

THE MELE GROUP OF MARCUS & MILLICHAP  
**Q2 2015**  
SELF-STORAGE REIT REPORT

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THE MELE GROUP  
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## REITs at a Glance

"These are the days," CEO Dave Rogers of Sovran Self Storage (NYSE:SSS) quotes a Natalie Merchant song when describing today's market and REIT executives alike agree. Self-Storage REITs maintain steady growth and build on positive momentum, hitting record highs in the second quarter of 2015. All of the major self-storage REITs have posted increases to their occupancy rates with Public Storage (NYSE:PSA) continuing to lead the group at 95.7%. Extra Space (NYSE:EXR) experienced the highest rate of growth over the second quarter with a NOI growth of 12.1% and a revenue growth of 9.4%. In this healthy market, the next direction for most of the same-store stabilized facilities is to increase rental rates and reduce concessions in order to maximize revenue. Muted new supply is in both the present and the foreseeable future, with demand growing from both the increase in population and the increased awareness of the product type. CubeSmart (NYSE:CUBE) stated that they are bullish on the rate side of their business, a reflection of the sustained, strong growth as the market ticks upward.

REITs show strong activity on the investment front, continuing to acquire properties while remaining bullish in their underwriting, even in a market applying downward pressure to cap rates. Extra Space acquired 29 properties totaling \$239 million and entered into a definitive merger agreement to acquire SmartStop Self Storage for \$1.3 billion. Sovran Self Storage acquired 9 stores for \$75 million, Public Storage closed on 4 properties totaling \$39 million, while CubeSmart paid a total of \$27.9 million for 3 facilities.

CubeSmart noted that their increase in same-store expenses were primarily associated with real estate taxes. They weren't the only ones concerned with rising property tax rates, Sovran Self Storage forecasted property taxes for the quarter to increase between 2.5% and 3.5%, and expenses outside of property taxes to increase between 3% and 4%.

Occupancies are at an all-time high. Extra Space recorded a record high occupancy of 94.5%. CubeSmart achieved record high occupancies, finishing June 2015 at 93.8%, Sovran Self Storage finished at 92.7% and Public Storage topped the group at 95.7%. REIT executives have all reacted to this high demand market by increasing rates, decreasing free and discounted rents and exploring new lease-up opportunities. Sovran Self Storage showed their asking rates growing steadily every month, from 5.5% to 7.8% and now at 8.2% this time last year. CubeSmart revealed its performance of newly-opened stores as nothing short of extraordinary. In 9 months, CubeSmart acquired a store in McKinney, Texas and transformed this facility from empty to 90% occupied. Demands are high, awareness and interest of the product are growing and projections show continued increases for the remainder of 2015. "Fundamentals are strong, our company is in a good spot and I think the rest of 2015 is going to be great," Sovran Self Storage told analysts.

Overall, the second quarter remains robust. With record highs in occupancies, rates and NOIs, we expect the remainder of the year to see the continuation of strong performance and active acquisitions for REITs.

# The Mele Storage Group



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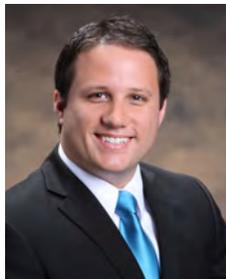


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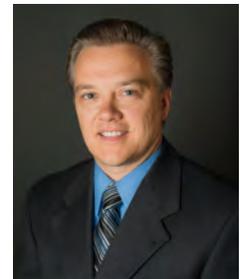
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## CubeSmart (NYSE:CUBE)

### Earnings Call Highlights

- "During the quarter on a same store basis, we achieved record high occupancies finishing June at 93.8%."
- "We achieved record high asking rents, accelerating throughout the quarter to average \$16.22 per foot."
- "The lease-ups on our newly opened stores have exceeded our underwriting with the performance of our Arlington store being nothing short of amazing at 36% physically occupied after being opened for 91 days."
- "This strong performance has resulted in significant increases in our forecast for same-store metrics."
- "Industry fundamentals continue to be a tailwind and our operating platform continues to deliver better than expected occupancy, NOI and FFO per share growth."
- "The beat to our guidance came almost entirely from revenue outperformance on both the same-store and non-same-store properties and while gains and physical occupancy drive a portion of our 6.8% same-store revenue growth."
- "We're increasing our same-store guidance, same-store revenues are now expected to grow at 6.25% to 7% and our NOI growth expectation has been increased to 150 basis points at the midpoint to a revised range of 7.75% to 8.75%."
- "We continue to anticipate pressure on the real estate tax expense side."
- "We're really bullish on the rate side of our business going forward and think it will be reflective of continued very, very strong growth as we go forward."

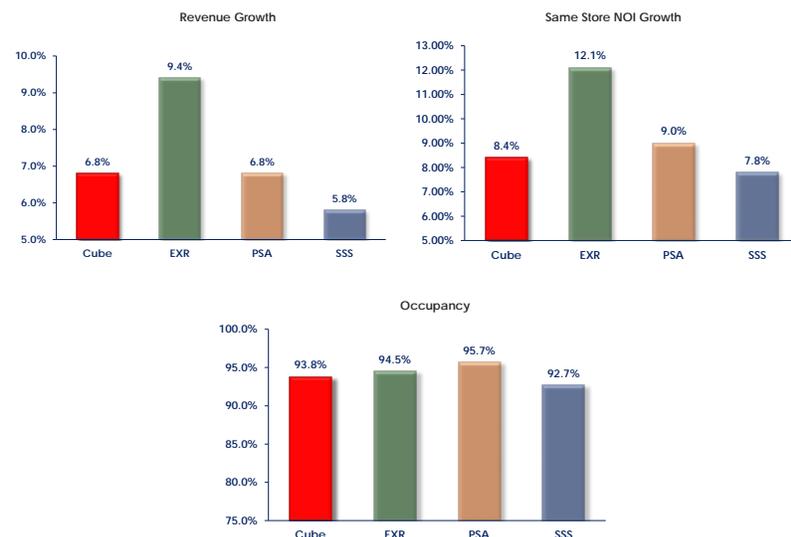
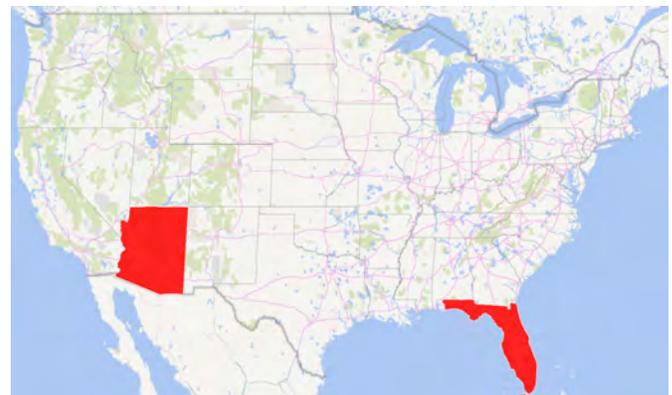
### Q2 2015 Same-Store Results

Facilities	361
Square Footage	24,303,944
Occupancy	93.8%
Revenue Growth	6.8%
NOI Growth	8.4%
Realized Rent per Occ SF	\$14.42

### Q2 2015 Acquisitions

Acquisitions	3
Aggregate Amount	\$27,900,000
Locations	FL, AZ

### Acquisition Activity



## Extra Space Storage (NYSE:EXR)

### Earnings Call Highlights

- “We reached a record high occupancy of 94.5%, while producing same store revenue growth of 9.4%.”
- “Year-over-year, NOI grew 12.1%, FFO as adjusted grew 17.2% and we increased our dividend by over 25%.”
- “This kind of growth is directly attributable to accretive acquisitions, muted new supply and our ability to source higher value customers online.”
- “We announced the definitive merger agreement to acquire Smart Stop, the seventh largest storage company in the U.S. for approximately \$1.3 billion.”
- “As I have said it is a great time to be in storage.”
- “Our same-store revenue growth was driven by increased occupancy, higher rates to new and existing customers and lower discounts.”
- “Some of our standout markets in terms of revenue growth includes Atlanta at 11%, Los Angeles and San Francisco at 12%, Orlando at 15%, Sacramento at 16% and Denver at 17%.”
- “Fundamentals of the storage industry continue to be favorable and we are leveraging our scalable platform to maximize Revenue, NOI and FFO.”
- “There is very little new supply today, and for the foreseeable future so that bodes well.”
- “Occupancy, as we think it will continue to be strong for the year.”

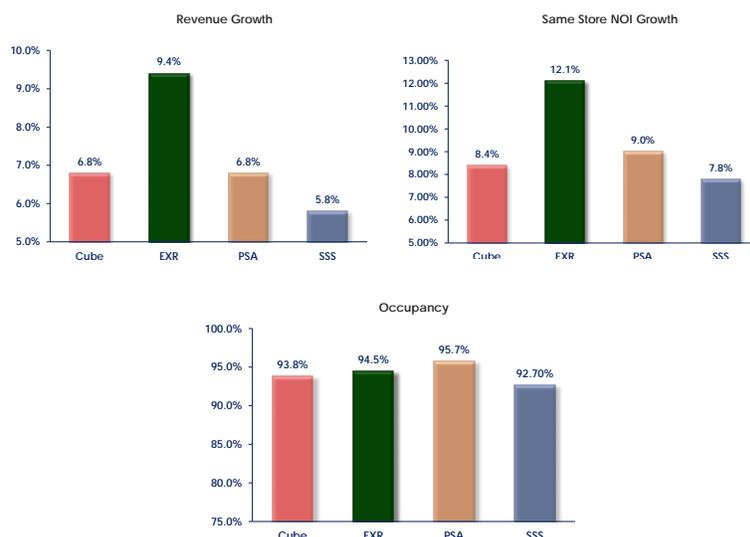
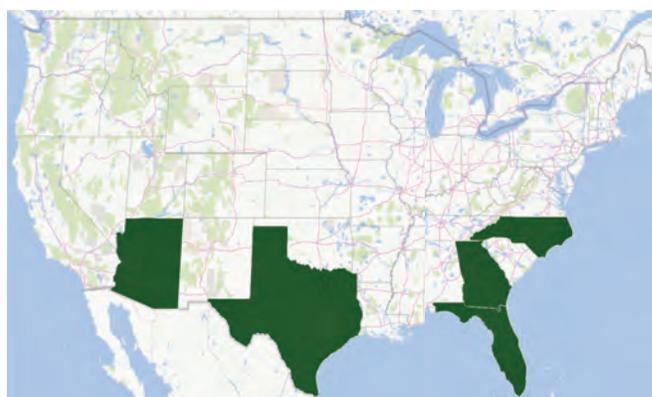
### Q2 2015 Same-Store Results

Facilities	503
Square Footage	36,936,517
Occupancy	94.5%
Revenue Growth	9.4%
NOI Growth	12.1%
Realized Rent per Occ SF	\$15.26

### Q2 2015 Acquisitions

Acquisitions	29
Aggregate Amount	\$239,900,000
Locations	FL, AZ, GA, NC, TX

### Acquisition Activity



## Public Storage (NYSE:PSA)

### Earnings Call Highlights

- "We had another solid quarter, hitting on all cylinders in Europe and in the U.S."
- "I think our main competitors for sites are multifamily."
- "Growth is not uniform across the country though. It's occurring where you would expect Texas, Florida, and the Carolinas."
- "We look to increase our market share in our key markets where we operate."
- "...The game is not won on the move in rates. The game is won on getting the tenant that stays long and becomes very sticky to rate increases."
- "Percentage of customers greater than one year was up 60 basis points to 55.9%, up from 55.3%."
- "We're getting a lot of demand into our system, the demand, the call volume, the hits to our website, our website of both mobile and desktop are still way up."
- "The velocity of move-ins, the move-ins relative to what we have to sell as a percentage is up quite a bit."
- "We opened a new facility here in Glendale about 2000 units at the end of April and it's already 50% occupied in about two months."

### Q2 2015 Same-Store Results

Facilities	1,990
Square Footage	126,300,000
Occupancy	95.7%
Revenue Growth	6.8%
NOI Growth	9.0%
Realized Rent per Occ SF	\$16.25

### Q2 2015 Acquisitions

Acquisitions	4
Aggregate Amount	\$39,900,000
Locations	TX, CA

### Acquisition Activity



## Sovran Self Storage (NYSE:SSS)

### Earnings Call Highlights

- "Seems incredible to be saying this but our company's results and those of the self-storage sector are, for the umpteenth quarter, setting new highs: Highest ever occupancies, highest rate per square foot, highest NOI and the forecast calls for more."
- "Fundamentals are strong, our company is in a good spot and I think the rest of 2015 is going to be great."
- "We reported same store revenues increased 5.8% over those of the second quarter of 2014."
- "Drivers behind the revenue growth were a 130 basis point increase in average occupancy and a 3.9% increase in rental rates."
- "Same store occupancy increased to 92.7% at June 30; That was a record level for our second quarter. Tenant insurance income for the same-store pool continued to show double digit growth, increasing 15.1% in the second quarter of 2015 as compared to the same period in 2014."
- "Same store net operating income increased 7.8% for the quarter."
- "Our strong performance in the first six months of 2015 led to the decision in July to increase our dividend by 13%."
- "With regard to guidance, same store revenue growth for Q3 should be in the 5.5% to 6.5% range and NOI around 7% to 8% for the quarter."
- "Expenses outside of property taxes should increase between 3% and 4%."
- "Property taxes for the quarter are expected to increase between 2.5% and 3.5%."
- "We expect full year revenues to grow between 5.5% and 6.5% over 2014 and NOI to increase between 6.5% and 7.5%."

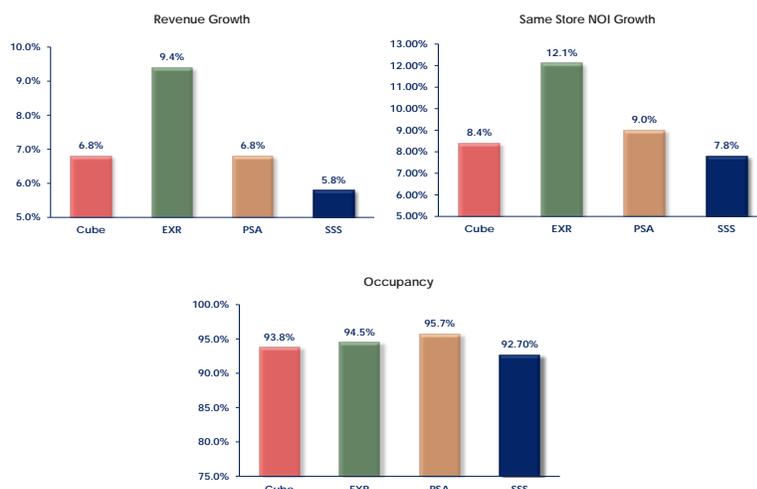
### Q2 2015 Same-Store Results

Facilities	399
Square Footage	26,824,000
Occupancy	92.7%
Revenue Growth	5.8%
NOI Growth	7.8%
Realized Rent per Occ SF	\$12.15

### Q2 2015 Acquisitions

Acquisitions	9
Aggregate Amount	\$75,000,000
Locations	FL, AZ, MA, TX

### Acquisition Activity



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