



4TH QUARTER 2022

SELF-STORAGE REPORT

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DELIVERING TRANSPARENCY

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While a great deal of consolidation has occurred, self-storage is still a highly fragmented industry. The market totals approximately 50,000 core facilities containing just over 2.0 billion square feet nationwide. The core facilities are typically owned by large nationally focused public real estate investment trusts (“REITs”), large public and private concerns, mid-sized companies that might own 10 or so facilities in one or more markets, and small “mom and pop” owners who might own one to three properties in one market. Five of the six largest owners are REITs, Public Storage, Inc., Extra Space Storage, Inc., CubeSmart, Life Storage, and National Storage Affiliates Trust.

The self-storage sector experienced exponential growth in late-2020 in the aftermath of the COVID-19 pandemic. A surge in migration and strong housing market drove record recent increases and strong occupancy gains. Buoyed by strong market fundamentals in a low interest rate environment, sales volume increased to unprecedented levels in the second half of 2021 and the first half of 2022. Rental growth slowed significantly across the nation in the second half of 2022 and occupancy levels also took a step back. After a record breaking 2021 and start to 2022, transaction velocity slowed in the second half of 2022 as the cost of capital surged due to increases in the Federal Funds Rate. While fundamentals are still positive, the major REIT’s have pared back growth projections in their guidance.

- Occupancies at the end of 4Q22 ranged from 93.1% to 95.2%.
- Same store revenue growth ranged from 7.4% to 14.8%.
- Same store NOI growth ranged from 9.4% to 17.9%.

Performance					FY 2023 Guidance		
	Revenue	Expenses	NOI	Occupancy	Revenue	Expenses	NOI
PSA	14.8%	5.7%	17.9%	93.4%	3.8%	5.8%	3.2%
EXR	11.8%	6.7%	13.4%	95.2%	4.5%	5.5%	4.3%
CUBE	12.7%	3.0%	16.7%	94.4%	4.8%	4.5%	5.0%
LSI	11.8%	4.1%	13.3%	93.1%	4.8%	4.5%	4.5%
NSA	7.4%	1.6%	9.4%	94.1%	4.5%	5.3%	4.3%
Avg.	11.7%	4.2%	14.1%	94.3%	4.5%	5.1%	4.2%

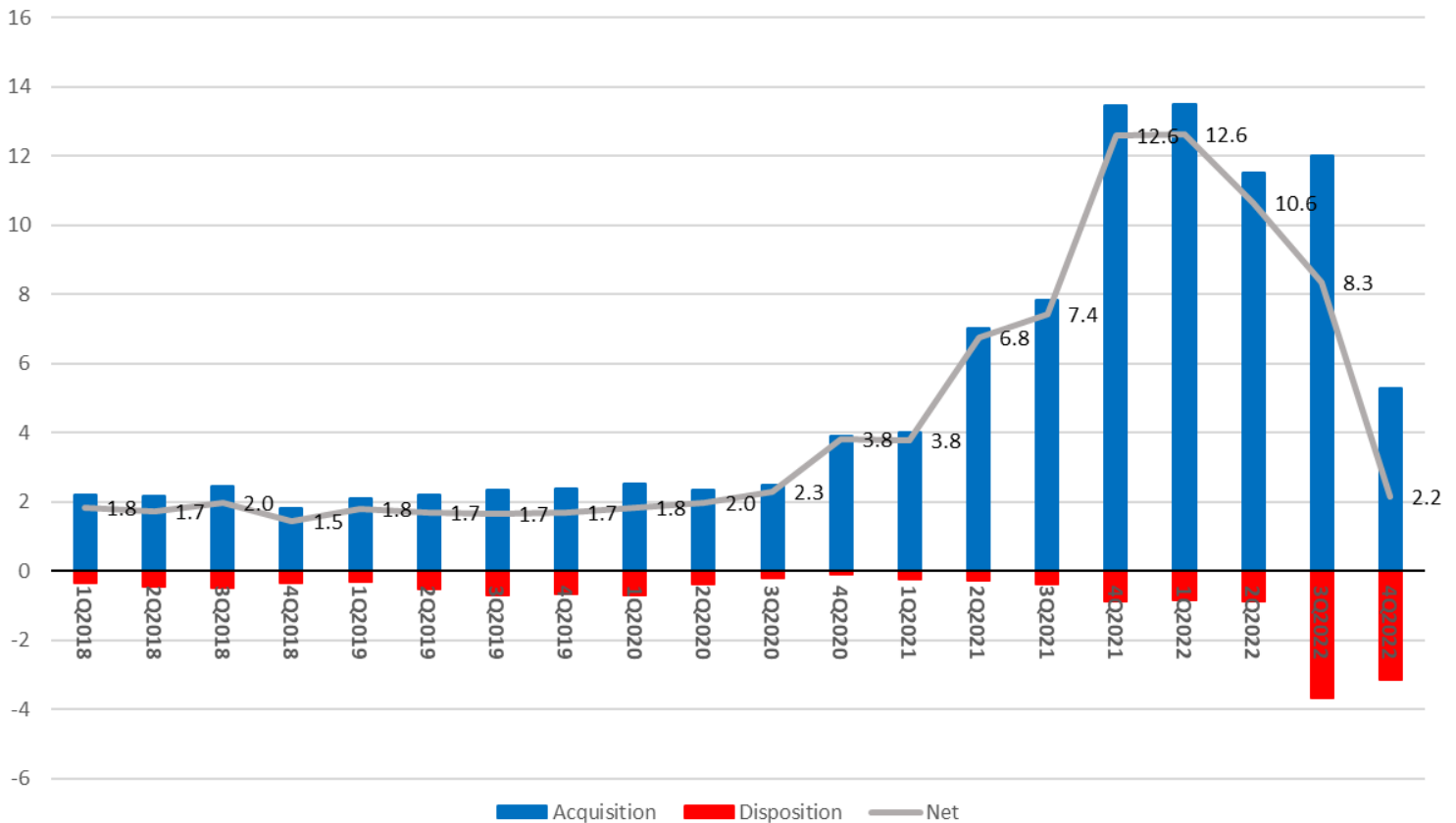
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All five REITs revised revenue and NOI guidance downward Q-to-Q. This resulted in an average decrease of approximately 9% in revenue forecasts and 12% decrease in NOI forecasts. Moving forward, 2023 revenue and NOI forecasts are significantly below the increases experienced in 2022, although still healthy.

Acquisition Activity

Given the higher cost of capital, REITs pulled back on acquisitions in 4Q22, with net acquisitions totaling just over \$2.2MM on a trailing 12-month basis.

Net Acquisitions



Source: NAREIT T-Tracker

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Public Storage invested \$1B in 2022 between acquisitions and developments. Public Storage expects continued investment in 2023 to continue, although at a slightly slower pace given the current cost of capital. The company has issued guidance of \$750MM in transaction volume expected for the year. Guidance is exclusive of their \$11B offer to take over LifeStorage that was issued in February. While LifeStorage rejected the offer, Public is expected to come back to table. Public will also focus on development in 2023 with over \$1B in the current pipeline that will generate stronger yields compared to stabilized assets.

ExtraSpace invested \$1.36B in 2022 in wholly owned acquisitions and developments. ExtraSpace guided to a modest \$250MM in acquisitions in 2023 citing current market conditions and cost of capital. ExtraSpace indicated current stabilized cap rates are in the low 5s.

Acquisitions were slow for CubeSmart in 2022. This operator is expecting acquisitions of \$100MM to \$250MM for 2023. CubeSmart will continue to a disciplined approach strategy and look only at opportunities that fit their investment criteria and make sense compared to their cost of capital. As capital markets re-normalize, the company hopes to increase acquisitions in the latter part of 2023.

LifeStorage invested over \$1B across 75 properties in wholly owned and JV acquisitions in 2022. Looking forward to 2023, LifeStorage expects activity to slow to between \$150MM and \$250MM given current market conditions.

NSA acquired 53 facilities in 2022, investing approximately \$800MM between wholly owned and joint venture deals. This company indicated there are fewer opportunities in the market and there remains a wide bid-ask spread on deals. That said, NSA did recently enter an agreement for 15 properties in Florida valued at \$145MM with a Year 1 cap rate in the low-6% range. However, they noted that most trades are transacting in the mid-5% range. NSA's guidance for acquisitions in 2023 is \$200MM to \$400MM.

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Institutional Portfolio Sales

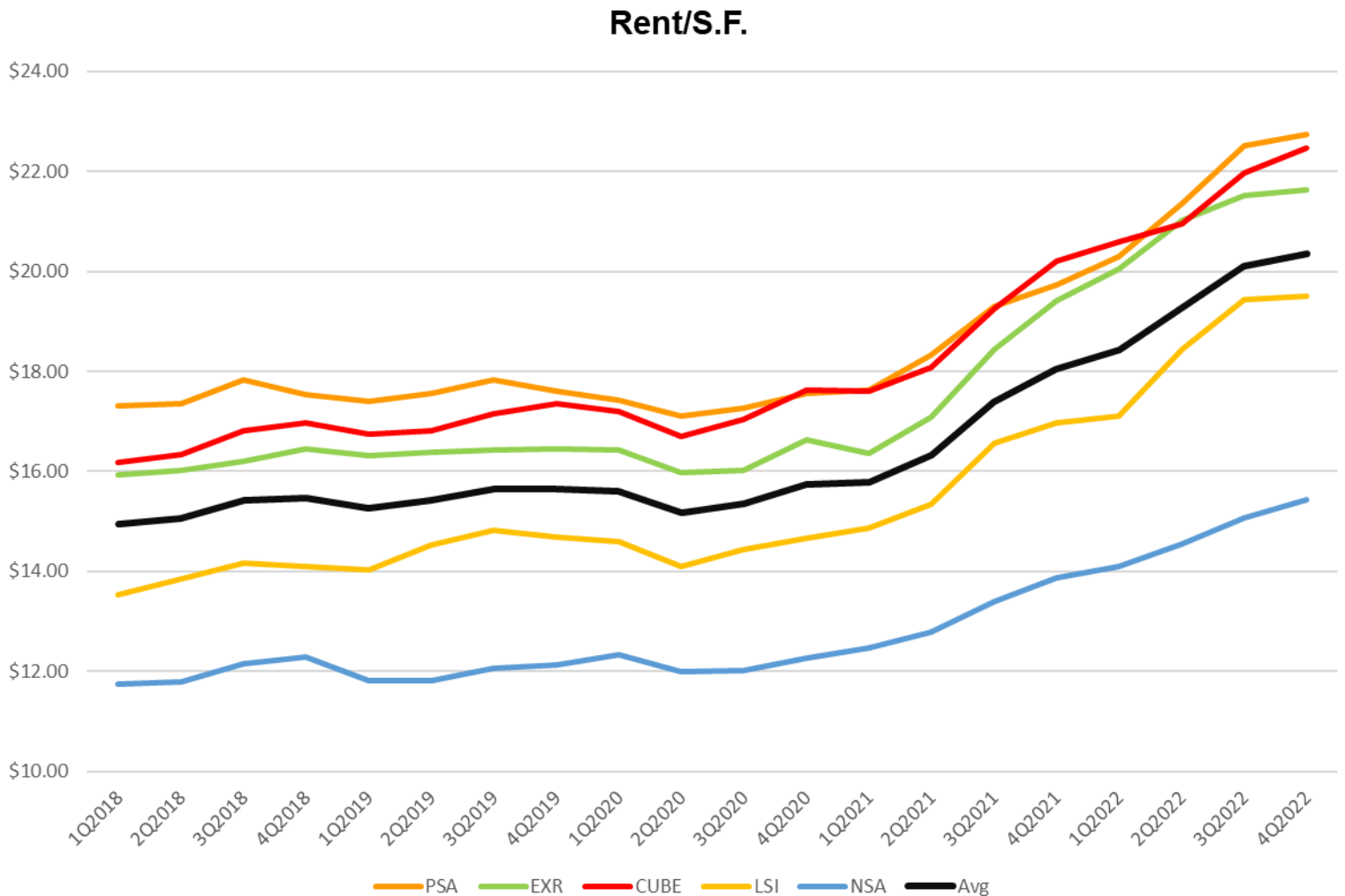
Although overall transaction activity has slowed in recent quarters, select transactions and portfolio trades are still occurring in the market given the amount of capital available to deploy in the burgeoning industry. The top self-storage portfolio sales for the past year are listed below.

2022 SELF-STORAGE PORTFOLIO SALE HIGHLIGHTS						
No.	Property/Location	Sale Date	Number of Properties	Total Leasable Area (SF)	Sale Price	Price/SF
1	Related/Wentworth Portfolio	1/23	18	1,286,000	\$266,229,000	\$207.02
2	Public Storage Ocala Portfolio	12/22	28	1,200,000	\$192,400,000	\$160.33
3	Levine/Life Storage	10/22	7	657,320	\$142,000,000	\$216.03
4	ExtraSpace / Storage Express	9/22	107	3,900,000	\$590,000,000	\$151.28
5	Cubesmart/NSA Portfolio	8/22	14	1,064,000	\$235,000,000	\$220.86
6	Pegasus Portfolio	8/22	11	650,000	\$277,000,000	\$426.15
7	Hines Nashville Portfolio	7/22	5	486,800	\$101,900,000	\$209.33
8	Southern California MiniStorage	1/22	12	744,680	\$316,489,000	\$425.00

Rental Rates

Despite concerns regarding market slowdowns, rent growth remains significantly above historical averages. In fourth quarter 2022, annual rent growth totaled 12.9% and averaged 1.3% growth Q-to-Q across the five REITs. Rental rates currently average \$20.36 per square foot nationwide. Despite slowing in pace, rent growth is expected to remain positive in the near future.

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Despite the disruption caused in the wake of the COVID-19 pandemic, the self-storage industry saw significant improvements in the later half of 2020 before rents accelerated and grew at historical levels in 2021 and the first half of 2022. Performance has remained strong over the past 12 months as rent increases continually register well above pre-pandemic levels. However, the pace of growth has moderated.

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The table below highlights rental rate trends within the 20 major metropolitan areas for self-storage inventory by each of the five REITs.

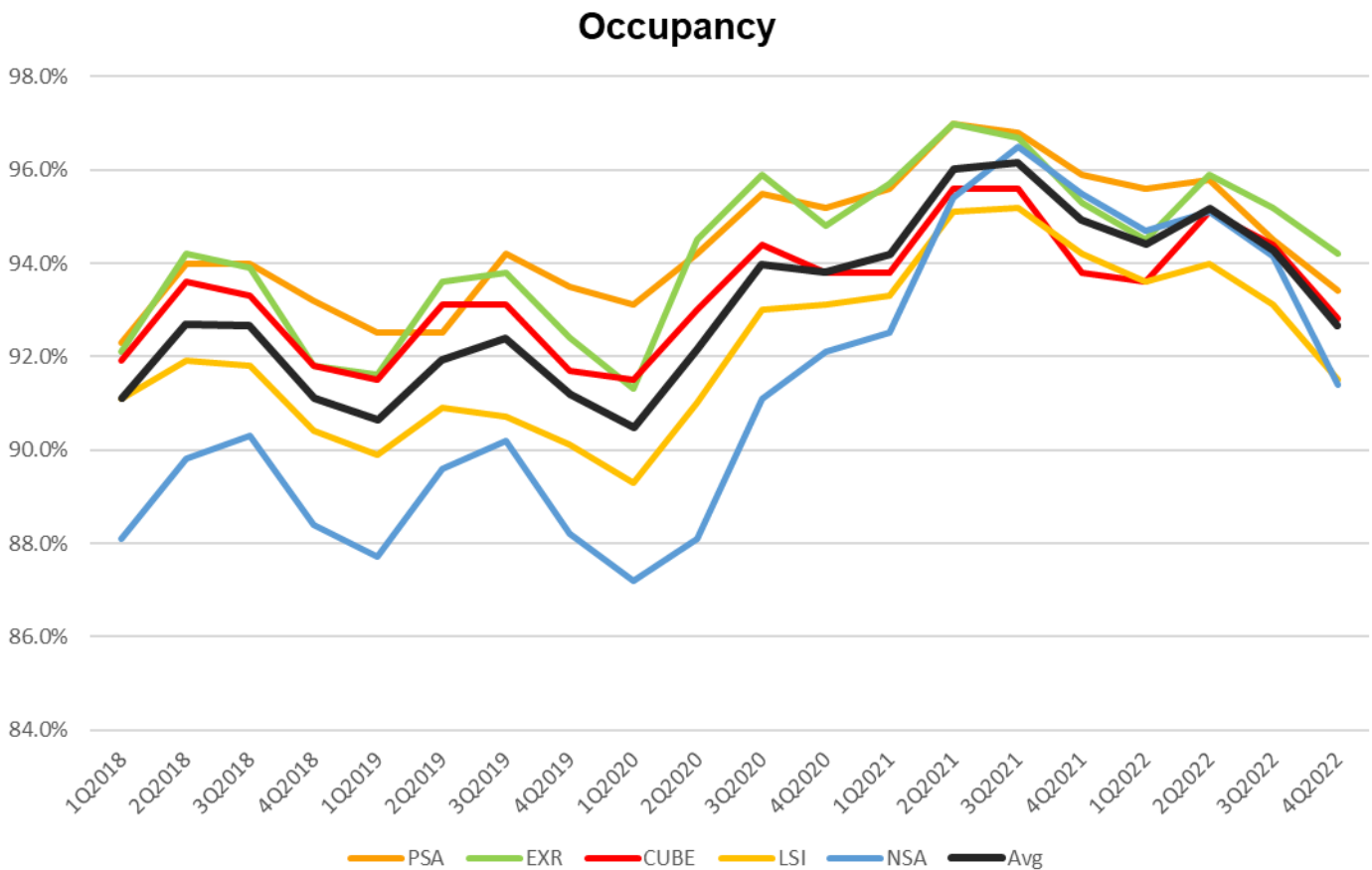
RENT BY MSA					
Market	PSA	EXR	CUBE	LSI	NSA
Los Angeles-Riverside-Orange County, CA	\$32.55	\$29.17	\$34.15	\$28.82	\$24.32
New York-Northern New Jersey-Long Island, NY-NJ-PA	\$31.43	\$30.61	\$26.09	\$19.77	--
Atlanta, GA	\$30.60	\$18.61	\$19.05	\$16.72	\$13.85
Washington-Baltimore, DC-MD-VA-WV	\$27.92	\$24.02	\$18.00	--	--
Dallas-Fort Worth, TX	\$25.11	\$17.73	\$25.39	\$22.59	\$14.48
Boston-Worcester-Lawrence, MA-NH-ME-CT	--	\$27.40	\$17.97	\$16.71	--
San Francisco-Oakland-San Jose, CA	\$25.42	\$34.96	--	--	--
Chicago-Gary-Kenosha, IL-IN-WI	\$19.28	\$20.23	\$18.93	\$18.73	--
Miami-Fort Lauderdale, FL	\$17.28	\$27.23	\$20.08	\$26.87	--
Phoenix-Mesa, AZ	--	\$18.72	\$17.83	\$28.54	\$16.96
Philadelphia-Wilmington-Atlantic City, PA-DE-NJ	\$17.39	\$22.16	\$16.97	\$17.96	--
Tampa-St. Petersburg-Clearwater, FL	\$15.88	\$22.26	\$23.10	\$20.02	--
Houston-Galveston-Brazoria, TX	\$17.96	\$17.60	\$25.91	\$17.87	\$12.08
Las Vegas, NV-AZ	--	\$18.06	\$19.04	\$19.93	\$15.38
Sacramento-Yolo, CA	--	\$21.57	\$21.63	\$16.72	--
Austin-San Marcos, TX	--	\$19.45	\$16.55	\$20.01	--
Orlando, FL	\$20.92	\$19.24	\$19.41	\$20.81	--
San Antonio, TX	--	--	\$16.67	\$17.98	\$16.72
Charlotte, NC	\$15.01	--	\$21.30	\$16.93	--
Riverside-San Bernardino-Ontario, CA	--	--	\$17.64	--	\$16.31
Total	\$21.73	\$22.58	\$22.47	\$19.51	\$15.44

The San Francisco-Oakland-San Jose market currently commands the highest rents with an average of \$30.19 per square foot between PSA and EXR. Conversely, the lowest average rents are in the Riverside-San Bernardino-Ontario market, with an average of \$16.98 per square foot between CUBE and NSA.

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Occupancy Trends

After seeing occupancy levels decrease in the first quarter 2020 in the immediate aftermath of the COVID-19 pandemic, occupancy levels steadily increased starting in second quarter 2020 and peaking in third quarter 2021. More recently, occupancy rates have experienced a general downward trend and currently stand at an average of 92.7% which is more inline with historical norms. In addition, average occupancy decreased by 1.6% Q-to-Q in 4Q22 across the five tracked REITs. The major REITS are projecting vacancy levels to hold throughout 2023.



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The table below highlights occupancy trends within the 20 major metropolitan areas for self-storage inventory by each of the five REITs.

OCCUPANCY BY MSA					
Market	PSA	EXR	CUBE	LSI	NSA
Los Angeles-Riverside-Orange County, CA	96.20%	95.50%	94.70%	91.70%	91.90%
New York-Northern New Jersey-Long Island, NY-NJ-F	93.00%	94.70%	93.80%	92.50%	--
Atlanta, GA	91.20%	93.90%	90.60%	91.70%	88.90%
Washington-Baltimore, DC-MD-VA-WV	91.70%	94.40%	92.00%	--	--
Dallas-Fort Worth, TX	93.40%	96.40%	92.70%	93.60%	90.90%
Boston-Worcester-Lawrence, MA-NH-ME-CT	--	94.50%	89.80%	91.00%	--
San Francisco-Oakland-San Jose, CA	94.30%	93.30%	--	--	--
Chicago-Gary-Kenosha, IL-IN-WI	91.40%	96.00%	92.50%	93.30%	--
Miami-Fort Lauderdale, FL	94.20%	96.00%	94.20%	93.80%	--
Phoenix-Mesa, AZ	--	94.70%	92.40%	92.90%	89.00%
Philadelphia-Wilmington-Atlantic City, PA-DE-NJ	92.30%	93.70%	90.90%	90.00%	--
Tampa-St. Petersburg-Clearwater, FL	94.30%	95.50%	93.20%	91.80%	--
Houston-Galveston-Brazoria, TX	92.50%	96.20%	93.40%	91.20%	92.80%
Las Vegas, NV-AZ	--	93.50%	91.60%	92.70%	87.50%
Sacramento-Yolo, CA	--	91.00%	92.20%	91.30%	--
Austin-San Marcos, TX	--	94.70%	90.80%	90.90%	--
Orlando, FL	94.90%	96.00%	93.80%	94.10%	--
San Antonio, TX	--	--	93.00%	90.00%	88.40%
Charlotte, NC	93.80%	--	92.70%	90.40%	--
Riverside-San Bernardino-Ontario, CA	--	--	93.10%	--	91.60%
Total	93.40%	94.70%	92.80%	91.50%	90.50%

As illustrated above, the market with the highest average occupancy level as of 4Q22 is Orlando at 94.7%, with reported occupancies from PSA, EXR, CUBE, and LSI. The San Antonio market reported the lowest average occupancy at 90.5% among CUBE, LSI, and NSA.

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Conclusion

The healthy performance of the self-storage market over the past several years has been the result of an increase in demand and moderate amounts of new product coming to the market. Self-storage properties performed remarkably well over the past 24 months with properties showing rapid gains in occupancy and rents. Moving forward, rental rates and vacancy are expected to remain stable, and the long-term outlook appears positive as market fundamentals remain strong.

For more information on the self-storage sector, please reach out to:



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