



Self Storage Investment

Auctus Properties Group

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Executive Summary



- Occupancy rates in self storage are generally high, turnover and maintenance is low. And when the economy slows, people tend to downsize and put their possessions into self-storage, which makes self storage somewhat a recession-proof investment. “It's recession-proof and inflation-proof, and you don't have to worry about folks going bankrupt.”

Market Overview

- Even when the economy improves, self-storage benefits, as people buy more stuff, or get jobs in the cities, often putting their stuff in a storage unit instead of cramming it into a tiny city apartment.
- The trend in image of self storage is changing. From a luxury product where rich people store their abundance of goods to necessity.
- In 2011, when stocks were crashing, the self storage was the best performing real estate investment with a 35.2% total.

- As an asset class, self-storage has the potential to generate more income streams than just monthly rent, such as packing materials and truck rentals.
- For investors looking to buy and hold self-storage for long term investment, it provides good steady cash flow.
- Low operating cost. Because nobody lives there (except on-site manager) very little maintenance cost compared to apartments.
- High revenue diversity (large multi tenancy).



- Storage industry was started in the 1960's.
- One of 3 asset classes with operation attached to real estate (others are hotels and sr. housing).
- Self storage facilities typically rely upon lower occupancy levels in comparison to other asset classes. The breakeven occupancy rate to service normal debt amounts for a self storage facility is usually 40% to 45% as compared to 65% or more for apartments, retail and office. And self storage facilities tend to hold value better and recover faster than other assets when real estate markets down turn.



A Safe Investment Class

- Self-storage is basically the monthly rental of various-sized interior spaces made up of steel walls and a concrete floor – nothing more. Once a renter vacates, the owner or manager can just blow out the space and rent it out again. If the lessee doesn't pay the rent and doesn't move out, the contents can be seized under the state's lien laws and auctioned off, with the proceeds going to the owner of the facility.

REITs Dominate the Storage Mkt

- Public Storage with 2,200 properties nationwide and expansions overseas.
- CubeSmart with 708 facilities and a market capitalization of \$7.3 billion.
- Sovran Self Storage with 550 properties and 90 percent occupancy rate.
- Extra Space Storage.
- Storage REITs have outperformed all other investment for the past 20 years continuously.
- Storage REITs avg'd 17% return while residential REITs have avg'd 13%.
- The top 5 REITs represents approx. 18% market share.

By the Numbers



- The Self Storage Association estimates there are about 54,000 primary self-storage facilities, totaling 2.6 billion square feet of storage space and generating approximately \$32 billion in revenue annually .
- National average for units per facility is about 540 units, and that facilities nationwide are about 90 percent occupied.
- 1 in 10 households rents 1 or more storage units in US.
- But tenant turnover is high: 7 to 8 percent of customers move out every month, making it a very operationally intensive business
- Growth has outpaced any other real estate property type for the past seven years. Self-storage properties are about 75 percent higher from the prior peak in 2007, whereas apartments, industrial and other commercial properties are only 25 percent above the prior peak."
- Ideal site location is high drive by traffic area. \geq than 25K cars per day.
- Higher CAP rate than apartment (industry avg. 5%). Self storage CAP avg range 8-10%.
- Market median household income should be $>$ \$50K (discretionary spending).
- Investment property should have $>$ 400 units to cover on site mgt expense.
- Existing rental rates around \$1/sq ft considered ideal market (demand=supply)

4 Types of Storage



- Drive up/outdoor bay – First generation storage. Single story drive up with rolling gate using pad lock. Lowest cost to rent.
- Climate controlled – Climate and humidity controlled space for clothing and furniture storage. Increasingly popular.
- Specialty – For boats, cars, wine, art, etc..
- Mixed use – Incorporate on site retail and complimentary businesses.

How to Calculate Demand

- Industry data suggests below 6 sq ft/capita, though higher for near military base or universities (7 sq ft).
- However, <6 sq ft per capita is ideal to meet demand.
- In town population of 5K people
 $5,000 \text{ people} \times 6 \text{ Sq Ft} = 30,000 \text{ Sq ft}$
- Survey existing available storage capacity against 30,000 sq ft. The delta is the deficit in demand.
- Population >50K within 3 mile radius

Demand Drivers

- Population growth: Self-storage facilities are a destination property. However, customers also like convenience. Since population growth is a logical driver of storage demand, self-storage developers are looking at real estate more strategically and locating closer to their customer base. Storage does well in densely populated areas, as well as markets that are experiencing population and job growth.
- American consumerism: People buy a lot of stuff and have a natural reluctance to throw anything out. Suburban garages fill up quickly with a variety of memorabilia and toys from skateboards and skis to boats and snowmobiles.
- Transition: Self-storage gets an added boost in demand from people who are in transition that may need a temporary or even longer term storage alternative. For example, self-storage partially benefited from the recession as people that were displaced from their homes or relocated to new jobs created demand for storage. Many storage facilities target locations near apartment properties where there tends to be a bigger need for storage. College students and members of the military are both attractive target demographics.

Changes in Use/Trend



- Location: In the past, self-storage properties were located on the periphery of a metro or tucked away in the back of an industrial park. Over the past decade, self-storage properties have moved into urban centers to be closer to their customers.
- Design: The “no frills” storage properties of the past are being replaced with a new generation of facilities that emphasize upscale designs, including landscaping that position themselves as a more retail-friendly type of use rather than a property that needs to be hidden away in an industrial park or outlying rural area.
- Technology: Operators are embracing technology in all aspects of their business. There is growing competitive pressure/demand to offer facilities that are clean, safe and secure - incorporating technology into surveillance and security ranging from CCTV monitoring to key card access. Operators also are utilizing technology to improve efficiencies, such as using software to track renter history and issue alerts to late payers or send automatic notifications for rent increases.

Depreciation Treatment of Self Storage Facilities (cost segregation)

- Site improvements can be recovered over a 15 year period commonly known as Asset Classification 00.3. Site work which includes asphalt paving & striping, concrete sidewalks, curbing and equipment pads, concrete pavers, fencing and gates, underground storm sewers, underground utilities, landscaping and irrigation, etc. has been specifically identified by the IRS in publication 946 as assets that can be properly recovered over a 15 year period rather than real property known as Section 1250 property such as buildings or building components that can only be recovered over longer periods up to 39 years.
- In addition, what is deemed as Section 1245 property or personal property can be recovered over either 7 or 5 year periods depending on their classification. Items commonly found in the self-storage environment that fall under this classification are CCTV systems, automatic access gate systems, rental payment kiosks, computerized locking and alarm systems, dock levelers, brand signage, office furniture, fixtures and equipment, protective pipe bollards, etc.