

# SELF STORAGE MARKET OVERVIEW

## Second Quarter 2012

*Analysis of the Industry's Public Companies*



### SELF STORAGE GROUP

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# SELF STORAGE MARKET OVERVIEW

## Summary

Second Quarter 2012

- **Is this as good as it gets?!** Self storage remains a beacon of strength in an otherwise weak U.S. economy that showed GDP slowing to a 1.5% pace after growing at a 2.2% pace in the first quarter. Conversely, self storage REITs in the second quarter reported revenue gains ranging from 3.0 % to 6.7%, and Net Operating Income increases from 5.2% to 10.2%
- **Growing demand.** U.S. home ownership rate stands at 65.6% at the end of the second quarter, down from a peak of 69.4% in 2004, representing 6.5 million households of potential new self storage customers. In 1995, one in seventeen U.S. households used self storage, today this number is one in ten according to the SSA.
- **“REITs are taking a bigger piece of the pie, and the pie is getting bigger.”**  
*- David Rogers, CEO, Sovran Self Storage*
- **“The power to capture a disproportionate share of customers is proving that the internet is not a great equalizer, but instead the great divider.”**  
*- Spencer Kirk, CEO, Extra Space Storage*
- **Abundant and low costs of capital** fueling aggressive **acquisition plans**, including new common equity issuance, preferred shares issuance, bond issuance, new lines of credit, secured and unsecured financing.
- **New self storage development remains scarce**, although Metro New York area seeing pockets of new private development.
- **Implied Cap Rates** based on common share prices:

Public Storage (PSA)	4.7%
Extra Space Storage (EXR)	5.5%
CubeSmart (CUBE)	6.5%
Sovran Self Storage (SSS)	6.2%

# PUBLIC SELF STORAGE COMPANIES

## Earnings Results

Second Quarter 2012

	<u>Public Storage</u>	<u>Extra Space Storage</u>	<u>CubeSmart</u>	<u>Sovran</u>
Number of Properties:	2,078 U.S. 189 Europe	882	473	447
Third Party Management:	35-40	179	137	12
Joint Ventures:		340		55
Revenue, Same-Store vs. 2 <sup>nd</sup> Quarter 2011:	+5.1%	+6.7%	+3.0%	+5.1%
Net Operating Income, Same-Store vs. 2 <sup>nd</sup> Quarter 2011:	+8.3%	+10.2%	+5.2%	+8.6%
Occupancy, Same-Store: 2 <sup>nd</sup> Quarter 2012	92.6% (weighted avg.)	90.4%	83.6%	85.7%
vs. 2 <sup>nd</sup> Quarter 2011	92.3%	87.7%	80.0%	79.9%
Average Rent Per Occupied Square Foot:	\$13.23	\$13.48	\$11.33	\$10.23

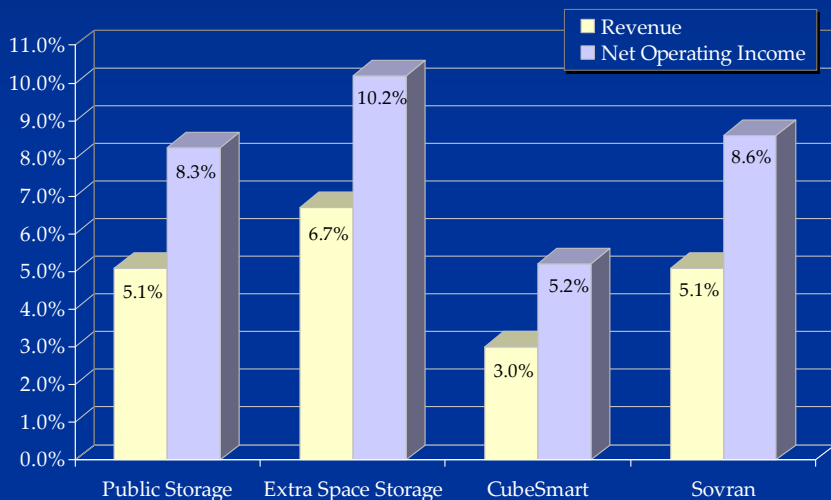
# PUBLIC SELF STORAGE COMPANIES

## Same-Store Comparisons

Second Quarter 2012

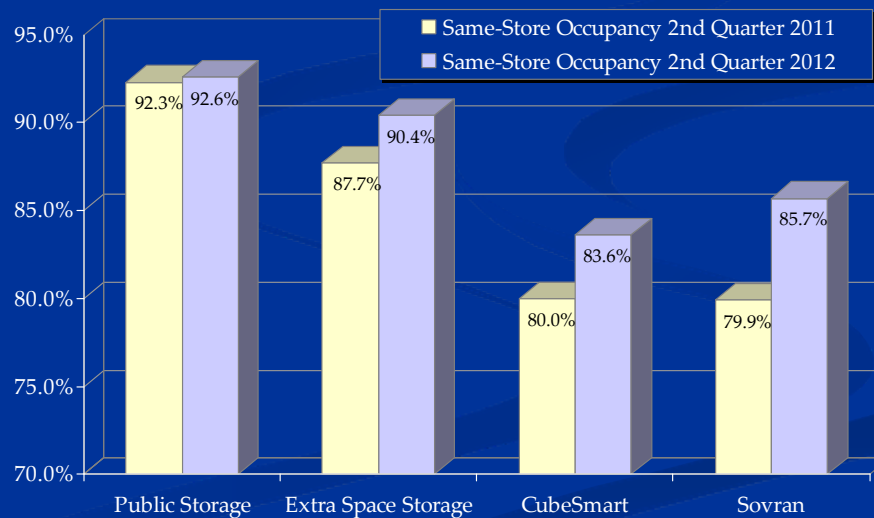
### Revenue and Net Operating Income

2<sup>nd</sup> Quarter 2012 vs. 2<sup>nd</sup> Quarter 2011



### Physical Occupancy

2<sup>nd</sup> Quarter 2012 vs. 2<sup>nd</sup> Quarter 2011



# PUBLIC SELF STORAGE COMPANIES

## Earnings Results

Second Quarter 2012

	<u>Public Storage (PSA)</u>	<u>Extra Space Storage (EXR)</u>	<u>CubeSmart (CUBE)</u>	<u>Sovran (SSS)</u>
Market Capitalization:	\$24.74 billion	\$3.43 billion	\$1.49 billion	\$1.66 billion
Funds From Operations:	\$1.62/share	\$0.38/share	\$0.18/share	\$0.77/share
Dividend:	\$1.10/share	\$0.20/share	\$0.08/share	\$0.45/share
Common Stock Price:				
August 8, 2012	\$145.09	\$32.98	\$12.13	\$57.36
52-Week Range	\$103.42 to \$152.68	\$17.29 to \$34.25	\$7.64 to \$12.93	\$34.84 to \$57.99

# PUBLIC SELF STORAGE COMPANIES

## Recent Investment Activity

Second Quarter 2012

### Public Storage:

- **Acquired** four self storage properties consisting of 316,000 net rentable square feet, totaling \$46 million in cash; two properties in California, one each in Florida and New York.
- Subsequent to end of second quarter, **acquired** one facility consisting of 61,000 net rentable square feet in California for \$6 million in cash.
- **Under contract** to acquire two properties for \$31 million.
- **Purchasing** bank foreclosures with lower occupancies primarily evaluated on price per square basis discounted from replacement costs, as opposed to evaluation on capitalization rate basis. Buying in California more stabilized properties from 75% to 80% occupancy at \$130 to \$135 per square foot. Buying in New Jersey at \$40 per square foot, about half of replacement cost.

# PUBLIC SELF STORAGE COMPANIES

## Recent Investment Activity

Second Quarter 2012

### Extra Space Storage:

- **Acquired** four properties in the second quarter for total price of \$21.3 million, locations in Florida and Maryland. Nearing \$500 million in transactions completed and announced this year.
- **Acquired** 51 properties this year, 76% from existing relationships of joint ventures and third-party management.
- Subsequent to end of the quarter, **acquired** Prudential Real Estate Investor's (PREI) remaining 94.9% interest in the ESS PRISA III LLC joint venture formed in 2005 at a price of \$298 million. The portfolio's 36 properties in 18 states contain about 2.5 million square feet in 23,400 units, with approximate occupancy of 87.8%. Paid \$162 million cash and the assumption of an existing securitized loan of \$145 million. Net Operating Income in 2011 for properties was \$19.72 million, according to Morningstar.
- Subsequent to quarter's end, **acquired** nine properties for approximately \$71.8 million, located in California, Colorado, New Jersey, New York, and South Carolina.
- Currently have nine properties **under contract** to purchase for approximated \$83 million. Locations in Massachusetts, New Jersey, New York, Texas, Utah, and Virginia.
- Slightly more aggressive on **acquisition cap rates** recently, ranging from 6.5% to 8.0% for nearly stabilized assets – depending on quality of market, property, and location within its market. Targeting 30% to 45% leverage range.

# PUBLIC SELF STORAGE COMPANIES

## Recent Investment Activity

Second Quarter 2012

### CubeSmart:

- Year to date, **purchased or under contract**: 16 assets for \$92 million, excluding Storage Deluxe transaction. Average occupancy of 81% with rents of \$15 per square foot (dispositions averaging \$8 per square foot).
- **Closed** on final two properties from the \$560 million Storage Deluxe transaction, both located in New York City; one for \$59.3 million with the assumption of \$24.7 million of secured debt, and the final property for \$68.2 million including the assumption of \$29.3 million of secured debt.
- **Storage Deluxe transaction**: average yield in first half of this year approximately 5.4%; pro forma 6% overall yield by end of 2012.
- Subsequent to end of second quarter, **acquired** for \$48.2 million four assets in Houston, one in Dallas, one in Norwalk, Connecticut, and one in Alexandria, Virginia for a total of \$48.2 million.
- Six properties **under contract** for \$26.9 million.
- **Planning to acquire** 50% interest in present Heitman joint venture.
- **Sold** eight assets for total proceeds of \$23.3 million. Facilities located in Michigan, Louisiana, and Mississippi. Additional seven properties under contract for disposition for \$12.5 million.
- Not much in acquisition pipeline for second half of this year.



# PUBLIC SELF STORAGE COMPANIES

## Recent Investment Activity

Second Quarter 2012

### Sovran:

- **Acquired** four properties totaling \$43 million for 311,000 rentable square feet, including one in Miami, one in Norfolk, Virginia, and the first two Sovran properties in the Chicago metro market, Lake Forest and Schaumburg, Illinois. Weighted average capitalization rate was 6.7% on these purchases, ranging from 5.8% to 7.7%.
- Subsequent to end of second quarter, **acquired** a property in Atlanta for \$8.5 million. Now operate 17 stores in the Atlanta metro area.
- Subsequent to end of the quarter, **sold** four remaining properties in Michigan, and one store in Salisbury, Maryland for total net proceeds of \$13.5 million. Cap rate of 8.5% includes closing costs and about \$1 million deferred maintenance.
- Twelve more properties **for sale** and/or **under contract**, and considering more. Sold 20 in last three years.
- **Purchasing** assets at cap rates from 5.8% to 7.7%.

# PUBLIC SELF STORAGE COMPANIES

## Balance Sheets

Second Quarter 2012

### Public Storage:

- Issued \$287.5 million of 5.625% Preferred Shares Series U.
- Redeemed total of \$416 million of Preferred Shares:
  - \$172.5 million 7.00% Series N
  - \$110.6 million 6.60% Series C
  - \$132.5 million 6.50% Series W
- May redeem close to \$400 million additional Preferred Shares with coupon rates of about 6.45%.
- Foreign currency exchange loss for European properties of \$23.7 million compared to \$10.5 million gain for same period last year.

### Extra Space Storage:

- In April, issued 8,050,000 shares of commons stock in a public offering, generating net proceeds of approximately \$226.7 million. Proceeds used to fund acquisitions, pay down debt, and general corporate and working capital.
- Obtained \$100 million in secured financing consisting of two loans with weighted average fixed interest rate of 3.6%.
- Currently, five separate lines of credit with capacity of \$339 million, and \$110 million outstanding on lines of credit.
- Fixed-rate debt to total debt at 82.0%. Weighted average of interest rate on fixed-rate debt is 5.1%, and 2.0% for variable rate debt, with weighted average maturity of about 5.7 years.

# PUBLIC SELF STORAGE COMPANIES

## Balance Sheets

Second Quarter 2012

### CubeSmart:

- Issued \$250 million of unsecured senior notes due July 15, 2012, with effective rate of 4.82% at June 30th. Net proceeds used to repay unsecured revolving credit, and other general corporate uses.
- Only \$34 million in debt maturing in next 24 months.
- \$138 million cash on hand from June bond offering.

### Sovran:

- At the market equity issuance of 386,491 shares at average price of \$50.64, netting proceeds of \$19.2 million.
- \$7.5 million cash on hand, \$105 million available on line of credit with \$75 million expansion feature.
- Key Financial Ratios:

Debt to Enterprise Value (@\$50.09 a share)	30.4%
Debt to Book Cost of Facilities	39.7%
Debt to EBITA Ratio	5.1x
Debt Service Coverage	3.7x

# PUBLIC SELF STORAGE COMPANIES

## Additional Notes

Second Quarter 2012

### Public Storage:

- Overall occupancy as of July 31, 2012 of 93.1% versus 92.9% last year.
- Top Revenue Growth Markets:

Denver	+8.7%	Los Angeles (largest market)	+4.4%
Charlotte	+8.7%	San Francisco (second largest)	+6.2%
Miami	+6.6%		
Detroit	+6.0%		
- Other select market growth:

Tampa	+2.7%
Orlando	+4.0%
Phoenix	+1.2%
Las Vegas	flat
- Generate 75% to 80% of inquiries organically, don't need to purchase. Unparalleled organic brand awareness.
- Media (television), largest variable expense, reduced \$1.5 million in the quarter.
- Roughly 60% of new renters from internet sources.
- Weighted average occupancy down in Europe to 83.4% versus 85.3% last year, rents up to \$25.52.
- Plan to deleverage European properties to obtain investment-grade rating in 2013 or 2014.
- More development opportunities than acquisition opportunities since so few high quality self storage properties.

# PUBLIC SELF STORAGE COMPANIES

## Additional Notes

Second Quarter 2012

### Extra Space Storage:

- 43 professionals dedicated to internet/technology.
- Overall occupancy as of July 31, 2012 a little over 90%.
- Asking rates versus in place rent about even.
- No plans for development.

- Number of Properties:

Wholly-Owned Properties:	363
Joint Venture Properties:	340
<u>Managed Properties:</u>	<u>179</u>
TOTAL	882

# PUBLIC SELF STORAGE COMPANIES

## Additional Notes

Second Quarter 2012

### CubeSmart:

- Overall occupancy as of July 31, 2012 of 85% up over 600 basis points from last year.
- Awarded management contract for 31 stores in North Carolina, South Carolina, and Georgia subsequent to end of the quarter.
- 93% tenant insurance conversion for new customers. Portfolio currently 66.9% customers with tenant insurance.
- Strongest Revenue Growth Markets:
  - Inland Empire – 4.4% revenue growth
  - Southern California – 900 basis point occupancy gains
  - Ohio
  - Chicago – occupancy, rates, revenue, all modest increases
- Most Challenging Markets:
  - Phoenix
  - Tucson
  - El Paso (military deployments)
  - Sacramento

# PUBLIC SELF STORAGE COMPANIES

## Additional Notes

Second Quarter 2012

### Sovran:

- Positive Net Operating Income growth in 23 of 24 states.
- Overall occupancy as of July 31, 2012 at 87.5%.
- Realized rent per occupied square foot down 3%.
- 21% of rentals from mobile devices.
- Increased rents on about 5% of customers, average rate increase of 5.5%.
- 70% of customers receive concessions, averaging about 71% of single month's rent.
- Seven stores to undergo expansions/climate control additions consisting of about 130,000 square feet total, with nine more to be completed in 2012, totaling 155,000 square feet. 2012 to date, have spent \$13.6 million in renovations/expansions. Evaluating expanding 19 more stores in 2013.