

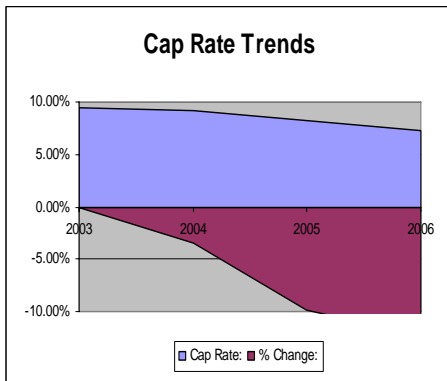
## SUMMER 2006 SELF STORAGE INVESTOR SURVEY

### INVESTORS STAY THE COURSE

by R. Christian Sonne, MAI  
Managing Director, Self Storage Industry Group

Investors have chosen to “stay the course” and continue to store capital in the self storage asset class. Overall capitalization rates have declined to an average of 7.26% nationwide, an incredible decrease of 102 basis points from last year, or a change of -12.82%! Nevertheless, the chief concern of investors is over-supply. This paradox suggests changes are ahead in the self storage market.

The Summer 2006 Investor Survey was completed by the Self Storage Industry Group through primary survey research (interview and internet responses) of over 50 market players representing more than 100 million square feet of self storage property nationwide. Respondents are primarily involved in the self storage asset class and include investors, developers, managers, owners, brokers and bankers.



The range of capitalization rates was from 6.0% to 9.0% with the most typical response or mode at 7.0%. Capitalization rates represent a stable scenario or forecast going forward twelve months of net operating income. Coastal states tend to have lower overall capitalization rates, while inland states tend to have higher overall capitalization rates. This trend suggests that institutional quality property may primarily be defined by location for self storage property. Although less than 20% of the respondents utilize discounted cash flow analysis for self storage property, the

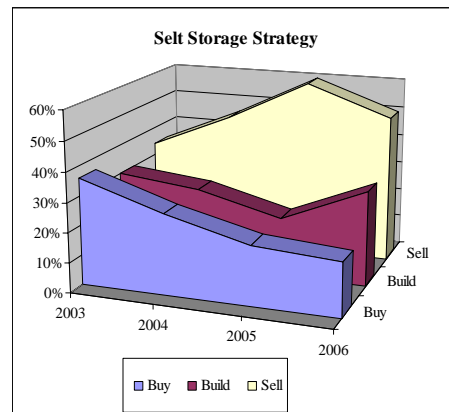
Internal Rate of Return (IRR or yield capitalization) hovered around 10.50%, also a decline from the 2005 survey results.

Loans remain widely available for the self storage asset class, and the survey indicates a typical loan in the 6.50% to 7.50% range with a ten-year term, 25-year amortization, a 75% loan to value ratio and a 1.20 debt coverage ratio as typical parameters. However, most surveyed believe interest rates will continue to rise throughout 2006, causing upward pressure on capitalization rates and downward pressure on values.

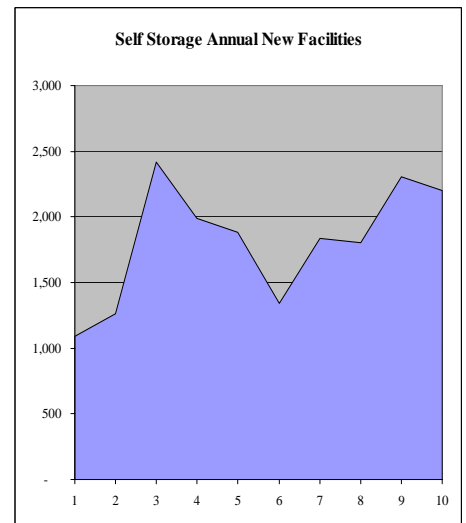
Most respondents described market conditions as “over-supplied”, and the optimism index declined slightly to 6.65 (on a scale from 1 lowest to 10 highest). Similarly, the average absorption time increased by three months to an average of 30.62 months after completion of construction to stabilized occupancy and income. Marketing time or the time to sell a property remained essentially the same as last year at 3.14 months.

Cumulatively, the data reflects concerns of over-building and uncertainty about interest rates. In this regard, it is important to remember that self storage remains a local or neighborhood business. What happens in the local trade area is more important than national, regional or MSA (metropolitan statistical area) trends. Investors estimated an average trade area of 3.14 mile radius, or no significant change from last year.

Demand for self storage property, measured in terms of rentable square feet per person, increased to an average of 5.70 square feet per person. This reflects an increase from 5.36 in 2005, a change of +6.35%. Comparatively, the 2006 Self-Storage Almanac reports there are over 41,000 facilities nationwide that represent 5.54 square feet per person.



Surprisingly, a record number of respondents said the best strategy is to build. However, the majority of respondents continued a three-year trend that selling is the best strategy for the self storage asset class. Investors expressing a desire to build now, suggests concerns of building in the future (better to build now than later) because of rising construction costs and rising interest rates. One banker said the wave has peaked and forecast that new construction will slow by the second half of 2006. A real estate broker said interest in building is a function of current, record high pricing for the asset class. He said, “The combination of building then selling yields the greatest profit in the current market conditions.”



To supply growing demand for mini or self storage, there has been significant industry growth. Assuming the industry is 50 years old, and has a 2006 size of 41,122 facilities nationwide (2006 Self Storage Almanac), the industry growth rate has been at an average pace of 822 facilities per year. This pace means at least two new self storage facilities have been constructed every day in the United States over the last 50 years!

The pace of self storage growth can seem immense over the past ten years. With over 41,000 facilities nationwide, the number of facilities has grown by over 5% per year for the last ten years (an average of 1,814 new facilities per year). From humble origins as an “interim” use, self storage has become a \$15 billion industry. Self storage is also an export industry, with hundreds of facilities developed in Europe over the last ten years. More recently, Asian markets have begun development of self storage facilities. While these are impressive numbers, they are not the type of robust

growth associated with inflated asset classes in terms of pricing or growth. Once the “stepchild” of real estate, self storage is now a “Cinderella” story of success.

Self storage is a high quality real estate asset class with significant demand for capital. The rise of the asset class has been a function of superior returns, low loss levels in lending, and recognition of the stability of self storage as collateral. With demand for self storage coming from local trade areas, self storage investment decisions are best made based on the neighborhood market conditions. These factors underscore the importance of market analysis in self storage investing and must be considered in the conclusions of the quantity, quality and durability of the income level. Careful cash flow (static) modeling is required to reflect these market characteristics. With good, local market intelligence, investors are choosing to store capital in the self storage asset class.

### Crunching the Numbers

The expressions outlined in the data of the Investor Survey underscore the importance of careful market research. It is insufficient to measure the past trends based on historical data. In this regard, an in-depth investor survey looks to the future by measuring the expectations of market players. Self storage is a neighborhood-specific asset with wide variances of market conditions even within a particular city or MSA. Therefore, local research remains the most important tool to investors.

After crunching the numbers, the data indicates interesting subtrends within an incredible bull run the past five years.

- Capitalization rates have declined from 9.52% in 2003 to 7.26% in 2006, an amazing reduction of 226 basis points over four years. This represents an average decline of 56.50 basis points per year! This is a meaningful change from the long-held rule-of-thumb that self storage cap rates are always “10”. It underscores the sophistication of the asset class and recognition of the quality and durability of this income-based investment.

- The concern of over-supply has not significantly changed in four years. In 2003, 47% of respondents described the self storage market as over-supplied. In 2006, 50% of respondents described the self storage market as over-supplied. These concerns reasonably reflect the

2006 Self Storage Investor Survey: Key Indicators				
	Winter 2005	Winter 2004	Winter 2003	Winter 2002
<b>Trade Area</b>				
Range:	1.00 - 6.00	1.00 - 5.00	1.00 - 5.00	1.50 - 5.00
Mode:	3	3	1.5	1.5
Average:	3.14	3.3	2.8	2.82
Change:	-4.85%	17.86%	-0.71%	—
<b>Demand (SF per Person)</b>				
Range:	2 - 10	3 - 12	2 - 12	2 - 8
Mode:	5	5	4	4
Average:	5.7	5.36	5.27	4.87
Change:	6.34%	1.71%	8.21%	—
<b>Capitalization Rate</b>				
Range:	6.0% - 9.0%	7.0% - 10.0%	7.5% - 11.0%	8.25% - 11.0%
Mode:	7.00%	8.50%	9.00%	9.50%
Average:	7.26%	8.28%	9.19%	9.52%
Change:	-102 Basis Points	-91 Basis Points	-33 Basis Points	—
<b>Absorption Time</b>				
Range:	18 - 43 Months	12 - 44 Months	18 - 40 Months	18 - 36 Months
Mode:	30 Months	24 Months	24 Months	24 Months
Average:	30 Months	27 Months	24 Months	23 Months
Change:	+3 Months	+3 Months	+1 Month	—
<b>Marketing Time</b>				
Range:	1 - 6 Months	1 - 12 Months	1 - 6 Months	1 - 12 Months
Mode:	4 Months	1 Month	1 Month	1 Month
Average:	3.14 Months	3.06 Months	2.89 Months	3.95 Months
Change:	+0.08 Month	+0.17 Month	-1.06 Months	—
<b>Profit (on cost only)</b>				
Range:	15.0% - 25.0%	10.0% - 30.0%	8.0% - 25.0%	8.0% - 30.0%
Mode:	20.00%	20.00%	20.00%	20.00%
Average:	20.13%	20.14%	17.10%	14.34%
Change:	—	17.78%	19.25%	—
<b>Optimism Index (1 - 10)</b>				
Range:	3.0 - 10.0	3.0 - 9.0	5.0 - 10.0	5.0 - 10.0
Mode:	7.0	6.5	7.0	7.0
Average:	6.5	6.65	6.9	6.83
Change:	-2.26%	-3.62%	1.02%	—
<b>Market Conditions</b>				
Under-Supplied	15%	15%	3%	6%
Over-Supplied	50%	50%	54%	47%
Equilibrium	35%	35%	40%	47%
<b>Strategy</b>				
Buy	18%	20%	27%	28%
Sell	50%	60%	46%	26%
Build	32%	20%	27%	30%

Source: Cushman & Wakefield – Self Storage Industry Group

asset class considering the pace of self storage new construction.

In the future, some will say the self storage market is over-supplied. In reality, the entire asset class cannot be described so simply. Of all asset classes in real estate, local market conditions determine winners from losers in the self storage asset class. Market conditions will certainly change over the next year among valid concerns of rising interest rates and over-supply. Yet, investors will stay the course and continue to store capital in self storage. Now, more than ever, local market analyses will separate the bulls from the bears. ☒

**R. Christian Sonne, MAI** is Managing Director of Cushman & Wakefield’s Self Storage Industry Group, a nationwide real estate consulting team specializing in appraisal and market study of the self storage asset class.

**Cushman & Wakefield of California, Inc.**  
 Valuation Services, Self Storage Industry Group  
 2130 Main Street, Suite 130  
 Huntington Beach, California 92648  
 714-374-0334 Tel  
 714-374-0336 Fax  
 chris.sonne@cushwake.com  
 valuation.cushwake.com

