VALUATION & ADVISORY

Self Storage Investor Survey

Second Quarter 2016

The survey data was collected as part of an online questionnaire that was sent to key self storage market participants during a two week period at the beginning of April 2016. The market participants were asked to segregate their responses by Investment Class (A, B and C). Furthermore, the data collected is corroborated by the experience and knowledge of the 20 Self Storage Practice Group team members at Cushman & Wakefield.

Cushman & Wakefield Self Storage Investor Survey Second Quarter 2016

	Class A	Class B	Class C
Going-In Capitalization Rate			
Average Low	4.60%	5.53%	6.50%
Average High	6.22%	6.81%	7.94%
Average Overall	**5.40%**	**6.17%**	**7.23%**
Terminal Capitalization Rate			
Average Low	5.25%	6.11%	7.03%
Average High	6.77%	7.33%	8.47%
Average Overall	**6.01%**	**6.72%**	**7.75%**
Discount Rate			
Average Low	8.00%	9.16%	9.80%
Average High	10.10%	11.00%	12.00%
Average Overall	**8.88%**	**9.90%**	**10.77%**
Average Marketing Time (months)	2.4	2.9	4.1
Average Rent Growth	5.16%	4.62%	4.06%
Average Expense Growth	2.75%	2.81%	2.56%

Source: Cushman & Wakefield Valuation & Advisory Self Storage Practice Group

Cushman & Wakefield defines the Investment Classes as follows:

Self Storage Investment Classes

Class A

- Located in a Top 50 MSA
- Market has high barriers to entry (through either lack of developable land or a lengthy entitlement process)
- Generally newer facilities in good condition with state-of-the-art amenities, including climate controlled units and secured facilities with gated access
- Professional on-site and off-site management
- Minimum size of approximately 75,000 square feet
- Good location, with access to attract tenants willing to pay rents in the upper percentile in the market place

Class B

- Located in a Top 100 MSA
- Market has typical barriers to entry
- Generally facilities built since 1980 in average to good condition with amenities typical for its market, including secured facilities with gated access
- Full time on-site and off-site management
- Minimum size of approximately 40,000 square feet

Class C

- Either located in a smaller market or in less desirable areas of a Top 50 MSA
- Generally 1970s or 1980s vintage properties in average to below average condition
- Generally managed by the owner and may not have an on-site manager
- May or may not have typical amenities, such as gated access, security cameras and/or climate controlled units
- May have secondary, less desirable locations with generally below average access and/or limited visibility

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Market Trends

- Capitalization rates have declined, and are expected to continue to, although at a slower rate. As anticipated, the spread between the three classes ranges between approximately 50 and 100 basis points.
- Recently, portfolio transaction activity has slowed due to a limited supply of product coming to market, particularly in the Class A and B+ product. Due to the lack of good quality supply, interest in the acquisition of Class B quality portfolios has increased as investors are looking to place capital.
- There continues to be a significant amount of capital looking to be placed in the sector. High returns from the self storage REITs have attracted new market participants. Brokers report upwards of 10+ bids on good quality Class A and B asset sales.

Development Trends

- New construction continues to be at highest levels since 2006. According to FW Dodge, the most active development markets include: Dallas-Fort Worth-Arlington (25 facilities), New York-Newark-Edison (24), Miami-Fort Lauderdale-Miami Beach (20), Atlanta-Sandy Springs-Marietta(13), Denver-Aurora (13), Chicago-Naperville-Joliet (12), Los Angeles-Long Beach-Santa Ana (12).
- All of these markets, with the exception of Denver, are in the Top 10 MSAs by population. While large, these markets do not necessarily correspond with the high population growth rates over the next five years. The metropolitan areas of Atlanta, Dallas/Fort Worth, Miami and Denver are projecting high population growth rates over the next five years, while the Los Angeles, New York and Chicago MSAs are expecting annual population growth rates of less than 1 percent.
- However, according to the the Self Storage Almanac, the square footage per capita is less than 4.5 square feet per person in the New York, Los Angeles and Chicago markets. Therefore, it appears that self storage development remains controlled. Detailed information regarding the development pipeline is included in the Self Storage Performance Quarterly report produced by Cushman & Wakefield.
- The new facilities constructed in the top 50 MSAs were slightly larger in size than the facilities built in secondary markets, as well as required slightly higher direct construction costs on a per-square-foot basis. In addition to new facilities, expansion of existing facilities was also at record highs in 2015.
- Acquisition at the Certificate of Occupancy (CofO) stage of development continues to be a popular option for both developers and operators, as the risk of construction and lease up is divided respectively.

Conclusion

The success of the self storage REITs is benefiting the sector as a whole. Capital continues to enter the market, thereby compressing capitalization rates and increasing values. New market participants, as well as large operators, have started partnerships with developers to build new storage facilities. The supply of new self storage facilities is expected to be at levels not seen since the mid 2000s.

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