

ISS
INSIDE SELF-STORAGE
WORLD EXPO

We Have Bright Ideas in
STORAGE.
2015





An Overview of the Self-Storage Investment Market

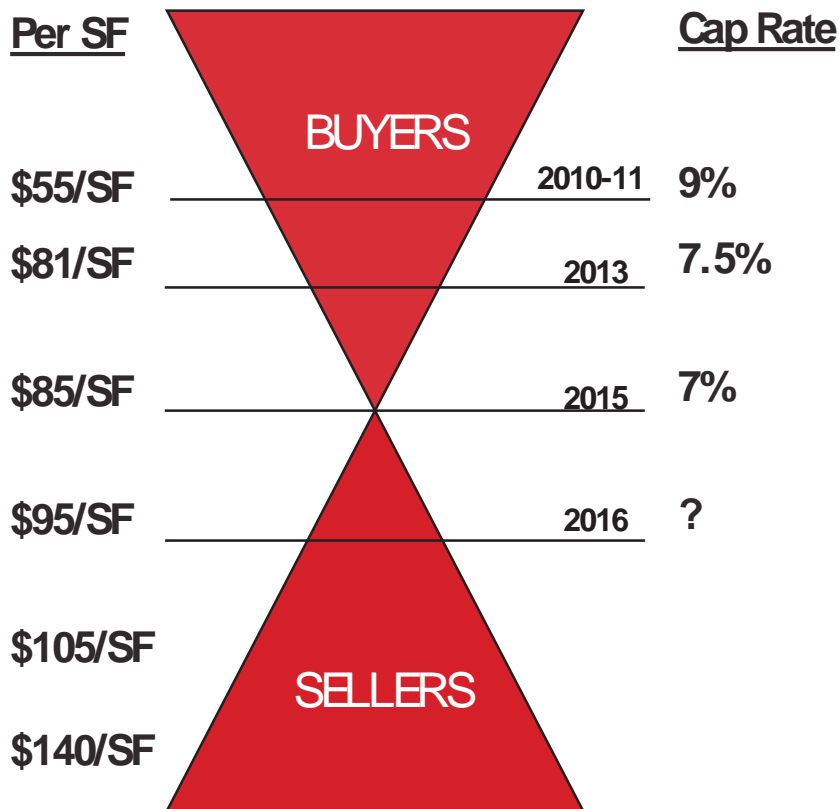
Presented by

Ben Vestal, President

Argus Self Storage Sales Network

Where Is the Market Today and What Does it Look Like?

This is a market:



Impact on today's
self-storage market:

- Lending environment
- Public awareness
- REITs
- Private equity funds
- 1031 buyers

Industry Overview

U.S. Self-Storage Transaction Volume

	\$0-\$5M		\$5M-\$10M		\$10M+		Total
2011	376	86%	33	8%	24	6%	433

Source: CoStar Group

ISS
INSIDE SELF-STORAGE
WORLD EXPO

We Have Bright Ideas in
STORAGE.
2015



InsideSelfStorageWorldExpo.com

Industry Overview

Market Segmentation by Investment Quality

Capitalization Rate	Class A	Class B	Class C
---------------------	---------	---------	---------

Source: Cushman & Wakefield Self Storage Industry Group

ISS
INSIDE SELF-STORAGE
WORLD EXPO

We Have Bright Ideas in
STORAGE.
2015

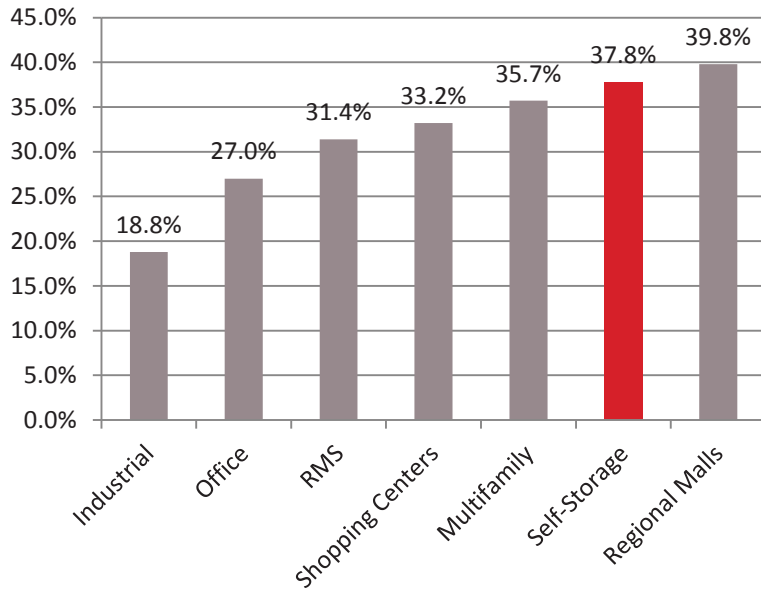


InsideSelfStorageWorldExpo.com

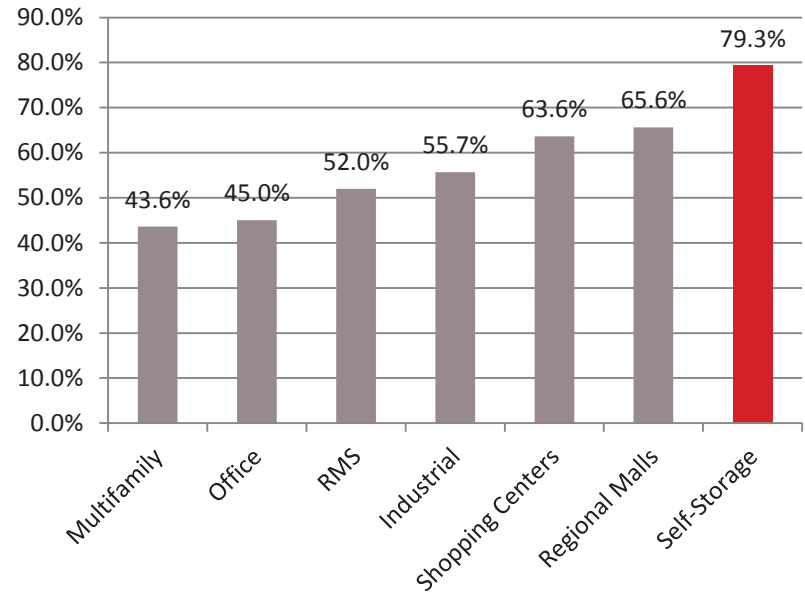
Industry Overview

REIT Returns: Self-Storage vs. Other Classes

One-Year Returns



Three-Year Returns



Source: SNL Financial

ISS
INSIDE SELF-STORAGE
WORLD EXPO

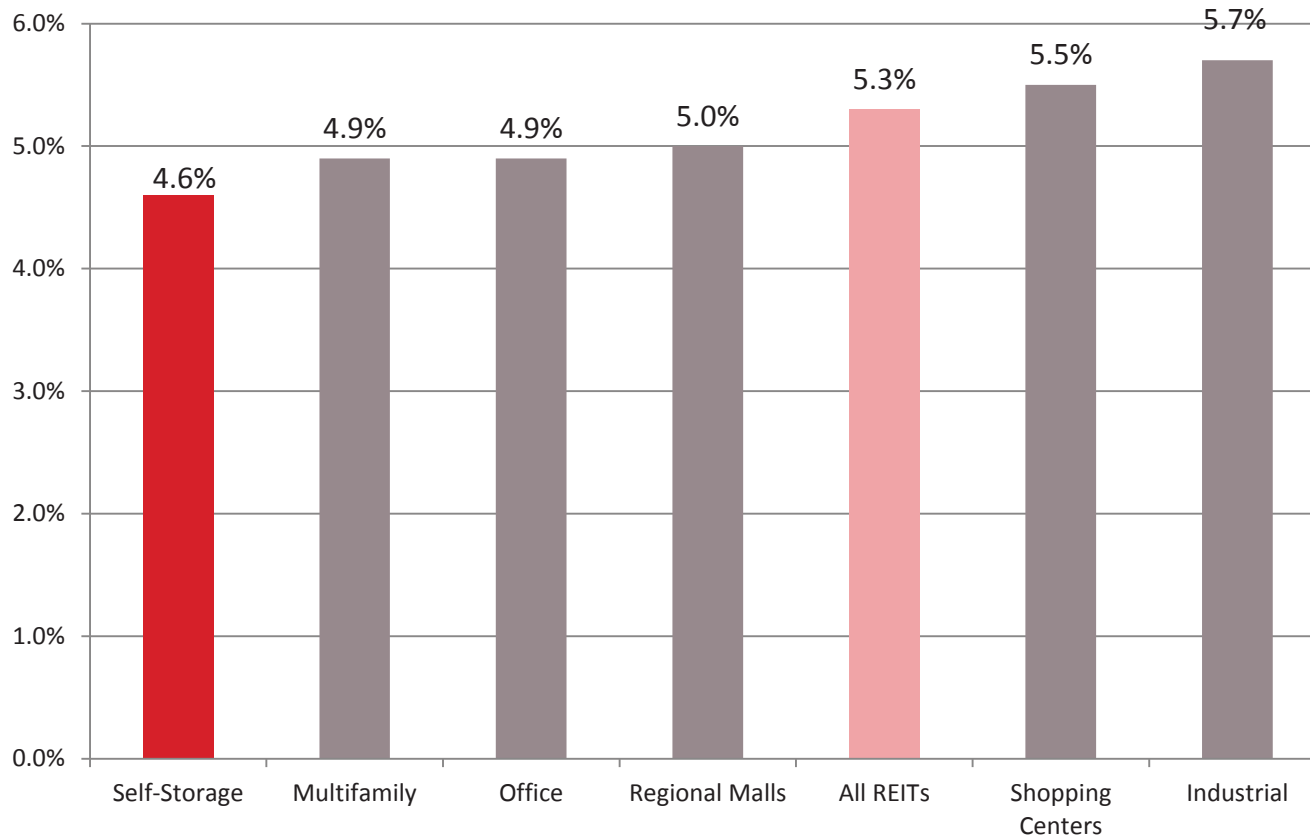
We Have Bright Ideas in
STORAGE.
2015



InsideSelfStorageWorldExpo.com

Industry Overview

2014 REIT Implied Cap Rates



Source: SNL Financial

ISS
INSIDE SELF-STORAGE
WORLD EXPO

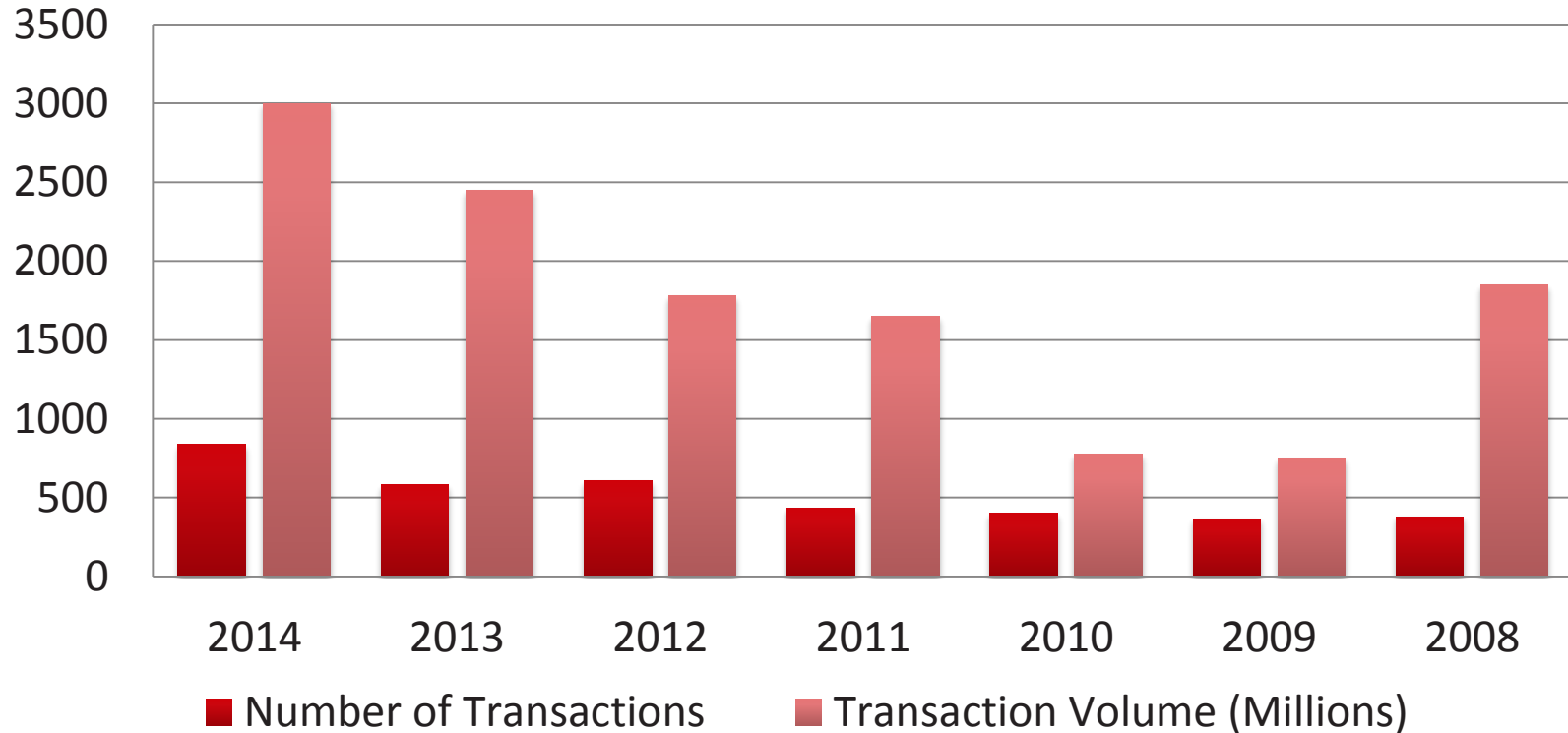
We Have Bright Ideas in
STORAGE.
2015



InsideSelfStorageWorldExpo.com

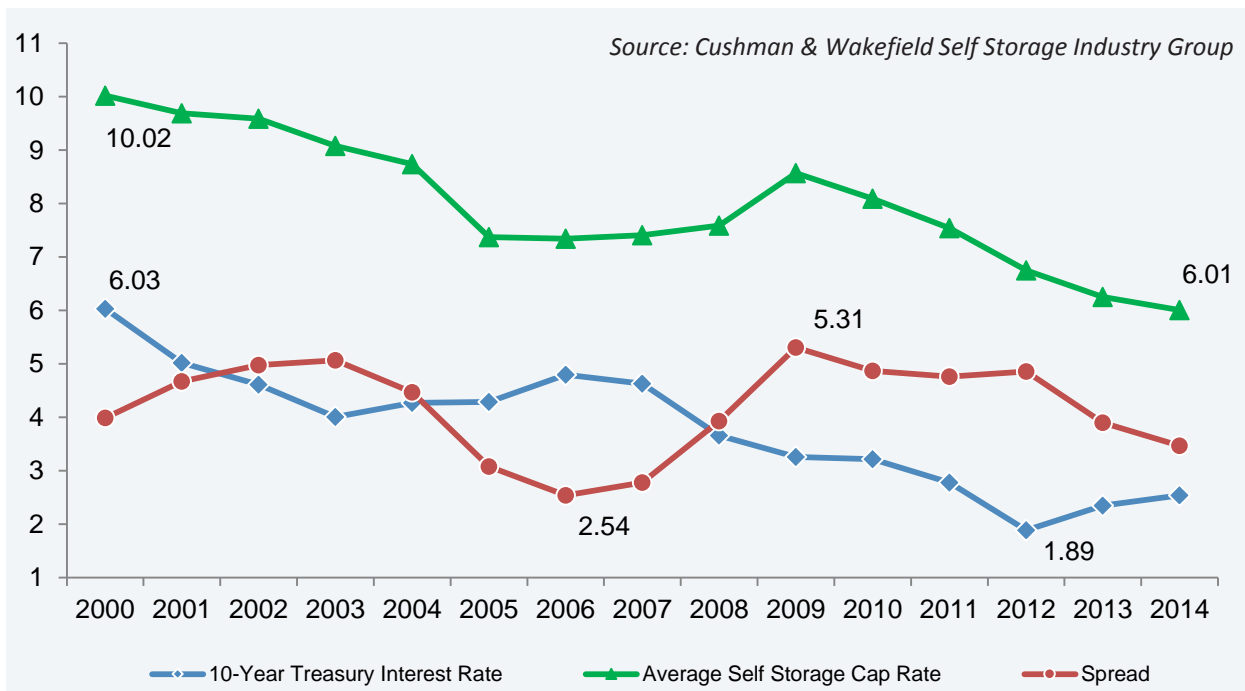
Industry Overview

Transaction Volume



Why Acquisitions Will Continue to Dominate the Market

Spread Between 10-Year Treasury and Self-Storage Cap Rate 2000-2014



Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Average
10-Year Treasury Interest Rate	6.03	5.02	4.61	4.01	4.27	4.29	4.80	4.63	3.66	3.26	3.22	2.78	1.89	2.35	2.54	3.82
Average Self-Storage Cap Rate	10.02	9.69	9.59	9.08	8.74	7.37	7.34	7.41	7.59	8.57	8.09	7.54	6.75	6.25	6.01	8.00
Spread	3.99	4.67	4.98	5.07	4.47	3.08	2.54	2.78	3.93	5.31	4.87	4.76	4.86	3.90	3.47	4.18

Why Acquisitions Will Continue to Dominate the Market

Available Financing Today

Local/Regional/National Banks	
3- to 10-Year Terms	15-30 Year Amortization
2.2% to 6.0% Interest Rate	Up to 75% LTV
Partial/Full Recourse	Construction Financing/ Flexible Prepayments

CMBS	
5- to 10-Year Terms	20-30 Year Amortization/Interest Only
3.7% to 4.7% Interest Rate	Up to 75% LTV
Non-Recourse	Prepayment Penalties

Life Companies	
5- to 20-Year Terms	20-30 Year Amortization
4% to 5.5% Interest Rate	Up to 70% LTV
Non-Recourse	Flexible Prepayment Penalties

Opportunities in the Market Today

Development of New Projects

Ground-Up Development/Conversion

- Market due diligence
 - Supply and demand
 - Site selection
 - Feasibility study
 - City/municipality support
 - Construction costs
 - Financing
- Site costs (\$500K to \$3.5M+)
 - Site cost have more than doubled on average since the mid 2000s
- Entitlements necessary for new projects
 - 6 to 36 months
 - \$100,000+ of cost
 - Will you be required to close on the land before entitlements are done?
- Construction time (12 to 18 months)
- Construction cost (\$45 to \$100+ per square foot)
- Operation plan, lease-up, sale
 - Property-management company
 - 12- to 36-month lease-up
 - Exit plan

Opportunities in the Market Today

Supply and Demand

Number of Facilities Built in the U.S.	
1970-1980	6,500-13,000 est.
1980-2010	30,000-40,000 est.
2011-2013	700-1,500 est.
2014	100-300 est.
2015	???

Since 2010, the number of new properties built has averaged only 1.1% of the existing inventory; and over the last two years, the supply growth has been even lower.

The U.S. population grew by 0.8% in 2014.



Opportunities in the Market Today

Valuation

- 90% of the property's value is in the NOI
 - Revenue - expenses = NOI
 - Trailing 12 months/year 1 stabilized or year 1 pro forma
- What type of debt can be placed on the property (CMBS, life company, bank, etc.)?
- Is the expense structure in line with industry standards?
- How much ancillary income does the property produce (Truck rentals, tenant insurance, box/lock sales, etc.)?
- What type of market is your property located in (major, secondary, tertiary)?
- Is your property institutional or entrepreneurial grade?
- Does the property have embedded value?



Opportunities in the Market Today

Cap Rates

- Relationship of value to income
 - Lower cap rate = higher value
- Why does the relationship change?
 - Interest rates/risk perception/project-specific conditions
- Cap rates have ranged between 4.75% and 11.5% from 2004 to 2014.
- **Not all cap rates are created equal...**
 - Portfolio cap rates are commonly compressed by 50 to 150 basis points.



Opportunities in the Market Today

Acquisitions/Dispositions

- Embedded value/under-managed property
 - Economic occupancy/physical occupancy
 - Market rates vs. actual rates
 - Ancillary income
 - Tenant insurance, cell-tower leases, lock/box sales
- Property condition
 - Paint, asphalt, security system, gate system, rental office
- Management
 - Customer service (cleanliness, friendliness, security)
 - Site manager (this one person has the most to do with the success or failure of your property)
 - Revenue management
 - Marketing efforts create long term value



A Few Thoughts on Today's Market

What should owners/investors do?

- Understand your objectives

- Investment horizon
- Estate planning
- Timing
- Financing
- Employees
- Confidentiality

** What is the purpose of the transaction?*

- Do what must be done!
- Real estate investment is not a spectator sport!



A Few Thoughts on Today's Market

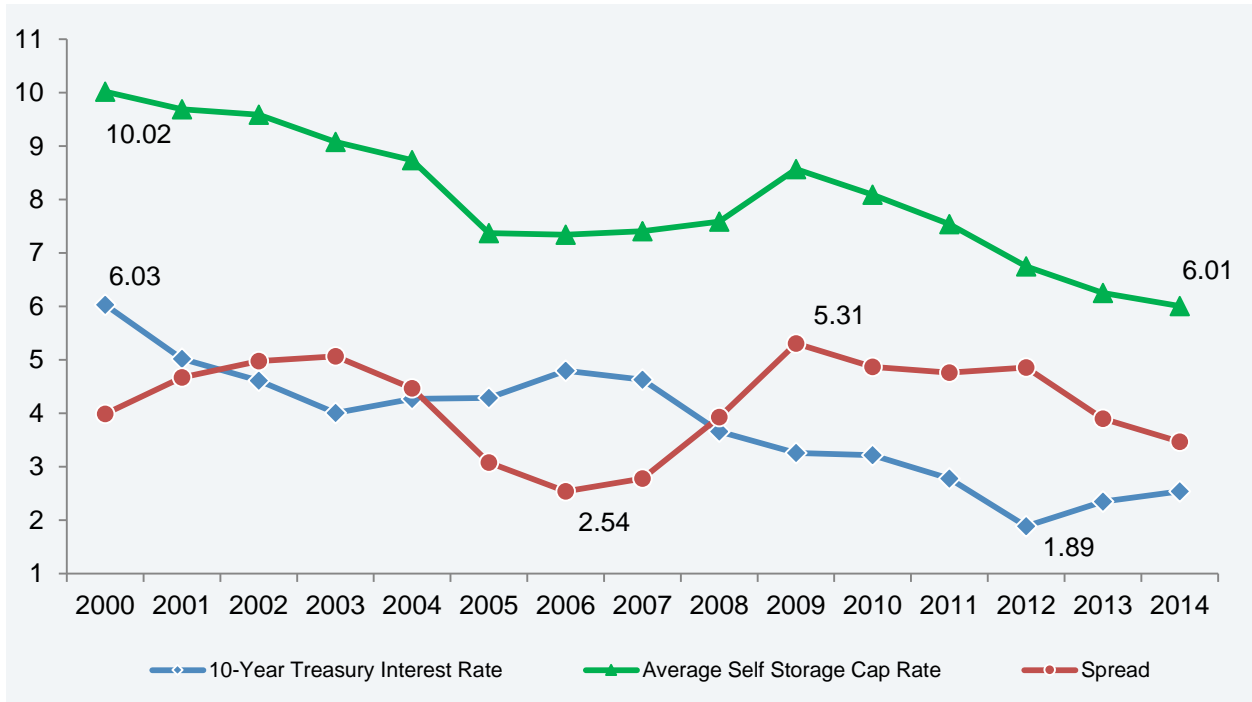
Market predictions for 2015:

- Self-storage fundamentals will remain strong.
- Lack of new supply will lead to strong performance.
- An increase in interest rates could lead to short-term market volatility.
- Deal size will shrink to historic levels due to lack of portfolio sales.
- Transaction velocity will remain strong.
- There are 18 to 24 months of market appreciation remaining.



A Few Thoughts on Today's Market

A History of Interest Rates



The arbitrage between cap rates and interest rates is what makes the game worth playing!



Contact the Presenter



Ben Vestal

President

Argus Self Storage Sales Network

303.317.6469

bvestal@argus-realestate.com

www.argus-selfstorage.com



SELF STORAGE SALES NETWORK

ISS
INSIDE SELF-STORAGE
WORLD EXPO

We Have Bright Ideas in
STORAGE.
2015



InsideSelfStorageWorldExpo.com

ISS[®]
INSIDE SELF-STORAGE
WORLD EXPO

Thank You!

ISS[®]
INSIDE SELF-STORAGE
WORLD EXPO

We Have Bright Ideas in
STORAGE.
2015

