

BUSINESS BRIEFING

2008 SELF STORAGE INVESTOR SURVEY

NEW RULES OF THE GAME

SELF STORAGE HOLDS ITS OWN
AS A UNIQUE INVESTMENT CLASS

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CONTENTS

- 1 Introduction
- 3 Still swimming naked?
- 3 Game highlights
- 4 Winners and losers
- 4 Game stats
- 5 Uncertainties remain

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EXECUTIVE SUMMARY

Cushman & Wakefield's 2008 Self Storage Investor Survey indicates that market fundamentals remain strong for the asset class, as key players sit on the sidelines in the short term and analyze game momentum.

INTRODUCTION

Investors are adapting to the changing rules of the game in self storage. Foremost, the credit crunch is impacting overall capitalization rates and values resulting in more discipline in investment criteria. While investors wait for lenders to return, industry consolidation suggests more portfolio transactions will take place, while brokers report fewer single-asset transactions. Investors are confident in the long-term performance of the asset class while planning game strategy in the now uncertain economic and credit market conditions.

The 2008 Investor Survey was completed by the Self Storage Industry Group of Cushman & Wakefield through primary survey research (interview and internet responses) of over 50 market players representing more than 100 million square feet of property nationwide. Respondents are primarily involved in the self storage asset class and included investors, developers, managers, owners, brokers, bankers and lending fiduciaries. The results, and six year trend, are summarized in Chart 1 on the following page.

CHART I: 2008 SELF STORAGE INVESTOR SURVEY – KEY INDICATORS

	2008	2007	2006	2005	2004	2003
Trade area						
Range	2 - 5	2 - 5	1 - 60	1 - 5	1 - 5	1.5 - 5
Mode	3	3	3	3	1.5	1.5
Average	3.25	3.33	3.14	3.3	2.8	2.82
Change	-2.4%	6.05%	- 4.85%	17.86%	- 0.71%	-
Demand (sq. ft. per person)						
Range	1 - 10	3 - 10	2 - 10	3 - 12	2 - 12	2 - 8
Mode	6	6	5	5	4	4
Average	6.52	6.12	5.7	5.36	5.27	4.87
Change	6.54%	7.37%	6.34%	1.71%	8.21%	-
Capitalization rate						
Range	6% - 9%	6% - 9%	6% - 9%	7% - 10%	7.5% - 11%	8.25% - 11%
Mode	7.5%	7.25%	7%	8.5%	9%	9.5%
Average	7.55%	7.19%	7.26%	8.28%	9.19%	9.52%
Change	+36 basis points	- 7 basis points	- 102 basis points	- 91 basis points	- 33 basis points	-
Absorption time (months)						
Range	20 - 40	18 - 36	18 - 43	12 - 44	18 - 40	18 - 36
Mode	36	30	30	24	24	24
Average	33	32	30	27	24	23
Change	+1	+2	+3	+3	+1	-
Marketing time (months)						
Range	1 - 12	1 - 12	1 - 6	1 - 12	1 - 6	1 - 12
Mode	4	4	4	1	1	1
Average	4.31	3.66	3.14	3.06	2.89	3.95
Change	+0.65	+0.52	+0.08	+0.17	- 1.06	-
Profit (on cost only)						
Range	10% - 20%	10% - 25%	15% - 25%	10% - 30%	8% - 25%	8% - 30%
Mode	15%	18%	20%	20%	20%	20%
Average	15.86%	17.63%	20.13%	20.14%	17.10%	14.34%
Change	-10.04%	-12.42%	-	17.78%	19.25	-
Optimism index (1 - 10)						
Range	3 - 9	3 - 9	3 - 10	3 - 9	5 - 10	5 - 10
Mode	6	6	7	6.5	7	7
Average	6	6.25	6.5	6.65	6.9	6.83
Change	- 4%	- 3.85%	- 2.26%	- 3.62%	1.02%	-
Market conditions						
Undersupplied	10%	6%	15%	15%	3%	6%
Oversupplied	63%	52%	50%	50%	54%	47%
Equilibrium	27%	42%	35%	35%	40%	47%
Strategy						
Buy	27%	15%	18%	20%	27%	28%
Sell	55%	60%	50%	60%	46%	26%
Build	18%	25%	32%	20%	27%	30%
Discounted Cash Flow						
Usage	33%					
IRR (yield rate unlevered)	10.5%					
Rental Growth Rate	3%					
Expenses Growth Rate	3%					
Cost of Sales	4%					
Holding Period	10 years					

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STILL SWIMMING NAKED?

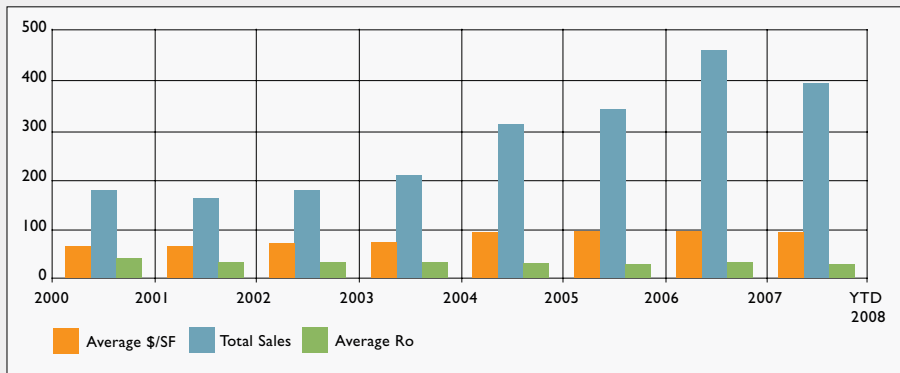
In our 2007 survey, investor uncertainty led us to reflect on Warren Buffett’s musing that “it’s only when the tide goes out that you can see who’s swimming naked” (*The Economist*, January 14, 2006). Consequently, last year the trend was towards a cautious game plan. But, as we have seen over the past year, within uncertainty lies opportunity.

Industry consolidation is now a growing trend. Transactions are involving portfolios over single assets, reflecting continued investment interest in the asset class even as brokers report a decline in sale activity. The pace of transaction volume in 2008 is about 20 percent lower than last year overall. One broker in Arizona reported sale volume of one self storage facility per month in 2006 and 2007, yet only one sale in the first two quarters of 2008. Many brokers complained of a disconnect between sellers’ expectations

and buyers’ motivations.

Transaction analysis shows a rise in overall capitalization rates and a decrease in pricing and volume. For example, the average overall capitalization rate rose to 7.55 percent, or 18 basis points over the 2007 average, while pricing declined 2.37 percent to an average price per square foot of \$77.72 based on 400 transactions (annualized in 2008). These data trends are summarized in Chart 2.

CHART 2: NATIONAL SELF STORAGE TRENDS



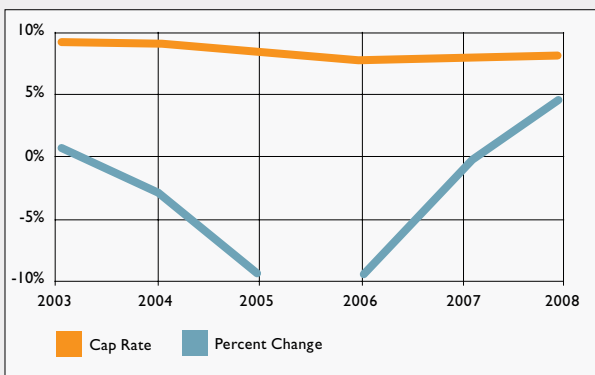
GAME HIGHLIGHTS

Reviewing transactions gives a historical perspective of the game. An investor survey is preparation for the game ahead based on the observations of key players. In response to a decline in access to capital

(at a higher cost), overall capitalization rates have increased 36 basis points to an average of 7.55 percent (stabilized) from one year ago. This is the first time in the six-year history of our survey that overall capitalization rates have increased. Nevertheless, overall rates remain nearly 200 basis points below the survey average in 2003.

There is also greater elasticity or range in cap rates and more discipline in the application of an overall rate. For example, investors are increasingly relying on income in place or trailing 12-month performances (T-12 or TTM), rather than projections of the future. One investor anecdotally reported a trend in which a 6 percent or higher CAP rate was applied on TTM net operating income and used as the hurdle rate for purchase, regardless of occupancy.

CHART 3: CAP RATE TRENDS



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Investors are also increasingly relying on discounted cash flow analysis for self storage. New to the Investor Survey this year is data regarding DCF assumptions. The target Internal Rate of Return (unlevered) is 10.5 percent for the asset class with growth assumptions generally under inflation at 3 percent to both income and expenses (although some are increasing expenses at a rate commensurate with inflation). A typical holding period is 10 years with a 50 basis point increase to the terminal cap rate at an average cost of sales of 4 percent.

Fundamental attitudes about the asset class remain bullish over the long run. Investor optimism has declined to a six out of 10, due to the twin pillars of game choke: access to capital (both mortgage and equity) and concerns of over-supply. Access to capital is short term and exogenous to the fundamental cash flow of self storage. As one investor reported, it remains a cash flow business with superior returns and low loan losses.

WINNERS AND LOSERS

Oversupply is the decisive factor of defining winners and losers in self storage. Time and population growth are key to the long-term training required to correct oversupply. Investors are increasingly paying attention to occupancy within the trade area.

Many are concerned about the housing downturn's impact on self storage. There are two views: that housing downsizing will increase demand for self storage product, or that decreasing household income and deteriorating consumer confidence will cause customers to budget more carefully, decreasing demand for self storage. Actual data is inconclusive. It is important to remember that over the long term, national self storage vacancy has generally been 15 percent or less through both bull and bear market cycles.

Moreover, the "stuff" stored in a unit is precious to the customer, whether it consists of drawings now college-age children did when they were young, grandma's furniture that can't be used now but that they can't bear to part with, old business and financial records, and so on. Self storage operators understand the psychological factors of safe storage and wisely boast state of art fire-life-safety-security in a clean and well-lit facility.

GAME STATS

The results of the 2008 Investor Survey indicate an average trade area of 3.25 radial miles, consistent with prior years. What happens in the local trade area is more important than national, regional or CBSA (core based statistical area) trends. Demand for self storage property, measured in terms of rentable square feet per person, increased to an average of 6.52 square feet per person. This reflects an increase from 6.12 in 2007, a change of plus 6.54 percent. Comparatively, the 2008 Self Storage Almanac reports there are nearly 45,000 facilities nationwide that represent 6.87 square feet per person.

After years of loose credit, the crunch is being felt among all asset classes, including self storage. Wall Street CMBS lending is down 90 percent and Main Street bank loans are dominated by national banks and select regional and local lenders. The survey indicates a typical loan in the 6.5 to 7.5 percent range



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with a 10-year term, 25-year amortization, a 65 percent loan-to-value ratio, and a 1.25 debt coverage ratio as minimum parameters. Many surveyed believe interest rates will continue to rise throughout 2008 due to rising inflationary pressures on fed policy.

CHART 4: SIMPLE BAND OF INVESTMENT

Component	Ratio		Ratio	
Mortgage:	.65	x	.0848	= .0551
Equity	.35	x	.0600	= .0210
Ro	100 percent			.0761

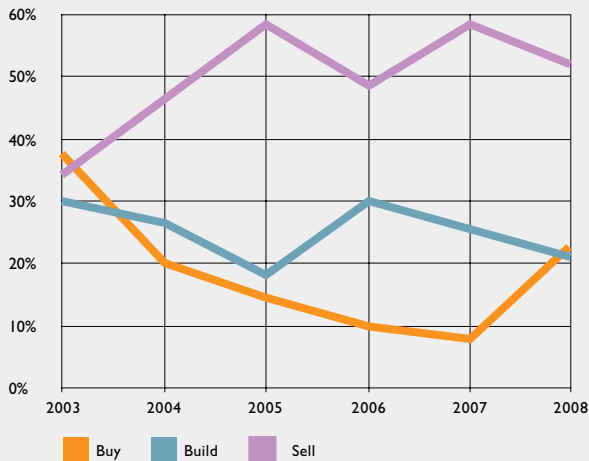
The band of investment in Chart 4 illustrates the impact of interest rates on overall capitalization rates. Parameters include a 65 percent loan-to-value at a 7 percent interest rate amortized over 25 years. For purposes of analysis, the return to equity will be based on 6 percent.

A 50 basis point increase in the interest rate results in an overall capitalization rate of 7.86 percent if the return to equity remains the same. On \$100,000 of net operating

income, this results in approximately a 3 percent decline in value. However, equity returns often rise with capital increases because of the risk of herd mentality among investors. For example, dividends on REITs have increased 100 to 300 basis points (including self storage).

Most respondents continue to describe market conditions as “over-supplied,” and only 18 percent of respondents said building was the best strategy right now, as illustrated in Chart 5. Interest in buying is increasing, as cash is now champion. High net-worth individuals and consolidation among regional and national players lead the trend. Institutional investment money is recapitalizing properties with an infusion of cash for an equity position over a purchase, particularly for portfolios of 10 properties or more. The average absorption time (from completion to stabilization of income and occupancy) increased by one month, to 33 months. Marketing time or the time to sell a property increased to 4.31 months.

CHART 5: SELF STORAGE STRATEGY



UNCERTAINTIES REMAIN

At halftime, investors continue to play the game as there remains wide interest in the self storage asset class. However, game strategy is hard to quantify with economic and financial market uncertainty. Continued focus on property management, discipline and a growing sophistication in due diligence will increase over the next year as the market continues to bifurcate among winners and losers.



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