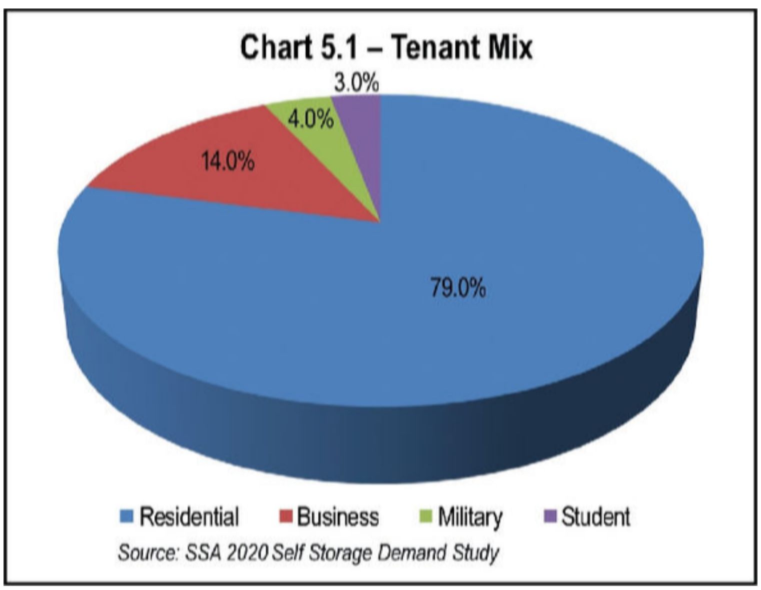
MICK | LAW P.C.
ATTORNEYS & COUNSELORS

## Self-Storage Industry Overview

According to the 2023 Self-Storage Almanac, there are approximately 51,206 self-storage facilities in the nation totaling over 22 million units. In total, there are 2.04 billion SF of self-storage space, or more than 6.1 rentable SF of self-storage for every man, woman and child living in the United States.[1] The average self-storage property measures 40,197 SF. The total U.S. self-storage inventory grew by 18.7 million SF during 2022, which was a decrease from the 61.7 million SF added in 2021.

Self-storage customers typically fall into one of four categories, namely: (i) residential; (ii) business or commercial; (iii) military; and (iv) students. Residential is by far the greatest category of renters, with approximately 79% of all self-storage units occupied by residential renters. A chart outlining the self-storage tenant mix can be found below:




Although 72% of all residential renters live in a single-family home, a number of life changes including a relocation, change in family status, the birth or death of a family member, or a household remodeling project can attract them towards self-storage rental. In addition, many apartment or condominium renters do not have enough storage space where they live and are seeking a longer-term storage solution. Commercial/business tenants make up an increasingly larger portion of self-storage. At 14% of total units, most commercial tenants are small business owners or contractors who need to store equipment or inventory off site. Military and defense spending and relocations continue to be a large driver of self-storage demand with 4% of total units leased to military personnel. Many military renters are enlisted servicemen and women who

[1] This statistic includes non-climate and climate-controlled properties.

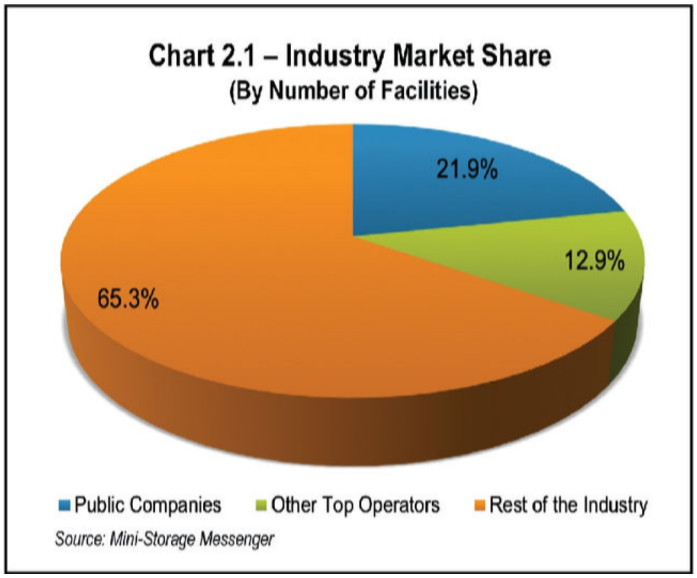
need a storage facility to house their belongings while away in training or on deployment. Finally, approximately 3% of the nation's self-storage renters are students. Self-storage utilization continues to grow within the United States. In 2022, approximately one in every 10 people rented a self-storage unit, whereas in 1987 just one in every 45 people rented a self-storage unit.

Texas continues its long-term reign as the state with the most self-storage facilities in the U.S. In 2022, Texas was home to 5,430 self-storage projects totaling 246,408,555 SF, representing approximately 12.1% of the nation's self-storage. In contrast, the District of Columbia has the fewest storage properties in operation with just 29 facilities in operation with 1,810,199 SF of space. The District of Columbia also has the fewest number of self-storage SF per person at 2.57, followed closely by New York and Hawaii, both with less than 3.5 SF of self-storage per person. On a per capita basis, residents of Idaho currently have access to the most SF of storage in the nation; the state boasts 10.98 rentable SF of self-storage per person.

***Top Operators.*** Although the self-storage industry is dominated by small, private operators, six of the top 10 operators within the self-storage industry are public companies, the largest of which is Public Storage (NYSE: PSA). Public Storage was founded in 1972 and remains the dominant force in the industry. With 3,310 facilities under ownership totaling 235,800,000 SF, the company owns and/or operates approximately 11.6% of all storage space in the U.S. Public Storage continues to expand its portfolio. Between 2020 and 2022, Public Storage acquired 368 facilities with a total of 31.7 million SF for $6.6 billion, and as of December 31, 2022, it was under contract to acquire eight self-storage facilities across five states with 500,000 SF for $70.5 million. A summary of the 10 largest self-storage operators is outlined below:

| Ranking | Company Name | Number of Facilities | Square Feet | Number of Units | Market Share |
|---|---|---|---|---|---|
| 1 | Public Storage | 3,310 | 235,800,000 | 2,290,600 | 11.58% |
| 2 | Extra Space Storage | 2,177 | 167,979,562 | 1,417,353 | 8.25% |
| 3 | CubeSmart | 1,289 | 89,667,400 | 837,000 | 4.40% |
| 4 | Life Storage | 1,152 | 84,613,340 | 684,879 | 4.15% |
| 5 | National Storage Affiliates Trust | 1,238 | 81,528,000 | 841,649 | 4.00% |
| 6 | U-Haul International | 1,880 | 78,294,343 | 540,600 | 3.84% |
| 7 | Storage Asset Management | 536 | 32,310,747 | 166,858 | 1.59% |
| 8 | StorageMart | 264 | 19,218,389 | 202,700 | 0.94% |
| 9 | Merrit Hill Capital | 277 | 18,386,515 | 151,681 | 0.90% |
| 10 | StorQuest Self Storage | 286 | 17,822,484 | 118,933 | 0.88% |
| | **Total** | | **825,620,780** | | **40.53%** |

Beyond the sector's largest operators, the segment is highly fragmented and competitive. The combined market share (by SF) of the 10 largest operators is 40.5%. A chart outlining industry ownership (by SF) is detailed below:




The industry has hundreds of mid-sized companies operating chains of three to 100 facilities, the vast majority of which are owner-operators. There are still more than 26,000 single facility owner-operators.

There are six public corporations operating in the industry, i.e., Public Storage; Extra Space Storage; Cube-Smart; National Storage Affiliates Trust; Life Storage, Inc.; and U-Haul International. Five of the public companies are organized as real estate investment trusts ("**REITs**"). U-Haul International is publicly traded but is not organized as a REIT.

***Current Trends.*** Strategies for best operating a self-storage business have evolved over the years as the industry has grown and matured. In the earliest days of the self-storage sector, most facilities were small, independent businesses run by sole proprietors. Today, "mom and pop" operations remain common, but the industry has shifted more towards career management professionals. As recently as five years ago, more than one-third of managers fell into the owner-manager category. This number has declined almost every successive year, and currently, slightly more than 10% of storage facilities are managed by the owner.

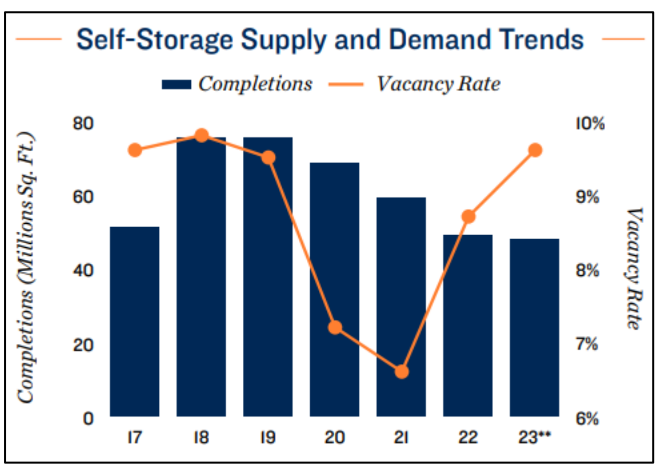
The average self-storage facility has changed over time. While first generation storage properties showcased row after row of single-story metal buildings equipped with bright orange roll-up doors, the self-storage stores being constructed today often mirror the styles used in neighboring structures with upscale architectural features and highly detailed exterior design plans that blend in with the surroundings.

Strong customer service and ancillary services are becoming a top priority for self-storage consumers. Over 75% of self-storage operators now report the sale of ancillary items at their facilities, including boxes, moving supplies and moving vehicle rentals. In addition, over 65% of operators sell insurance at their facilities. In addition, although more common with high-service facilities including RV, camper or boat storage facilities, approximately 6% of facilities now report an on-site car wash.

The automation of self-storage properties was a rising trend before the spread of COVID-19 further emphasized this need. Multiple technology tools are now available to help self-storage businesses limit how many employees need to be on location at any one time. Electronic keypad door and gate locks allow renters to have 24-hour access to facilities, while networked unit locks allow both renters and owners to enable and track individual unit access. A robust website with online reservation and payment tools, self-service kiosks on location and call-center services substantially reduce human capital needs. More large-scale self-storage providers are incorporating one or more of these technologies into their management services.

***National Market Fundamentals.*** According to a Marcus and Millichap Second Half 2023 Self-Storage National Report, the self-storage sector is transitioning from the powerful tailwinds created by the pandemic and pent-up household formation to a more normal, seasonal demand climate. Elevated residential mortgage rates, which doubled in fewer than 20 months, together with reduced consumer sentiment, moderated household formation last year. The resulting reduction of population mobility has weighed on self-storage absorption. As a result, vacancy levels have been trending upward in many markets, while asking rents have declined. Nevertheless, there was roughly 200,000 more occupied SF at midyear 2023 than in 2019. As of the second quarter 2023, the national average vacancy rate was 9.6%, which was up 90 basis points year-over-year.

Although the overall pace of development in 2023 will about match that of 2022 at just under 50 million SF, construction levels are not uniform across the country. In rural locales, relatively low street rates have prompted a pullback in groundbreaking. High land and labor costs along major West Coast metros also constrain development in those settings. Elsewhere, the 2023 pipeline is still sizable. Cleveland, New York City and Northern New Jersey will all welcome atypically sizable delivery schedules. New supply pressure may pick up after 2023 as well, indicating that construction will be a future headwind worth consideration in some settings. A summary of supply and demand trends over the past six years can be found below:




Vacancy rates approaching the 2019 level in most markets has translated to declining rental rates in nearly all major metropolitan areas. Notwithstanding, the mean asking rent of $1.25 per SF places the metric approximately 8.7% percent above the immediate pre-pandemic measure.

Mick Law, P.C.
816 South 169th Street
Omaha, Nebraska 68118
Phone: (402) 504-1710
Email: **duediligence@micklawpc.com**
Website: **www.micklawpc.com**