



SkyView<sup>®</sup>  
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# SKYVIEW ADVISORS

## SELF STORAGE INDUSTRY REPORT

### 2Q 2020

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## QUARTER HIGHLIGHTS

### CUBESMART

- Same-store (SS) revenue fell by 2.2% year-over-year (y/y) and decreased 3.9% from 1Q20.
- SS NOI fell by 4.1% y/y, as SS expenses rose 2.4% y/y.
- 2Q20 same-store occupancy averaged 93.0% (+0 bps y/y) and ended the quarter at 94.0% (+50 bps y/y).
- Core FFO per share was \$0.41, 2.4% lower than in 2Q 2019, but \$0.01 ahead of consensus estimates.

### EXTRA SPACE

- Same-store (SS) revenue decreased by 3.1% year-over year (y/y) and fell 5% from 1Q20.
- SS NOI fell by 4.6% y/y, as SS expenses grew 70 bps y/y.
- 2Q20 same-store occupancy averaged 92.8% and ended July at 95.7%. However, the July figure is inflated by 200 bps due to delayed auctions of delinquent units.
- Achieved core FFO of \$1.23 per share (+80 bps y/y) thanks mostly to interest expense savings and non-core operations.

### LIFE STORAGE

- SS revenue dropped 2.0% y/y and fell 4.6% from 1Q to 2Q.
- SS NOI growth contracted by 2.5%, as payroll & benefit expenses fell 7.3%, pushing total SS expenses down 1.2% y/y.
- Average 2Q SS occupancy grew by 20 bps y/y to 91.0% and ended July at 93.0%. However, the July figure is inflated by 70 bps due to delayed auctions of delinquent units.
- Achieved core FFO per share of \$1.42 (+0% y/y), right inline with consensus estimates.

### NSA

- SS revenue declined by 1.1% y/y, the smallest top-line contraction in the group.
- Additionally, NSA's SS NOI growth of -1.2% was the strongest versus other top operators.
- 2Q20 same-store occupancy averaged 88.1% and ended July at 91.1% (+80 bps y/y).
- Core FFO per share was \$0.41 (+7.9% y/y), making NSA the only SS REIT to see meaningful bottom-line growth.
- Core FFO per share beat consensus estimates by 5%.

### PUBLIC STORAGE

- 2Q SS revenues decreased by 3.0% y/y; management anticipates SS revenue falling further in the back half of the year.
- The largest drag on top-line growth was an over 30% decrease in late & admin fees due to various covid operational adjustments.
- SS NOI fell by 6.8% y/y, as SS expenses rose 6.7% y/y.
- Core FFO per share was \$2.46 (-6.8% y/y), missing the consensus estimate of \$2.54 by 3%.

Sources: CubeSmart, Extra Space Storage, Life Storage, National Storage Affiliates, & Public Storage



## THOUGHTS FROM THE CEOS

### TAMARA FISCHER NATIONAL STORAGE AFFILIATES

CHIEF EXECUTIVE OFFICER & CHAIRMAN

"Despite the impact from COVID-19 and the ensuing economic recession, we were pleased to deliver solid year-over-year growth in Core FFO per share of 7.9% for the second quarter, further demonstrating the resilience of our sector and the advantages of our unique PRO structure. We're confident our balance sheet and our geographically diverse portfolio are prepared to continue to navigate this uncertain landscape."

### CHRISTOPHER P. MARR CUBESMART

PRESIDENT & CHIEF EXECUTIVE OFFICER

"Over the last few months, we have faced unprecedented challenges and uncertainty. Once again, self storage showed its resilience and our team continued to adapt, finding innovative new ways to meet the varied needs of our customers in this changing landscape," commented President and Chief Executive Officer Christopher P. Marr. "Recently we have seen demand return to normal levels following the steep declines experienced in late March and April driven by government shutdowns, and we have now resumed our normal operational processes."

### JOE SAFFIRE LIFE STORAGE

CHIEF EXECUTIVE OFFICER

"Like all businesses, we were tested in our ability to operate safely and effectively in the face of the unprecedented COVID-19 global health crisis. Though our second quarter financial results were not as originally planned, our team and technology platforms proved once again why I think they are the best in the business. We have seen several positive trends emerge as we continue to attract and retain customers, our efficiency initiatives remain well on track, our balance sheet is strong, and our industry is proving once again to be resilient in the face of challenging economic times."

### JOE MARGOLIS EXTRA SPACE STORAGE

CHIEF EXECUTIVE OFFICER

"We are pleased with the returning demand we have seen in our need-based sector and our customer acquisition platform's ability to convert that demand into rentals. While we are encouraged by improving leasing activity and occupancy, we recognize the remaining headwinds and uncertainty in 2020 due to new supply, negative rental rates to new customers, restrictions on auctions and existing customer rent increases, the course of the COVID-19 virus and general macro-economic conditions."

	Same-Store Facilities	Same-Store Square Feet	SS Occupancy (6.30.2020)	SS Occupancy Growth	Same-Store Revenue Growth	Stock Price (8.7.2020)	Same-Store NOI Growth	Market Cap (8.7.2020)	Market Implied Cap Rate
CUBE	477	33,200,000	94.0%	0.5%	-2.2%	\$30.21	-4.1%	\$5.867 B	N/A
EXR	863	66,295,220	94.5%	1.0%	-3.1%	\$103.76	-4.6%	\$14.296 B	4.7%
LSI	517	37,111,000	91.9%	0.4%	-2.0%	\$102.15	-2.5%	\$4.791 B	N/A
PSA	2,224	143,900,000	94.6%	0.5%	-3.0%	\$199.25	-6.8%	\$34.784 B	5.5%
NSA	500	30,349,711	89.8%	-1.0%	-1.1%	\$33.19	-1.2%	\$2.264 B	N/A

Note: Due to moratoriums on auctions and existing customer rate increases, reported occupancy is artificially high by 30- to 150-basis points.

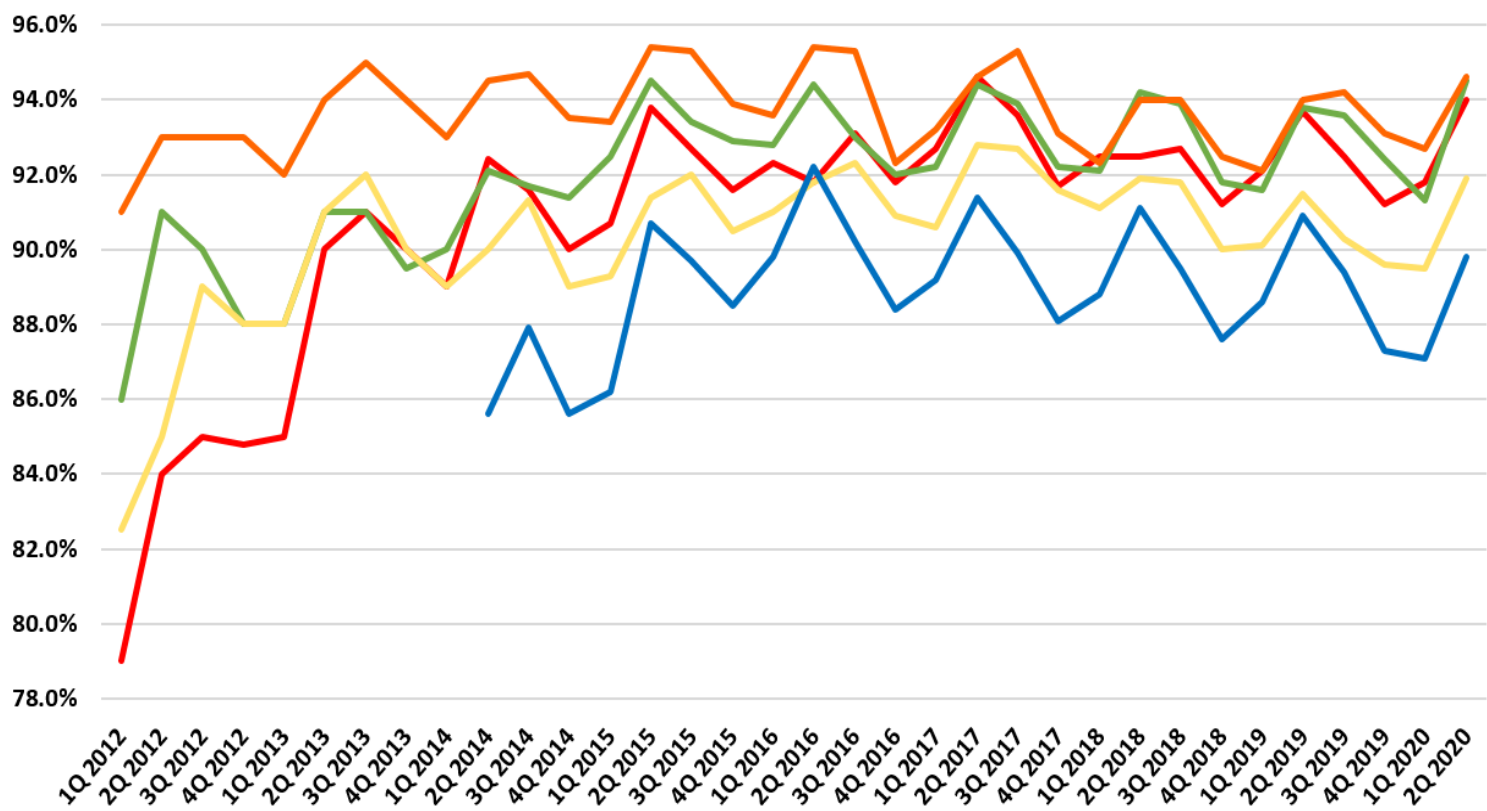
Sources: SVA Research, CubeSmart, Extra Space Storage, Life Storage, and National Storage Affiliates

# SELF-STORAGE 2Q 2020

# REITS IN NUMBERS

Same-Store Period-End Occupancy					
	CUBE	EXR	LSI	PSA	NSA
2Q 2020	94.0%	94.5%	91.9%	94.6%	89.8%
Y/Y Change	0.5%	1.0%	0.4%	0.5%	-1.0%

Note: Due to moratoriums on auctions and existing customer rate increases, reported occupancy is artificially high by 30- to 150-basis points.

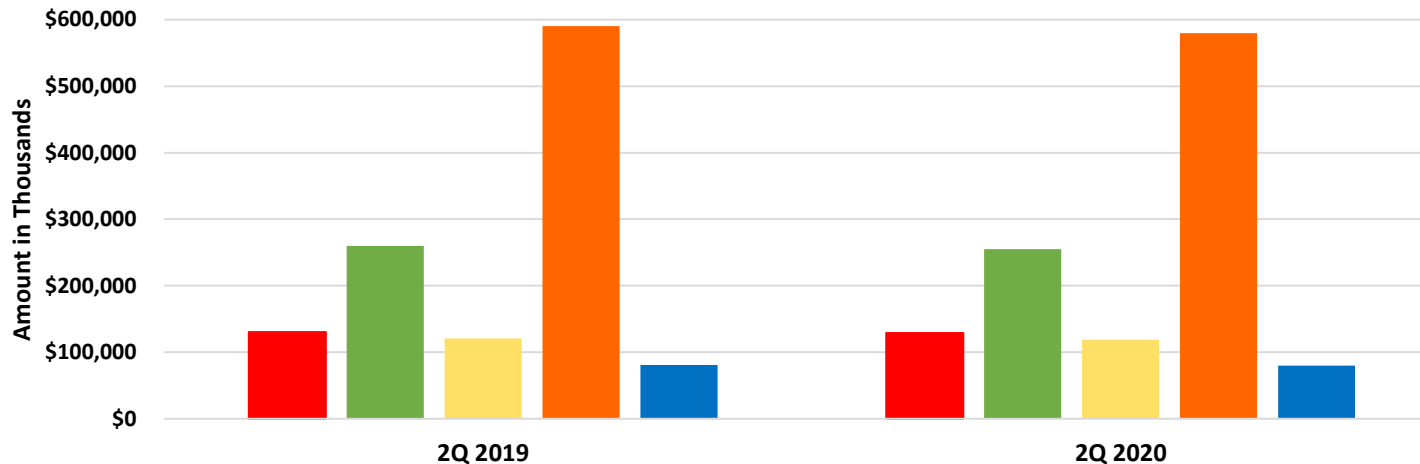


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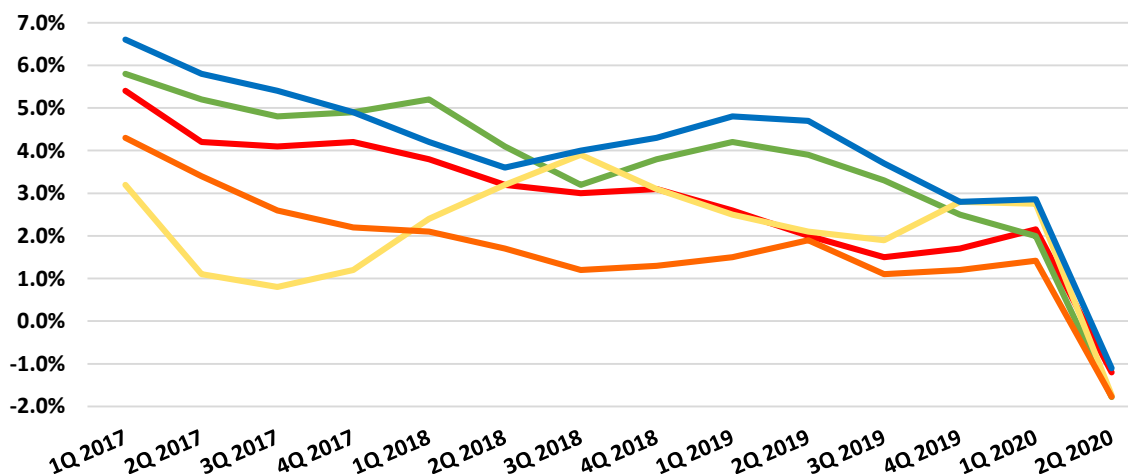
Sources: CubeSmart, Extra Space Storage, Life Storage, National Storage Affiliates, and Public Storage

# REITS IN NUMBERS

Same-Store Rental Revenue					
	CUBE	EXR	LSI	PSA	NSA
2Q 2019	\$130,478,000	\$259,670,000	\$120,995,000	\$590,082,000	\$81,038,000
2Q 2020	\$128,941,000	\$255,051,000	\$118,896,000	\$579,643,000	\$80,141,000
Y/Y Change	-1.2%	-1.8%	-1.7%	-1.8%	-1.1%



Same-Store Rental Revenue Growth



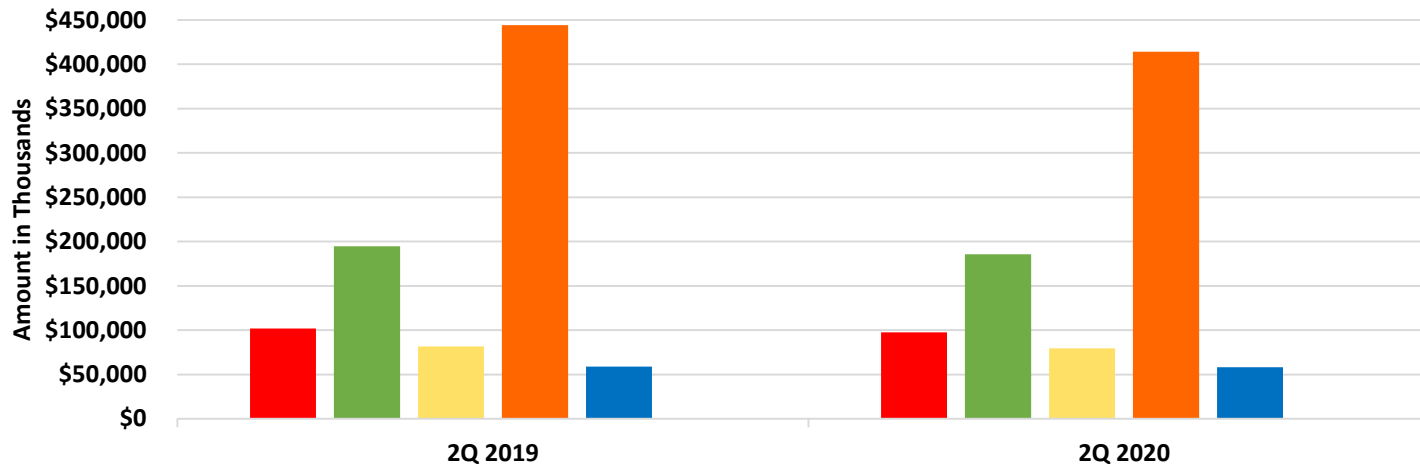
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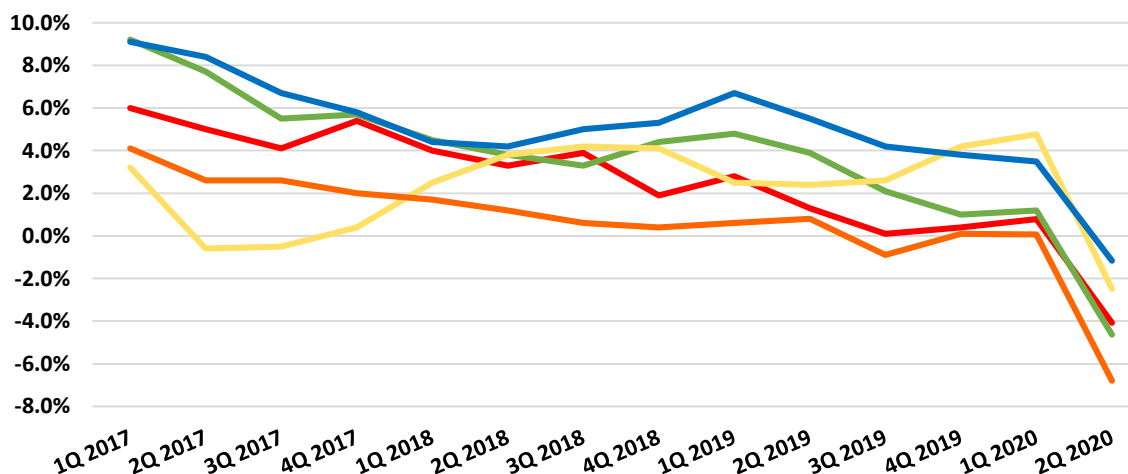
# REITS IN NUMBERS

### Same-Store Net Operating Income

	CUBE	EXR	LSI	PSA	NSA
2Q 2019	\$101,842,000	\$194,545,000	\$81,578,000	\$444,174,000	\$58,907,000
2Q 2020	\$97,695,000	\$185,528,000	\$79,554,000	\$413,991,000	\$58,221,000
Y/Y Change	-4.1%	-4.6%	-2.5%	-6.8%	-1.2%



### Same-Store Net Operating Income Growth



- Cubesmart (CUBE)
- National Storage Affiliates (NSA)
- Extra Space Storage (EXR)
- Public Storage (PSA)
- Life Storage, Inc. (LSI)

Sources: CubeSmart, Extra Space Storage, Life Storage, National Storage Affiliates, and Public Storage

# INVESTMENT ACTIVITY

## REIT ACQUISITIONS & DEVELOPMENTS

### CUBESMART

- Two properties were acquired during the second quarter for \$65.7 million.
- One property was in Maryland and the other in New Jersey.
- Development-wise, one property was opened in Brooklyn for a total of \$46 million.
- Through its JVs, CUBE also has four properties under development for a total estimated cost of \$88.9 million at share.
- On a net basis, CUBE added 12 additional stores to its third-party management platform, bringing the total to 719 stores.

### EXTRA SPACE

- In conjunction with JV partners, EXR acquired one C of O property and one completed development for \$14.4 million at share.
- As of June 30, there are no ongoing developments and approximately \$30 million of C of O deals at share.
- Outside of JV activity, there were no dispositions or acquisition in 2Q.
- During the quarter, 26 stores were added on a net basis, bring the total managed store count to 951 between JVs and third parties.

### LIFE STORAGE

- During 2Q, LSI was put under contract to acquire a property in New Jersey for \$13.7M.
- Three JVs were entered into during the quarter, each of which is constructing facilities in and around NYC.
- LSI comprises 17-25% of each JV and contributed \$1.5M to the JVs in 2Q.
- During the quarter, LSI added 13 self-storage facilities to its 3<sup>rd</sup> party management platform.

### NATIONAL STORAGE AFFILIATES

- Four wholly-owned, properties were acquired for \$36.2 million.
- Two of those properties were in Florida and Oregon.
- Collectively, the four new properties equal 0.3 million rentable square feet and 2,500 storage units.
- Total consideration for these properties included \$30 million cash, \$5 million of OP units, \$1 million of subordinated performance units, and the assumption of roughly \$0.2 million of other working capital liabilities.

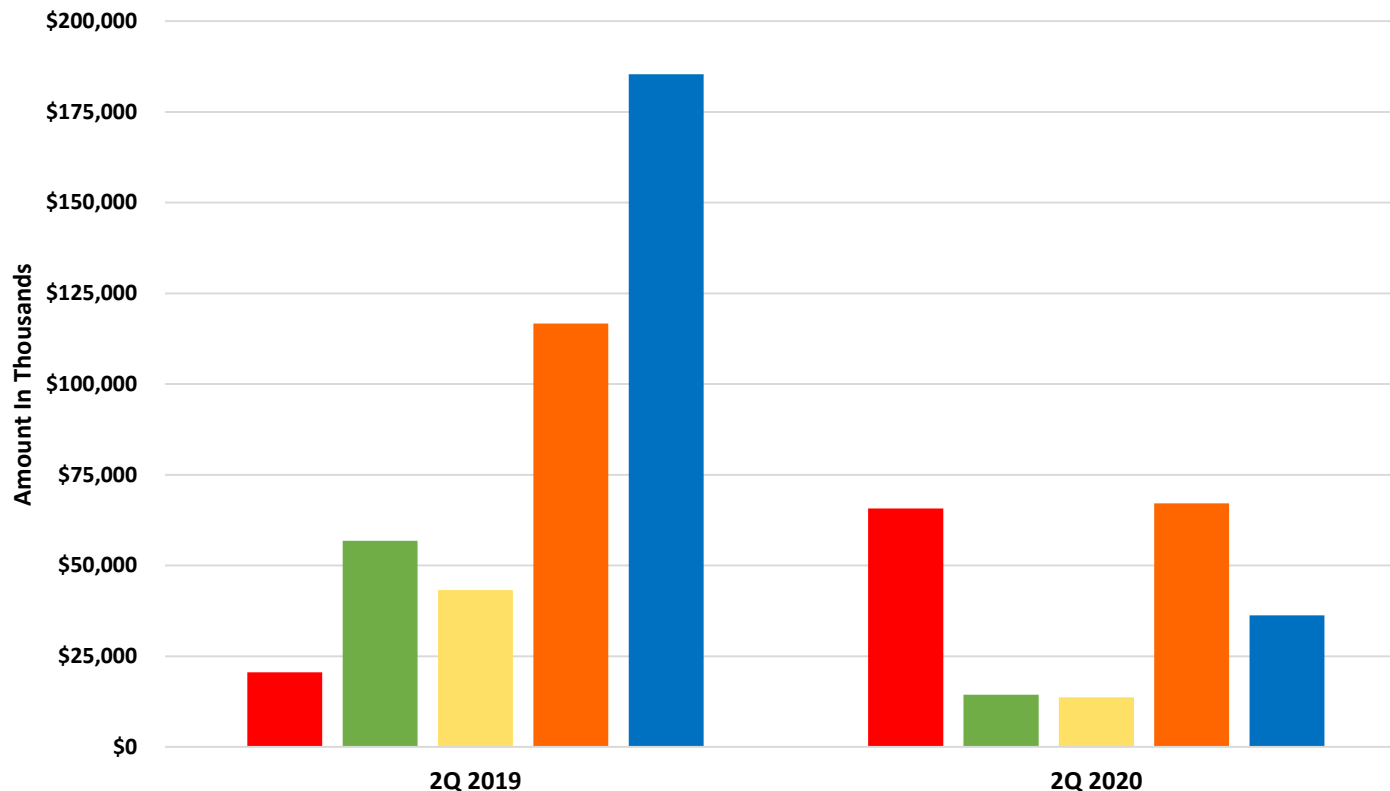
### PUBLIC STORAGE

- 6 properties were acquired during the second quarter for \$67.1 million.
- Subsequent to June 30, PSA also acquired or was under contract to acquire 5 facilities for \$33.3 million.
- PSA has 1.1msf of developments under-construction for \$195 million and expansion projects totaling \$361 million and 2.7msf underway.
- CAPEX guidance for the year is unchanged at \$175 million.

Sources: CubeSmart, Extra Space Storage, Life Storage, National Storage Affiliates, and Public Storage

# REITS IN NUMBERS

Acquisition Volume					
	CUBE	EXR	LSI	PSA	NSA
2Q 2019	\$20,600,000	\$56,760,000	\$43,200,000	\$116,700,000	\$185,335,000
2Q 2020	\$65,700,000	\$14,378,000	\$13,700,000	\$67,100,000	\$36,247,000
Y/Y Change	219%	-75%	-68%	-43%	-80%



- During 2Q, total acquisition volume slipped to \$197 million, a decrease of over 50% y/y.
- Year-to-date (YTD), acquisition volume totaled \$857 million – a 19% reduction from the same period a year before.

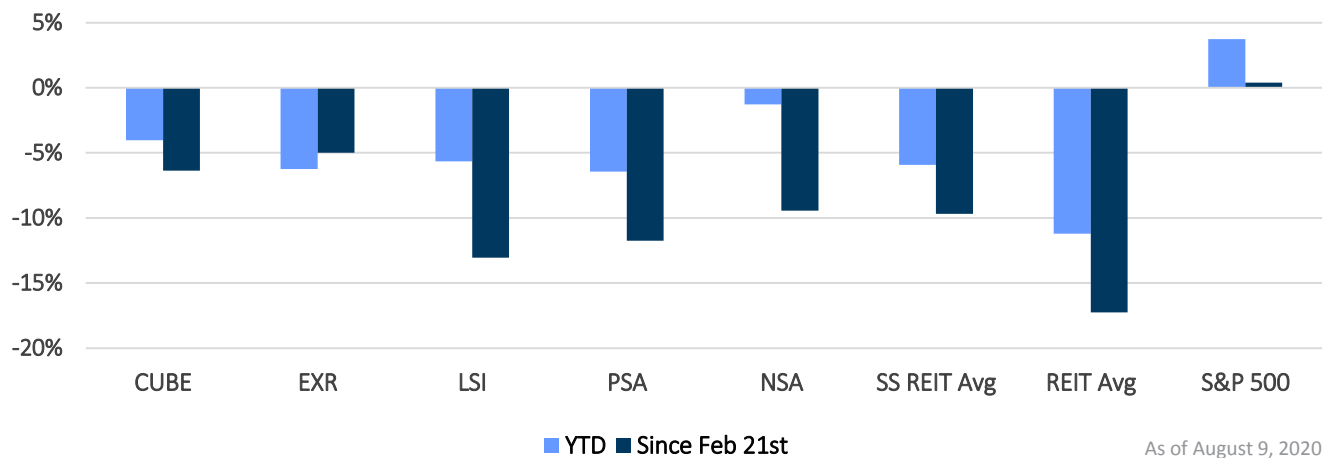
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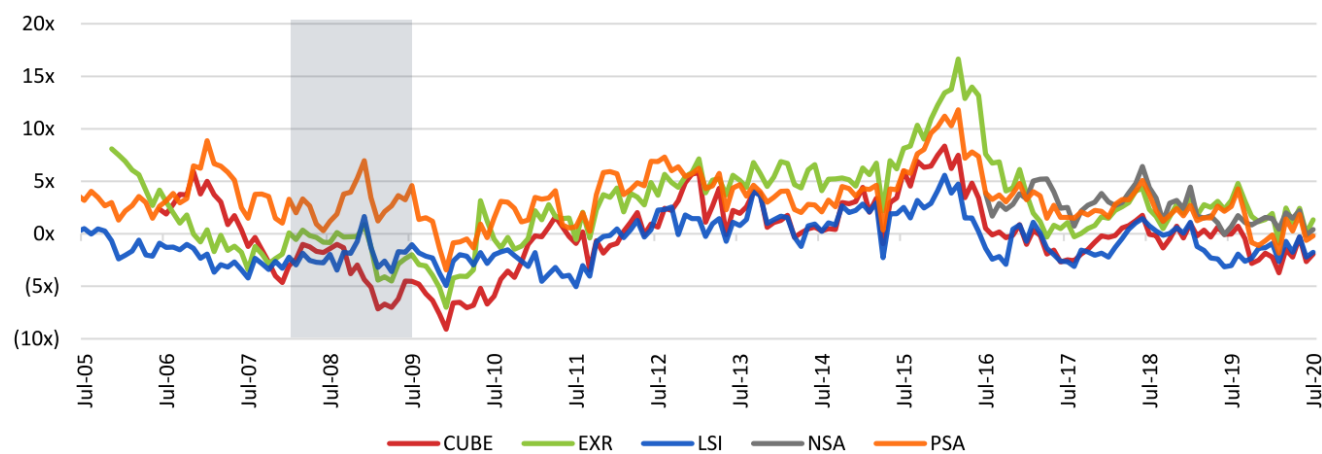
Sources: SVA Research, CubeSmart, Extra Space Storage, Life Storage, National Storage Affiliates, & Public Storage



## Total Return YTD & Since February 21<sup>st</sup>



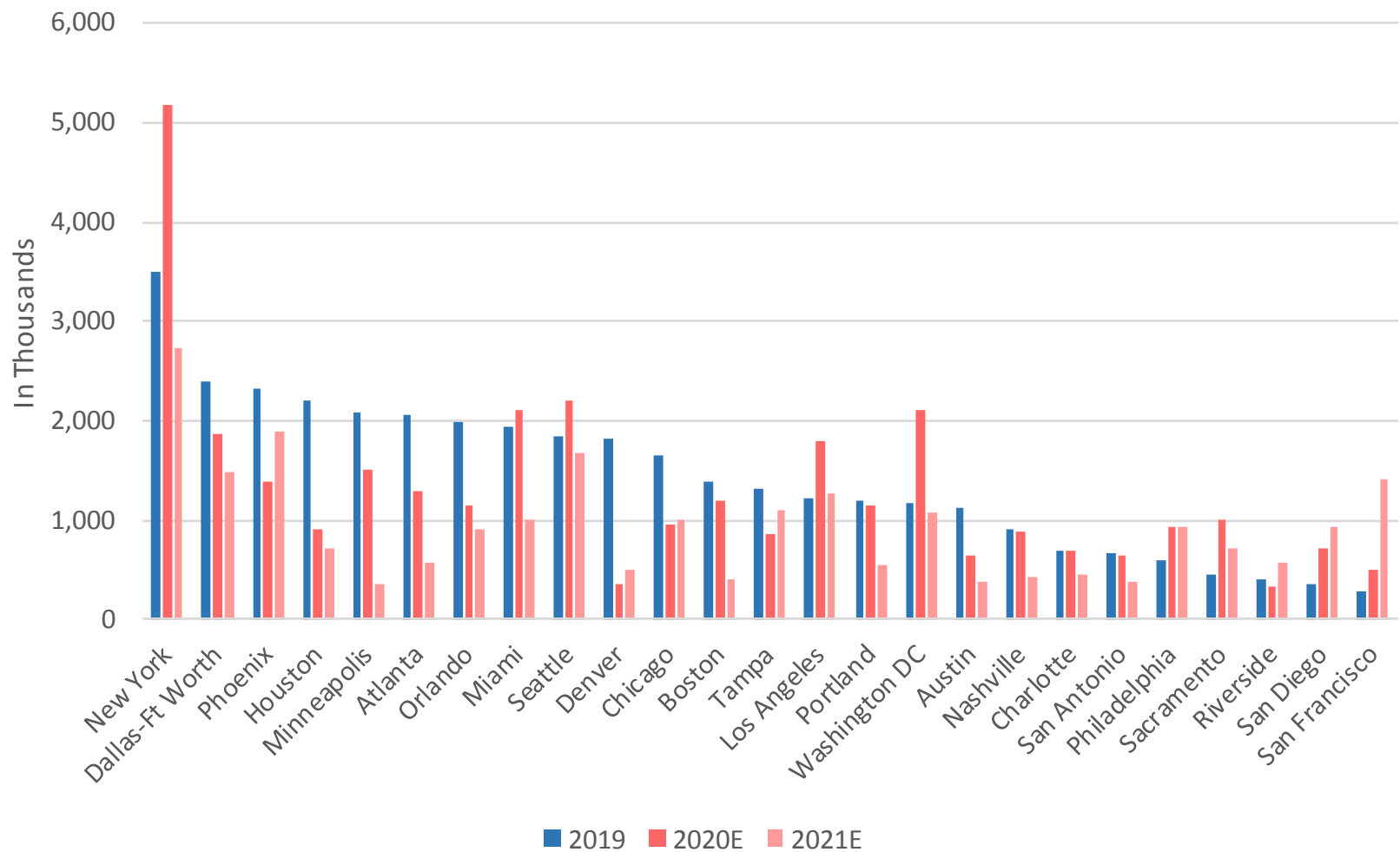
## TTM FFO Multiple vs. REIT Average



- On February 21<sup>st</sup>, the S&P 500 began its covid-induced free fall, hitting a low of ~\$2,200.
- Since February 21<sup>st</sup>, the S&P 500 has rallied back up into positive territory, while REITs are still down by 17% and Self-Storage REITs by 10%.
- **Underperforming:** LSI has lost 6% in price YTD and 13% since February 21<sup>st</sup>.
- **Overperforming:** CUBE has lost only 4% in price YTD and 6% since February 21<sup>st</sup>.

# Projected Deliveries in Top MSAs

Historical & Estimated Annual Deliveries for Top 25 MSAs (NRSF)



- **In the top 25 MSAs**, net rentable square footage (NRSF) of new supply is predicted to decline 9% this year to 32.3 million square feet (msf) and another 27% in 2021 to 23.5msf.
- Sacramento (+122%) and San Diego (+111%) are projected to see the largest increase in new supply for 2020.
- Denver (-81%) and Houston (-59%) are projected to see the largest decrease in new supply for 2020.

# Top 15 Self-Storage Markets

Top 15 Self-Storage Markets by Number of Facilities

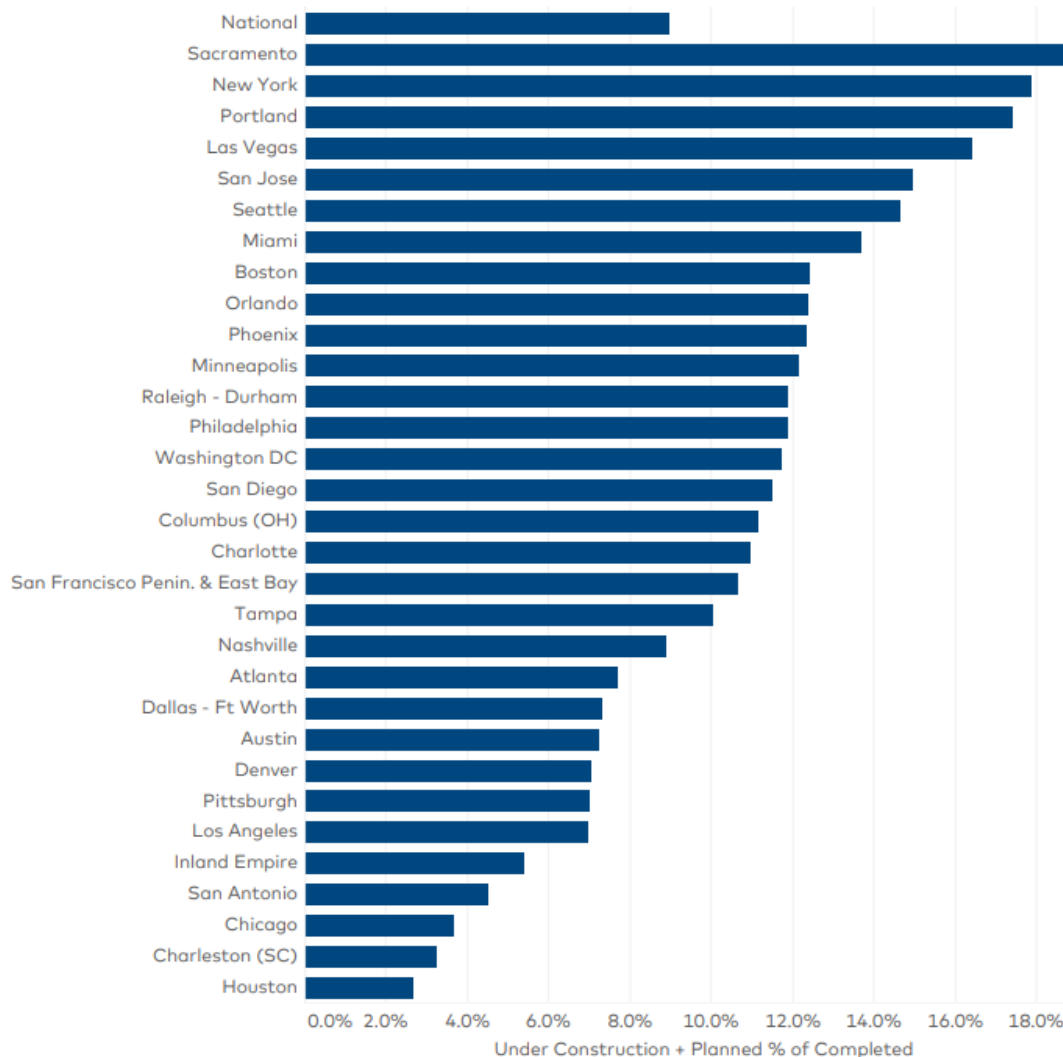


- **Top 5 self-storage markets:** 1) Dallas, 2) Houston, 3) New York City, 4) Chicago, and 5) Los Angeles
- Approximately 20% of the market is owned by the five public self-storage REITs.
- Over 75% of the tenant base come from residential users, following population growth patterns.
- **Total number of self-storage facilities:** 55,000 to 60,000
- **Total net rentable square feet:** 1.7 billion sq ft
- **Portion of households that rent a SS-unit:** 9.4%

# June Development Activity

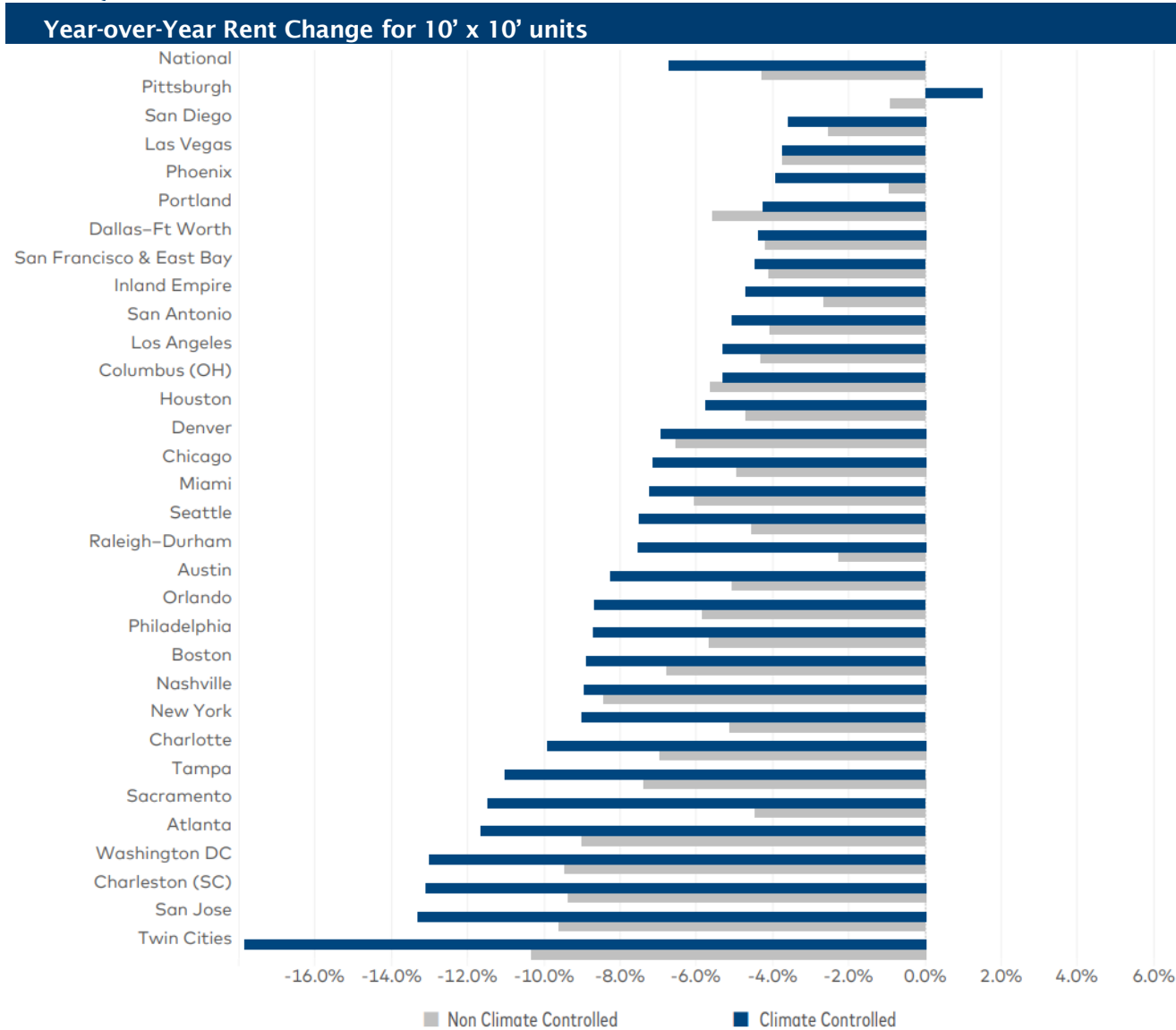
## Under Construction & Planned Percent of Existing Inventory

Metro	May-20	Jun-20	Change
NATIONAL	8.8%	8.9%	↑
Sacramento	18.2%	18.7%	↑
New York	17.6%	17.9%	↑
Portland	17.5%	17.4%	↓
Las Vegas	15.8%	16.4%	↑
San Jose	15.0%	15.0%	▬
Seattle	14.7%	14.7%	▬
Miami	13.5%	13.7%	↑
Boston	12.5%	12.4%	↓
Orlando	12.0%	12.4%	↑
Phoenix	11.9%	12.4%	↑
Minneapolis	12.2%	12.1%	↓
Raleigh-Durham	11.9%	11.9%	▬
Philadelphia	11.2%	11.9%	↑
Washington DC	11.3%	11.8%	↑
San Diego	11.5%	11.5%	▬
Columbus (OH)	10.2%	11.2%	↑
Charlotte	11.0%	11.0%	▬
San Francisco Penin. & East Bay	10.3%	10.7%	↑
Tampa	9.8%	10.0%	↑
Nashville	8.9%	8.9%	▬
Atlanta	7.7%	7.7%	▬
Dallas-Ft Worth	7.3%	7.3%	▬
Austin	7.2%	7.2%	▬
Denver	6.8%	7.0%	↑
Pittsburgh	7.1%	7.0%	↓
Los Angeles	6.8%	7.0%	↑
Inland Empire	5.4%	5.4%	▬
San Antonio	4.5%	4.5%	▬
Chicago	3.7%	3.7%	▬
Charleston (SC)	2.6%	3.2%	↑
Houston	2.6%	2.7%	↑



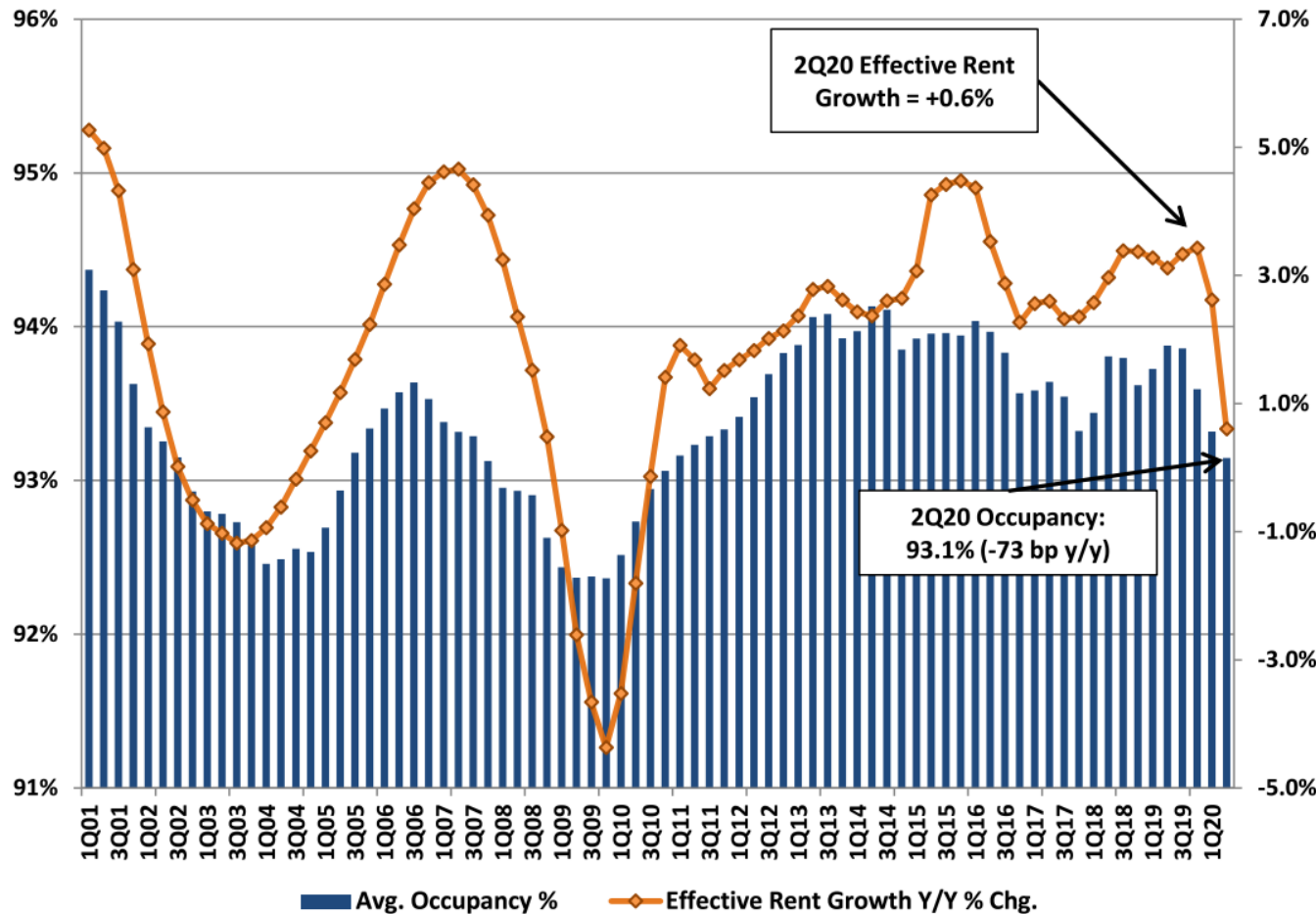
- **12<sup>th</sup> consecutive month of rising supply:** Self storage properties being planned or under construction accounted for 8.9% of existing inventory in June, rising 10 bps from May.
- **For the top 25 MSAs,** Yardi raised its 2020 forecast for new supply growth to -2.8% from -9.3%.

# June Rental Growth Falls



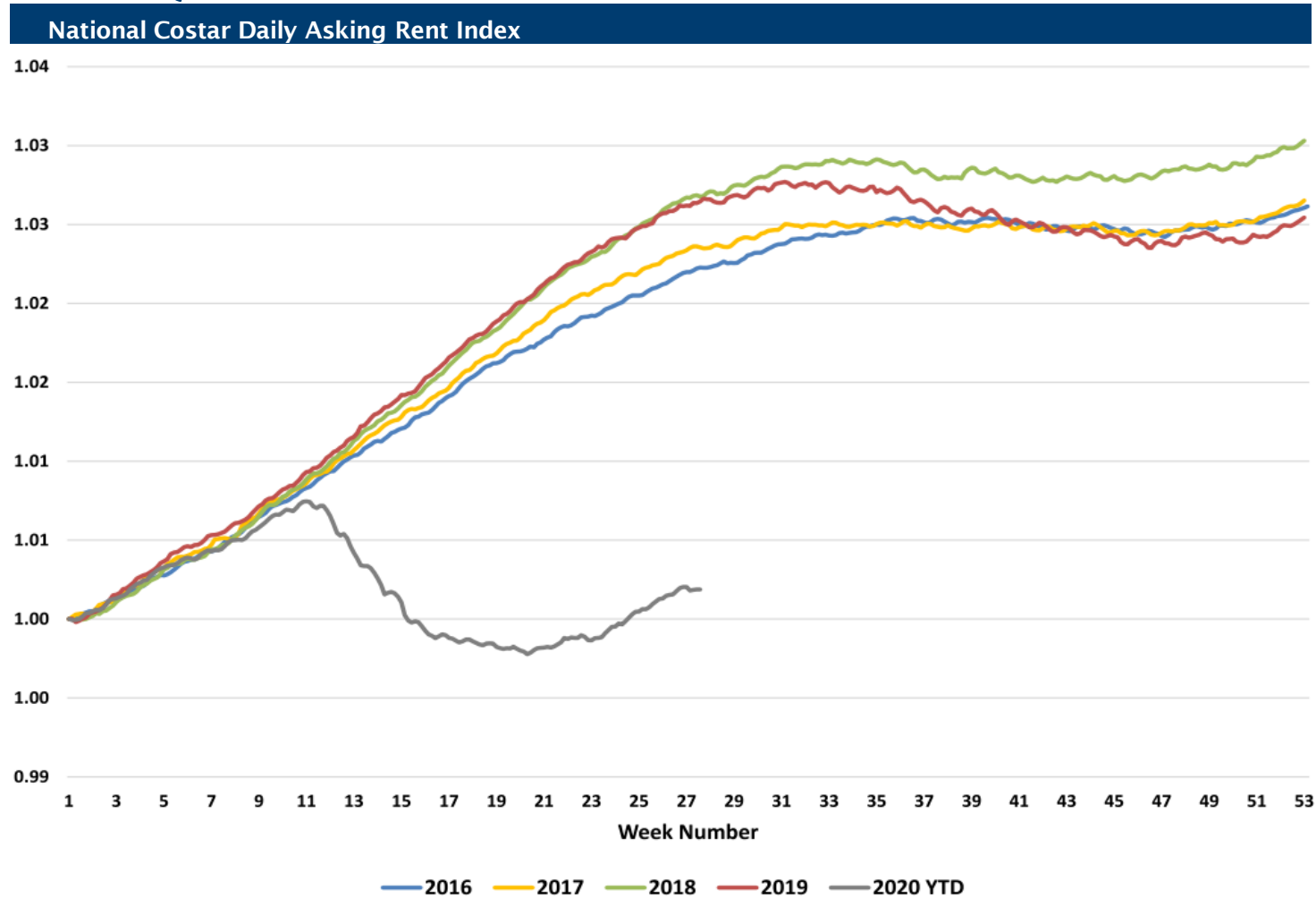
- **Street rates for 10x10 CC units dropped 6.7% y/y** in June, while 10x10 non-climate controlled units fell 4.3% y/y.
- **In every top metro**, annual street rate growth fell for 10x10 non-climate controlled units.

## Multifamily Occupancy and Rents



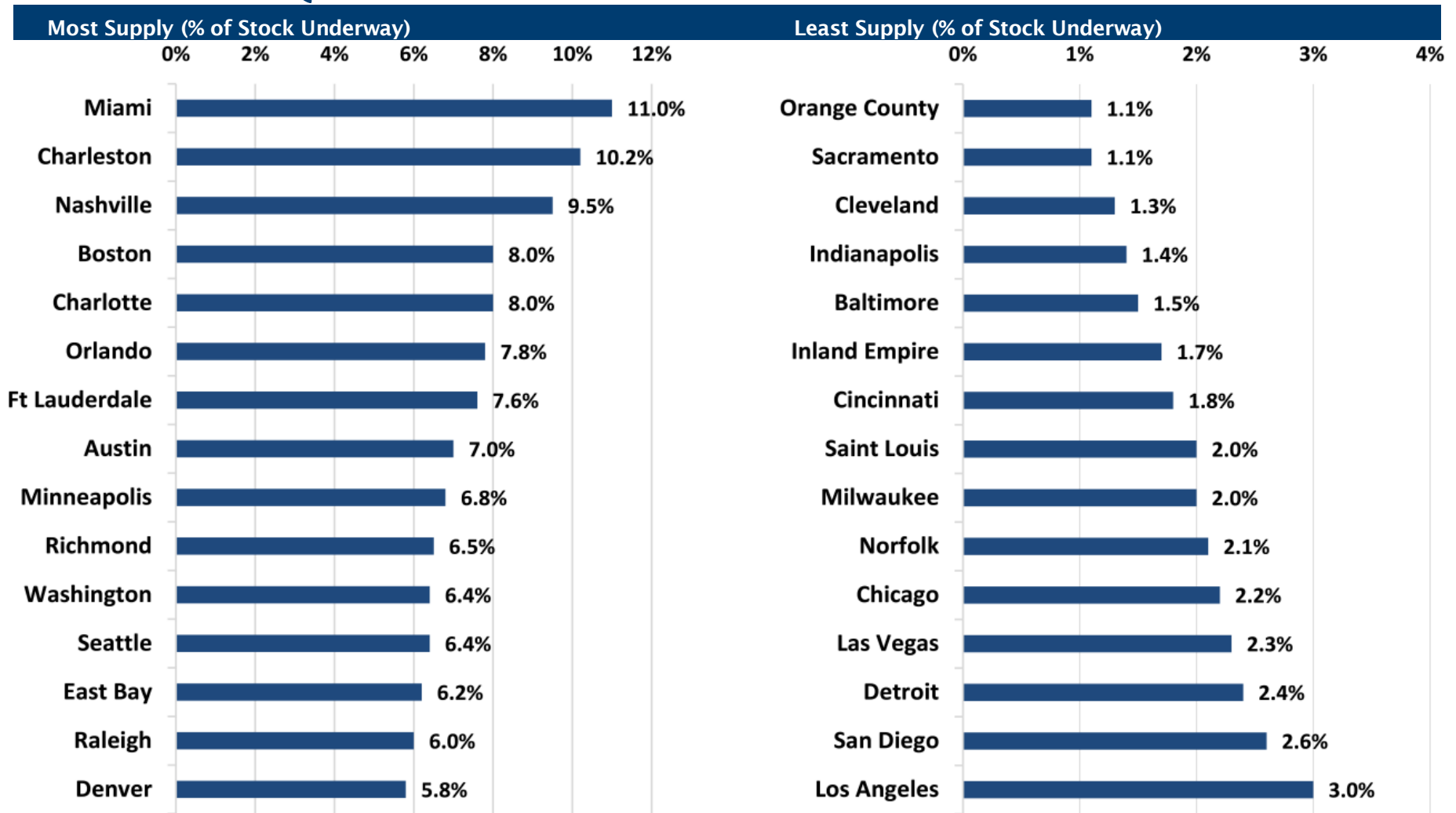
- **2Q20 multifamily occupancy averaged 93.1%**, decreasing 73 bps y/y. This is the industry's lowest occupancy in a decade.
- **After plateauing in May, effective rents started to rebound in June** as cities' economies began to reopen. Unlike self-storage, effective multifamily rental rates actually grew 60 basis points during the second quarter.
- Typically, rent growth slows during the back-half of the year. However, that trend could change if fall becomes the new leasing season.

# Asking Rents Begin to Stabilize



- **Asking rents dropped by \$2 to \$1,457 a unit** from May to June, adding to the four-month trend of declining growth.
- **Pricing varies by geography.** After the initial free fall in rents following the covid outbreak, there has been a divergence of performance between urban and suburban markets. While urban core areas search for stabilization in pricing, suburbs have mostly recovered, with some even pricing above pre-Covid levels

# Multifamily Construction Markets

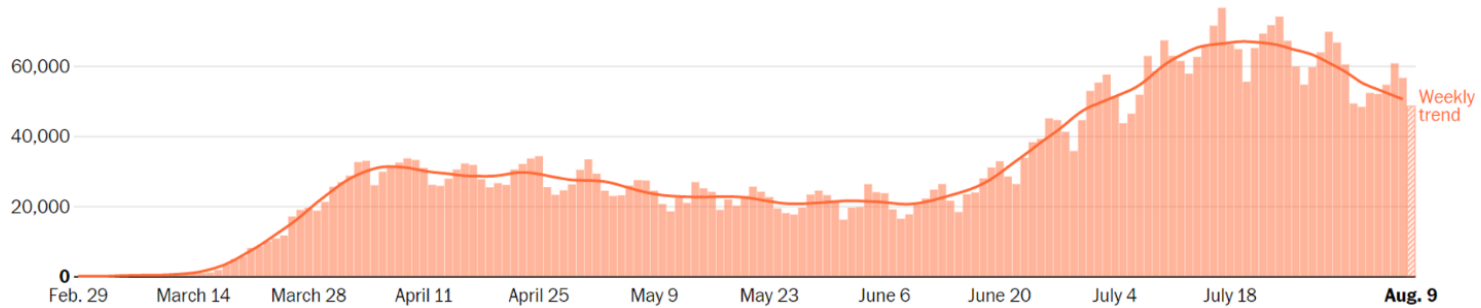


- **Flocking to Florida:** three of the top 15 markets with the highest level of apartment construction, as a percentage of existing supply, are in Florida.
- **Florida leads the nation in net population in-migration** with almost 1,000 Americans moving into the state in 2018.

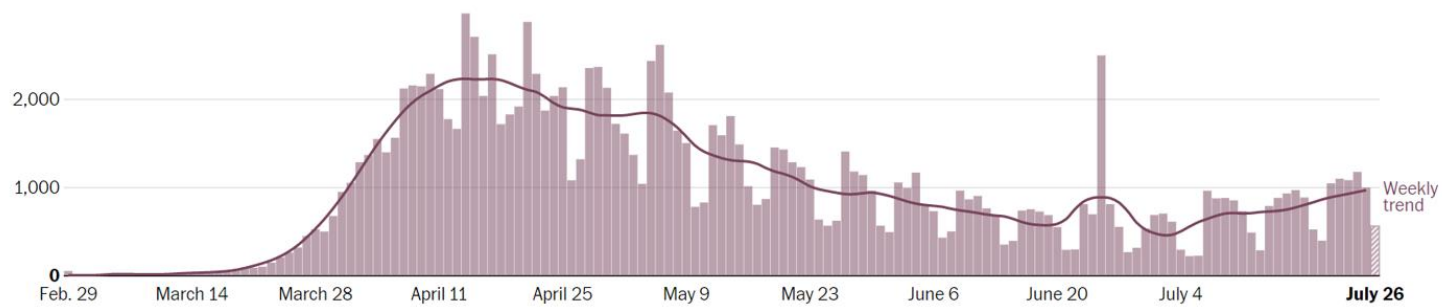


# U.S. Covid-19 Cases & Deaths

New Reported Cases Per Day (As of August 9<sup>th</sup>)



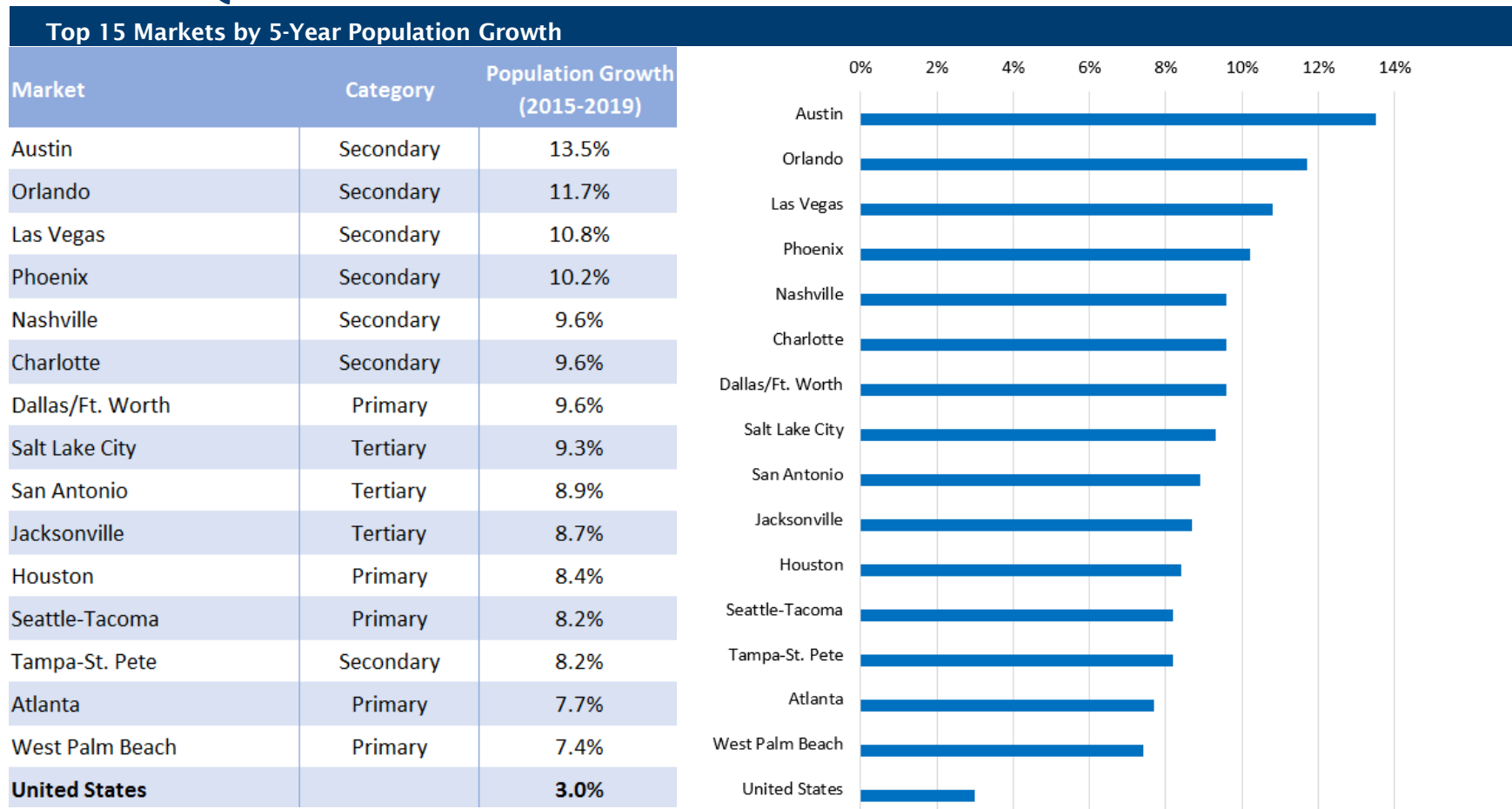
New Reported Deaths Per Day (As of August 9<sup>th</sup>)



**Note:** The spike in deaths on June 25 is due to New Jersey authorities adding more than 1,800 probable deaths to the state's total.

- Since the beginning of July, the U.S. has gained roughly 2 million new cases; however, the pace of infection has begun to slow after peaking at 76,491 on July 17.
- **World-wide, the U.S. leads in confirmed cases**, followed by Brazil (~3 million) and India (over 2 million).

# Population Growth in Top Markets



- **Non-primary markets comprise ~65% of transactions.** Since the turn of the millennium, the amount of properties bought and sold in secondary and tertiary markets has increased from around a third of all trades to about two-thirds.
- **In-migration to non-primary markets accelerated by the pandemic,** as residents of densely packed, high-cost cities consider the lifestyle and financial advantages of relocating to smaller urban areas.
- In June, SVA closed a deal on a 55,000+ NRSF property in Orlando. Here is what Senior Vice President Zack Urow said about the transaction: “Yield producing deals, in secondary and tertiary markets, are generating a ton of interest from out-of-state private equity firms as groups hunt for less risky, high-occupancy investments.”

# Metro Area Relocations

## Top Destinations for People Migrating from Different MSAs

**New York City** 0 — 73% of metro area relocations



**Atlanta** 0 — 37%



**Chicago** 0 — 2.9%



**Denver** 0 — 6.9%



**San Francisco** 0 — 10.4%



**Seattle** 0 — 5.3%

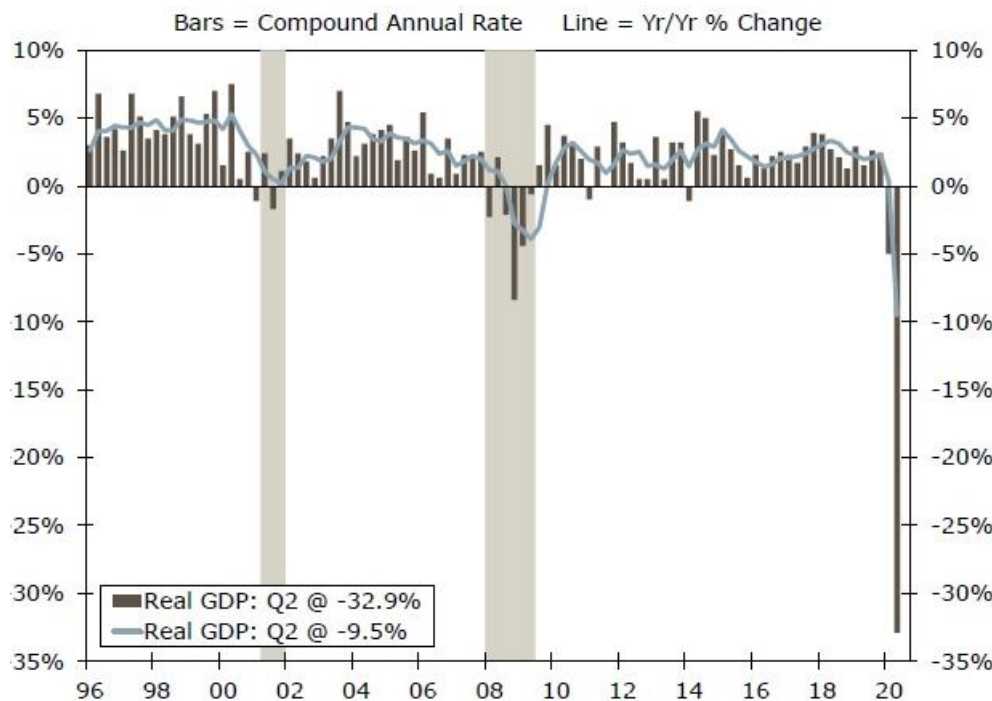


- These maps show the portion of people who left one MSA for another between late-February and May, and resided for three weeks or more.
- **In April, Americans relocated at 2x the rate they did last year.**
- **Movement in May was also elevated** versus the same period a year before.
- While it's still too early to tell which of these moves were permanent, pandemic-spurred moving could accelerate a shift away from dense urban areas to more affordable destinations, such as small cities and suburbs.

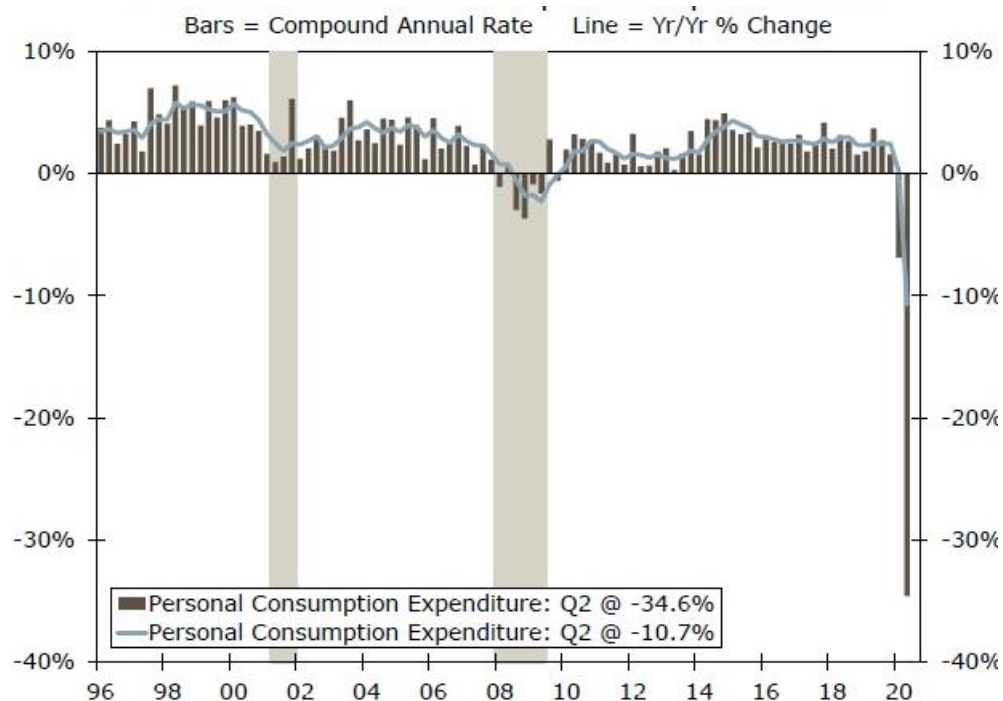
Note: Excludes relocations outside of a metro area  
Sources: SVA Research and Cuebiq

# 2Q GDP Cratered by 32.9%

2Q20 Real Gross Domestic Product (GDP)



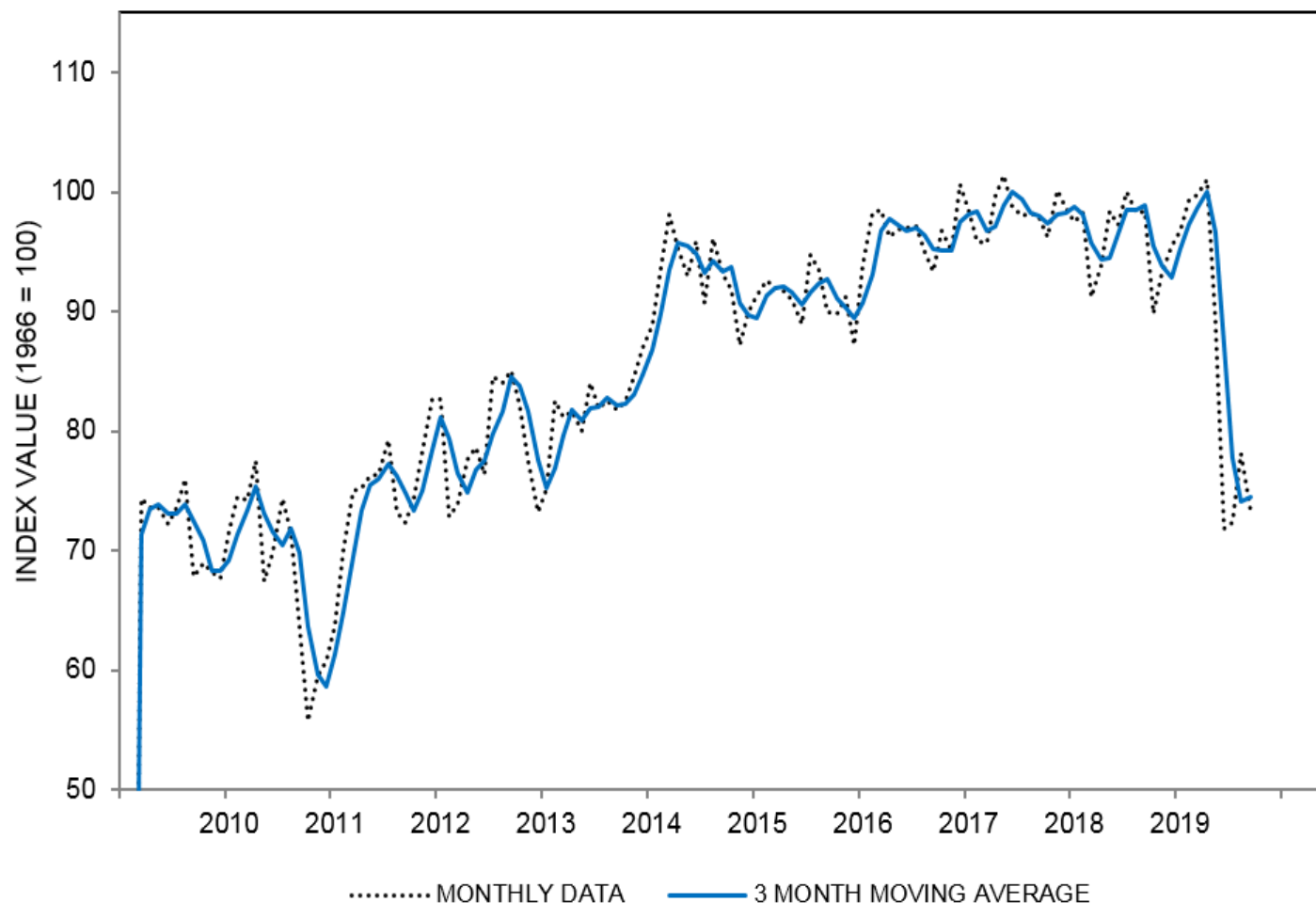
2Q20 Real Personal Consumption Expenditures (PCE)



- **2Q20 Real GDP declined by 32.9%, as PCE fell 34.6%**, on a seasonally-adjusted, annualized basis.
- **Record drop in GDP:** The drop in 2Q20 GDP is the highest rate of decline in the 74 years for which quarterly GDP has been recorded.
- The only area of growth during the second quarter was federal government spending (+17.4%) – largely reflecting the admin costs of the PPP loan program.
- As of July 25, America has already spent 13% of gross domestic product on fiscal stimulus, with more on the way.

# July Consumer Sentiment

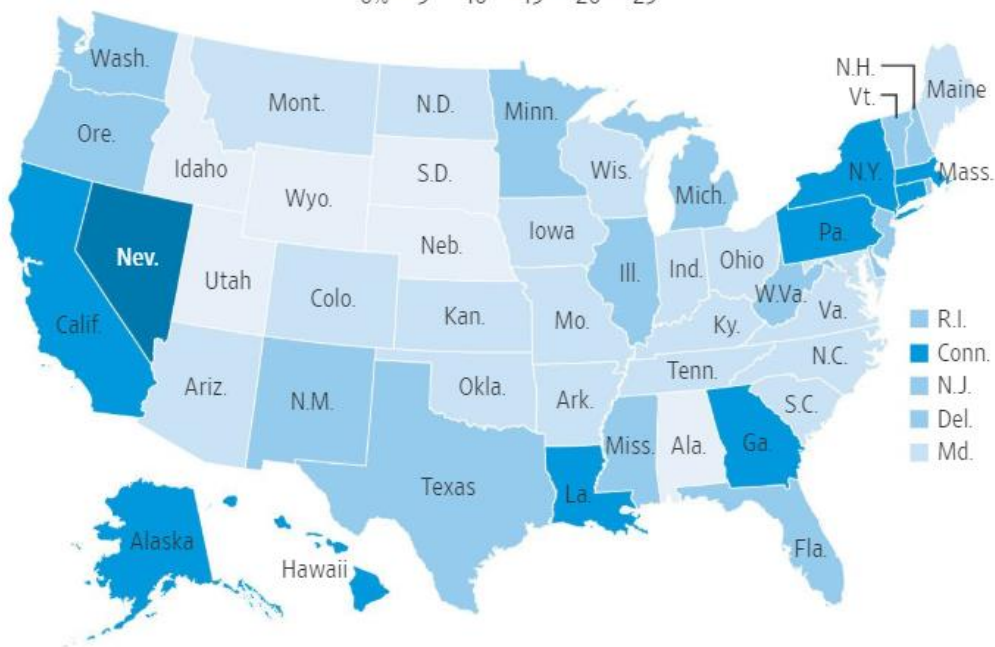
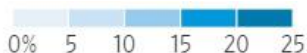
University of Michigan Consumer Sentiment Index



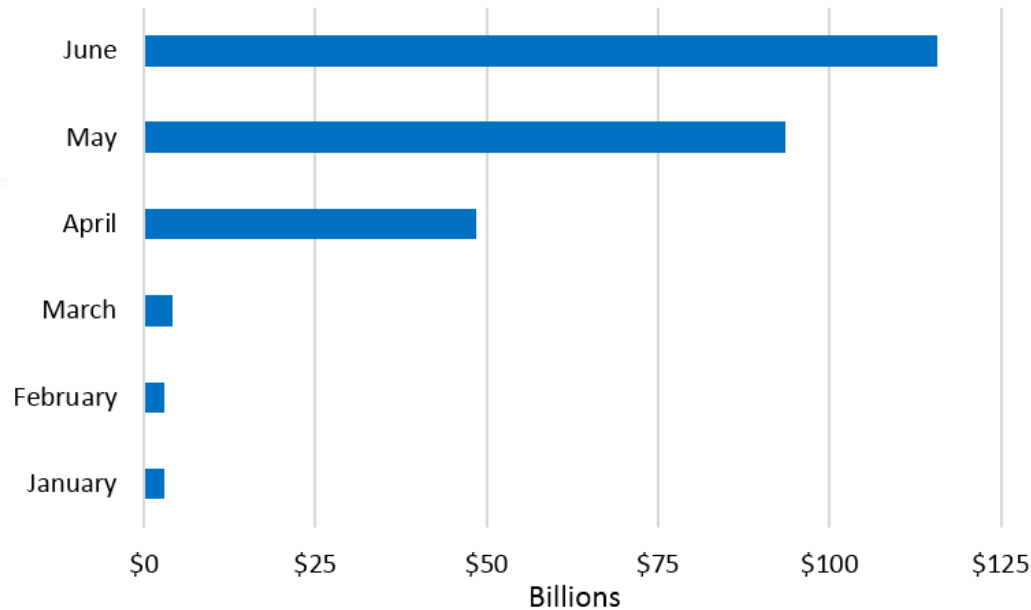
- The Michigan Consumer Sentiment Index is a survey of consumer confidence in economic activity, illustrating how willing consumers are to spend money.
- Before the pandemic, consumer sentiment was 101.0 in February. Two months later, consumer sentiment hit a low of 71.8 in April.
- **July's consumer sentiment declined to 72.5** from 78.1 in June – erasing the momentum gained in late May and June as large portions of the economy reopened.

# Unemployment Falls to 10.2%

Unemployment Insurance Recipients As A % Of The Workforce

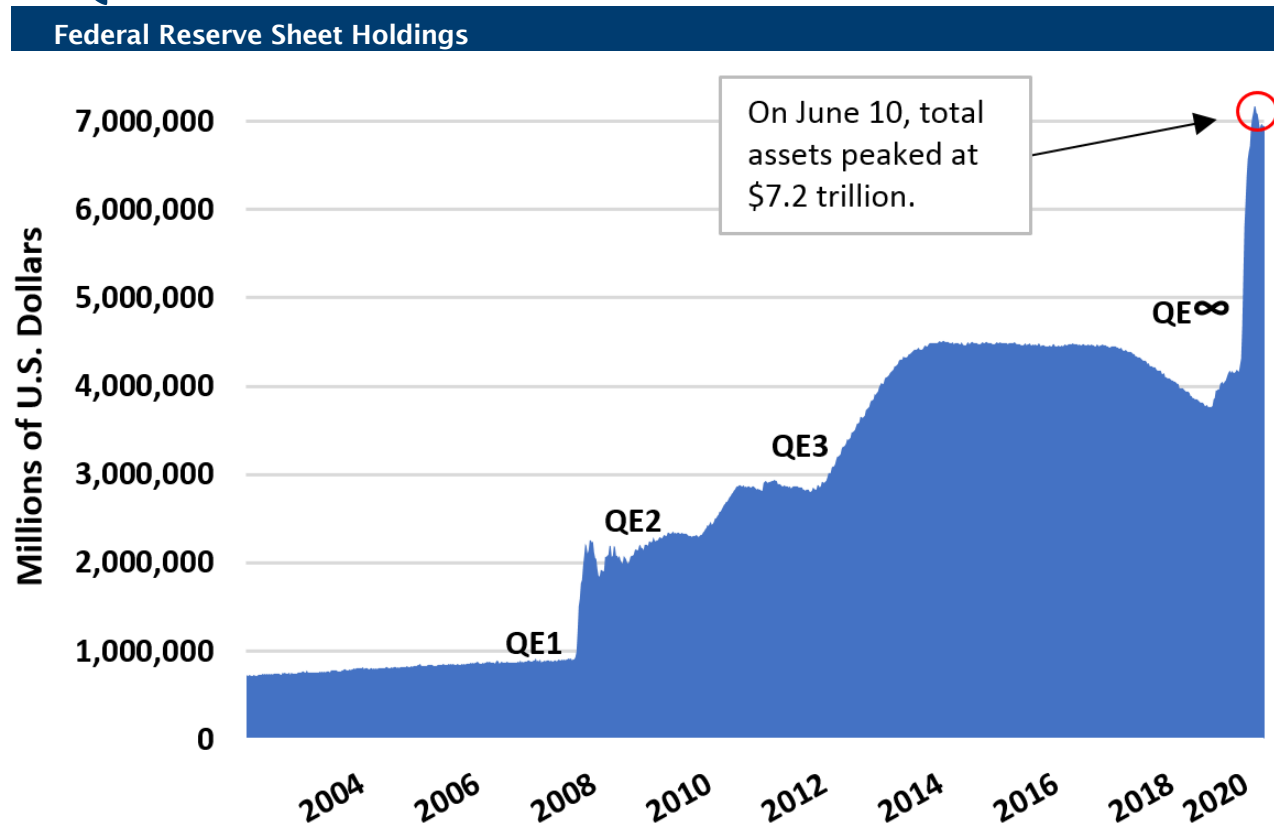


Federal Spending on Unemployment Insurance Benefits



- **10.2% unemployment in July:** The unemployment rate in July was 10.2% (-90 bps from June); the non-partisan, Congressional Budget Office forecasts it to drop to 8.4% in 2021.
- **Over 50 million Americans** have filed for unemployment since the beginning of the pandemic.
- In June, 16% of those who owed mortgage or rent payments missed them, and 11% reported that they did not have enough to eat “at least some of the time” (compared with 8.8% in March).
- Columbia University researchers found that the poverty rate would have increased by 4%, affecting 12 million people in the absence of enhanced unemployment benefits.
- **\$250 billion spent on unemployment benefits:** In July, the government spent an average \$16.6 billion a week on enhanced unemployment benefits, which have since expired.

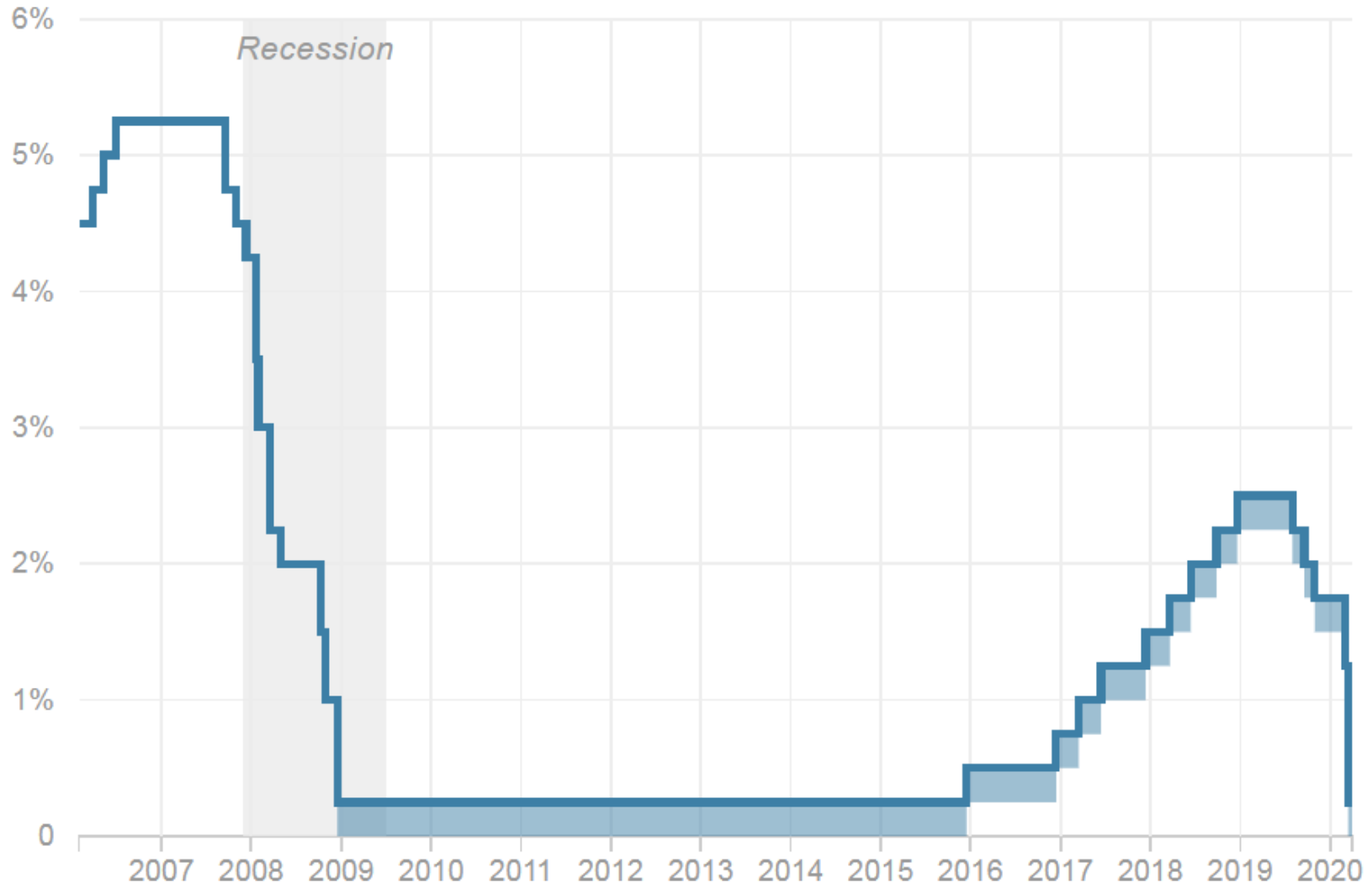
# Over \$7 Trillion in Stimulus



- Between the Federal Reserve and Congress, the government has applied record levels of stimulus to prop-up the economy and capital markets.
- **Additional stimulus of \$1-to-\$3 trillion** is expected to be appropriated to mitigating the effect of the pandemic on the economy.
- **Congress is in a deadlock** over the cost and provisions of the next stimulus plan. Republicans refuse to spend over a trillion, while the Democrat’s plan calls for \$3.5 trillion.
- **Tens of millions of US citizens could find themselves homeless** in the months ahead after a \$600 weekly supplement to jobless benefits and a federal eviction moratorium expired at the end of July.

# Fed Keeps Rates Near Zero

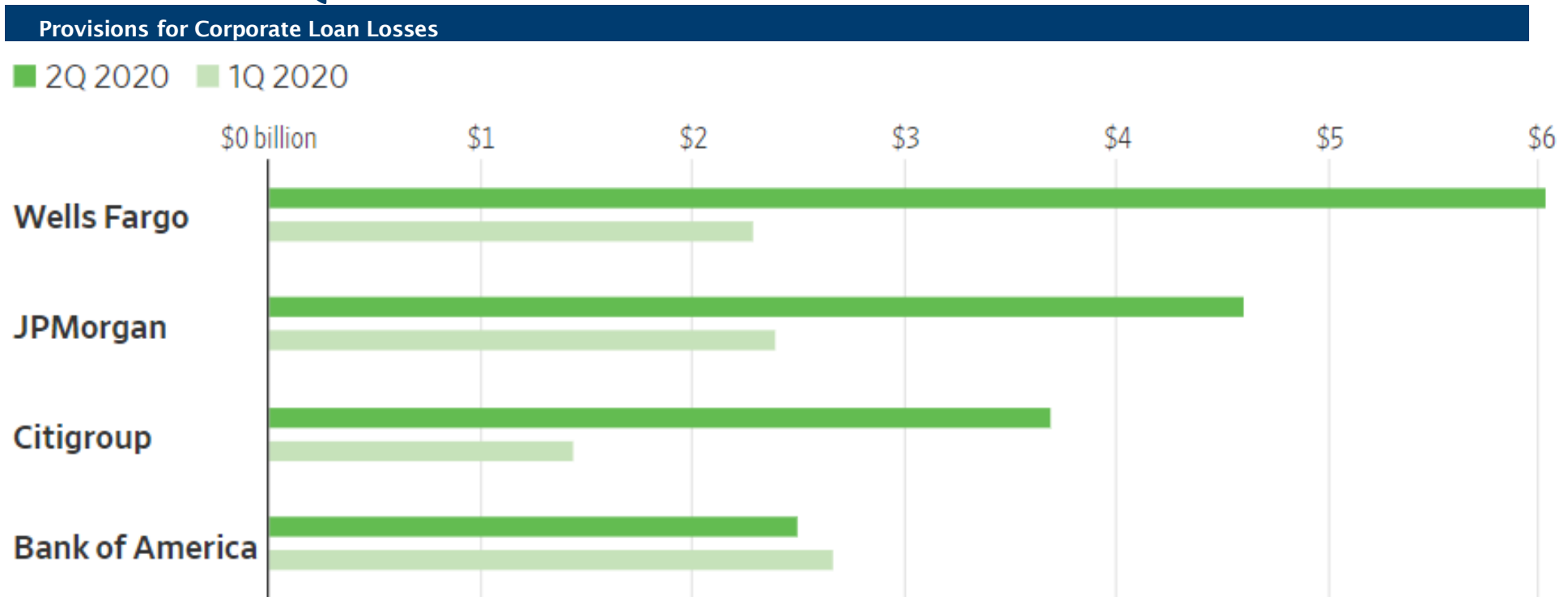
Federal Funds Rate Drops to a Range of 0- to 25-Basis Points



- In March, the central bank lowered the benchmark interest rate to a range of 0- to 25-basis points.
- During the FOMC's July meeting, Jerome Powell said that the Federal Reserve will continue to buy unlimited amount of CMBS and Treasuries, as well as, up to \$1 trillion in corporate bonds.



# Toxic Loan Provisions

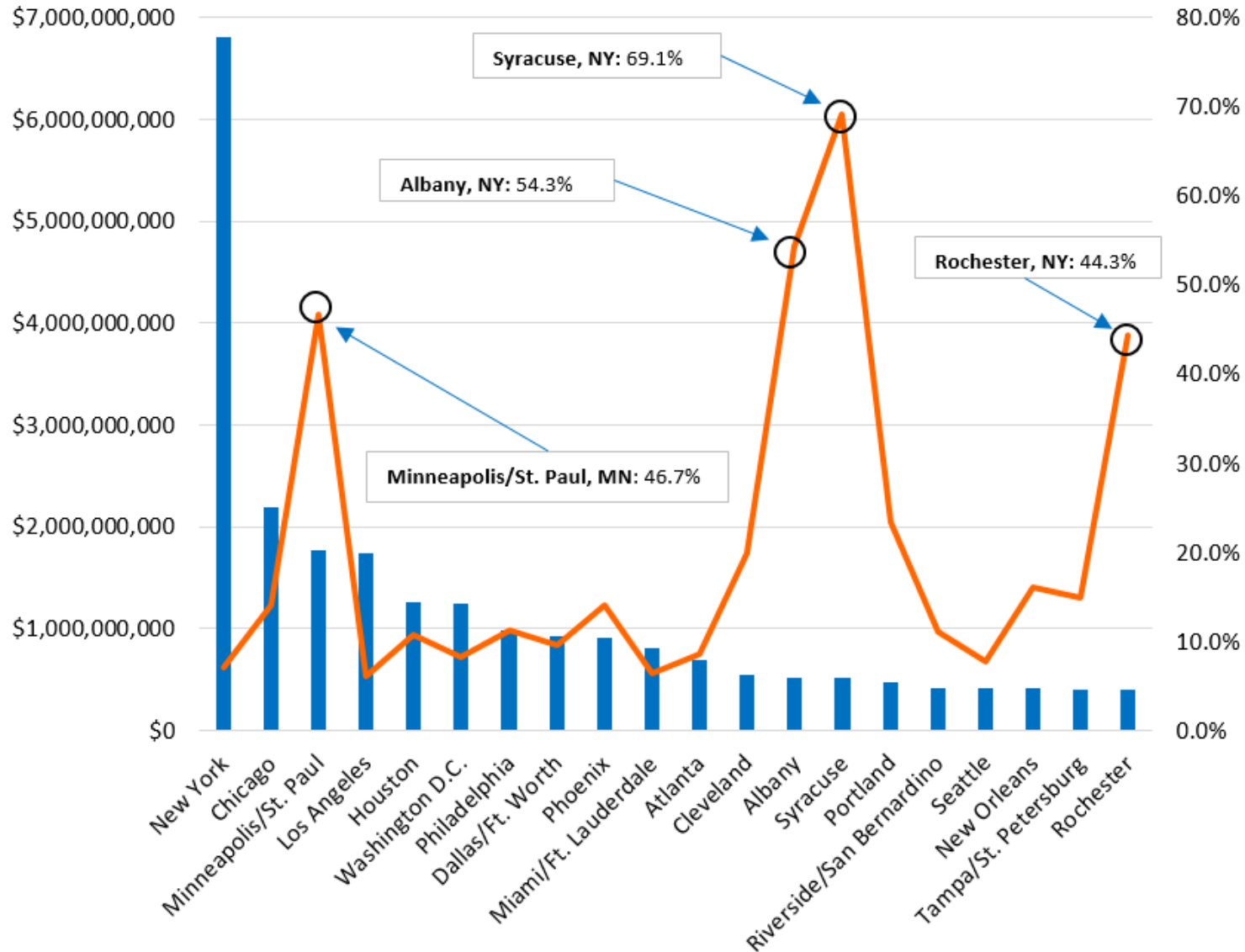


- In 2Q20, America's biggest banks – Citigroup, JPMorgan, Wells Fargo and Bank of America – put aside \$33 billion to cover loans that could go into default.
- Of that sum, corporate lending comprises just over 50% or \$16.8 billion – up from \$8.8 billion in the first quarter.
- YTD, the United States' banking system has added \$2.2 trillion in cash deposits – triple any other 6-month period on record.

# CMBS Delinquency Rates

Top 20 MSAs by Delinquencies

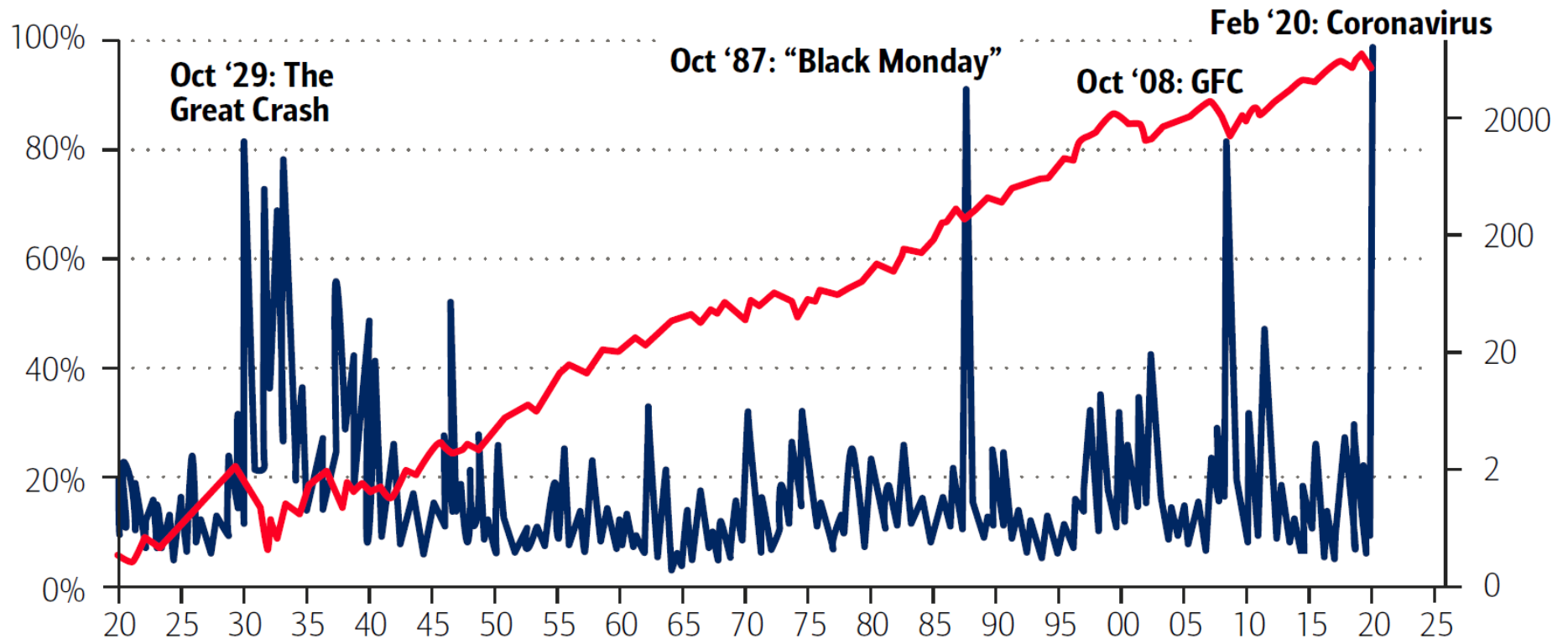
Delinquent Balance (LHS) Vs Delinquency Rates (RHS)



# Record Stock Market Volatility

Stock Market Returns Versus Volatility

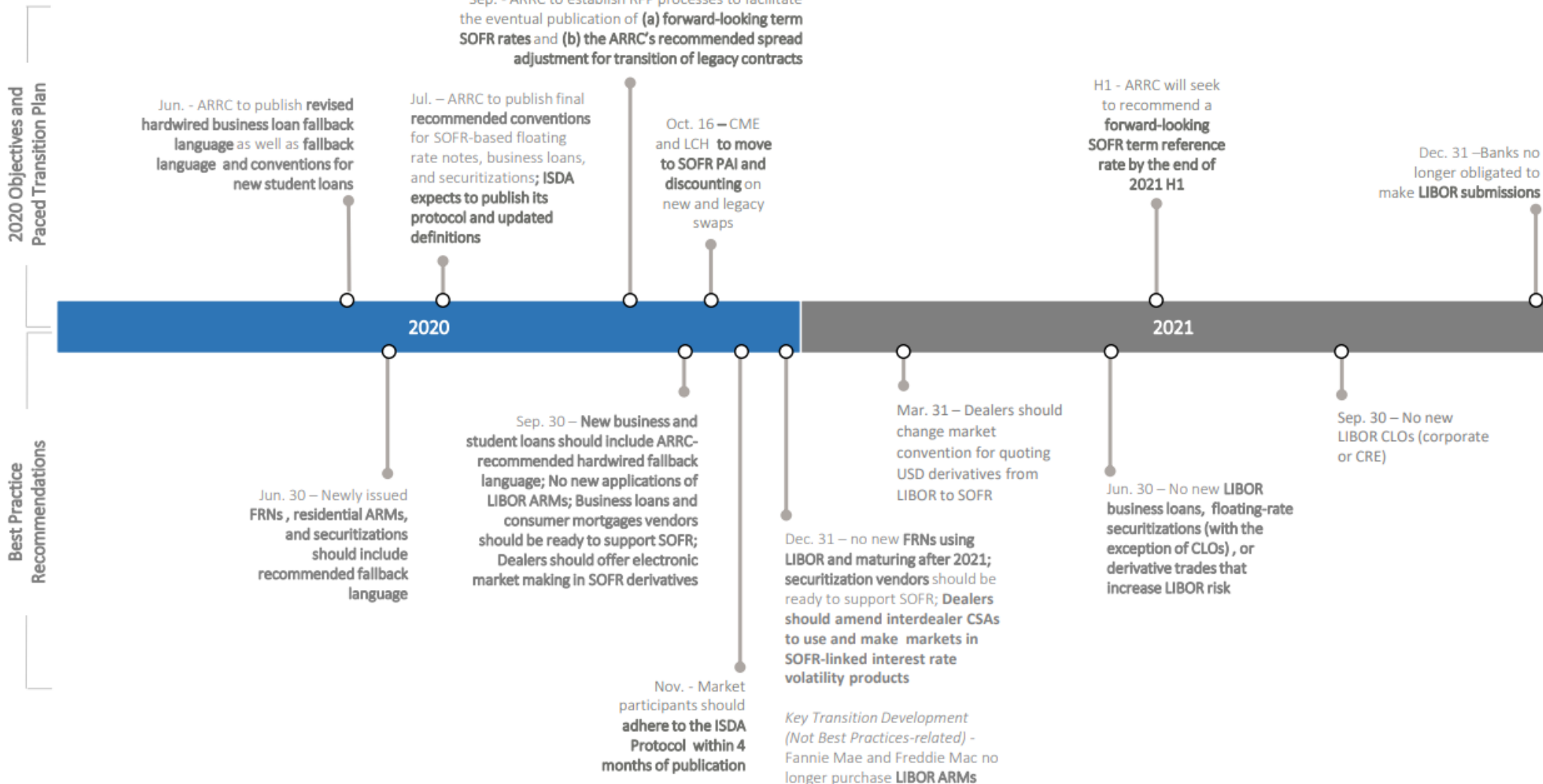
— Total Return Monthly Volatility (LHS) — S&P 500 total return (RHS)



- The coronavirus outbreak has resulted in historic market volatility.
- As the number of new cases rise globally, uncertainty over the duration and magnitude of COVID 19 has led to massive de-risking and highly sensitive financial markets.

# Transitioning From LIBOR

## Alternative Reference Rates Committee Timeline



- The Alternative Reference Rates Committee (ARRC) originally convened in November 2014. Significant progress has been made transitioning from LIBOR to SOFR, since then.
- In 2020, the ARRC has set out objectives for itself and recommended best practices for market participants as the transition continues.

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