The Colliers International Advantage

- On-time delivery
- Unmatched quality
- Local market expertise
- National coverage
- Committed to Ethics and Best Practices
- Portfolio Management
- 4,500 Assignments in last 5 years

Local Expertise with National Coverage

Self-Storage Newsletter

Colliers International Valuation & Advisory Services
National Self-Storage Insights | 1st Quarter 2020

Accelerating success.
DEALING WITH COVID-19 THROUGHOUT THE VALUATION PROCESS

One of the main questions that has been posed to appraisers in the self-storage industry is how the COVID-19 virus has affected market value. Real estate is an investment type that historically takes a longer period of time to be impacted in relation to alternative investment types. Based on conversations with multiple market participants, there are several who are taking a “wait and see” approach. It is difficult to forecast the effects both on a near-term and long-term basis. Our opinions and conclusions in our appraisal reports are based on information available and account for market perception as of the date of value in the report. It is becoming clear that the Coronavirus will have some impact on values moving forward, but to what extent is the question.

Unemployment figures climbed significantly across the nation over the last two months. The economic impact will vary depending on property type, class, and location but it is clear that this will directly affect all real estate segments, including the residential market, due to a family’s ability to pay their mortgage or monthly rent. With over 75% of storage clientele nationwide coming from residential users, initial reaction is rent loss is going to be significant…..but have we really seen that? Another knee jerk reaction has been that capitalization rates will increase and buyers will demand a price reduction…..but have we really seen that?

There are several categories that we feel are important to address when valuing storage facilities at this time, which include Marketing/Exposure Time, Rent Loss, Occupancy, Capitalization Rates, Rent Growth Projections, and Adjustments for Date of Sale. Each of these categories will be described below:

- **Marketing/Exposure Time** - The typical marketing/exposure time over the last couple of years has ranged from 3-4 months; however, considering the current Pandemic and based on conversations with market participants and lenders, we have extended the length of marketing/exposure time to 6-9 months in our reports to account for any delays that might occur.

- **Rent Loss** - We have considered the need to make a short-term adjustment to account for the tightening of liquidity and the potential decline in effective income. Our model estimates a temporary rent loss to account for unknown variables. Owners and property management companies are estimating potential rent loss between 5% and 20%, depending on the market and overall location. Market participants anticipated that facilities would get hardest in April, as people were waiting for financial assistance, but that didn’t seem to be the case with several facilities reporting strong collections. Even if you were to estimate a conservative amount for rent loss, assuming a decline over the next several months, it could be considered a minimal (insignificant) amount relative to the overall value of a facility. The table above represents a facility which was valued just south of $10,000,000. Smaller tertiary markets seem to be hit the hardest when it comes to unemployment and rent loss. However, operators can take advantage of government relief programs to cover employee costs and defer debt service payments while tenants recover allowing revenue to remain stable during this time.

<table>
<thead>
<tr>
<th>Month</th>
<th>Estimated % of EGI Loss</th>
<th>Estimated EGI Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 2020</td>
<td>20%</td>
<td>$20,952</td>
</tr>
<tr>
<td>June 2020</td>
<td>20%</td>
<td>$20,952</td>
</tr>
<tr>
<td>July 2020</td>
<td>10%</td>
<td>$10,476</td>
</tr>
<tr>
<td>August 2020</td>
<td>10%</td>
<td>$10,476</td>
</tr>
<tr>
<td>September 2020</td>
<td>5%</td>
<td>$5,238</td>
</tr>
<tr>
<td>October 2020</td>
<td>5%</td>
<td>$5,238</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>$73,332</strong></td>
</tr>
<tr>
<td><strong>Total (Rounded)</strong></td>
<td></td>
<td><strong>$75,000</strong></td>
</tr>
</tbody>
</table>

- **Occupancy** - The self-storage industry is well positioned to get through this current pandemic, similar to the Recession 10+ years ago. As businesses are forced to shut down, many believe they will have a need for leasing storage units to hold on to their valuables. This could lead to a slight bump in occupancy in the upcoming months, which could offset any rent loss. Additionally, numerous facilities have reported that the limited number of new tenants has been offset by the lack of tenants moving out. In general, the industry has not seeing a decline in occupancy over the last couple months.

- **Capitalization Rates** - Many investors in the industry remain somewhat opportunistic given low interest rates and are actively hunting for deals, while other large owner/operators (REITs) are taking a pause right now. There are several lending institutions that are willing to finance strong assets; however, lenders are taking a harder look at loan-to-value ratios. There will likely be limited transactions, as the spread of value between owner and investor has increased. Active buyers will likely seek a 5%-10% reduction in price to cover near-term income shortfalls and future market uncertainty, while sellers are refusing to offer discounts and are willing to wait it out, believing that rent loss is manageable based on the strength of the industry. There is still strong demand for Class A/B facilities due to the amount of money available in the industry. Here are a couple examples:

  - **Example** – A Class A facility went on the market a few weeks ago in Northern CA and immediately received three strong all cash offers at the listing price. The brokers indicated that there has been no conversation of a reduction due to COVID-19 and they plan to close within the next 3 weeks.
CUSTOMER ACQUISITION VERSUS RETENTION IN THE CORONAVIRUS ERA

With the COVID-19 pandemic in the midst of shutting down the U.S. economy it is absolutely critical to understand the differential in costs between customer acquisition and customer retention in your business.

In economics we use the 5-to-1 ratio as a typical average and I will use that in my analysis below. This ratio assumes that it costs your business 5x more to acquire a new customer (“tenant”) than it does to retain a current customer (“tenant”). It is my opinion that in the self-storage business that number gets higher, particularly when you look at loyal, long-term tenants.

Factors to include in your analysis (based on $1.50/SF rents):

- Rent concessions (1 Month Free = $150; 50% Off 4 months = $300, etc.)
- Cost of Vacancy (every month of vacancy = $150)
- Marketing costs to acquire new customers
- Referral fees (Sparefoot, employee bonuses, etc.)
- 1,000 other factors that go into acquiring new tenants (particularly in over-supplied markets)
- Then subtract proceeds from a lien sale

Total costs to acquire new tenant $750.00 ($150 x 5 = $750)
Retained tenant rent after 3% bump $154.50 ($150 + 3% bump = $154.50)
Cost of New Tenant vs. Acquired ($595.50)

The most basic analysis would show a cost to acquire a new 10x10 tenant in a market with $1.50/SF average market rents to be $595.50, and this number is likely too low given all other factors in today’s self-storage market. Consider that street rents have generally been dropping due to over-supply while in-place rents have seen continual rental rate bumps and the gap between the new and old tenants only gets wider. If you are concerned about your property value, each tenant that vacates would cost an average of approximately $35,000 in asset value based on today’s market CAP rates!

Based on the analysis provided above you would be better served financially by waiving rents for any customer that is in distress – up to 3.8 months – than you would be to lien-sale their unit. Besides the financial impact, a large number of lien sales will increase your vacancy and leave a long-lasting scar on your business reputation and potentially on the self-storage industry at large. The opposite will also hold true – treat your customers well during this crisis and they will not only remember, they will Thank You by providing more referrals in the future.

Let your business shine, offer your tenants the help they need today and they will be grateful for years to come!

Example – A Class B facility went on the market approximately two months ago in Southern CA. The subject had multiple offers near the listing price. The owner ultimately selected a local owner who is familiar with the market area. The broker indicated there was no conversation of a reduction due to COVID-19 and they plan to close within the next couple weeks.

Although the potential pool of buyers might be reduced during this “pause” there is still plenty of money in the industry chasing deals due to lack of supply and strong demand. For Class A/B facilities where the implications of COVID-19 appear most temporary, a rent loss adjustment is often more appropriate than an increased cap rate that represents a permanent reduction.

Rent Growth Projections – In our reports it is common to use both the Direct Capitalization Approach and a Discounted Cash Flow Analysis in the Income Approach. Due to the uncertainty of rent levels moving forward, we have decided to keep rents stable for Year 1 for our DCF, as we anticipate rent growth will be limited as tenants and facilities recover from the Pandemic.

Adjustments for Date of Sale – In appraisal reports we rely on the Sales Approach as a check method to support the Income Approach. Market conditions adjustments are based on a review of historical sale data, market participant interviews, and current versus historical pricing from our research. Self-storage values have appreciated between 2% to 3% over the last several years on a national basis, but the implications of COVID-19 suggest nominal growth in the near term. Furthermore, while there has been a spread between the demand rates for Class A/B and Class C facilities over recent years, with high-quality facilities in primary markets recording the largest annual appreciation, this gap in demand is expected to widen due to the capital available to the respective buyer pools for each class. Therefore, going forward under the implications of COVID-19, specialized local analysis of market demand will be more important than ever when assessing the risk and appeal of the subject investment. Positive growth rates may still be warranted for Class A facilities with the strongest demand, while inferior facilities may require flat or even negative adjustments in some markets.

We are learning that not every sector of real estate is being affected equally during these difficult times. Retail, hospitality, and office have been hit the hardest, while industrial has fared well due to its role in the online supply chain. Multifamily should continue to see demand due to its ability to withstand changes in the economy due to the demand for housing as an essential need. Then there is Storage, which is a niche property type within the industrial ecosystem. Based on the resiliency that was on display in the last Recession, most experts in the self-storage world believe that although this “pause” is inconvenient, the industry as a whole will be just fine. We would love to hear your thoughts. Please reach out to a local/regional professional (see page 11).
THE GAME OF RISK - (C OF O) DEALS

Risk is a strategy board game in which the goal is to take over the world. Ok, so no one is going to take over the world by buying a self-storage property. However, knowing how to calculate and take risks at the right moment can be the difference between success and failure.

With the continued uptick in demand and limited supply, 2019 brought tighter returns on stabilized properties. Facilities selling Upon Completion of construction or at Certificate of Occupancy (C of O) became attractive for investors looking to achieve higher rates of return by taking on the added risk of lease-up. However, as 2020 approached, absorption levels in many markets were slowing as threats of stagnant rent growth and over-supply were becoming more prominent.

These shifting parameters made determining the market value of a property at C of O challenging. The disconnect between the perceived risk of lease-up between developers and investors was becoming more pronounced. Investors were demanding a more exhaustive analysis of the property and the surrounding marketplace, including: population density, saturation levels, market occupancy levels, residential developments in the marketplace, proposed self-storage projects in the pipe-line or in lease-up and whether rents were growing, flat or being discounted to compete with other properties.

Brokers/Investors surveyed (Pre COVID-19) reported that the following spreads in capitalization rates for a stabilized property versus a property at C of O:

- To determine a C of O value, I stabilize the GPI using current market rental rates, apply standard operating expenses, and use a cap rate that is 75-125 bps above what the stabilized cap rate would be.
- The value of a property at C of O, needs to be priced at a cap rate 150-200 + bps above a typical stabilized cap rate.
- We saw a 200-250 bp spread between stabilized and C of O opportunities.

Overall, the spread predicted between a stabilized property and a property at C of O ranged from 75bps-250bps.

As an appraiser, when determining the value of a proposed property within the Income Approach, we typically derive the stabilized value of the property by taking the potential gross income and stripping out market vacancy, concessions & credit loss and market expenses to determine the Net Operating Income (NOI). The NOI is then divided by the cap rate to determine the stabilized value.

To derive the Upon Completion or C of O Value, we deduct the following from the stabilized value:
- The present value of the rent loss over the lease-up period
- The marketing costs associated with offering a strong concession (1 to 2 months free rent) to promote occupancy
- And we conclude an Entrepreneurial Profit component (typically 3%-10% of the Stabilized Value) to reflect the risk the property owner is taking during lease-up.

We will utilize the case study below to reflect how the different approaches support the spread in value between a stabilized property and a property Upon Completion (C of O). The proposed facility below was anticipated to have 400 units, with a market occupancy of 90% and absorption levels of 15 units per month.

The total lost income associated with the lease-up is deducted from the stabilized value to determine the value Upon Completion (C of O):

As a test of reasonableness for the assumptions made in the direct capitalization table above, we have taken into consideration the spread (75-250 bps) the brokers surveyed had predicted for a Stabilized property versus a property Upon Completion (C of O). The risk factors associated with the property above (location/saturation/market occupancy/proposed self-storage properties/etc.) were determined to be at the low-end of the range and thus a spread of 125 bps will be utilized.
As shown in the graph above, the 125 bp spread in cap rates reflects a difference in value of $1,230,000, which is similar to the previously documented lease-up costs of $1,210,000. It should be noted that if the perceived risk associated with the lease-up were higher, then both the allocated % of entrepreneurial profit and the cap rate spread would increase.

It is prudent to note that the COVID-19 virus (aka coronavirus) is a serious illness that is currently developing throughout the world and more specifically the United States. The effects thus far include volatility in the stock and capital markets. The impact to demand and ultimately values for real estate is also developing. Estimating the impact of the COVID-19 virus (aka coronavirus) on market values is currently subjective since there is limited market evidence. Although we do not want to overstate the implications to value, we need to take into account the tightening of liquidity, the added risk of maintaining occupancy and the potential decrease in effective income.

Estimating the impact of the demand and ultimately values for real estate is also developing. Intensely competitive submarkets may see institutional or larger operators motivated to deeply discount rents to maintain high occupancy rates. Those rent discounts can stress the competition, especially the smaller operators. As demand disrupters, which during an economic downturn is typically when tenants can no longer afford to pay rent, job losses, divorce, death and the list goes on… These new demand generators will certainly help offset any discounts to maintain high occupancy rates. Tenants can access their facilities have over other asset classes, while the risk of virus transmission is still of great concern, is that tenants can move-in and out and pay rent “contactless” as its now being termed by the industry. Tenants can access their units without any human interaction and can pay rent thru a phone app or thru auto-pay offered by most self-storage operators. This is definitely a positive in the new day and age we are living. Plus the economic downturn will be producing demand generators for self-storage, whether thru residential or corporate downsizing, relocations, job losses, divorce, death and the list goes on. These new demand generators will certainly help offset any demand disrupters, which during an economic downturn is typically when tenants can no longer afford to pay rent for storage. Ultimately, we are hopeful occupancy levels will stay strong, just as they did during the last recession, without significant adjustment to current market rents. The upcoming months will certainly tell the story.

Based on discussions with numerous market participants the market for C of O property sales has been deeply impacted by the COVID-19 virus. Some sentiments include:

- I think there is a market for C of O deals but at a significant discount. Having said that, a C of O property will close in very good, select markets with an all cash buyer who needs to place the equity and who is also a seasoned storage operator.
- I don’t feel there is a market for C of O deals. Obviously, there is always an exception but in my conversations over the last few weeks most groups who were looking to buy a C of O deal are now focusing on other opportunities. I would say that in the past we saw a 200-250 bp spread between stabilized and C of O opportunities. Today I would think that spread is 400-500 bp.
- I believe we are going to see more and more of these (C of O) deals as the market changes. There will likely be opportunities brought about from developers who are looking to cash out and remove themselves from the lease up risk.

Calculating risk has always been a challenge and C of O deals have always carried the inherit risk associated with lease-up. However, these levels of risk are now compounded by the uncertainty associated with the impact of the COVID-19 virus on the real-estate market. It will be interesting to see how the players in the self-storage market strategize to ensure success. Right now, it seems that the risk-adverse will be standing on the sidelines and only a brave few, with a high-risk tolerance, will be entertaining C of O deals and the promise of higher returns.

HANG IN THERE, WE’RE ON AN INTERESTING RIDE

Thanks to a virus our lives and our world have been turned upside down… So here we sit in quarantine, wondering how this pandemic will impact the self-storage industry as a whole, and more specifically the self-storage properties you own. The impact could be significant… However, most feel self-storage will come out of this fairly well as it’s considered one of the few “recession resistant” asset classes. This does not keep owners though from asking, “How much are rents going to decline or occupancies dip during this economic downturn?” The answer is it’s too early to tell. Owners may also wonder, “How much will their facility decrease in value, if any, over the next 3 to 6 months?” The answer again is it’s too early to tell. We don’t know where the debt and equity markets are going to land. Investors behind the lending need to see an end in sight to the colossal financial losses before stabilized lending and transacting resumes.

During this downturn and hopefully a soon-to-happen recovery, many are asking, “Will self-storage continue to be the best performing asset of all real estate asset classes?” The most likely answer is yes. Since 2000, self-storage has been the top performing real estate sector in terms of total return on equity. The advantage self-storage facilities have over other asset classes, while the risk of virus transmission is still of great concern, is that tenants can move-in and out and pay rent “contactless” as its now being termed by the industry. Tenants can access their units without any human interaction and can pay rent thru a phone app or thru auto-pay offered by most self-storage operators. This is definitely a positive in the new day and age we are living. Plus the economic downturn will be producing demand generators for self-storage, whether thru residential or corporate downsizing, relocations, job losses, divorce, death and the list goes on… These new demand generators will certainly help offset any demand disrupters, which during an economic downturn is typically when tenants can no longer afford to pay rent for storage. Ultimately, we are hopeful occupancy levels will stay strong, just as they did during the last recession, without significant adjustment to current market rents. The upcoming months will certainly tell the story.

Even though we do see positives for our industry, we still have to keep an eye on certain markets and/or overbuilt markets to see how they are impacted. Intensely competitive submarkets may see institutional or larger operators motivated to deeply discount rents to maintain high occupancy rates. Those rent discounts can stress the competition, especially the smaller operators. As we all now know, most of the primary US markets are oversupplied; therefore, unless you’re a REIT, your property may not operate at its
peak performance, even in a secondary or tertiary market. If you find yourself unsuccessfully trying to compete in this type of market, with the larger competitors showing no floor to their rental rates, then selling your asset may become necessary. So while lenders are searching for a bottom and an indicator to the end of the financial volatility, you might wonder what your property could sell for in the coming months. There is still an abundance of equity investors need to place into stable, cash flowing assets like self-storage. Pricing levels for self-storage properties may stay strong as deep pocketed investors look to self-storage as a safer play in today’s investment market.

If interested, we can provide a free market valuation adjusted for today’s market challenges. Please give us a call to discuss your property and/or portfolio. You can reach Tom Gustafson at (216) 409-3186, Matt Davis at (440) 570-9003 or visit our website at www.colliersselfstorage.com.

### SELF-STORAGE INDUSTRY PERFORMANCE – NOTHING TO SNEEZE AT

The timing of this article coincides with perhaps one of the most unprecedented economic influences in a generation. As COVID-19 continues to impact markets across borders, multiple commercial real estate (CRE) sectors and our communities; economists and real estate experts grapple with the economic fallout. Amid the chaos, many are in search of safe havens for their nest eggs, investment portfolios or stash of cash under the mattress. At CIVAS we have weekly national webinars and discussions regarding the impact COVID-19 has on commercial real estate across all property types. Most discussion on these conference calls is centered on multi-family, retail and hospitality sectors as they seem to be most impacted by current events. You may be wondering how this will affect self-storage? How is this fast-growing sector of CRE fairing?

To find out more, I had a conversation with Ben Bradley, CEO of Patagon/Get Space, a national self-storage developer, investor and owner. His company has built 14 facilities, own 9 currently, have three additional properties under construction, and two others in permitting. Despite the economic changes, none of the properties under construction or in permitting are on hold. Mr. Bradley indicated that the first quarter of the year was one of the strongest since he began self-storage development in 2012. In fact, the on-site managers have reported strong move-ins for the winter months. Though April is proving to be more of a mixed bag. This is likely a result of the coronavirus. Mr. Bradley indicated that the majority of their facilities are still showing positive net rentals for the month, which is a lot better than anticipated given the current environment. The suburban stores are seeing the biggest impact to new rentals (down about 30%) while stores in core areas haven’t seen as much of a difference on new move-ins (down about 10%), compared to pre-COVID-19 figures. This is a stark contrast to multi-family and retail sectors showing escalating vacancies and dramatic market rent compression. Mr. Bradley anticipates some risk will likely be reflected in capitalization rates in the near future, but has not personally seen any liquidity restraints that may influence cap rates.

This preview into the market indicates that parts of the real estate sector can offer insulation against economic downturns, such as the COVID-19-sparked recession the US will likely be entering in the near term. Another indicator of successful CRE sectors would be the performance of Real Estate Investment Trusts (REITs). REITs offer one way to tap into different areas of the market. REITs buy up property, collect rent and pass most of the money along to shareholders. REITs that own retail shopping centers, malls, lodging properties and senior living centers indicate heavy losses in recent months. Though infrastructure, self-storage and industrial REITs have held up relatively well, and data center REITs have gained ground. These REITs performed better than others over that period, indicating their possible resilience during a recession.

Self-storage REITs reportedly lost around 8% during the month of March, 2020, far better than the broader equities market. In contrast, the apartment, single-family and manufactured home segments were down by around 20%. This is most likely to occur as people continue to be furloughed and/or lose their jobs permanently. Unemployment encourages those individuals to reassess their biggest expense - housing. To accomplish this, they downsize or otherwise adjust their living situations. Good news for us self-storage geeks. This will likely increase demand for off-site storage as people search for more affordable ways to store grandma’s broken heirloom rocking chair, James Bond’s 1989 submarine car, and all the treasured belongings they no longer have space for at home. (Please see the REITs table, page 7.)

The S&P 500 indicates a decline of 15.6% (as of end April 2020) since its peak in February. However two REITs appear to be overachievers in a market that has lost substantial ground in recent months: Extra Space Storage and Public Storage.

Public Storage’s REIT (ticker symbol PSA) is the biggest self-storage REIT. It lost around 9% during the month of March. Its annual dividend yield was recently 4%. Extra Space Storage has a market capitalization of more than $12 billion, EXR (ticker symbol) is the next-biggest self-storage REIT after PSA. As of December 31, the company owned and/or operated more than 1,800 self-storage properties with 1.3 million units and about 140 million square feet of rentable space. EXR is listed among the most defensive buy-rated REITs with the highest distribution yields. Recently, EXR yielded 3.8% annually. The company’s shares dipped around 5% during March.

Bank of America CRE analysts wrote that self-storage is “often considered a risk-off sector due to consistent tenant demand” and that the property segment has been resilient during prior recessions. These trends and market interviews reflect that self-storage may offer some respite from the storm as the world markets seek a path back to normalcy.
Determining market rent levels is a challenge for appraisers, especially now as we navigate the impact of the COVID-19 Pandemic. Most facilities have seen upticks in occupancy since the onset of the Pandemic due to increases in temporary demand. Historically, as demand increases self-storage operators have the ability to push rents higher. However, as most individuals and commercial industries have been impacted by the Pandemic, most operators are hesitant to increase rates. Most operators have already begun experiencing an increased number of delinquencies beginning April 2020 and this trend is anticipated to continue at least for the next 3 to 6 months. If operators were to push rental rates higher, even though occupancy rates have temporarily strengthened, delinquencies and liens would likely increase even higher. As a result, determining market rent levels is more challenging than ever considering the current economic climate.

There are several components involved in determining market rental rates, which include the subject’s asking rate (street rate), actual rate (current average rate being achieved) and occupancy rate of the individual unit sizes. These indicators are utilized for comparison with the rental range of rent comparable data. Since unit mixes vary at every facility, it is common to focus on market standard unit sizes (5 x 5, 5 x 10, 10 x 10, 10 x 15, etc.). In the past, it was common for market participants to utilize proforma rent levels based on asking rates. However, times have changed and individuals, buyers and lenders are more interested in what facilities are actually collecting.

The following table reflects an example of how we compare historical regional trends against the national average to gauge the strength of the larger market.

<table>
<thead>
<tr>
<th>Region/Year</th>
<th>5x5</th>
<th>5x10</th>
<th>10x10</th>
<th>10x15</th>
<th>10x20</th>
</tr>
</thead>
<tbody>
<tr>
<td>West (Mountain) - 2018 Q2</td>
<td>$41.93</td>
<td>$50.22</td>
<td>$58.28</td>
<td>$72.46</td>
<td>$108.94</td>
</tr>
<tr>
<td>West (Mountain) - 2018 Q3</td>
<td>$41.95</td>
<td>$49.90</td>
<td>$57.97</td>
<td>$73.62</td>
<td>$109.00</td>
</tr>
<tr>
<td>West (Mountain) - 2018 Q4</td>
<td>$40.85</td>
<td>$49.55</td>
<td>$56.39</td>
<td>$71.40</td>
<td>$107.01</td>
</tr>
<tr>
<td>West (Mountain) - 2019 Q1</td>
<td>$41.40</td>
<td>$49.44</td>
<td>$56.55</td>
<td>$71.97</td>
<td>$109.10</td>
</tr>
<tr>
<td>West (Mountain) - 2019 Q2</td>
<td>$44.16</td>
<td>$49.75</td>
<td>$58.48</td>
<td>$75.12</td>
<td>$109.20</td>
</tr>
<tr>
<td>National Avg. 2018 Q2</td>
<td>$47.30</td>
<td>$55.90</td>
<td>$68.00</td>
<td>$83.30</td>
<td>$105.60</td>
</tr>
<tr>
<td>National Avg. 2018 Q3</td>
<td>$47.59</td>
<td>$56.20</td>
<td>$69.80</td>
<td>$84.56</td>
<td>$106.93</td>
</tr>
<tr>
<td>National Avg. 2018 Q4</td>
<td>$45.78</td>
<td>$56.10</td>
<td>$68.28</td>
<td>$81.93</td>
<td>$105.27</td>
</tr>
<tr>
<td>National Avg. 2019 Q1</td>
<td>$45.21</td>
<td>$63.69</td>
<td>$65.25</td>
<td>$81.03</td>
<td>$102.78</td>
</tr>
<tr>
<td>National Avg. 2019 Q2</td>
<td>$47.23</td>
<td>$60.16</td>
<td>$67.94</td>
<td>$84.46</td>
<td>$107.11</td>
</tr>
</tbody>
</table>

Source: Self Storage Almanac 2020

After getting perspective on trends in the region, emphasis is placed on the subject’s performance and local rent comparable data. The following table provides a sample of how we determine market rent levels, while analyzing all the factors involved.

**Self-Storage Potential Gross Income**

<table>
<thead>
<tr>
<th>Unit Type</th>
<th>Detail</th>
<th>OCC</th>
<th>Unit Size</th>
<th>Total OCC</th>
<th>Asking Rent</th>
<th>Actual Rent</th>
<th>Rent Comparable Range</th>
<th>Concluded Market Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 x 5</td>
<td>Exterior</td>
<td>54</td>
<td>56</td>
<td>52</td>
<td>54</td>
<td>$50</td>
<td>$49</td>
<td>$49</td>
</tr>
<tr>
<td>5 x 10</td>
<td>Exterior</td>
<td>116</td>
<td>98</td>
<td>90</td>
<td>116</td>
<td>$50</td>
<td>$39</td>
<td>$39</td>
</tr>
<tr>
<td>5 x 15</td>
<td>Exterior</td>
<td>10</td>
<td>13</td>
<td>7.5</td>
<td>10</td>
<td>$70</td>
<td>$56</td>
<td>$56</td>
</tr>
<tr>
<td>10 x 10</td>
<td>Exterior</td>
<td>136</td>
<td>99</td>
<td>100</td>
<td>136</td>
<td>$120</td>
<td>$96</td>
<td>$96</td>
</tr>
<tr>
<td>10 x 15</td>
<td>Exterior</td>
<td>48</td>
<td>48</td>
<td>48</td>
<td>48</td>
<td>$170</td>
<td>$133</td>
<td>$133</td>
</tr>
<tr>
<td>10 x 20</td>
<td>Exterior</td>
<td>80</td>
<td>76</td>
<td>72</td>
<td>80</td>
<td>$190</td>
<td>$152</td>
<td>$152</td>
</tr>
<tr>
<td>10 x 25</td>
<td>Exterior</td>
<td>44</td>
<td>44</td>
<td>44</td>
<td>44</td>
<td>$240</td>
<td>$198</td>
<td>$198</td>
</tr>
<tr>
<td>10 x 30</td>
<td>Exterior</td>
<td>9</td>
<td>9</td>
<td>9</td>
<td>9</td>
<td>$280</td>
<td>$224</td>
<td>$224</td>
</tr>
<tr>
<td>10 x 35</td>
<td>Exterior</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>$320</td>
<td>$256</td>
<td>$256</td>
</tr>
<tr>
<td>12 x 30</td>
<td>Exterior</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>$360</td>
<td>$280</td>
<td>$280</td>
</tr>
</tbody>
</table>

Rent levels are concluded by analyzing the asking and actual rent levels at the subject, the current occupancy, as well as the rent comparable range. A typical trend for self-storage facilities is as the square footage of the unit size increases the rent per square foot decreases. Market rent is generally concluded on an individual unit type basis. Units are judged by their occupancy level, their conformance to the logical price per SF trend expected and relation to the comparable data.

Considering current economic conditions, as a result of the COVID-19 Pandemic, it would be prudent not to overstate market rent due to recent temporary occupancy increases or other temporary factors. Historically, market rents have seen increases between 2% to 7% annually. However, most operators and market participants are now forecasting more modest rental increases for the remainder of 2020 and are curbing market rent projections until the dust has settled. Considering the uncertainty within the market, the best indicator of market rent is the actual rent being achieved by your facility. Is the actual rent being achieved supported by market comparable data? While there might be upside rent potential and room for increasing rental rates, most market participants, buyers and lenders are being overly cautious in projecting market rent as a result of the recent Pandemic.
In the highly competitive and ever-evolving world of self-storage, owners and investors are perpetually in search of the next opportunity to get a leg up on the competition. As we all know, Value = Income / Rate and, let’s face it, none of us can control rates. That said, sophisticated investors find ways to maximize Income either through optimizing miscellaneous income sources such as retail sales and insurance or they find ways to reduce expenses, and one of the trendiest methods of boosting Income in today’s marketplace is through the use of solar energy.

With a 70% drop in cost over the last decade, solar photovoltaic arrays are a rapidly emerging ‘norm’ across the United States. They allow for a quick return on investment considering the relatively low cost of panels and installation. A solar array is a renewable energy source that provides the opportunity for a facility to drastically reduce, but more often than not, eliminate electricity costs. This benefit can be immediately realized and allows for protection against rising energy costs in the future. There are implicit benefits as well. Demonstrating a commitment to sustainability can alter the image of a storage facility within local communities and leveraging solar power is a great way to protect the environment.

Extra Space Storage has recognized this opportunity and in February the REIT surpassed 100 solar arrays in 13 states, with partner Safari Energy. The combined impact was equal to offsetting emissions from 5,000 vehicles each year. The have also partnered with Pivot Energy in 23 locations in Colorado and Illinois.1

There are a few things to keep in mind when considering solar:

1. Understand the Net Metering policy in your state, which could allow you to sell excess energy produced from a solar array to the local utilities servicing your community.

2. Research Solar Program benefits. These are ever changing but tend to include energy and/or tax credits and can come from the local municipality, state or federal level. Massachusetts for instance participates in a property tax exemption, as well as a renewable energy equipment sales tax exemption. The federal government has also rolled out the federal solar tax credit which gives you a dollar-for-dollar reduction against your federal income tax as well as a tax credit program designed to encourage rapid investment into solar energy with a declining credit from 26% in 2020, to 22% in 2021. In addition to the state and federal financial tax credits, owners can obtain a 100% property tax exemption for 20-years. A thorough resource for understanding many of these benefits is DSIRE, which is operated by the N.C. Clean Energy Technology Center at N.C. State University, https://www.dsireusa.org/.

If solar is something that you want to invest in to reduce your operating costs at your facility and reduce your global footprint consult with an experienced solar-energy company who will work with you as the owner or investor to understand the net impact and benefits. Equally, partner with your tax advisor to ensure thresholds are met and credits are obtained to optimize your Return.

1 SSA’s Weekly online business column Self-Storage Report – February 2020

### SELF-STORAGE REAL ESTATE INVESTMENT TRUSTS (REITS)

A review of the stock prices as of January 2010 to March 2020 provides a glimpse into value trends for the self-storage industry. After experiencing a brief decline in 2008 and 2009 due to the Recession, self-storage surged to become the best performing REIT sector with continual gains over the last several years. From 2019 to 2020, we saw steady increases for the majority of the REITS but have seen a decrease in all Reits due to the COVID-19 towards the end of the 1st quarter 2020 and April 2020.
Based on the information above, there has been minimal change in capitalization rates over the last three years throughout the industry. The national average according to Colliers International was 6.1% as of the 4th Quarter 2019. While certain investors express concerns that overall capitalization rates for self-storage will start to increase in 2020, due to an increase in interest rates, the ability to quickly adjust rental rates diminishes inflationary concerns and keeps optimism high. The strong demand and limited supply in this industry will assist to keep capitalization rates stable.
What really makes a Class A investment? This is a common problem faced when analyzing self-storage facilities. The answer is often more involved than just the quality of building materials. For example, a high quality building in a saturated tertiary market may have the right building materials, but lacks sound market fundamentals to truly be classified as a top tier investment. Likewise, a well maintained, lesser quality building in a strong market with excellent exposure may not physically be as impressive, but a strong financial performer for years to come and deserve an A rating.

Thus, we developed the following grid to help clarify investment ratings. Generally, a property that has 3 or 4 characteristics in a category should be classified and priced accordingly. Using this rating system creates a simple, but comprehensive view of a property and how it should perform on the market or with its local competition; giving investors an edge in their decision making process.

### COLLIERS RATING SYSTEM

<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>A *****</th>
<th>B ****</th>
<th>C ***</th>
</tr>
</thead>
<tbody>
<tr>
<td>GOOD/EXCELLENT</td>
<td>AVERAGE/GOOD</td>
<td>FAIR/AVERAGE</td>
<td></td>
</tr>
<tr>
<td>Location</td>
<td>Major MSA</td>
<td>Major MSA / Secondary</td>
<td>Secondary / Rural</td>
</tr>
<tr>
<td>Size</td>
<td>40,000 SF +</td>
<td>20,000 - 80,000 SF +</td>
<td>5,000 - 30,000 SF</td>
</tr>
<tr>
<td>Access/Exposure</td>
<td>Freeway Exposure with Good Access or Major Thoroughfare with Good Access and Exposure</td>
<td>Major Thoroughfare with Above Average Access and Exposure</td>
<td>Secondary Thoroughfare with Average Access and Limited Exposure</td>
</tr>
<tr>
<td>Quality</td>
<td>Brick, Block, or Tilt-Up, with Paved Asphalt or Concrete (Office Style/Multi-level)</td>
<td>Brick, Block, Tilt-Up, Steel or Wood Frame with Metal Siding and Paved Asphalt</td>
<td>Steel or Wood Frame with Metal Siding and Paved Asphalt (Can include portable units or swing out doors)</td>
</tr>
<tr>
<td>Condition</td>
<td>Newer Construction, Well Maintained, No Deferred Maintenance, Clean and Appealing</td>
<td>Aging Improvements, Well Maintained, Recurring Maintenance, Clean</td>
<td>Older Construction, Fair Maintenance, Potential for Costly Repairs, Appeal Reflects Age</td>
</tr>
<tr>
<td>Occupancy</td>
<td>Proven Over 90% Occupancy, Strong Fundamentals</td>
<td>Inconsistent Occupancy, Average Fundamentals</td>
<td>Inconsistent Occupancy, Weak Fundamentals</td>
</tr>
<tr>
<td>Saturation</td>
<td>Low to Moderate / High Barriers to Entry</td>
<td>Low to Moderate / Vulnerable to New Development</td>
<td>Saturated Market / New Development Risk</td>
</tr>
<tr>
<td>Amenities</td>
<td>On-Site Managers, Video Surveillance, Individual Unit Alarms, Electronic Gate, Exterior Lighting</td>
<td>On-Site Managers, Video Surveillance, Electronic Gate, Exterior Lighting</td>
<td>On-Site Managers, Perimeter Fencing, Exterior Lighting / Minimal</td>
</tr>
</tbody>
</table>

The development of this chart was based on our experience, as well as conversations with appraisers, brokers and market participants throughout the industry.
RECENTLY APPRAISED PROPERTIES

Riverside, California
Vista, California
Milford, Connecticut
Niceville, Florida
Venice, Florida
Lawrenceville, Georgia
Ann Arbor, Michigan
Battle Creek, Michigan
Saddle Brook, New Jersey
Ardsley, New York
Port Jefferson, New York
Austin, TX
VALUATION & ADVISORY SELF-STORAGE CONTACTS

Phoenix, Arizona
TJ Gray MAI
Senior Valuation Specialist
+1 602 222 5056
TJ.Gray@colliers.com

Sacramento, California
Tyler Boyce
Valuation Associate
+1 916 724 5524
Tyler.Boyce@colliers.com

San Diego, California
Patrick Gorman
Valuation Specialist
+1 858 860 3846
Patrick.Gorman@colliers.com

Southern California
Rob Detling MAI
Managing Director
+1 858 860 3852
Rob.Detling@colliers.com

Denver, Colorado
Jim Maughan
Senior Valuation Specialist
+1 303 779 5501
Jim.Maughan@colliers.com

Destin, Florida
Daniel Harmon
Valuation Associate
+1 850 269 6840
Daniel.Harmon@colliers.com

Tampa, Florida
Lance Ponton
Senior Valuation Specialist
+1 813 598 2352
Lance.Ponton@colliers.com

Atlanta, Georgia
Richard Lynott, IV MAI
Valuation Services Director
+1 404 892 3618
Richard.Lynott@colliers.com

Chicago, Illinois
William Kastilahn MAI
Valuation Services Director
+1 312 602 6180
William.Kastilahn@colliers.com

Boston, Massachusetts
Jason Taunton-Rigby
Valuation Specialist
+1 617 330 8122
jason.taunton-rigby@colliers.com

Detroit, Michigan
AJ Allen MAI
Senior Valuation Specialist
+1 248 226 1888
AJ.Allen@colliers.com

St. Louis, Missouri
John Griffin MAI
Senior Valuation Specialist
+1 314 475 8228
John.Griffin@colliers.com

New York, New York
Tom Sapontizis MAI
Valuation Services Director
+1 212 355 1251
Tom.Sapontizis@colliers.com

Portland, Oregon
Kurt Smook MAI
Senior Valuation Specialist
+1 503 542 5407
Kurt.Smook@colliers.com

Philadelphia, Pennsylvania
Gabrielle Amodeo Ream
Valuation Specialist
+1 215 928 7591
Gabrielle.Ream@colliers.com

Nashville, Tennessee
Chris Benton
Valuation Specialist
+1 615 850 3209
Chris.Benton@colliers.com

Dallas, Texas
Robert Allen
Valuation Specialist
+1 214 217 9334
Robert.Allen@colliers.com

Houston, Texas
Adam Dybala MAI
Valuation Services Director
+1 713 835 0092
Adam.Dybala@colliers.com

Seattle, Washington
Stan Mastalerz MAI
Senior Valuation Specialist
+1 206 965 1110
Stan.Mastalerz@colliers.com

Sydney, CBD | Australia
Dylan Adams AAPI, CPV, MRICS
Director | Specialisations
+61 2 9770 3117
Dylan.Adams@colliers.com

Ottawa, ON | Canada
Oliver Tighe B.A., AACI, P.App
Director
+1 613 567 8050
Oliver.Tighe@colliers.com

Reviewer
Karen Dabek MAI
Sr. Valuation Services Director
+1 312 602 6158
Karen.Dabek@colliers.com

Reviewer
Steven Dunn MAI, AI-GRS, SRA
Sr. Valuation Services Director
+1 916 724 5513
Steven.Dunn@colliers.com

Portfolio Manager
Andrew Renfro MAI
Managing Director | Portfolio
+1 615 651 7314
Andrew.Renfro@colliers.com

Practice Group Leader
Jeffrey Shouse MAI, CRE
National Self-Storage Director
+1 916 724 5531
Jeff.Shouse@colliers.com