



4Q19 SELF STORAGE REIT REPORT

INTRODUCTION

Same-store operating performance for the self storage sector continued its streak of positive performance in the fourth quarter of 2019 despite visible moderation from historical year-over-year quarterly growth. Non-weighted NOI growth averaged 1.90% in the quarter, an increase of 32 basis points over the third quarter, while non-weighted same store revenue grew 2.12%. Despite new supply headwinds across many major markets, several operators exceeded or reached the high end of guidance in FFO per share growth. Another quarter of robust acquisition volume, coupled with the continued focus on improving both operational efficiency and technology to manage expense increases, preserves the long-term positive outlook for the self storage sector.

Excluding joint venture acquisitions and mergers, wholly owned acquisition activity for the quarter totaled 31 properties across the five REITs for an aggregate volume of just under \$300 million. Although total aggregate volume in fourth-quarter 2018 was nearly 25% higher than in fourth-quarter 2019, the number of properties acquired compares similarly at 30 properties. On a full-year basis, 2019 saw a dramatic increase of 50% over 2018 in both the number of properties acquired and their total aggregate purchase price, which totaled 197 properties and \$1.95 billion, respectively. Following on the continued trend of consolidation in the storage industry, the higher acquisition volume is also characterized by portfolio optimization among some REITs that have chosen assets with better growth prospects. Although some developers have fallen short of the expectations they expressed in their proforma underwriting, the sector has not seen a wave of distressed sales, and stabilized assets continue to demand high pricing from the extensive capital sources entering the sector. The continued growth of third-party management platforms has proved to be a valuable ancillary revenue stream that supplements the sector despite market-specific rate pressures caused by new supply.

New supply continues to impact new customer rental rates in many major markets, yet several REITs continue to report unchanging or favorable trends in customer behavior, including an increasing average length of stay and strong demand supported by comparable year-over-year occupancy. NKF's position is that new supply starts peaked in 2018, while new supply deliveries peaked in 2019. We agree with the industry consensus that new deliveries will continue to decline at a moderate pace through 2021. Although the compound effect of several years of elevated supply deliveries will not be remedied in the short term, several markets, including Dallas, Miami, and Atlanta have likely reached the trough in street rate declines. Expect rates to remain stable in 2020, with their rate of deceleration flattening before beginning to climb again.

Although new supply pressures appear to be moderating sector revenue growth, it is worth noting that outsized expense growth in areas of marketing spend and property taxes along with pressures in payroll expense are also impacting the performance of storage REITs. The growing competition in online advertising keyword search has led some REITs to increase marketing spend to achieve SEO supremacy and new customer acquisition; marketing expenses were 40% higher in the fourth quarter of 2019 than in the fourth quarter of 2018. The elevated level of marketing expense has been a trend for the sector throughout the past five quarters, and several REITs have indicated they expect to maintain the higher spend for at least the next few quarters.

The justification for the outsized marketing spend is that it is an investment in customer attraction and acquisition with an identifiable attractive ROI. However, the sustainability of such increased expenditures will reply upon the optimization of revenue management of



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INTRODUCTION - Continued

existing tenants throughout their length of stay coupled with careful investment in opportunities to reduce expenses and pursue alternate revenue streams. Life Storage, for example, was able to highlight a reduction in payroll expenses as a result of its technology-enabled mobile rental platform, which reducing some staffing requirements. Such technology initiatives along with third-party management revenues are helping several storage REITs offset increased expense pressures. Another expense area that is having varied effects across the REITs is property taxes. Although several REITs reported increased tax expense pressures, the result of rising reassessments spurred by, some also reported benefits from favorable property tax appeals. The sector is expected to continue to face property tax expense pressures, as assessing authorities nationwide remain committed to fair market valuation. In some tax jurisdictions, however, including California, the outlook for property taxes is uncertain, as their long-restricted increase limits may change.

The strong transaction volume the REITs reported in 2019 indicates that the broader capital markets remain exceedingly eager to deploy equity into the product type. Despite moderating revenue growth rates and the headwinds of new competition, expectations are high that self storage will continue to produce meaningful revenue and NOI growth. With market rental rates on the upswing after bottoming out in 2019, and in-place rental rates growing at mid to high single digits, revenue growth will continue to accelerate throughout 2020 and well into 2021. The supply/demand fundamentals of deals vs. capital continue to favor strong transaction valuations with pressure on return expectations holding or even compressing cap rates. The most remain the most sought-after commodities within the sector remain offerings priced off in-place stable cash flow, offerings well into the lease-up curve and near stabilization, and large transactions that offer scale and geographic diversity. There is virtually no limit on the upper end of desired deal size: Deals that are around the \$100 million threshold on the lower end appeal to almost every capital source. When adjusted for risk and based upon targeted returns, self storage remains the best-performing asset class within commercial real estate, and the deep bench of capital trying to transact in the space will sustain the elevated transaction volume.

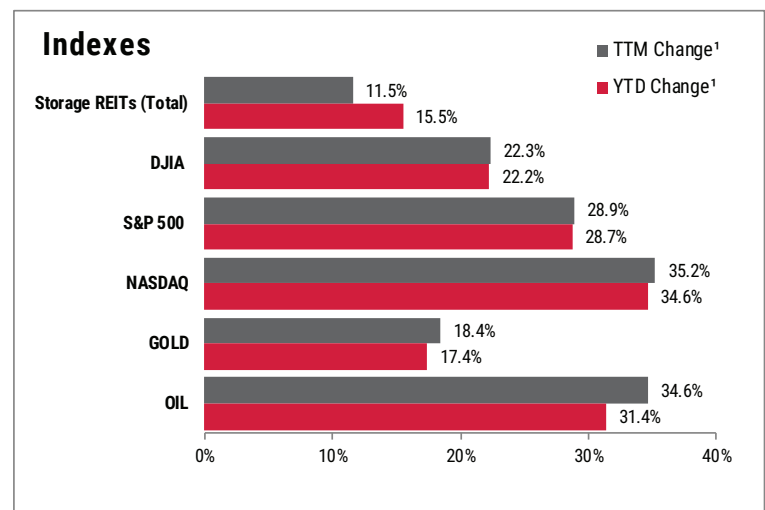
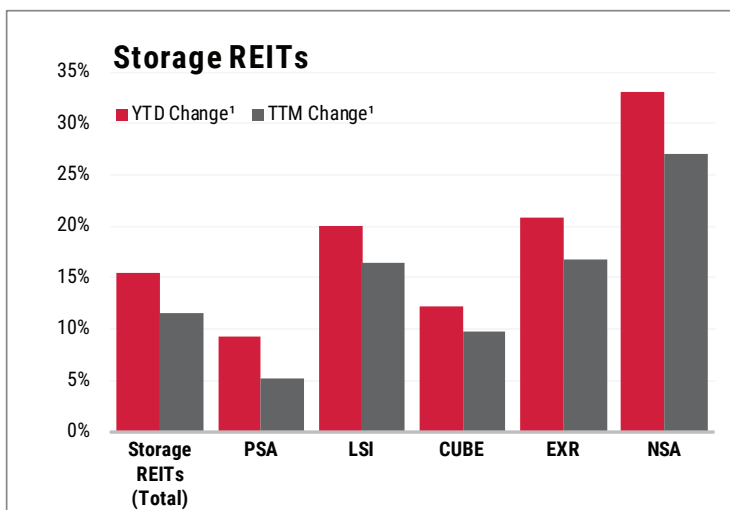
The self storage sector remains well positioned to continue to deliver strong operating metrics among the broader REIT market. Although headline risk remains centered on the impact of new supply on the street rate, any surprises to the downside will come from interest rates and economic growth.

The following pages summarize the information for the fourth quarter of 2019 reported by the five publicly traded self storage REITs, along with some comparisons between the industry and macro-market benchmarks. Links to the investor relations page of each REIT's website are also included.

In addition to this quarterly REIT summary, a weekly email from the NKF Capital Market's Self Storage Group delineates key benchmark rates for the capital markets, near-term expectations for transactions and interpretive opinions of broader market questions.

MARKET INDEX

	12/31/18	1/2/19	12/31/19	YTD Change ¹	TTM Change ¹
Storage REITs (Total)	\$441.03	\$426.09	\$491.96	15.46%	11.55%
PSA	202.41	195.06	212.96	9.18%	5.21%
LSI	92.99	90.24	108.28	19.99%	16.44%
CUBE	28.69	28.07	31.48	12.15%	9.72%
EXR	90.48	87.44	105.62	20.79%	16.73%
NSA	26.46	25.28	33.62	32.99%	27.06%
DJIA	23,327.46	23,346.24	28,538.44	22.24%	22.34%
S&P 500	2,506.85	2,510.03	3,230.78	28.71%	28.88%
NASDAQ	6,635.28	6,665.94	8,972.60	34.60%	35.23%
GOLD	1,279.00	1,290.50	1,514.75	17.38%	18.43%
OIL	45.41	46.54	61.14	31.37%	34.64%
U.S. 10 YEAR	2.69%	2.66%	1.92%	-27.82%	-28.62%
10 YEAR SWAP	2.71%	2.65%	1.88%	-29.06%	-30.63%



¹ Excludes dividends

Sources: Yahoo! Finance, U.S. Department of the Treasury, U.S. Energy Information Administration, Barchart (SWAADY10.RT), Bloomberg, World Gold Council

PUBLIC STORAGE (NYSE:PSA)

- ◆ For the three months ended December 31, 2019, net income allocable to our common shareholders was \$327.3 million, or \$1.87 per diluted common share, compared with \$530.1 million, or \$3.04 per diluted common share in 2018, representing a decrease of \$202.8 million, or \$1.17 per diluted common share.
- ◆ Revenues for same-store facilities increased 1.1%, or \$6.6 million, in the three months ended December 31, 2019, as compared with 2018, primarily because of higher realized annual rent per occupied square foot.
- ◆ For the three months ended December 31, 2019, funds from operations (FFO) was \$2.72 per diluted common share.
- ◆ Acquired 12 self-storage facilities (three in South Carolina, two each in Indiana, North Carolina and Washington and one each in Arizona, Texas and Virginia) with 0.9 million net rentable square feet for \$121.1 million.
- ◆ Declared a regular common quarterly dividend of \$2.00 per common share.

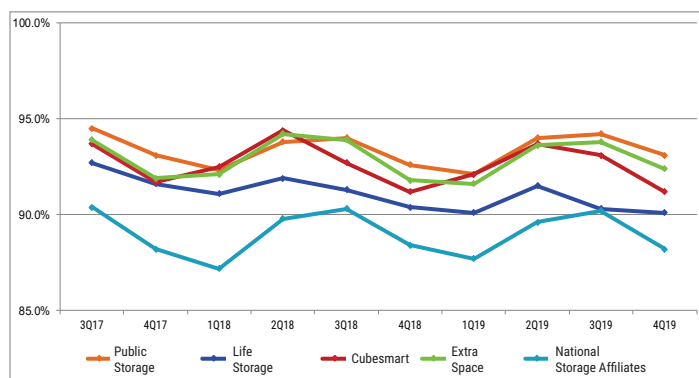
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EXTRA SPACE (NYSE:EXR)

- ◆ Achieved net income attributable to common stockholders of \$0.86 per diluted share, representing a 7.5% increase compared with the same period in 2018.
- ◆ Achieved funds from operations (FFO) attributable to common stockholders and unit holders of \$1.26 per diluted share. FFO, excluding adjustments for deferred financing costs related to redemption of notes payable to trusts and non-cash interest (Core FFO), was \$1.27 per diluted share, representing a 4.1% increase compared with the same period in 2018.
- ◆ Increased same-store revenue by 2.5% and same-store net operating income (NOI) by 1.0% compared with the same period in 2018.
- ◆ Reported same-store occupancy of 92.4% as of December 31, 2019, compared with 91.7% as of December 31, 2018.
- ◆ Acquired five operating stores for approximately \$50.9 million.
- ◆ In conjunction with joint venture partners, acquired three stores at completion of construction (a Certificate of Occupancy store, or C of O store) for a total cost of approximately \$60.0 million, of which the company invested \$18.1 million.
- ◆ Added 41 stores (gross) to the company's third-party management platform. As of December 31, 2019, the company managed 646 stores for third parties and 246 stores in joint ventures, for a total of 892 managed stores.
- ◆ Paid a quarterly dividend of \$0.90 per share.

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HISTORICAL QUARTERLY OCCUPANCY

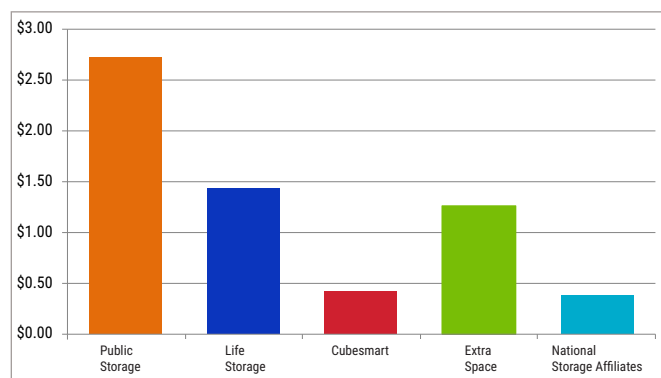


Note: PSA, LSI, Cube and NSA are based on period-average occupancy. EXR is based on period end.

Note: Historical occupancy is based on original occupancy reported each quarter.

Source: PSA, LSI, Cube, EXR and NSA Investor Relations

ADJUSTED FUNDS FROM OPERATIONS PER DILUTED SHARE



Source: PSA, LSI, Cube, EXR and NSA Investor Relations

CUBESMART (NYSE:CUBE)

- ◆ Reported earnings per share (EPS) attributable to the company's common shareholders of \$0.22.
- ◆ Reported funds from operations (FFO) per share, as adjusted, of \$0.42.
- ◆ Increased same-store (466 stores) net operating income (NOI) 0.4% year over year, driven by 1.6% revenue growth and a 4.6% increase in property operating expenses.
- ◆ Same-store occupancy during the quarter averaged 91.7% and ended the quarter at 91.2%.
- ◆ Closed on five property acquisitions totaling \$57.9 million and closed on one property disposition totaling \$4.1 million.
- ◆ Issued \$350 million of unsecured senior notes in sixth public bond offering.
- ◆ Increased the quarterly dividend by 3.1% to an annualized rate of \$1.32 per common share from the previous annualized rate of \$1.28 per common share.
- ◆ Added 46 stores to our third-party management platform during the quarter, bringing our total third-party managed store count to 649.

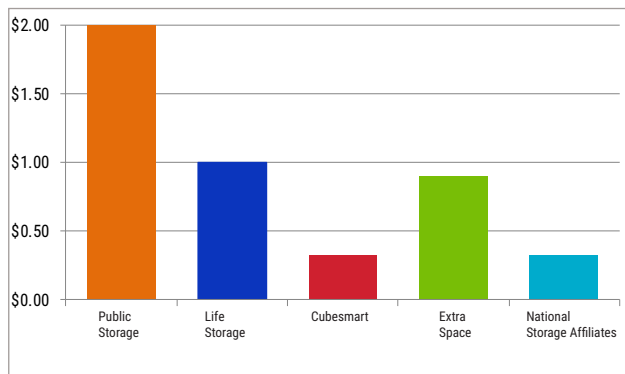
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NATIONAL STORAGE AFFILIATES (NYSE:NSA)

- ◆ Reported net income of \$18.8 million for the fourth quarter of 2019, an increase of 30.0% compared with the fourth quarter of 2018. Reported diluted earnings per share of \$0.13 for the fourth quarter of 2019, primarily relating to the HLBV method for allocating net income among the various classes of equity.
- ◆ Reported core funds from operations (Core FFO) of \$36.8 million, or \$0.40 per share, for the fourth quarter of 2019, an increase of 8.1% per share compared with the fourth quarter of 2018.
- ◆ Achieved same-store net operating income (NOI) growth of 3.8% for the fourth quarter of 2019, compared with the same period in 2018, driven by a 2.8% increase in same-store total revenues that was partially offset by a 0.3% increase in same-store property operating expenses.
- ◆ Acquired seven wholly owned self storage properties for \$32.2 million during the fourth quarter of 2019.
- ◆ Consideration for these acquisitions included the issuance of approximately \$2.0 million of OP equity.

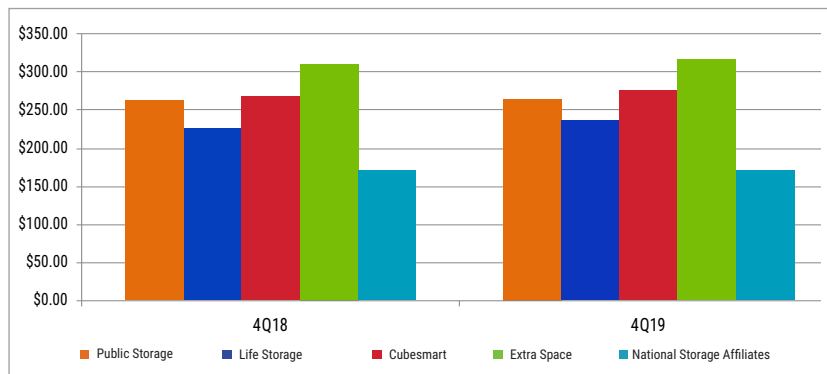
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DIVIDEND PER SHARE



Source: PSA, LSI, Cube, EXR and NSA Investor Relations

SAME STORE REVENUE PER STORE



Note: EXR includes tenant reinsurance revenue.

Source: PSA, LSI, Cube, EXR and NSA Investor Relations

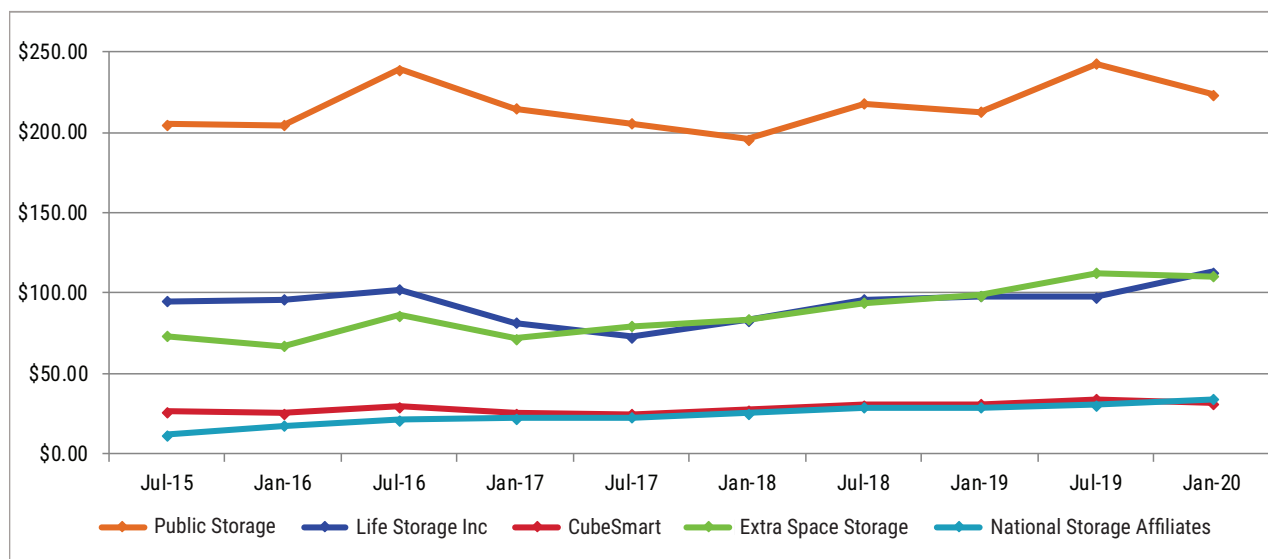
LIFE STORAGE INC. (NYSE:LSI)

- ◆ Generated net income attributable to common shareholders of \$43.5 million, or \$0.93 per fully diluted common share.
- ◆ Achieved adjusted funds from operations (FFO) per fully diluted common share of \$1.44, a 4.3% increase over the same period in 2018.
- ◆ Increased same-store net operating income (NOI) by 4.2% and same-store revenue by 2.6% year over year.
- ◆ Grew management and acquisition fees by 38.7%.
- ◆ Acquired two properties for \$37.5 million in the greater New York City market.
- ◆ Acquired a 20% minority interest in five Florida stores that had previously been part of the company's third-party management portfolio.
- ◆ Added 22 stores to the company's third-party management platform, bringing total managed stores at the end of the fourth quarter to 297.

[CLICK HERE TO VIEW LIFE STORAGE INC. INVESTOR RELATIONS](#)

SELF STORAGE REIT HISTORICAL STOCK PRICE

	Jul 15	Jan 16	Jul 16	Jan 17	Jul 17	Jan 18	Jul 18	Jan 19	Jul 19	Jan 20
Public Storage	\$205.18	\$204.19	\$238.92	\$215.00	\$205.57	\$195.76	\$217.83	\$212.52	\$242.76	\$223.76
Life Storage Inc	\$95.21	\$96.28	\$102.37	\$81.45	\$73.04	\$83.10	\$95.96	\$98.27	\$97.49	\$113.18
CubeSmart	\$26.16	\$25.26	\$29.71	\$25.13	\$24.66	\$27.53	\$30.36	\$30.95	\$33.95	\$31.67
Extra Space Storage	\$73.52	\$67.39	\$86.02	\$72.05	\$79.50	\$83.48	\$93.97	\$98.61	\$112.39	\$110.68
National Storage Affiliates	\$11.83	\$17.39	\$21.37	\$22.25	\$22.96	\$25.37	\$28.83	\$29.10	\$30.29	\$34.15



Source: Yahoo! Finance

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