missouri (St. Louis) for \$2.4 million, low 7 cap rates with 100 to 125 basis point increase expected as properties lease up.
- Average **cap rate** 7.15%. Financing with 10-year debt rates in mid 5's, 7-year in the high 4's.
- **Buying** in Texas 7.4% to 7.5% cap rates, projecting 120 to 150 basis point increase in 18 months.
- **Invested** \$17 million in Locke Sovran II for 27 stores (Michigan, New England, Texas) and now owns 100% of that entity.
- End of 2010 **acquired** 7 properties in North Carolina at 5.5% cap rate, 24 months later projected to be an 8.0% cap rate.
- More **acquisitions** considered in Texas, Midwest, New Jersey, some in lease up stages. Will sell some older properties and smaller markets.

# PUBLIC SELF STORAGE COMPANIES

## Balance Sheets

### Public Storage (PSA):

- Issued 15 million of 6.5% Preferred Shares priced at \$25/share resulting in net proceeds of about \$364 million.
- Redeemed 7.25% Preferred Shares for \$517.5 million.
- Issued 19.5 million 6.35% Preferred Shares at \$25/share, resulting in net proceeds of \$473 million.
- Redeemed 7.35% Preferred Shares for \$424.8 million.

### Extra Space (EXR):

- Raised \$112.5 million through issuance of 5,335,423 shares of common stock.
- New \$50 million secured line of credit with TD Bank and increased Wells Fargo line of credit to \$75 million. Now have five lines of credit with total capacity of \$315 million.
- 64 unencumbered properties with capacity of \$228 million.
- Fixed-rate debt to total debt was 71%, now 78%. Weighted average interest rate 5.6% fixed-rate and 3.1% variable-rate debt.
- After quarter end, locked interest rate on \$83.5 million preferred debt at 4.99% for seven years.

# PUBLIC SELF STORAGE COMPANIES

## Balance Sheets

### CubeSmart (CUBE):

- Moody's assigned CubeSmart, L.P. an investment-grade rating of Baa3 with a stable outlook.
- Closed on a \$200 million unsecured term loan facility and entered into interest rate swaps to fix the interest rate through loan maturity.
  - \$100 million 5-year unsecured term loan with effective fixed rate of 3.7%.
  - \$100 million 7-year unsecured term loan with effective fixed rate of 4.52%.

### Sovran (SSS):

- \$400 million of unsecured term note debt.
- \$77.8 million mortgage debt.
- \$35 million drawn on line of credit.
- \$90 million available on lines of credit.
- Negotiating to refinance \$225 million of 2011 and 2012 obligations.
- \$7.7 million cash on hand.
- Key Financial Ratios:

Debt to Enterprise Value	31.1%
Debt to Book Cost of Facilities	35.7%
Debt to EBITDA	4.9x
Debt Service Coverage	3.4x

# PUBLIC SELF STORAGE COMPANIES

## Additional Notes

### Public Storage (PSA):

- Public Storage common stock trading near 50% premium to NAV, “Premium due to acquisition discipline.”
- Confident will have opportunities due to upcoming maturities of CMBS and bank loans.
- Europe Occupancy 86.5% in July.
- Debt and preferred at only 16% of capitalization and in excess of 4.5x fixed charge coverage.
- Revenue growth:

Detroit	+6.3%	L.A (largest market)	+1.5%
Dallas	+6.2%	San Francisco (2 <sup>nd</sup> largest)	+3.6%
New York	+5.9%	Sacramento	+2.4%
Northern Virginia / D.C.	+5.7%		
Philadelphia	+5.4%		
Minneapolis	+5.3%		
- Growth decelerating in the Northeast and picking up Southeast and West Coast.
- Media spending (television) down since occupancy levels high.

# PUBLIC SELF STORAGE COMPANIES

## Additional Notes

- Extra Space (EXR):**
- Currently 180 third-party managed properties.
  - 26 properties added to third-party management, 19 from California and Hawaii. Lost 11 properties from sale. Just signed 14 new management properties.
  - Discounting down 9%, and bad debts down 12% from last year.
  - Vacates at historical lows.
  - Rent increases of 8% to 9% on 40,000 customers per month.
  - Tenant insurance continues to grow and currently 63% overall, over 90% of new tenants.
  - Installing solar panels on 45 sites by year's end, reducing utility cost 80% including state and federal credits, less than two year payback.
  - Technology replacing paper leases.
  - Debt to EBITDA 7.4x

# PUBLIC SELF STORAGE COMPANIES

## Additional Notes

### CubeSmart (CUBE):

- Managing 85 third-party properties totaling 5.6 million square feet.
- Awarded new management for 9 facilities in 2011, with 8 additional facilities pending.
- Physical occupancy 80.8% at end of July.
- Raising revenue guidance from 3.5% to 3.8%, previously 2.5% to 3.5%.
- Tenant insurance penetration is 92% of new customers, 58% overall.
- 25 new Super Store concepts with average cost about \$25,000 per facility.
- 460 basis point occupancy gain this year alone.
- Offered discounts of first month free on 64% of rentals (compared with Public Storage's 81% -- down from 99%).
- Average length of customer stay is 14 months, median 7 months.

# PUBLIC SELF STORAGE COMPANIES

## Additional Notes

### **Sovran (SSS):**

- Management agreement entered with Storage Bin Self Storage Centers for 3 properties in New Jersey totaling 298,000 net rentable square feet. Now managing 47 properties through joint venture and third party contracts.
- Expanding and enhancing existing properties of 530,00 square feet.
- Long-term target occupancy of 85% to 87% in good times, occupancy as of July about 82%.
- Second quarter move-outs down about 5%, move-ins down about 9%.
- Move-in incentives down \$2 million, 61% versus 89% last year.
- Florida and Texas markets improved.
- Rent increases of about 6% on about 15% of portfolio.