

Self Storage Valuation Issues



Self Storage Industry Overview

- History of Self Storage
- Various Names for Self Storage
- Industry Profile
- National Tenant Mix
- National Average Facility Size
- Trends

Industry Profile

INDUSTRY PROFILE		2011	2010	2009	2008
TABLE 1.1	National Data				
	Total Number of Facilities	50,048	49,356	48,721	47,514
	Average Number of Units per Facility	566	352	378	460
	Average Facility Net Square Footage	51,119	46,669	52,885	45,884
	Total Number of Units	28.32 million	17.37 million	18.42 million	21.85 million
	Total Rentable Square Footage	2.55 billion	2.30 billion	2.58 billion	2.18 billion
	Average Rentable Square Footage per Person	7.41	7.31	7.25	7.03
	State Information				
State with Most Facilities	Texas - 6,430	Texas - 6,350	Texas - 6,258	Texas - 5,744	
State with Fewest Facilities	No. Dakota - 96	No. Dakota - 91	No. Dakota - 89	No. Dakota - 88	
State with Most Rentable Square Footage per Person	Montana - 24.91	Montana - 22.59	Montana - 21.99	Montana - 21.90	
State with Least Rentable Square Footage per Person	New York - 3.70	New York - 3.20	New York - 3.24	New York - 3.04	
	MSA Information*				
Metro Area with Most Facilities	Dallas-Fort Worth Arlington, TX - 1,389	Dallas-Fort Worth -Arlington, TX - 1,385	Dallas-Fort Worth Arlington, TX - 1,382	Dallas-Fort Worth Arlington, TX - 1,261	
Metro Area with Most Rentable Square Footage per Person	Palm Bay-Melbourne Titusville, FL - 14.74	Palm Bay-Melbourne Titusville, FL - 13.92	Palm Bay-Melbourne Titusville, FL - 13.70	Tulsa, OK & Little Rock, North Little Rock Conway, AR - 12.36	
	Market Share**				
Largest Self-Storage Company	Public Storage	Public Storage	Public Storage	Public Storage	
By Number of Facilities	4.47%	4.13%	4.50%	4.60%	
By Rentable Square Footage	5.29%	6.03%	5.31%	4.80%	
Market Share of Top 10 Companies					
By Number of Facilities	11.11%	10.85%	10.78%	10.30%	
By Rentable Square Footage	12.42%	14.59%	12.39%	13.20%	
Market Share of Top 50 Companies					
By Number of Facilities	15.12%	14.53%	14.89%	14.30%	
By Rentable Square Footage	29.68%	20.16	17.67%	19.20%	
Market Share of Top 100 Companies					
By Number of Facilities	16.77%	16.34%	16.92%	16.30%	
By Rentable Square Footage	32.92%	22.71%	20.30%	22.20%	
Average 2009 Industry Occupancy Level					
Economic	75.70%	68.30%	71.8%	77.70%	
Physical	79.70%	75.50%	76.7%	80.30%	

* Various MSA have been modified by the U.S. Census Bureau
 ** Includes international facilities owned by the industry's top operators

National Statistics

NATIONAL TENANT MIX					
TABLE 2.1	Year	Commercial	Residential	Military	Students
	2003	18.7%	75.3%	2.1%	2.8%
	2004	19.5%	75.3%	2.0%	2.8%
	2005	17.6%	76.9%	2.3%	2.8%
	2006	20.0%	74.7%	2.7%	2.6%
	2007	18.9%	74.8%	3.2%	3.2%
	2008	20.6%	73.8%	2.9%	1.9%
	2009	16.5%	77.1%	2.7%	2.5%
	2010	17.2%	70.4%	6.2%	6.3%
	2011	18.4%	69.9%	5.9%	5.8%

NATIONAL AVERAGE RENTAL PERIOD IN MONTHS					
TABLE 2.2	Year	Commercial	Residential	Military	Students
	2003	22.0	12.8	12.8	4.2
	2004	22.9	12.6	12.0	4.4
	2005	22.4	12.0	12.1	4.7
	2006	22.7	12.1	11.6	5.0
	2007	25.2	13.4	12.7	4.6
	2008	22.5	13.7	11.8	4.5
	2009	23.1	14.9	6.3	2.5
	2010	25.7	15.6	13.7	5.7
	2011	31.4	16.6	13.7	5.4

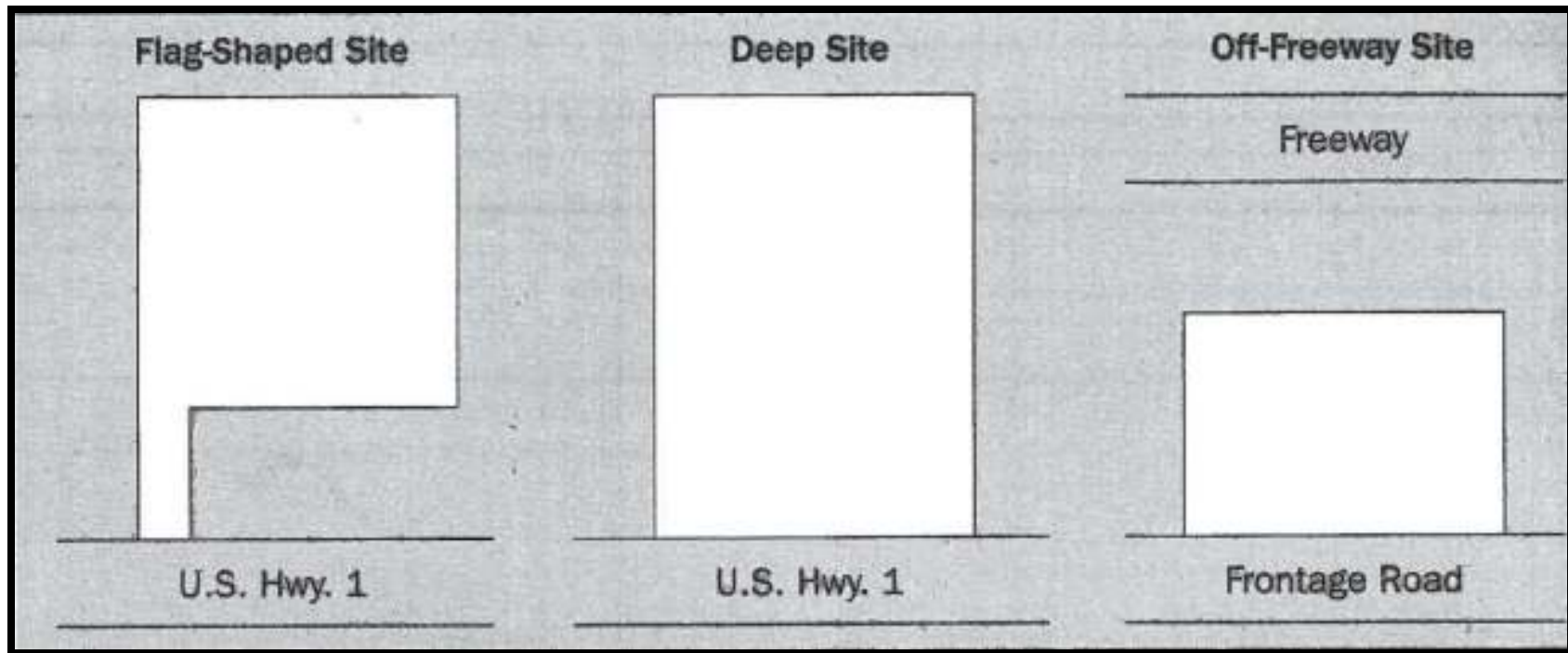
National Avg. Facility Size

NATIONAL AVERAGE FACILITY SIZE					
TABLE 2.5	Based on Units		Based on Square Footage		
	Year	Units	RV/Boat	Square Footage	RV/Boat
	2003	352	47	35,810	20,108
	2004	299	48	37,590	15,822
	2005	307	54	40,234	19,055
	2006	399	52	45,218	17,889
	2007	391	43	46,792	15,406
	2008	460	52	55,600	24,345
	2009	378	51	52,885	20,844
	2010	382	51	51,557	18,936
	2011	566	35	51,119	16,380

Site Characteristics

- Deep, Flag-shaped, Off-Freeway
- Minimal Frontage but Adequate Access
- Good Visibility (50% Business from Drive-by)
- 1-15 Acres; 2-5 Acres Typical
- 40%-50% Lot Coverage
- Low Land Cost
- 10-15 Minutes Drive Time – Convenience
- Minimal to Enhanced Landscaping

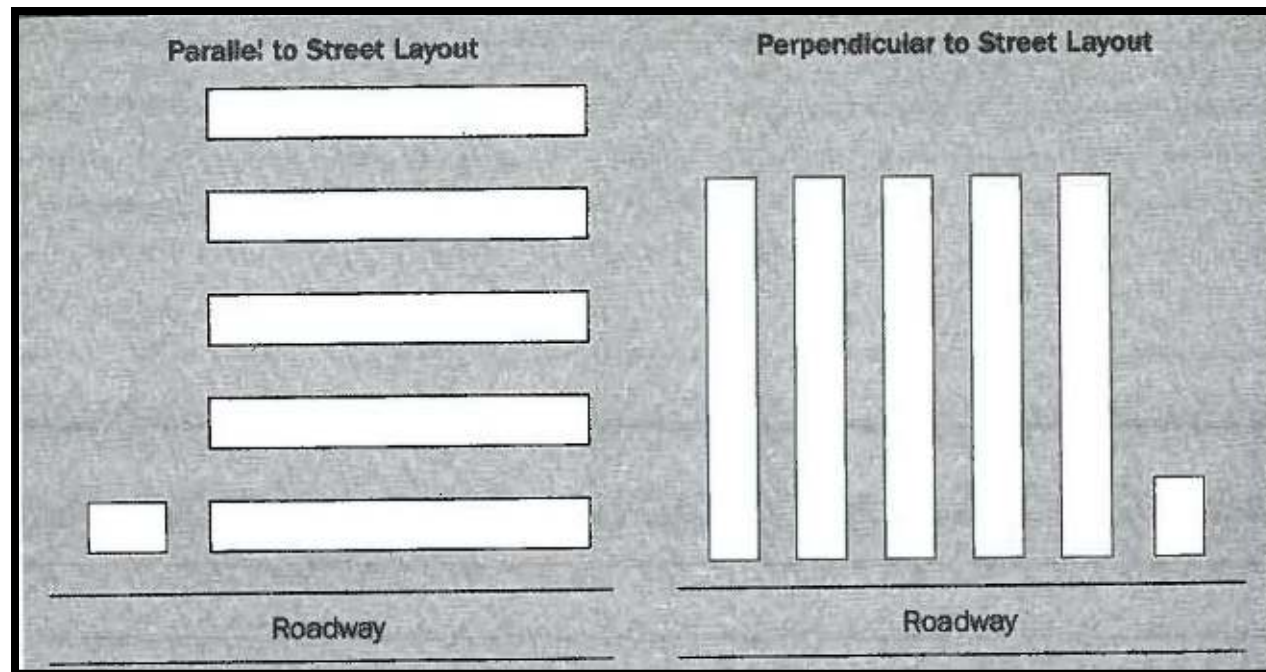
Typical Site Configurations



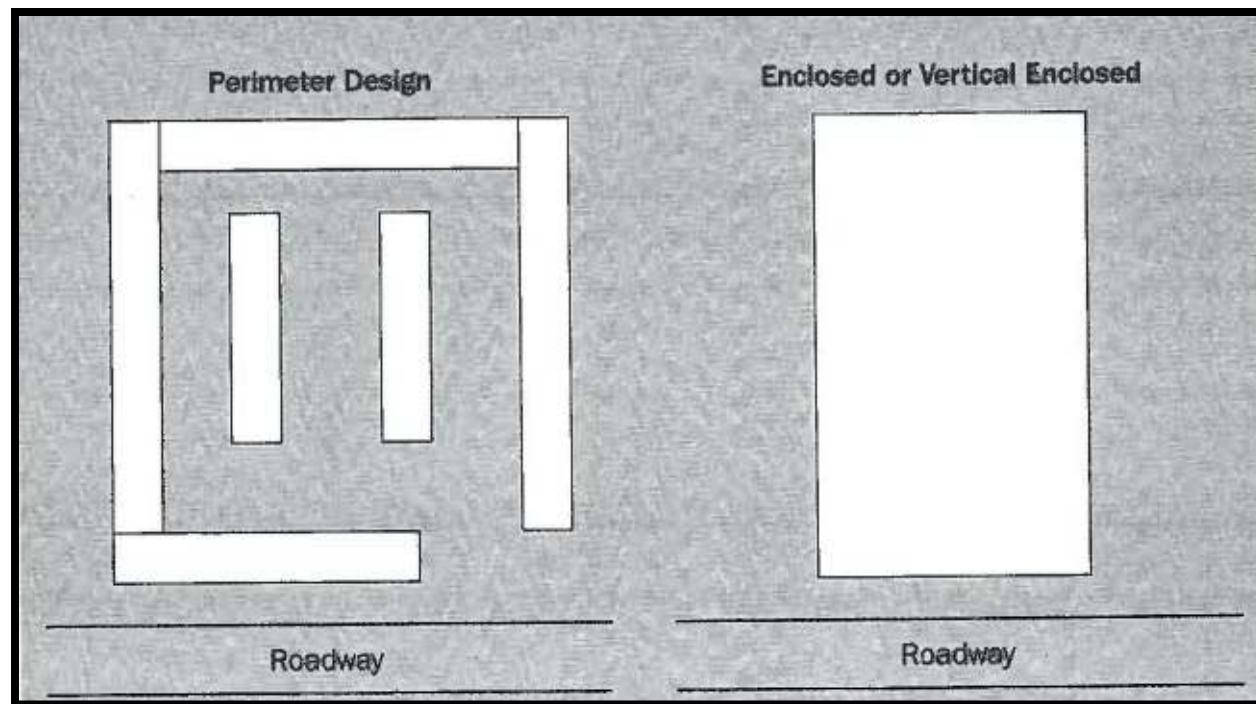
Building Characteristics

- 1-4 Stories, Parallel, Perpendicular, Perimeter, Enclosed
- Pre-engineered Steel, Masonry, Brick, Wood
- Adaptive Reuse
- Site Utility, Turning Radius
- First, Second, Third Generation Designs
- Basic - High Tech, Security, Automated Access
- Array of Unit Sizes, Climate Controlled, RV, etc

Typical Improvement Configurations



Typical Improvement Configurations (Continued)



Examples:











Cost Approach to Value

- Used Principally for New/Proposed Facilities
- Not Relied Upon by Buyers
- Use Appropriate Land Sale Comparables
- Estimating Depreciation is Subjective
- Physical Deterioration
- Functional Obsolescence – unit layout, size, density, vertical, climate controlled
- External Obsolescence – location, economic

Sales Comparison Approach

- Limited Quantity & Quality of Sales Data
- Units of Comparison
- Price per SF NRA
- Price per Unit not so much
- Adjustments
- Market Conditions, Conditions of Sale, Financing
- Location, Age/Condition, Project Size, Unit Size, Climate Controlled, Other

SELF-STORAGE IMPROVED SALES ADJUSTMENT CHART
ABCD Self-Storage

Sale Number Location	Subject	1	2	3	4	5	6
Date of Sale	N/A	Feb-11	Dec-10	Oct-10	Aug-08	Aug-08	Nov-10
Sales Price	N/A	\$3,400,000	\$4,000,000	\$5,250,000	\$8,950,000	\$5,300,000	\$2,200,000
Year Built	2007	2004	1998	1989	2005	2007	1981
Building Size (SF NLA Total)	71,650	65,707	55,625	88,426	113,580	56,418	48,651
Number of Storage Units	496	466	544	696	595	515	459
Average Storage Unit Size	144	141	102	127	191	110	106
% Climate Controlled Units	56%	43%	41%	0%	100%	100%	0%
Price Per Storage Unit	Solve	\$7,296	\$7,353	\$7,543	\$15,042	\$10,291	\$4,793
Price/SF NLA (Total)	Solve	\$51.74	\$71.91	\$59.37	\$78.80	\$93.94	\$45.22
Adjustments for							
Property Rights		0%	0%	0%	0%	0%	0%
Financing		0%	0%	0%	0%	0%	0%
Conditions of Sale		20%	0%	0%	0%	0%	0%
Market Conditions		0%	0%	0%	0%	0%	0%
Net Adjustment		20%	0%	0%	0%	0%	0%
Adjusted Price/SF NLA		\$62.09	\$71.91	\$59.37	\$78.80	\$93.94	\$45.22
Other Adjustments							
Location		0%	0%	0%	0%	0%	10%
Age/Condition		0%	10%	20%	0%	0%	25%
Quality of Construction (Climate Control)		0%	0%	20%	-20%	-20%	20%
Avg Unit Size		0%	-10%	-10%	10%	-10%	-10%
Net Adjustment		0%	0%	30%	-10%	-30%	45%
Indicated Price/SF NLA		\$62.09	\$71.91	\$77.18	\$70.92	\$65.76	\$65.57

Income Capitalization Approach

- Historical Income/Expenses & Occupancy
- Potential Gross Income
- Storage Unit Rents
- Vary by Unit Size, Climate Controlled
- Price/Unit and Price/SF
- Outdoor Storage
- Other Income – retail sales, late fees, insufficient funds fees, admin fees, forfeiture of security deposits, etc.

Income Capitalization Approach (continued)

- Vacancy and Collection Loss
- Impacted by Location, Competition, Management, Design, Age/Condition
- Varies Widely
- Collection Losses High but Offset by Revenue from Storage Unit Auctions (Storage Wars)

EFGH SELF STORAGE
Built: 2004
Reconstructed Income and Expense Statements
104,085 SF

Item	2008		2009		2010 Budget	
	Total	S/SF	Total	S/SF	Total	S/SF
INCOME						
Rental Income	\$880,482	\$8.46	\$902,866	\$8.67	\$949,958	\$9.13
Other Income	<u>Included above</u>	<u>NA</u>	<u>Included above</u>	<u>NA</u>	<u>Included above</u>	<u>NA</u>
Total Effective Income	\$880,482	\$8.46	\$902,866	\$8.67	\$949,958	\$9.13
OPERATING EXPENSES						
Real Estate Taxes	\$61,490	\$0.59	\$62,461	\$0.60	\$65,000	\$0.62
Insurance	8,916	0.09	6,990	0.07	8,100	0.08
Management	7,539	0.9%	54,665	6.1%	56,997	6.0%
Payroll	84,461	0.81	43,673	0.42	55,437	0.53
Repairs & Maintenance	52,066	0.50	35,853	0.34	37,260	0.36
Utilities	21,999	0.21	21,677	0.21	22,200	0.21
Administrative	<u>68,803</u>	<u>0.66</u>	<u>70,893</u>	<u>0.68</u>	<u>72,580</u>	<u>0.70</u>
Total Operating Expenses	\$305,274	\$2.93	\$296,212	\$2.85	\$317,574	\$3.05
Expense Ratio	34.7%		32.8%		33.4%	
Net Operating Income	\$575,208	\$5.53	\$606,654	\$5.83	\$632,384	\$6.08

SELF-STORAGE RENTAL RATES - Early 2012 Survey

Unit Size SF	Subject	Comp #1	Comp #2	Comp #3	Comp #4	Comp #5	Comp #6
Year Built	2008 (2012)	1996-97	2006	2005	NA	2007	2009
Total Units	496 (1,061)	348	735	595	480	515	575
Occupancy	98%	89%	90%	91%	87%	NA	35% Lease-Up
Climate Controlled Units							
20-35	\$62	\$55	\$69	\$55	\$63-64	\$49-68	\$55
50	\$88	\$80	\$79	\$85	\$86	\$92	\$68
70-81	\$98-\$107	\$100	\$89	\$110	\$111	\$99	\$83
100	\$114-\$134	\$125	\$114	\$130	\$121	\$155	\$93
150	\$160	\$160	\$134	\$154		\$178	\$117
200	\$190	\$185	\$164	\$176		\$205	\$150
250	\$230	\$215	\$184	\$200		\$235	
300	\$288	\$250	\$186	\$230			
Standard Units							
20-35	\$52	\$50			\$43-\$62		
90-100	\$98-\$109	\$100	\$109		\$94		
150	\$135		\$145				
200	\$150	\$130					
240-300	\$175	\$200	\$241		\$142		\$195-\$210

Income Capitalization Approach (continued)

- Operating Expenses
- Real Estate Taxes
- Insurance
- Management
- Administration
- Payroll
- Repairs & Maintenance
- Utilities
- Total Operating Expenses
- Reserves for Replacements

**SELF-STORAGE
EXPENSE COMPARABLES**

Comparable Location	1 -----, VA	2 -----, VA	3 -----, VA	4 -----, VA	5 -----, VA	6 -----, VA	7 -----, VA	8 -----, VA
Units	728	768	679	402	453	847	707	1325
Expense Year	2007	2007	2007	2008	2008 Pro-Forma	2009	2009	2009
Size/SF	86,575	92,175	73,500	44,429	56,575	104,085	70,734	178,983
R.E. Taxes	\$0.65/SF	\$0.46/SF	\$0.85/SF	\$0.69/SF	\$0.92/SF	\$0.60/SF	\$0.65/SF	\$0.56/SF
Insurance	\$0.09/SF	\$0.12/SF	\$0.11/SF	\$0.12/SF	\$0.10/SF	\$0.07/SF	\$0.08/SF	\$0.05/SF
Management	\$0.46/SF	\$0.48/SF	\$0.62/SF	\$0.54/SF	\$0.76/SF	\$0.52/SF	\$0.45/SF	\$0.41/SF
Admin. ¹	\$0.93/SF	\$1.12/SF	\$0.87/SF	\$0.66/SF	\$0.92/SF	\$0.68/SF	\$1.07/SF	\$0.59/SF
Utilities ²	\$0.17/SF	\$0.13/SF	\$0.14/SF	\$0.66/SF	\$0.42/SF	\$0.21/SF	\$0.23/SF	\$0.25/SF
Maint/Repairs	\$0.16/SF	\$0.18/SF	\$0.08/SF	\$0.59/SF	\$0.33/SF	\$0.34/SF	\$0.41/SF	\$0.25/SF
Payroll	\$0.41/SF	\$0.43/SF	\$0.73/SF	\$1.19/SF	\$1.33/SF	\$0.42/SF	\$0.93/SF	\$0.46/SF
Total	\$2.88/SF	\$2.94/SF	\$3.41/SF	\$4.46/SF	\$4.78/SF	\$2.85/SF	\$3.82/SF	\$2.57/SF

¹ Includes Legal/Accounting, Advertising and Miscellaneous

² Includes Trash Disposal

Note: Expense Comp #4 contains all standard units; all of the remaining comps include climate-controlled units.

INCOME AND EXPENSE PRO-FORMA

XYZ SELF STORAGE

Someplace, Virginia

178,983 Square Feet (NRA)

<u>Potential Gross Income</u>			
Rental Income			\$1,989,588
Less Vacancy	23.0%		<u>457,605</u>
Potential Gross Income			1,531,983
Plus Other Income	2.0%		<u>30,640</u>
Effective Gross Income			\$1,562,622
<u>Less Operating Expenses</u>			
Real Estate Taxes		\$100,975	\$0.56 /SF
Insurance		8,949	0.05 /SF
Management Fee	6.0%	93,757	0.52 /SF
Payroll		89,492	0.50 /SF
Repairs/Maintenance		44,746	0.25 /SF
Utilities		44,746	0.25 /SF
Administration		<u>107,390</u>	0.60 /SF
 Total Expenses	 31% of EGI	 \$2.74 per unit	 <u>\$490,054</u>
Net Operating Income			\$1,072,568
Reserve for Replacements	0.15 per SF		<u>\$26,847</u>
Net Cash Flow			\$1,045,721

Income Capitalization Approach (continued)

- Direct Capitalization – Overall Capitalization Rates
- Comparable Sales Data
- Industry Surveys – PriceWaterhouseCoopers,
RealtyRates.com
- Band of Investment

**OVERALL CAPITALIZATION RATES
FROM SALES OF SELF STORAGE FACILITIES**

Location	Date	Consideration	Size/Year Built	OAR
AAAA Self-Storage, Hull St, Richmond	2/11	\$3,400,000	466 Units/2004	8.8%
Morningstar, 428 N. Battlefield, Chesapeake	10/10	\$5,250,000	696 Units/1989	8.0%
Airline Self-Storage, 2604 Airline Blvd, Portsmouth	11/10	\$2,200,000	459 Units/1981	9.5%
A-1 Storage, York County	12/10	\$4,000,000	544 Units/1998	9.2%
Airport Mini Storage, Richmond	3/07	\$8,280,000	685 Units/2005	6.2%
Liberty Self-Storage, Norfolk	1/06	\$4,400,000	455 Units/2005	8.0%
Fairfield Self-Storage (with office), Va Beach	3/05	\$4,150,000	337 Units/1985-1987	9.3%
Nags Head Self-Storage, Nags Head	7/04	\$2,352,000	243 Units/1985, 1989,1995	9.5%

**OVERALL CAPITALIZATION RATES FOR SELF STORAGE
FROM INDUSTRY INVESTOR SURVEYS**

Period	4q2008	2q2009	4q2009	2q2010	4q2010	2q2011	4q2011	2q2012
PriceWaterhouseCoopers								
Range	7.0% - 10.0%	7.0% - 10.0%	7.0% - 10.0%	7.0% - 10.0%	7.0% - 9.5%	6.75% - 9.0%	6.5% - 8.75%	6.5% - 8.5%
Average	8.00%	8.55%	8.75%	8.45%	7.75%	7.5%	7.3%	7.0%
RealtyRates.com								
Range	6.3% - 13.8%	5.9% - 13.5%	6.3% - 13.8%	6.5% - 13.9%	5.9% - 13.6%	6.4% - 13.8%	5.7% - 13.9%	5.4% - 13.3%
Average	10.72%	10.94%	11.34%	11.44%	11.21%	11.61%	11.14%	10.84%

OVERALL RATE BY BAND OF INVESTMENT

Mortgage Debt Service	$70\% \times 0.0681 =$	0.04767
Equity Dividend Rate	$30\% \times 0.1200 =$	0.03600
Capitalization Rate	Say ...8.4%	0.08367

At a 5.5% interest rate, 30-year amortization, the mortgage constant is 6.81%

Reconciliation & Final Value Estimate

- Cost Approach
- Sales Comparison Approach
- Income Capitalization Approach

Summary and Conclusions

Questions and Answers