Domestic Self-Storage Market

Pricing and Performance Trends – 2nd Half 2007

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In the best of times, tenants want what you have at any price. In the worst of times, tenants don't want what you have at any price. Like other types of real estate, the domestic self-storage market is concerned about the demand for space by both tenants and investors.

Overall, self-storage tenant demand softened nationwide in the third quarter of 2007, but not as much as one might have expected given the tumultuous conditions in the subprime lending sector and its spillover affect on the residential real estate market specifically and on the global financial markets generally. Investment demand remains strong for Class-A self-storage facilities, but the current credit tightening has dampened the exuberance of investors targeting Class-B and Class-C self-storage assets.

The underlying fundamentals of the self-storage market remain quite strong as collected rents and occupancies hover at historically high levels. Nevertheless, the ebb and flow of market conditions varies from MSA (metropolitan statistical area) to MSA and continues to be governed by local pricing decisions and dynamic local changes in the supply of self-storage units, as well as by shifts in population and employment levels.

Although tenant demand and investment demand have been strong and have generally continued to grow annually for the past 30+ years, investor demand has started to change. As markets have become more competitive, investors are recognizing the differences in the level of risk associated with different classes of facilities.

Like all real estate, the domestic self-storage market is experiencing a correction that is helping to assure that financing is kept in balance with property performance. Now, smaller investors are being forced to become more diligent in their underwriting, and sellers are being forced to become more realistic about asset value.

Table DSS-1

DOMESTIC SELF-STORAGE MARKET
Second Half 2007

	SECOND HALF 2007	FIRST HALF 2007
DISCOUNT RATE (IRR)[a]		
Range	9.10% – 11.00%	9.00% – 11.00%
Average	10.00%	9.80%
Change (Basis Points)	–	+ 20
OVERALL CAP RATE (OAR)[a]		
Range	6.50% – 9.50%	6.50% – 9.00%
Average	7.75%	7.65%
Change (Basis Points)	–	+ 10
RESIDUAL CAP RATE		
Range	7.50% – 10.25%	7.25% – 10.00%
Average	9.00%	8.80%
Change (Basis Points)	–	+ 20
MARKET RENT CHANGE RATE[b]		
Range	2.50% – 4.50%	2.50% – 4.75%
Average	3.25%	3.25%
Change (Basis Points)	–	0
EXPENSE CHANGE RATE[b]		
Range	2.75% – 5.00%	2.75% – 5.00%
Average	3.75%	3.50%
Change (Basis Points)	–	+ 25
AVERAGE MARKETING TIME[c]		
Range	4.00 – 10.00	4.00 – 8.00
Average	9.00	5.00
% Change	–	+ 80.00

a. Rate on unleveraged, all-cash transactions b. Initial rate of change c. In months

Source: Self Storage Data Services, Inc.

Investment Market Conditions

The current investment demand is being influenced by the recent trends in operating performance. Based on an analysis of the data collected from thousands of facilities monitored every 90 days by Self Storage Data Services, Inc. (SSDS), the amount of rent collected per occupied square foot peaked in the third quarter of 2006. Furthermore, Class-A facilities continue to outperform Class-B (and below) facilities.

Class-A Facilities

Even though the self-storage industry does not clearly define classes of facilities, there is a level of censuses that Class-A facilities possess high-quality construction, have excellent locations with high barriers to entry, and achieve

Table DSS-2

Overall Capitalization Rates By Classification		
Class-A Self-Storage Facilities		
Minimum	**Maximum**	**Average**
6.50%	7.35%	7.10%
Class-B and Class-C Self-Storage Facilities		
Minimum	**Maximum**	**Average**
7.75%	>9.00%	8.50%

Source: Self Storage Data Services, Inc.

rents in the upper quartile of the local market. Given the limited number of stabilized Class-A facilities available on the market today – and the ever increasing number of investors seeking out these facilities – their values remain high even though aggregate capital costs have increased. This is because most of the buyers of Class-A self-storage assets are equity investors (or major institutions) who are unaffected by the effective increase in the cost of capital.

Class-B and Class-C Facilities

Wall Street analysts estimate that overall capitalization rates (cap rates or OARs) will increase 25 to 50 basis points on all real estate in the coming months. While that seems to be true for Class-B and Class-C facilities, it may not be the case for Class-A assets due to strong investment demand.

Despite the expected increase in cap rates, an increasing number of self-storage owners are offering their Class-B and Class-C facilities for sale. Unfortunately, leveraged investors are finding it more and more difficult to make deals work given the increased cost of acquisition capital. As a result, some sellers are starting to realize that their facilities may not be worth as much as they originally thought. Even more startling to owners is the widespread realization that upward trending rents and ever-increasing property values are no longer guaranteed.

If Class-B and Class-C self-storage facilities are to continue to sell, investment demand needs to be dominated by equity-based investors who will look to price facilities on risk-based factors and on segmentation of tenant demand. Even if equity investors keep sales activity brisk, the length of time to do deals may increase due to the greater level of due diligence and tighter underwriting.

Operating Performance

While consumer confidence has been weakened due in part to declines in the housing market, its full impact on the self-storage industry is yet to be determined. An analysis of markets with high household foreclosure rates has failed to demonstrate a significant correlation to the operating performance of self-storage facilities in those markets. The recent softening in self-storage demand is more likely due to supply outpacing demand than to the housing crisis. Given the rising level of supply, tenants have numerous choices when it comes to selecting a self-storage facility. Where do they wish to store? What amenities do they desire? What are they willing to pay?

Self-Storage Performance Index©

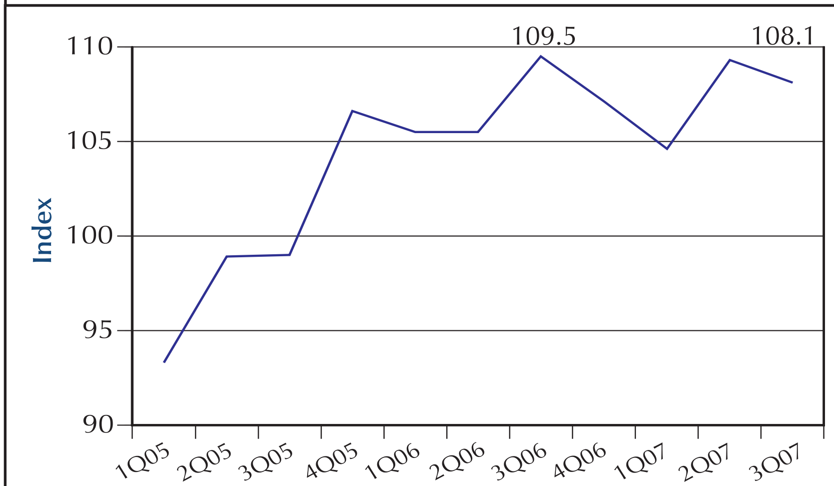
The mild weakening in tenant demand is best demonstrated by looking at the Self-Storage Performance Index© (SPPI). In the third quarter of 2007, the SSPI stood at 108.1, down 1.2% from the prior quarter and down 1.4% from the same quarter a year earlier (see Chart DSS-1).

Key Indicators

As shown in Table DSS-1, the average discount rate moved up 20 basis points to 10.00%, while the average overall cap rate increased 10 basis points to 7.75%. OARs by asset class are shown in Table DSS-2.

Chart DSS-1

SELF-STORAGE PERFORMANCE INDEX (SSPI)©



Base: 4th Quarter 2003 = 100
Source: Self Storage Data Services, Inc.

Table DSS-3

PERFORMANCE AT A GLANCE
Top 50 MSAs

	QUARTERLY 3Q07 vs. 2Q07	SEASONALLY 3Q07 vs. 3Q06	ANNUALLY Trailing 4 Quarters
Median Asking Rental Rate Change	Down 5.1%	Up 3.3%	Up 0.8%
Median Physical Unit Occupancy Change Rate	No Change	Down 1.7%	Down 0.4%
Rent Per Occupied Unit Change	Down 3.6%	Down 1.4%	Down 0.4%
Concession Use	Down 5.4%	Up 12.4%	Up 3.1%

Source: Self Storage Data Services, Inc.

For the second half of 2007, the average market rent change rate held steady at 3.25%, while the average expense change rate increased 25 basis points to 3.75%. Average marketing time increased dramatically during the second half of 2007, jumping from five months to nine months.

Performance at a Glance

Asking Rental Rates

Overall, the median asking rental rate declined 5.1% between the second quarter of 2007 and the third quarter of 2007. For ground-level, nonclimate-controlled units the year-over-year increase was 3.5%. However, asking rental rates for climate-controlled units declined nearly 1.0% on ground-level units and almost 3.0% on upper-level units (see Table DSS-3).

Physical Unit Occupancy

Median physical unit occupancy declined 1.7% over the same quarter last year, but has remained stable for the past three quarters.

Rent Per Occupied Square Foot

Rent per occupied square foot declined 3.6% over the prior quarter, and declined 1.4% over the last year.

Concessions

The number of facilities offering concessions and the cost of concessions increased on both a seasonally- and annually-adjusted basis.

Conclusion

Tenant demand in 2008 should continue at strong levels assuming the country does not slip into a recession, which would adversely impact household disposable income. Fortunately, household foreclosures have yet to have a major impact on the performance of the self-storage industry. We believe that owners are aware that the continuing housing crisis could threaten to curb consumer confidence, and therefore, the consumer's propensity to spend disposable income on storage, as well as on items that require storage.

Risk reassessment and the tightening credit markets will only help the domestic self-storage industry to maintain stable values within self-storage asset classes generally, but with greater value differentiation between the assets classes specifically. The REITs and other large private and institutional investors will dominate the buy side for higher quality properties while entrepreneurial investors will sharpen their pencils on Class B and C properties.

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Charles R. Wilson & Associates, Inc., founded by Charles Ray Wilson, MAI, CRE, is now part of Integra Realty Resources, the largest national commercial real estate valuation and consulting firm in the United States. Integra Realty Resources - Metro L.A. office continues to specialize in self-storage valuation nationwide.

In 1992, Charles Ray Wilson founded Self Storage Data Services, Inc., an independent research firm that maintains the nations' largest database of self-storage operating statistics. Mr. Wilson is recognized leader in providing independent research on the self-storage industry. For more information about SSDS please visit their website at www.ssdata.net.