

SKYVIEW ADVISORS

SELF STORAGE INDUSTRY AND REIT REPORT

Q3 2016

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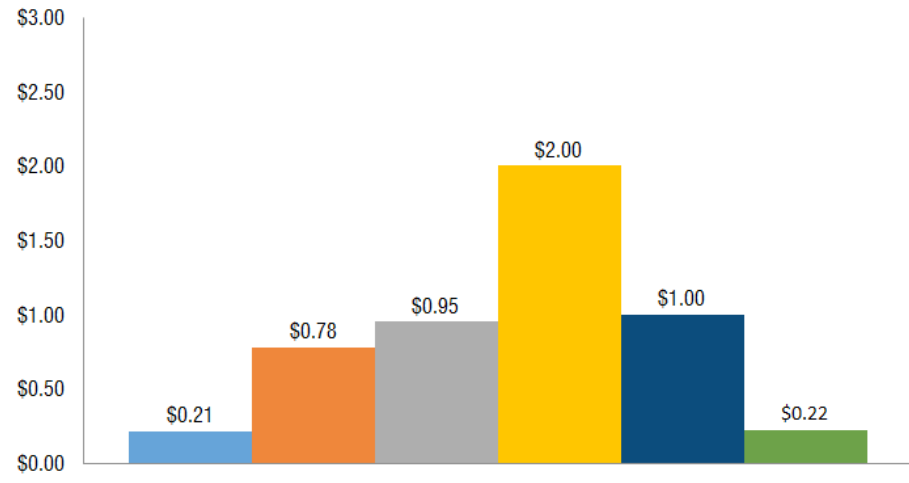
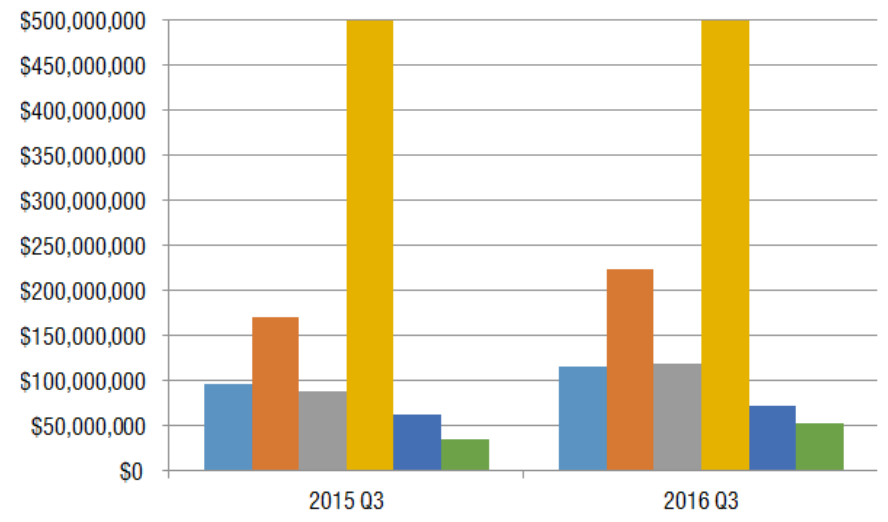
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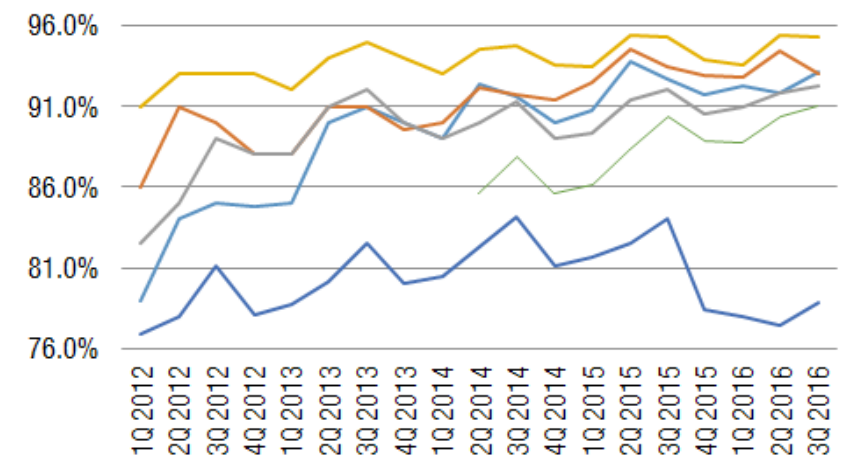


REIT Comparison Highlights

RENTAL REVENUE



HISTORICAL QUARTERLY OCCUPANCY



TOP 5 U.S. SELF STORAGE FACILITY OWNERS

	Company Name	# of Facilities	Total SF	Stock Price 9-30-16	Market Cap 10-31-2016
1	CubeSmart	471	32,500,000	\$27.26	\$4.57B
2	Extra Space Storage	1,421	107,000,000	\$79.41	\$9.07B
3	Public Storage	2,308	142,000,000	\$223.14	\$35.97B
4	Life Storage, Inc.	650	46,078,772	\$88.94	\$3.72B
5	AMERCO	911	25,480,000	\$324.23	\$6.37B
6	National Storage Affiliates	420	2,100,000	\$20.94	\$677.97M

■ CubeSmart
 ■ Extra Space
 ■ Life Storage, Inc.
 ■ Public Storage
 ■ AMERCO
 ■ National Storage Affiliate



Sources: Public Storage, Extra Space Storage, CubeSmart, Life Storage, Inc., AMERCO, National Storage Affiliates

CUBESMART (NYSE: CUBE)

- Reported funds from operations per share, as adjusted, of \$0.38, representing a year-over-year increase of 11.8%.
- Increased same-store (407 facilities) net operating income 9.3% year over year, driven by 6.2% revenue growth and a 0.9% decrease in property operating expenses.
- Same-store occupancy averaged 93.8% during the quarter, an increase of 40 basis points year over year, ending the quarter with same-store occupancy of 93.1%.
- The Company acquired seven properties for \$79.9 million during the three months. These acquisitions are located in Arizona (1), Colorado (1), Minnesota (1), Nevada (2), and Texas (2). Previously, the Company acquired one facility located in Nevada for \$13.3 million. The Company has three additional properties under contract for \$39.5 million.
- The Company has agreements with developers for the construction of Class A self-storage facilities. In 2016, the Company has acquired three properties at C/O and opened for operation two joint venture development properties for a total investment of \$133.4 million. These properties are located in New York (3) and Texas (2). As of September 30, 2016, the Company had three facilities under contract to purchase at C/O for a total acquisition price of \$43.3 million. The properties are located in Florida (1) and Illinois (2) and the purchase is expected to occur by the end of 2017.
- As of September 30, 2016, the Company had five joint venture development properties and two wholly owned projects under development. The Company anticipates investing a total of \$303.2 million related to these projects and had invested \$140.5 million of that total as of September 30, 2016. These facilities are located in Florida (1), New York (5), and Washington, D.C. (1) and are expected to open at various times between 2016 and 2018.

EXTRA SPACE (NYSE: EXR)

- Achieved funds from operations attributable to common stockholders of \$1.00 per diluted share. Excluding costs associated with acquisitions and non-cash interest, FFO as adjusted was \$1.02 per diluted share, representing a 25.9% increase compared to the same period in 2015.
- Achieved net income attributable to common stockholders of \$0.93 per diluted share, representing a 60.3% increase compared to the same period in 2015.
- Increased same-store revenue by 6.1% and same-store net operating income by 7.8% compared to the same period in 2015. Same-store revenues for the three months increased due to higher rental rates for both new and existing customers. Expenses were higher for the three months due to increases in property taxes, repairs and maintenance and office expense. Increases in expenses were partially offset by decreases in payroll and auction expenses.
- Major markets with revenue growth included Las Vegas, Los Angeles, Sacramento, San Diego and Tampa/St. Petersburg. Major markets performing below average included Boston, Chicago, Denver, Houston and Memphis.
- Reached same-store occupancy of 93% as of September 30, 2016.
- Acquired 26 wholly-owned operating stores and one store at completion of construction for a total purchase price of approximately \$296.4 million. Also acquired three stores at completion of construction with joint venture partners for a total purchase price of approximately \$37.1 million.
- The Company sold one store for a total of \$4.7 million during the three months ended September 30, 2016.

LIFE STORAGE, INC. (NYSE: LSI)

- Grew same store average occupancy for the quarter by 30 basis points to 92.3% compared to the same period in 2015 and quarter-end occupancy by 50 basis points to 91.9% at September 30, 2016.
- Revenues for the 417 same stores increased 4.5% from those of the third quarter of 2015, the result of a 30 basis point increase in average occupancy, a 3.7% increase in rental rates and increases in tenant insurance administrative fees.
- Same store operating expenses increased 1.8% for the third quarter of 2016 compared to the prior year period. Higher property taxes and maintenance expenses were offset by reductions in utility costs, advertising, and insurance expense.
- Achieved adjusted funds from operations per fully diluted common share of \$1.34.
- Acquired three other stores during the quarter: one in Denver, CO; one in Ft. Myers, FL; and a certificate of occupancy property in Charleston, SC. The properties total approximately 205,000 sq. ft. and the combined purchase price of the properties was \$28.0 million.
- Sold eight non-core properties for net proceeds of approximately \$34 million. The stores sold were in Lynchburg, VA (4); Greenville, MS; Kingsland, GA; Birmingham, AL; and Dallas, TX.
- Expects to purchase a stabilized property in Orlando, FL in November at a cost of \$9.8 million.
- The Company plans to complete \$25 - \$30 million of expansions in 2016, and expects to incur up to \$22 million in costs pertaining to the rebranding of Uncle Bob's Self Storage to Life Storage.

PUBLIC STORAGE (NYSE: PSA)

- For the three months, net income allocable to shareholders was \$309.0 million or \$1.78 per diluted common share, representing an increase of \$35.5 million or \$0.20.
- The increase is primarily due to a \$28.3 million increase in self-storage net operating income and an \$8.0 million decrease in income allocated to preferred shareholders.
- The increase in self-storage net operating income is a result of an \$18.1 million increase in Same Store Facilities and a \$10.2 million increase in Non Same Store Facilities. Revenues for the Same Store Facilities increased 5.1% or \$26.6 million in the three months as compared to 2015, due primarily to higher realized annual rent per occupied square foot.
- Cost of operations for the Same Store Facilities increased by 6.4% or \$8.5 million in the three months as compared to 2015, due primarily to increased property taxes, on-site property manager payroll, and allocated overhead.
- The increase in net operating income for the Non Same Store Facilities is due primarily to the impact of 308 self-storage facilities acquired, developed or expanded since January 2013.
- Funds from operations was \$2.51 per diluted common share, as compared to \$2.27 in 2015, representing an increase of 10.6%.
- The Same Store pool decreased from the 2,003 facilities to 2,000 facilities due primarily to casualty damage.
- During the three months eight self-storage facilities were acquired (four located in Kentucky, and one each in Georgia, Colorado, Michigan and Utah), with 0.6 million net rentable square feet, for \$73 million.
- During the three months one newly developed facility and various expansion projects were completed (0.2 million net rentable square feet) costing \$25 million.
- At September 30, 2016, various facilities were in development (4.2 million net rentable square feet) estimated to cost \$543 million and various expansion projects (1.1 million net rentable square feet) estimated to cost \$145 million. The remaining \$427 million of development costs for these projects is expected to be incurred primarily in the next 18 months.

AMERCO (NYSE: UHAL)

- Net earnings available to shareholders for its second quarter ended September 30, 2016, of \$176.5 million, or \$9.01 per share, compared with net earnings of \$183.4 million, or \$9.36 per share, for the same period last year.
- Included in the results was an after tax benefit of \$0.79 per share associated with a settlement of the PEI litigation that resulted in a reduction in operating expenses of \$24.6 million. Excluding this after tax benefit, adjusted earnings were \$8.22 per share for the quarter ended September 30, 2016.
- Self-storage revenues increased \$10.1 million during the second quarter of fiscal 2017, compared with the second quarter of fiscal 2016.
- The average monthly amount of occupied square feet increased by 12.8% during the second quarter of fiscal 2017 compared with the same period last year.
- The growth in revenues and square feet rented comes from a combination of improved occupancy at existing locations as well as the addition of new facilities to the portfolio.
- Over the last twelve months the company has added approximately 3.5 million net rentable square feet to its owned self-storage portfolio with over 0.5 million of that coming on during the second quarter.

NATIONAL STORAGE AFFILIATES TRUST (NYSE: NSA)

- Net income was \$7.9 million for the third quarter of 2016, an increase of \$5.8 million compared to \$2.1 million for the third quarter of 2015.
- Core funds from operations was \$18.2 million, or \$0.29 per share, for the third quarter of 2016, an increase of 20.8% per share compared to \$11.3 million, or \$0.24 per share, for the third quarter of 2015.
- Same store total revenues were \$33.0 million for the third quarter of 2016, an increase of 7.2% compared to \$30.7 million for the third quarter of 2015.
- Same store NOI was \$22.5 million for the third quarter of 2016, an increase of 9.5% compared to \$20.6 million for the third quarter of 2015.
- Acquired 34 self storage properties during the third quarter of 2016 for approximately \$206 million.
- Completed a public offering of 12,046,250 common shares of beneficial interest ("common shares") at a public offering price of \$20.75 per share resulting in net proceeds to the Company of approximately \$237 million.

Third quarter brought a bit of uncertainty to the commercial real estate banking world with a number of regulatory issues staring lenders in the face. CMBS bankers were juggling with how to deal with new risk retention rules which resulted in some lenders pulling back lending altogether while others became more conservative. On the commercial banking front many lenders are dealing with increased regulations which have increased internal risk and review overhead. The increase in cost has resulted in a number of lenders getting less aggressive on new relationships specifically offering lower leverage and increased rates. Anecdotally, we did speak to a number of lenders who said they continue to be very aggressive with existing relationships, but will make up for the increased overhead with new clients. As we look ahead to fourth quarter and beyond, we expect lending to stabilize as lenders have had some time to internalize and react the new regulations. Specifically a few risk retention CMBS transactions have now been offered to the bond markets and were received well by investors.

Construction lending has been one area which will continue to see some uncertainty looking ahead. A number of lenders have pulled back entirely due to aggressive lending over the past few years which has put them at their internal limits in conjunction with the number of new projects currently being built. Developers with experience will continue to have success finding lenders for their projects, although at less aggressive terms, while less experienced lenders might find it challenging to find a lender for their project. This may result in more joint venture projects with developers teaming up with another investor or developer with deeper pockets.

THIRD QUARTER INTEREST RATE INDEX REPORT

Long-term interest rates fall throughout the first quarter. The 10-year Treasury Rate started the quarter at 1.60% with a high water mark of 1.73% and closed near the low point at 1.37%. The first quarter was stable with a variance of 36 basis points (0.36%).



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As we are continually reviewing the economic climate and self-storage market, we want to provide you with some high level economic indicators to help you make decisions for your business.

Now that Election Day is behind us, we can get back to focusing on business as normal. With estimates showing that GDP is continuing to grow, the United States economy is in a healthy state. Given this fact and that employee wages are beginning to grow, we expect the Fed is going to look at raising interest rates again.

The self-storage REITs' stock prices have decreased since the historic highs and NOI growth rates of the past two years. This return to historical norms is most likely due to concern about new developments and the long term sustainability of these growth rates. One of the only ways for the REITs to maintain growth and bely these fears is to continue to purchase new acquisitions, particularly new development sites in high barrier to entry cities.

If you would like to discuss the state of the market or how these trends influence your business plans, please contact me directly.



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Regards,

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- NOVEMBER 4, 2016 **[The Fed has Everything it Needs to Raise Rates in December:](#)** *The Fed has been waiting for further evidence of progress toward its objectives. They received that evidence from the jobs report which reported that average hourly earnings have risen which affects the building inflation. (Business Insider)*
- NOVEMBER 4, 2016 **[What are the Advantages and Drawbacks of Real Estate Interval Funds?:](#)** *A growing number of real estate investors are choosing interval funds despite other options available. (National Real Estate Investor)*
- NOVEMBER 3, 2016 **[Proliferation of storage facilities in Miami comes under fire:](#)** *Miami's board is calling for tougher regulations to limit the development of new storage facilities. (The Real Deal)*
- NOVEMBER 3, 2016 **[U.S. Stocks Rebound From Selloff as Dollar Falls Amid Vote Angst:](#)** *U.S. stocks sent equities to cheap levels. Election anxiety offset data showing labor market progress, causing the dollar to fall. (Bloomberg)*
- OCTOBER 28, 2016 **[GDP crushes estimates:](#)** *US Gross Domestic Product has continued to grow in the third quarter, surpassing advanced estimated done by economists. (Business Insider)*
- OCTOBER 19, 2016 **[Refinancing Self Storage: Considering Global Cash Flow:](#)** *Self storage refinancing happens for many reasons. Not all owners are aware that lenders will spend time focusing on their personal ability to cover liabilities. Lenders call this underwriting the "global cash flow." (List Self Storage)*
- OCTOBER 13, 2016 **[CMBS Lending Becomes More Conservative:](#)** *Commercial real estate prices are now more than 100% greater than they were and debt and equity capital remain ample and at competitive rates. (Trepp)*



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