Self-StorageResearch

SEMIANNUAL REPORT

Marcus & Millichap

First Half 2009

Assets Located Near Commercial Zones Outperforming

Increased foreclosure activity and reduced consumer spending have supported a bifurcation in occupancy trends between commercial and residential self-storage facilities. One year ago, assets within industrial or commercial areas averaged occupancy in the mid- to high-70 percent range, while occupancy levels at properties in residential communities averaged in the mid-80 percent vicinity. Today, cooling economic conditions have caused many businesses to increase their storage needs, pushing occupancy up to the low- to mid-80 percent range for self-storage buildings in commercial and industrial districts. In contrast, rising foreclosures and accelerating job losses have fueled a drop in occupancy among properties in primarily residential neighborhoods; occupancy rates for assets in these areas have fallen to the high-70 percent range. Residential self-storage properties will continue to face operational challenges until the housing market stabilizes.

Investment activity for self-storage properties will remain limited by financing and investors' expectations in 2009. As occupancy has dipped, buyers have become more cautious and initial yields continue to rise. On average, cap rates have increased approximately 50 basis points over the past year to the mid-7 percent to high-8 percent range. Smaller, older properties in infill locations, especially near commercial zones, are expected to perform well in the near term as lower rents attract tenants and support higher occupancy levels. Newer facilities in outlying areas of markets recording above-average foreclosure activity may struggle this year as distressed homeowners look to cut costs in the current recession.

Average Cap Rate Trends

7.7% cap rate
up 50
basis points
4Q07-4Q08

West: Cap rates in the West region are currently averaging in the mid- to high-7 percent range, up approximately 50 basis points over the past year. More conservative buyer expectations for rents and occupancy levels are driving the increase.

8.9% cap rate
up 50
basis points
4Q07-4Q08

South Central: In the South Central region, average cap rates are in the high-8 percent to low-9 percent range, roughly 50 basis points higher than one year ago. While velocity is down in most metros, sales activity in Texas has increased 13 percent during the past 12 months.

8.6% cap rate
up 40
basis points
4Q07-4Q08

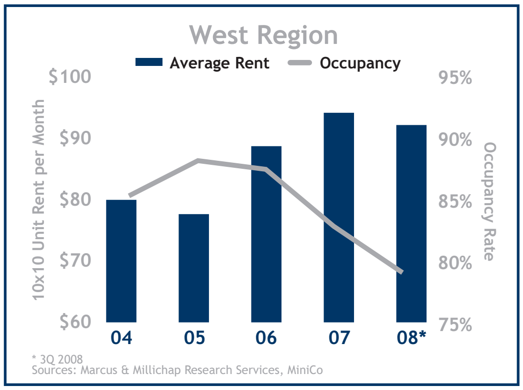
Southeast: Average cap rates in the Southeast have risen about 40 basis points in the last year to the mid- to high-8 percent range. In Florida, velocity has slowed by 12 percent, while prices have fallen 22 percent, compared to a 4 percent price drop regionwide.

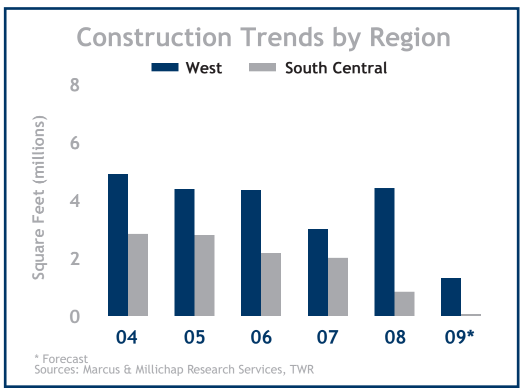
8.8% cap rate
up 20
basis points
4Q07-4Q08

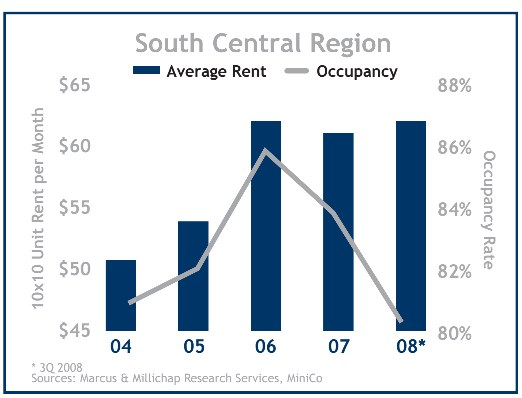
Northeast: Cap rates in the Northeast have averaged in the high-8 percent range over the past 12 months, up modestly from the preceding annual stretch. This region has recorded the nation's largest drop in the median sales price, falling 32 percent as to fewer new properties changing hands.

8.7% cap rate
up 60
basis points
4Q07-4Q08

North Central: North Central cap rates are averaging in the mid- to high-8 percent range, rising around 60 basis points during the last year. Despite weaker economic conditions in the upper Midwest, prices in the region have declined just 5 percent in the past 12 months.







West

- **Construction Trends:** In 2008, 4.4 million square feet of self-storage space was brought online in the West region, nearly twice the amount finished in the previous year. A weaker economy and tight construction financing are expected to slow completions to 1.3 million square feet in 2009, the smallest addition to inventory in the past five years. While the Los Angeles metro has led the region in construction activity in the past, Seattle is projected to take over this year with the forecast delivery of approximately 500,000 square feet.

- **Rent and Occupancy Trends:** A spike in completions and weaker housing-related demand caused the average occupancy rate in the West to fall 300 basis points year over year to 79.5 percent in the third quarter. Metros with softer residential conditions are facing greater vacancy challenges; average occupancy levels in Phoenix, San Diego, San Francisco and Denver, for example, have fallen 500 basis points over the past 12 months. Rents throughout the region have trended downward in that time, as owners have sought to combat rising vacancy rates. Rents averaged $0.92 per square foot in the third quarter, down 1.1 percent year over year.

- **Investment Trends:** Transaction velocity declined 20 percent annually, as of the third quarter. Las Vegas, one of the weakest residential markets in the nation, registered the steepest decline in deal flow, with activity falling 58 percent over the last year as a result of greater concern over housing-generated storage demand. Regionwide, the median price has dropped 13 percent to $71 per square foot, due somewhat to more conservative underwriting as buyers account for higher vacancy rates and flat rents. Cap rates have increased roughly 50 basis points to the mid- to high-7 percent range in the most recent 12-month period, a trend likely to continue until the housing and job markets stabilize.

South Central

- **Construction Trends:** Self-storage completions in the South Central region totaled almost 830,000 square feet in 2008, but just 100,000 square feet is under way, all of which is located in Houston. The planning pipeline has grown to 1.8 million square feet, up from 1.2 million square feet one year ago, as developers are shelving plans until the market stabilizes. Given the slowdown in construction activity and still-tight credit markets, additions to regional self-storage supply will remain in check through year end.

- **Rent and Occupancy Trends:** While holding relatively firm over the first half of 2008, occupancy fell 230 basis points in the third quarter to 80.4 percent as a result of inventory expansion at a time of accelerating economic uncertainty. Still, rents in the region have increased 3.3 percent year over year to $0.63 per square foot, supported by gains in metros that had better-than-average employment figures and sturdier single-family markets; these metros include Dallas/Fort Worth, Oklahoma City and San Antonio. Limited new development should help to stabilize occupancy levels and encourage modest rent growth during the second half of the year.

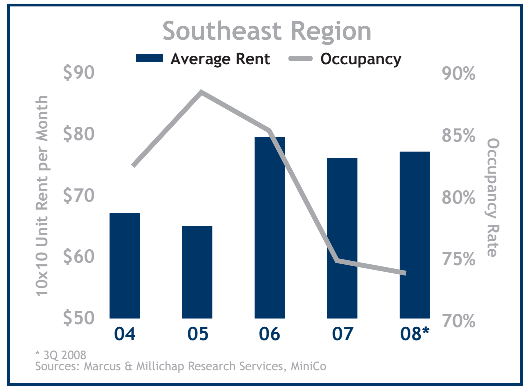
- **Investment Trends:** Transaction velocity in the South Central region picked up 3 percent over the 12-month period ending in the third quarter. In the past year, the median price in the region has increased 7 percent to $49 per square foot. California buyers continue to dominate investment activity in Texas, accounting for 33 percent of the state's sales velocity during the last 12 months. Regionwide, cap rates are averaging in the high-8 percent to low-9 percent range, up about 50 basis points annually.

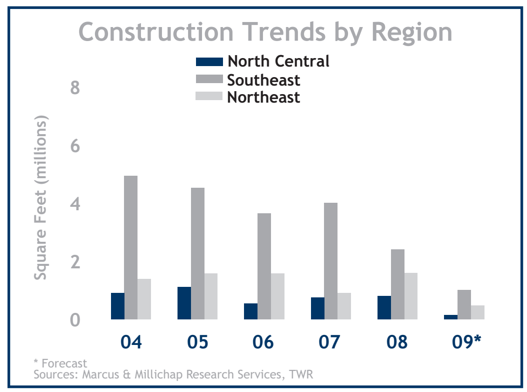
SOUTHEAST

- **Construction Trends:** In 2008, completions in the Southeast region totaled 2.4 million square feet, up from 1.8 million square feet in the previous year. Construction is on the decline, as just 1 million square feet is under way. One-third of that space is in Charlotte, a market that has already has more per capita than the national average, which will likely lead to higher vacancy in the metro. Construction in the Southeast will likely slow going forward, as the planning pipeline contains 5.3 million square feet, down from the second half of 2008, when 7.3 million square feet was proposed.

- **Rent and Occupancy Trends:** An increase in deliveries amid weaker residential demand lowered occupancy to an average of 73.9 percent in the third quarter, down 270 basis points annually. Atlanta received 600,000 square feet of space in 2008, causing occupancy in the market to fall 400 basis points during that time to the low-70 percent range. During the same time, Memphis posted a 200 basis points improvement to the high-70 percent range. While occupancy regionwide has fallen significantly over the past year, rents have remained flat at $0.78 per square foot. Owners can expect rent concessions to grow in the months ahead, especially in markets hit hard by single-family foreclosures, such as the Florida metro areas.

- **Investment Trends:** Transaction velocity in the Southeast has slowed by 36 percent during the last year. The most considerable reduction was in Atlanta, where sales dropped 63 percent, due in part to the absence of a major Florida buyer. The median price of self-storage assets in the region has decreased 4 percent year over year to $65 per square foot. In Florida, velocity is down just 12 percent, but the median price has slipped 22 percent to $71 per square foot. Some of the decrease is attributable to rising vacancy and a nearly 7 percent rent decline in Miami-Fort Lauderdale during the past 12 months.



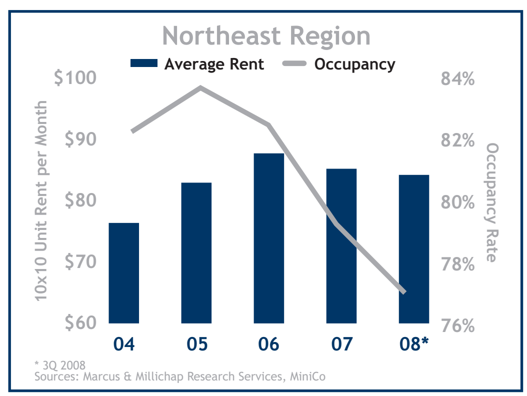


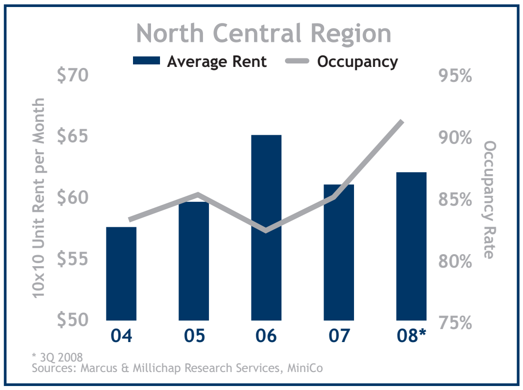
NORTHEAST

- **Construction Trends:** In the Northeast, developers added 1.5 million square feet of self-storage space in 2008, nearly the same as in the previous year. Reflecting the national trend, construction activity is on the decline. Approximately 500,000 square feet is slated for completion this year, with 170,000 square feet scheduled for Brooklyn. The planning pipeline contains 2.5 million square feet, up from 1.9 million square feet just six months ago; builders are delaying projects due to weak market conditions, causing the pipeline to swell.

- **Rent and Occupancy Trends:** New supply, mostly delivered during the latter part of 2008, coupled with reduced demand, has driven occupancy in the Northeast down over the past year. As of the third quarter, the average occupancy rate was 77.1 percent, compared to nearly 80 percent one year earlier. While a projected decrease in completions will help offset the impact of a weak housing market, softened commercial demand will keep occupancy in the high-70 percent range throughout 2009. Rents for the region's self-storage space averaged around $0.84 per square foot during the third quarter, down 1 percent year over year.

- **Investment Trends:** Investor activity has declined 29 percent year over year, with the median price falling 32 percent as of the third quarter to $50 per square foot. While some price depreciation is due to more conservative buying, part of the decrease is the result of fewer new properties trading. Currently, cap rates are averaging in the high-8 percent range, up about 20 basis points from one year ago.





North Central

- **Construction Trends:** In 2008, self-storage inventory in the North Central region grew by 800,000 square feet, following the addition of 750,000 square feet in the previous year. Development is slowing considerably; only 150,000 square feet in two projects is expected to be completed this year. There is currently 420,000 square feet in the planning pipeline, similar to the amount proposed a year ago.

- **Rent and Occupancy Trends:** As of the third quarter, occupancy in the region was 91.3 percent, up from 85.5 percent one year earlier. Chicago and Detroit both have recorded occupancy improvements over the past year, up 300 basis points and 210 basis points, respectively, to 93 percent and 90 percent. Slower construction activity regionwide should help to counter the effects of weaker employment and softer residential-generated demand. Rents throughout the North Central area have pushed up 5.1 percent annually to $0.62 per square foot. Rent growth is underpinned by high occupancy levels, which should remain fairly steady in 2009 as a result of limited development.

- **Investment Trends:** While operating fundamentals in the North Central region remain healthy, transaction velocity has declined 32 percent during the last 12 months. Activity was down a region-high 67 percent in Illinois, due in part to the absence of California and Florida investors. Over the same span, healthy operations have helped to moderate the effects of reduced demand and tighter credit on the median prices, which has declined only 5 percent to $54 per square foot. While employment losses and housing stresses in the upper Midwest may cool regional tenant demand and rent gains in the next year, tight occupancy levels should keep prices fairly stable.

Recent Sales Highlights

Property Name	City, State	NRSF*	Sales Price	Price/NRSF
Clock Tower Self Storage	Kent, WA	58,148	$6,333,333	$109
U-Store-It	Gulf Breeze, FL	79,410	$7,800,000	$98
Advanced Heated Storage	Stanwood, WA	29,650	$2,795,000	$94
ABF Self Storage	Cumming, GA	37,950	$3,490,000	$92
U-Store-It	Mobile, AL	43,325	$2,890,000	$67
Oakley Storage	Cincinnati, OH	66,520	$4,309,188	$65
Bell Road Self Storage	Phoenix, AZ	31,200	$2,000,000	$64
Cotati Mini Storage	Cotati, CA	13,276	$830,000	$63
Route 8 Self Storage	Gibsonia, PA	71,230	$4,100,000	$58
U-Store-It	Ocala, FL	42,091	$2,250,000	$53
Chagrin Valley Mini Storage	Newbury, OH	23,400	$1,085,000	$46
U-Store-It	Biloxi, MS	66,594	$2,960,000	$44
Your Personal Vault	Detroit, MI	55,606	$2,375,750	$43
U-Store-It	Gautier, MS	36,125	$1,355,843	$38
Self Storage Depot	Bedford Heights, OH	72,500	$2,680,000	$37
Liberty Hill Storage	Liberty Hill, TX	49,850	$1,820,000	$37

** Net Rentable Square Feet*

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Price: $150