



2017

Self-Storage Outlook: Strategic Recalibration in a Maturing Cycle

Economic Outlook Underpins Self-Storage Sector

2017 Economic Tug-of-War

Positives

- **Employment growth:** 78 months of job creation. Over 2.2 million hires last year
- **Unemployment rate** at 4.5%, lowest level since 2007
- **Average hourly earnings growth** accelerated to 2.7%
- **Confidence** at highest level in more than 16 years
- **Core retail sales** maintain steady growth; up 12% from pre-recession peak on inflation-adjusted basis
- **Single-family home prices** 7% above the 2005 peak
- **Total U.S. household wealth** up 31% from Pre-Recession Peak

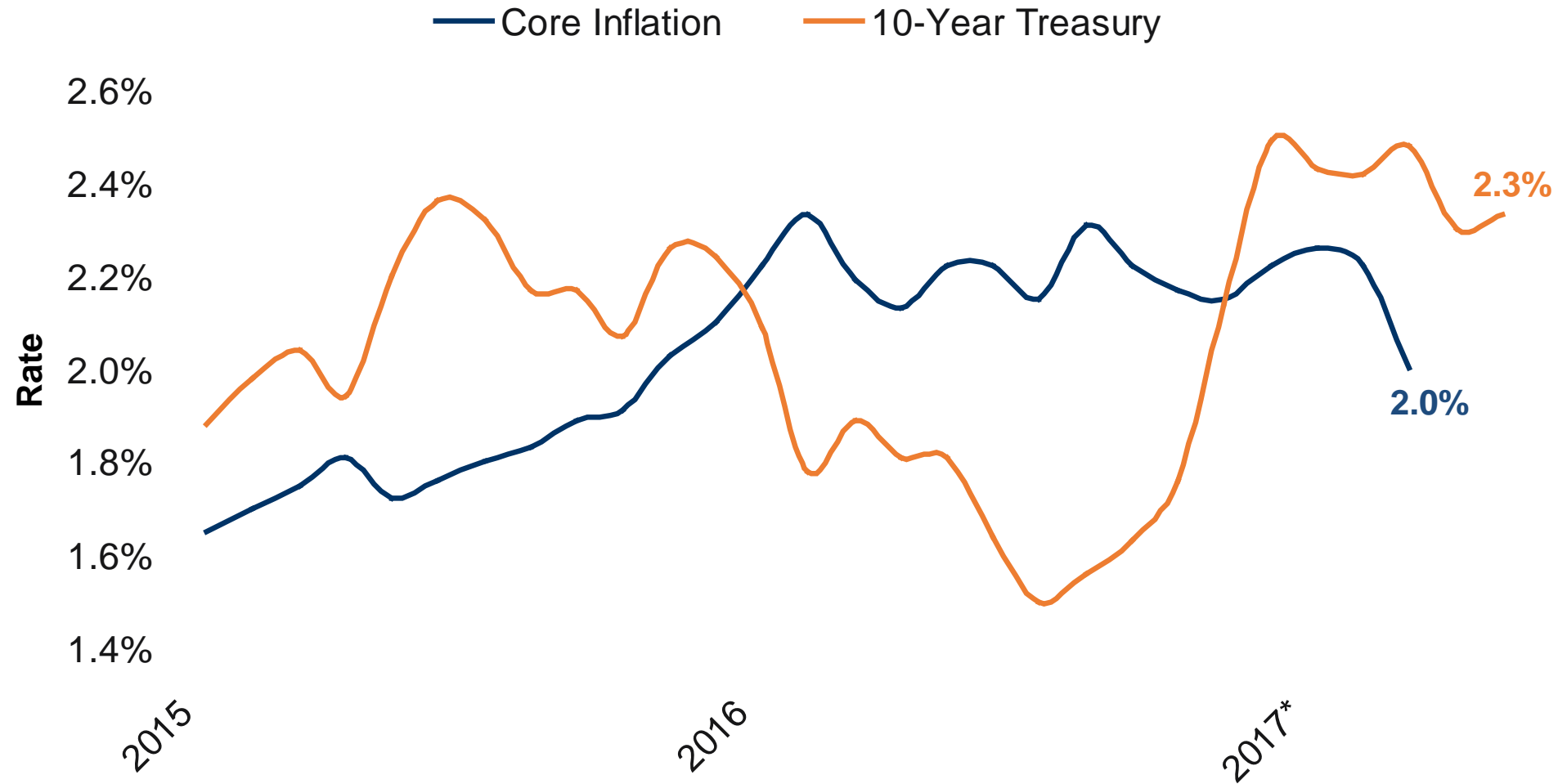
Headwinds

- **Fractious Congress not united** despite single party control
- **Election results** raise uncertainty regarding U.S. economic policy
- **Treasury rates** rose sharply following presidential election, investors readjust
- **Uncertain fiscal policy** related to taxes and deregulation causing real estate investors pause
- **Slowing international economic growth** brings longevity of current expansion cycle into question
- **Geopolitical risk:** North Korea, Syria/Russia

Trump Policy Proposals

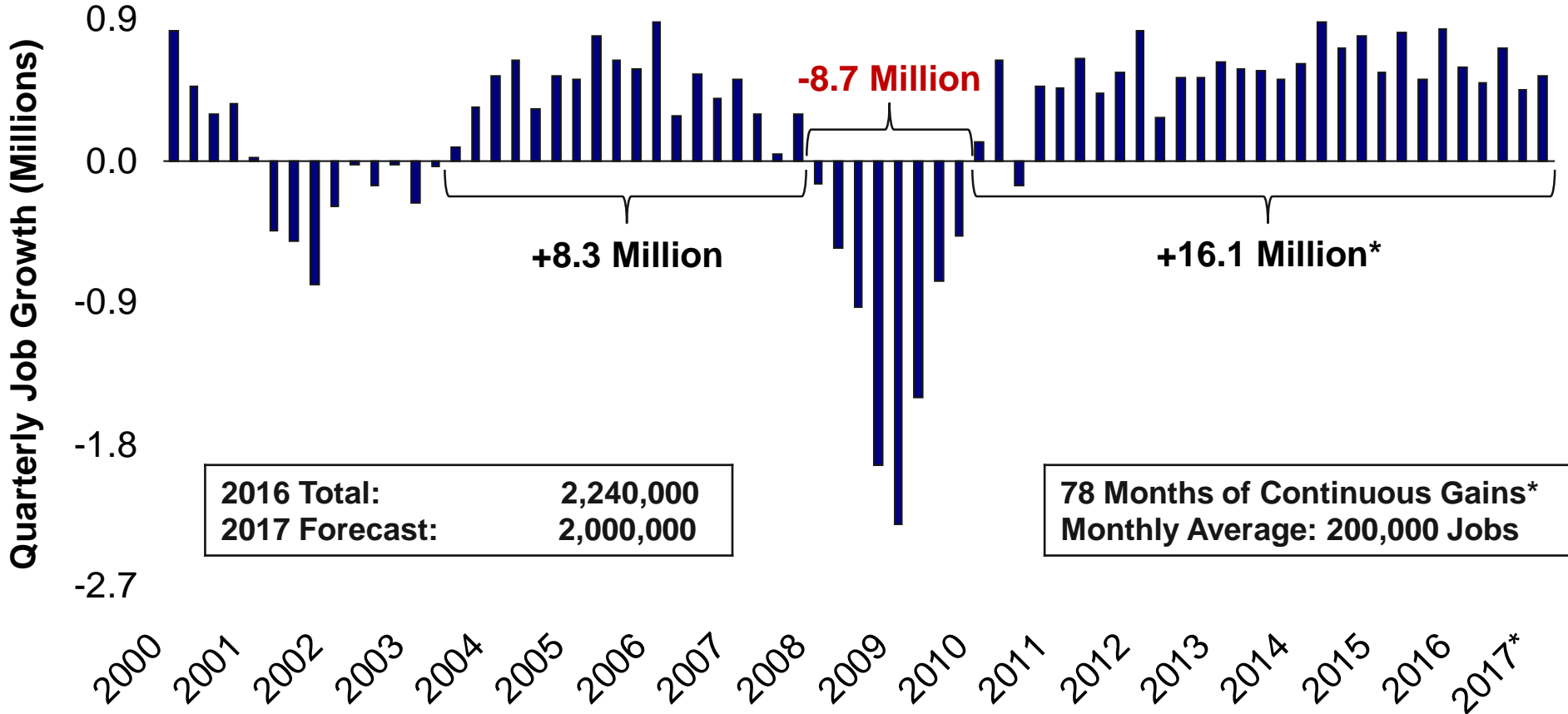
- **\$1 trillion in infrastructure projects**
- **Repatriation of \$1.7 trillion in overseas capital**
- **Deregulation**
 - Environmental
 - Dodd-Frank
- **Tax Overhaul: Corporate and personal**
 - Simplify personal tax brackets from seven to three. 12%, 25% and 33%
 - Corporate tax rate lowered from 35% to 15% on all business income
 - Estimated to cost 9.5 Trillion over its first decade
- **Tax Changes directly affecting Commercial Real Estate**
 - 1031 Exchange
 - Business interest deduction
 - Carried interest

Inflation Limited But Some Pressure Possible Post-Election Treasury Surge Reined-In



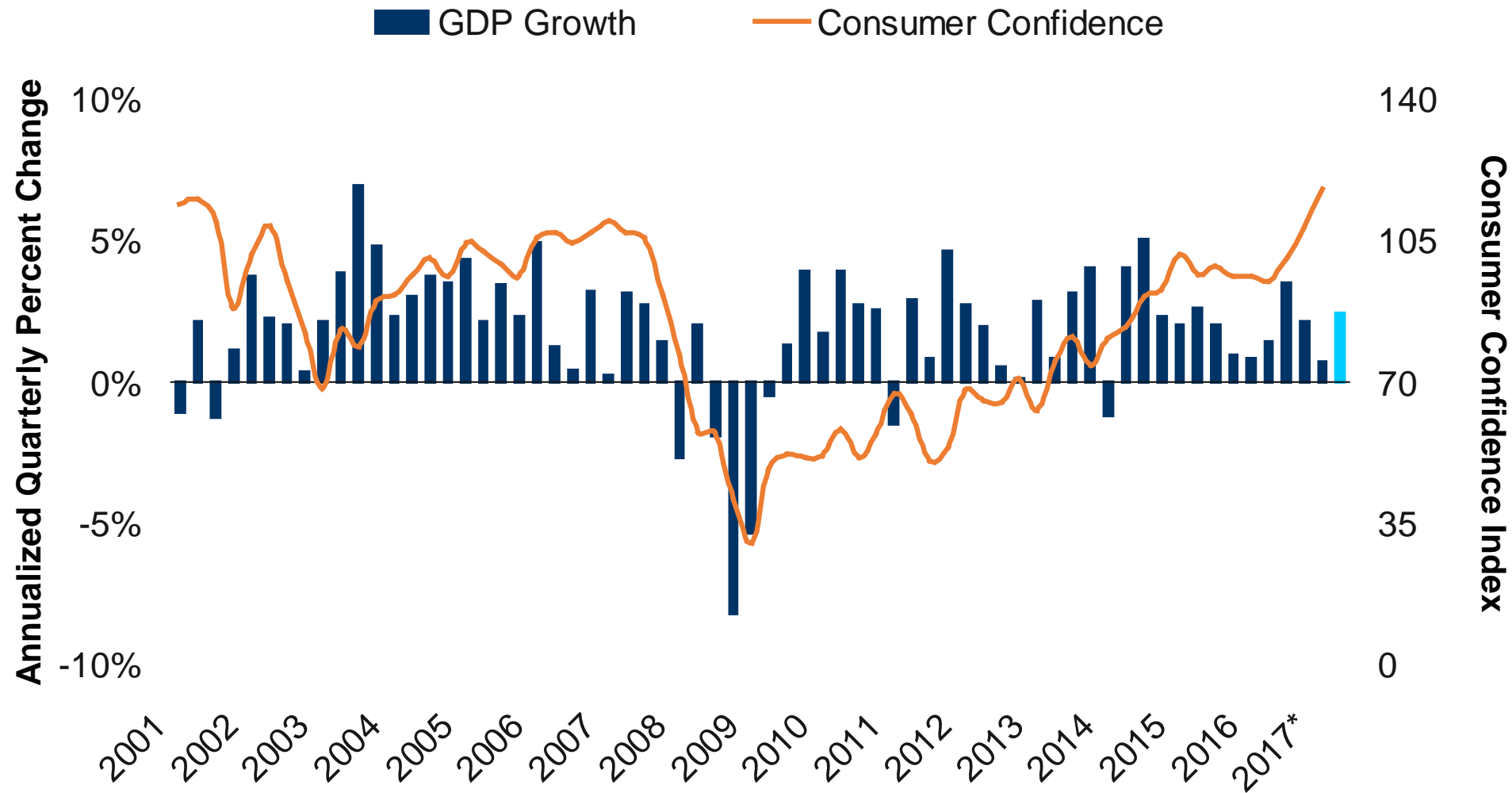
* 10-Year treasury through May 1; Core inflation through March
Sources: Marcus & Millichap Research Services, Federal Reserve, BLS

Employment Growth Durable and Remarkably Stable



* Through 1Q
 Sources: Marcus & Millichap Research Services, BLS

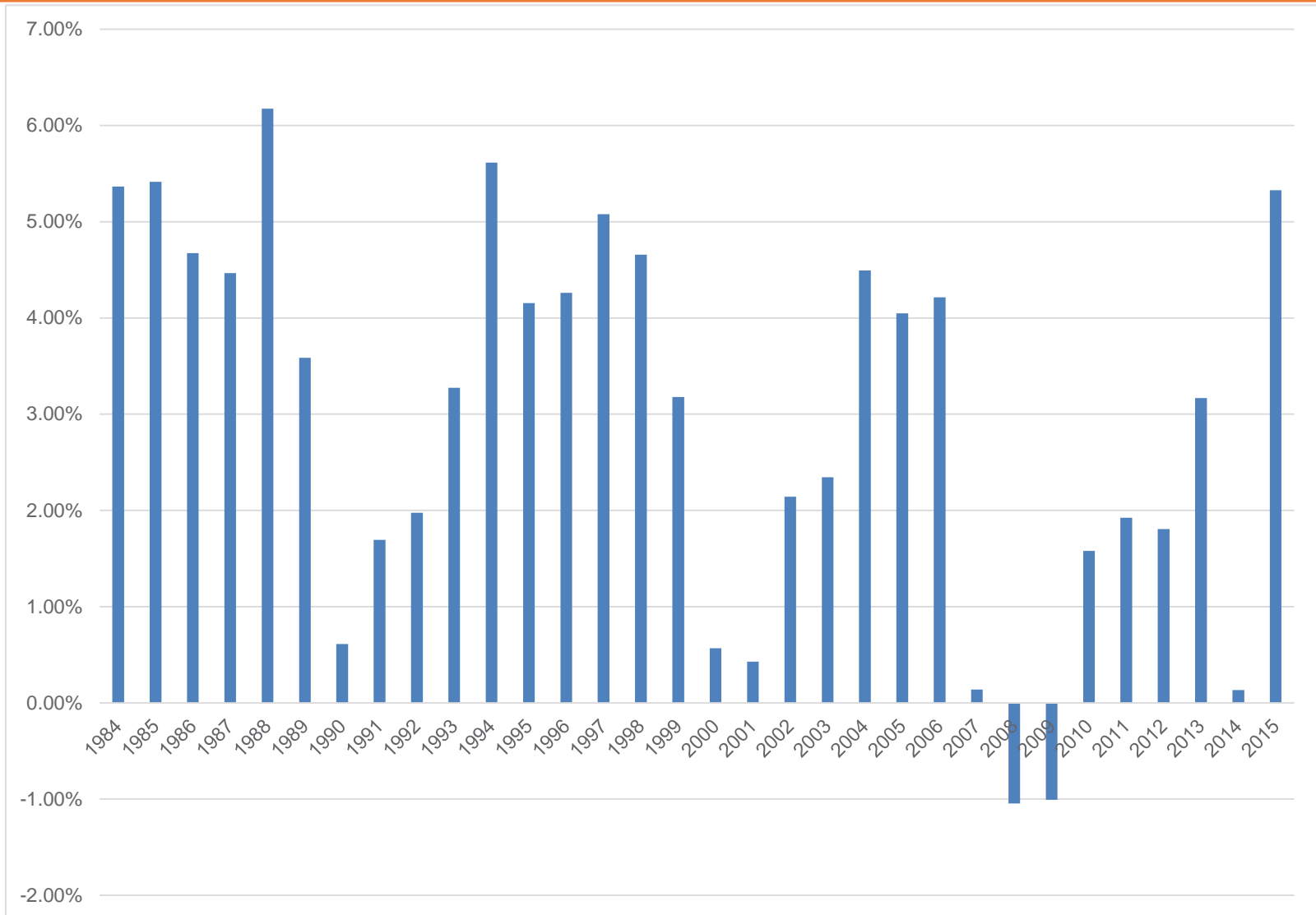
U.S. GDP in Seventh Year of Expansion; Growth Moderate But Picking Up in 2017



* Forecast GDP; consumer confidence through 1Q

Sources: Marcus & Millichap Research Services, BEA, The Conference Board

Percent Change In US Median Household Income



National Employment Rank by Metro

Y-O-Y Absolute Change Through March 2017

Top 10 Metros	Absolute Change	Percent Change
Dallas-Fort Worth	127,800	3.7%
Atlanta	105,800	4.0%
Los Angeles	72,800	1.7%
Seattle-Tacoma	61,500	3.2%
New York	60,800	1.4%
Philadelphia	57,000	2.0%
Phoenix	51,200	2.6%
Inland Empire	48,800	3.5%
Boston	48,292	1.8%
Washington, D.C.	46,600	1.4%
U.S. Total	2,185,000	1.5%

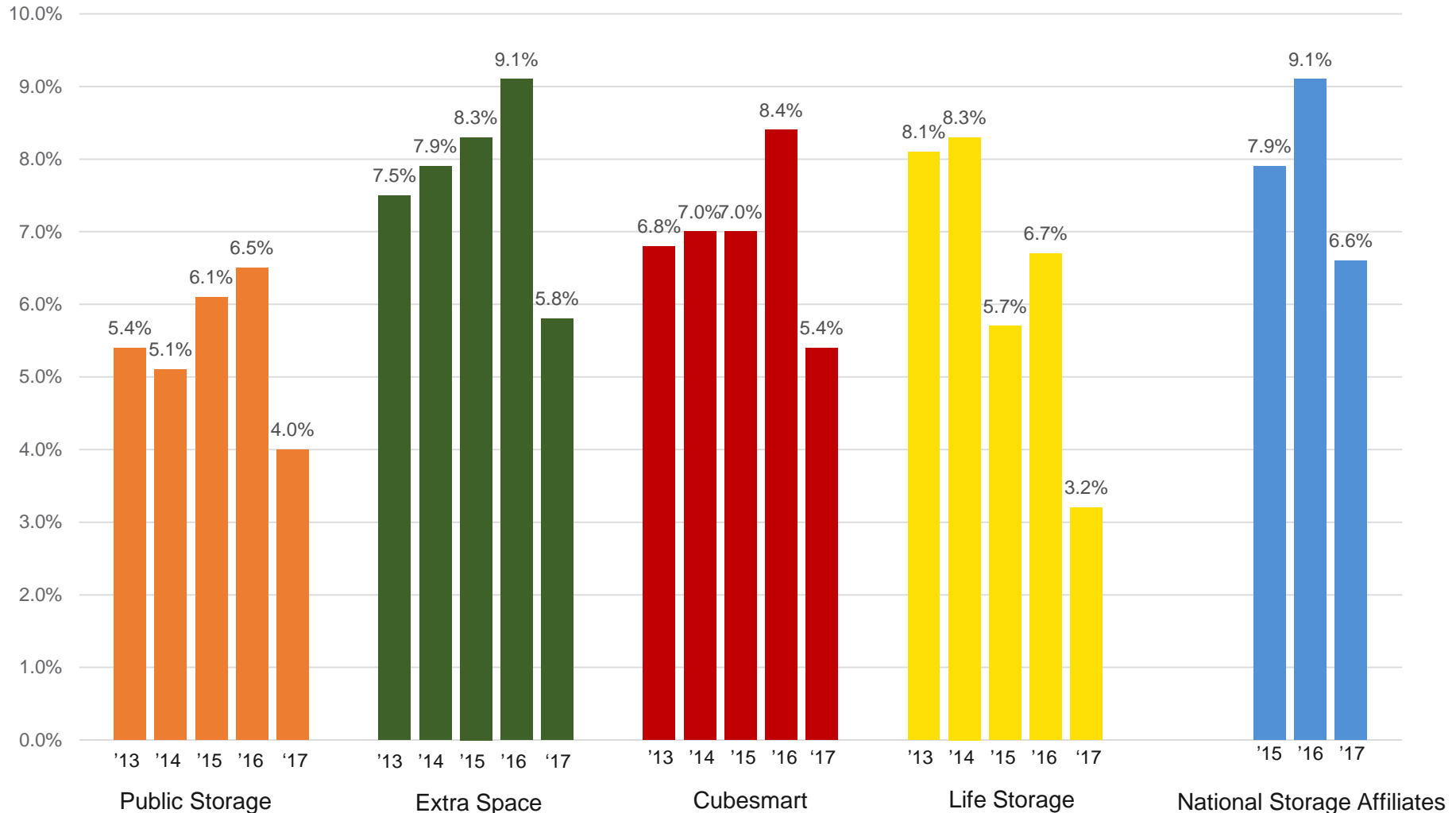
Bottom 10 Metros	Absolute Change	Percent Change
Milwaukee	2,100	0.2%
Cleveland	4,100	0.4%
Northern New Jersey	13,100	0.6%
West Palm Beach	14,300	2.4%
St. Louis	15,300	1.1%
Baltimore	16,600	1.2%
Indianapolis	17,400	1.7%
Sacramento	18,900	2.0%
Miami	19,700	1.7%
Orange County	20,500	1.3%
U.S. Total	2,185,000	1.5%

Denver: (30,100; 2.1%)

Sources: Marcus & Millichap Research Services, BLS

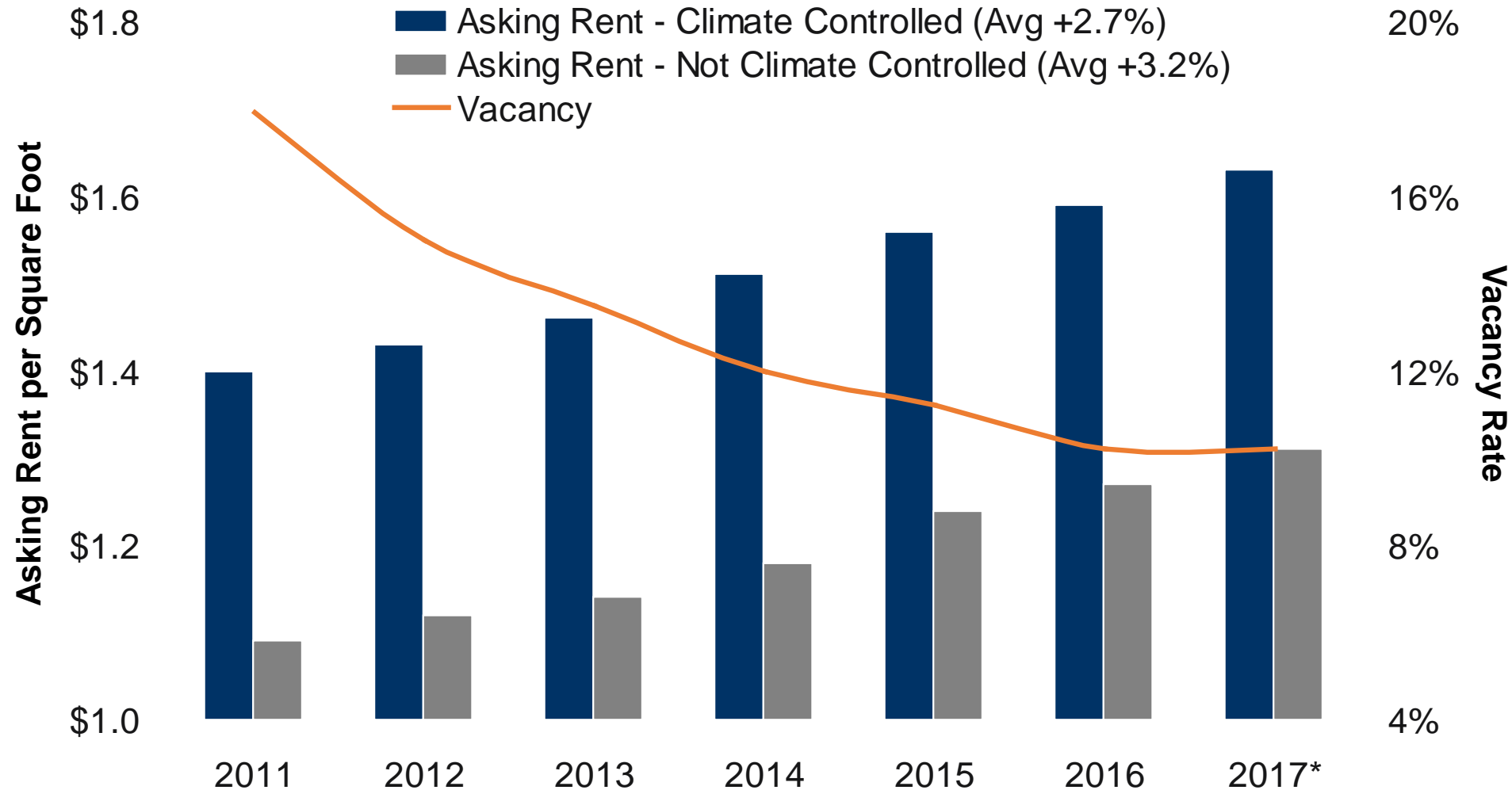
Self-Storage Performance

Year-Over-Year Revenue Growth 2013-2017 (Same-Store Q1 Results)



Sources- Quarterly Reports Released By: Public Storage, Extra Space, Cubesmart, Life Storage, National Storage Affiliates

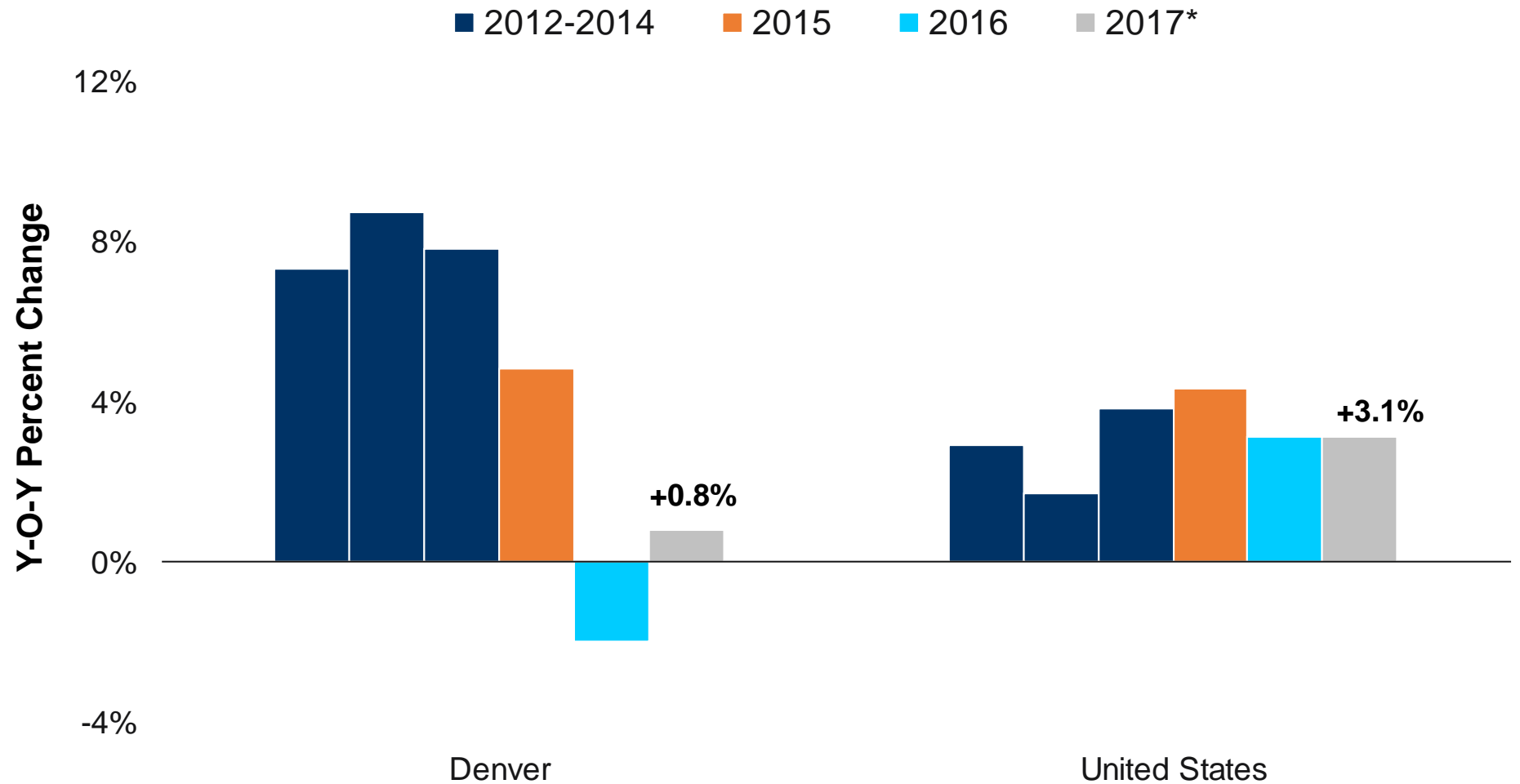
National Self-Storage Vacancy and Rent Trends



* Forecast
Rent for 10X10 unit

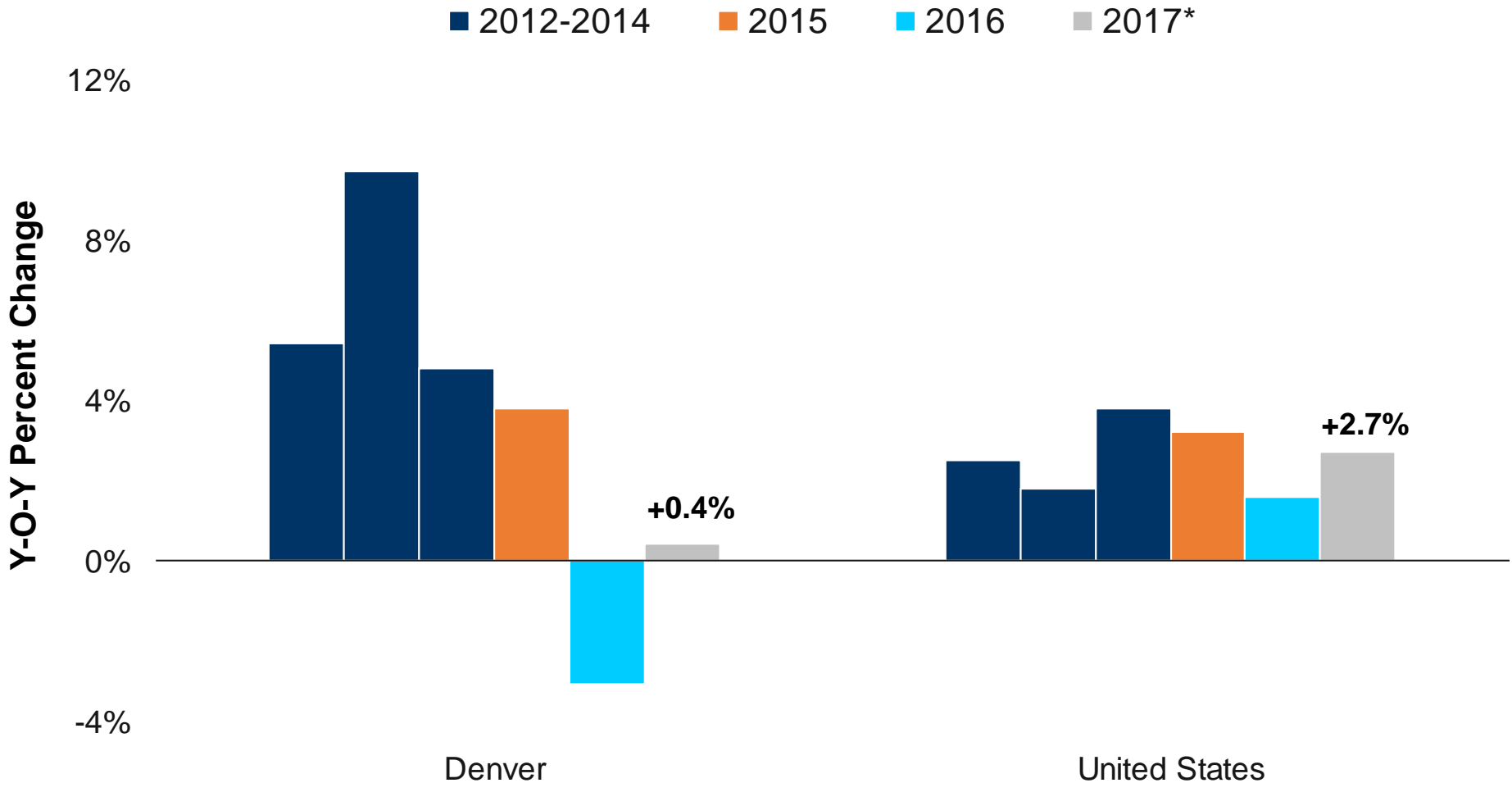
Sources: Marcus & Millichap Research Services, Reis Services, LLC

Self-Storage Non-Climate Controlled Rent Growth Trends



* Forecast
Sources: Marcus Millichap Research Services, BLS

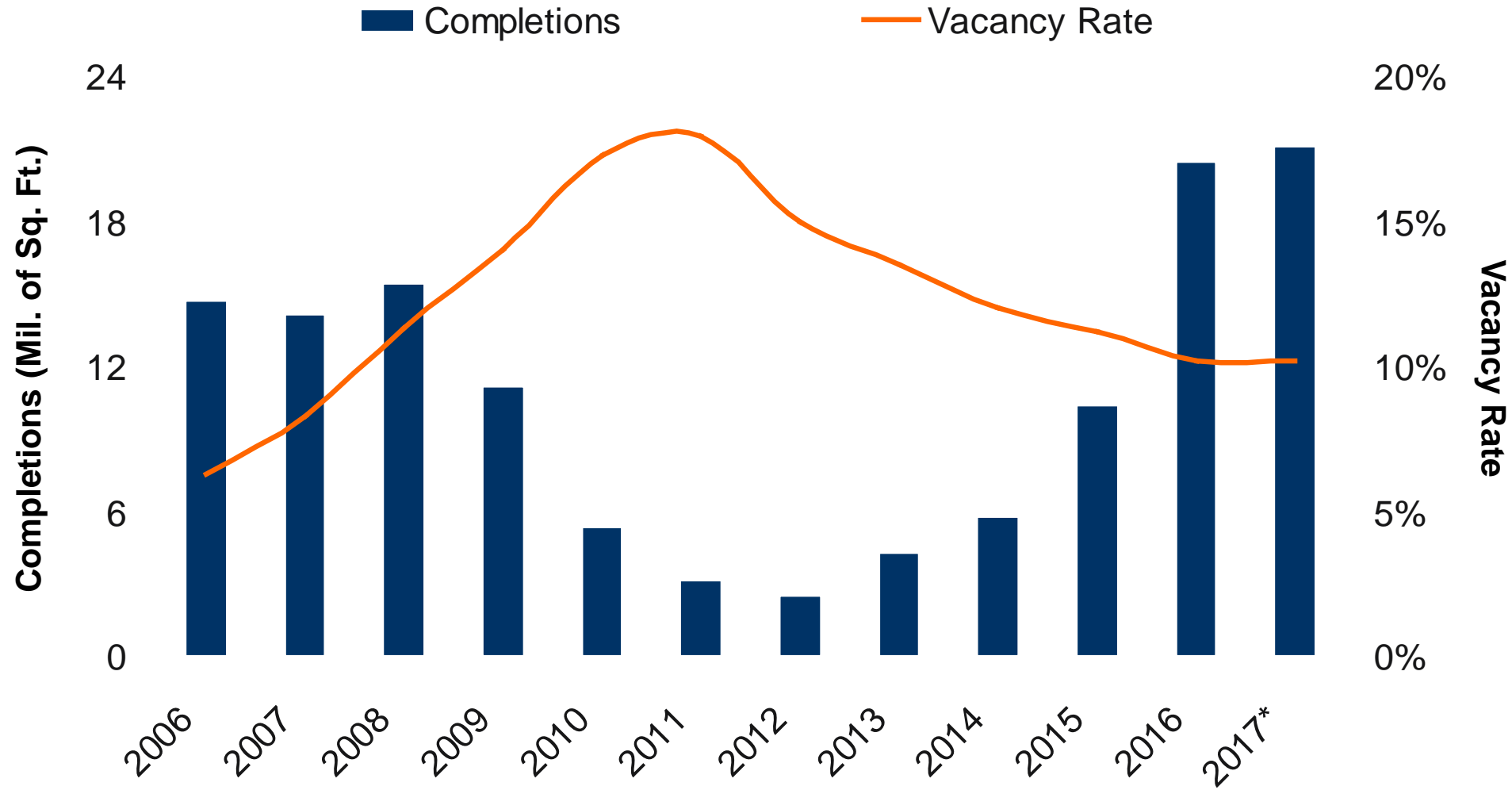
Self-Storage Climate Controlled Rent Growth Trends



* Forecast
Sources: Marcus Millichap Research Services, BLS

Self-Storage Vacancy vs. Construction

Development Lenders Tapping the Brakes



* Forecast

Sources: Marcus & Millichap Research Services, TWR, Reis Services LLC

National Self-Storage Rank by Metro

1Q 2017 Vacancy Rate

Top 10 Metros	1Q 2017 Vacancy	Y-O-Y Bps Change
Sacramento	6.4%	-260
Los Angeles	6.9%	-110
San Jose	6.9%	90
San Francisco	7.4%	30
Oakland-East Bay	7.5%	-10
San Diego	8.5%	70
Portland	8.5%	-90
Inland Empire	8.7%	-220
Salt Lake City	8.9%	-240
Nashville	8.9%	0
U.S. Average	10.7%	-20

Bottom 10 Metros	1Q 2017 Vacancy	Y-O-Y Bps Change
Dallas	12.1%	160
Phoenix	12.4%	-230
Baltimore	12.9%	-70
Austin	13.0%	50
Kansas City	13.2%	50
Chicago	13.3%	-20
Columbus	13.3%	-50
Minneapolis	13.5%	10
New York Metro	14.0%	-40
San Antonio	14.5%	120
U.S. Average	10.7%	-20

Self-Storage Investment Trends

Where are we in the real estate cycle?

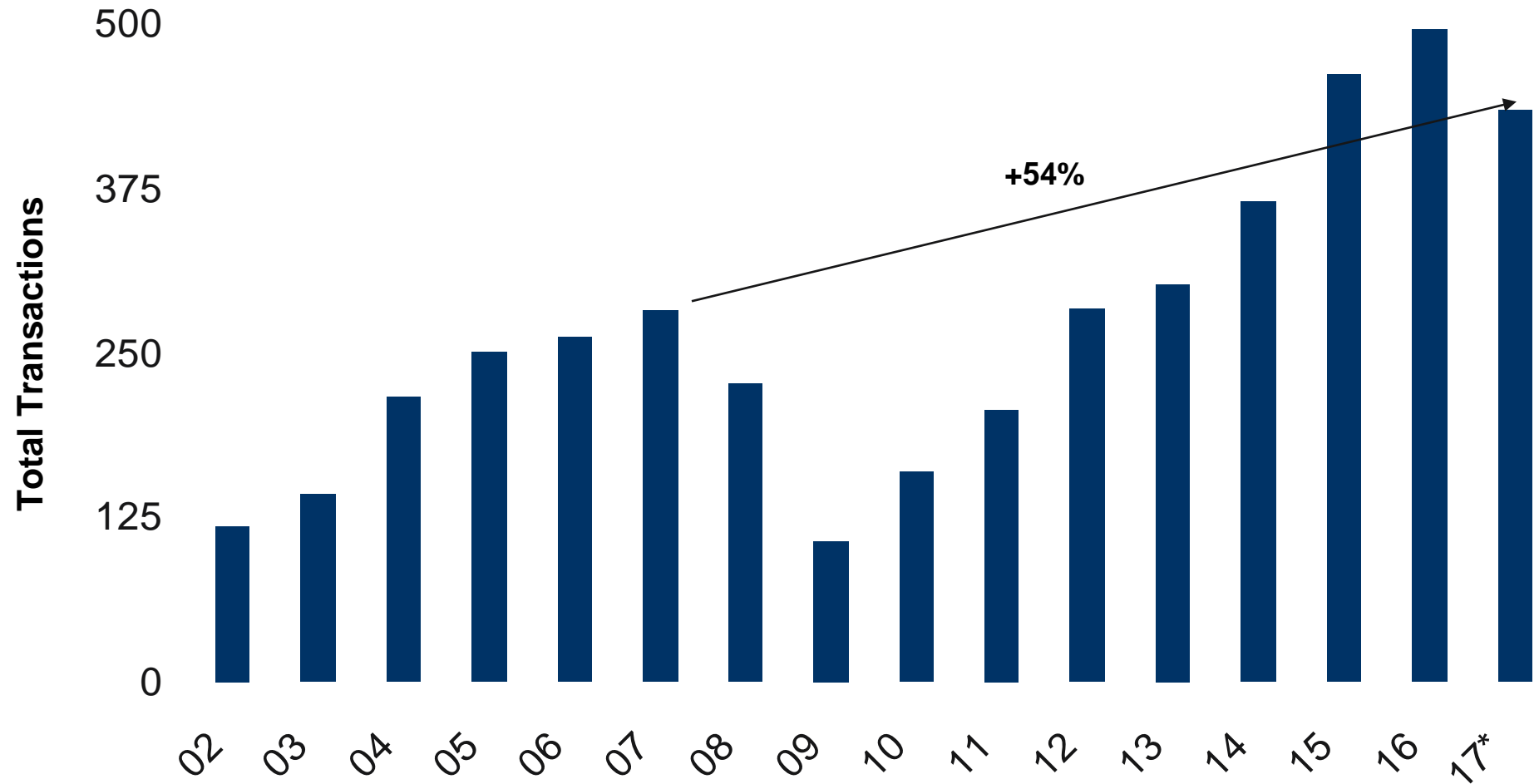
Point of Maximum Financial Risk



Point of Maximum Financial Opportunity

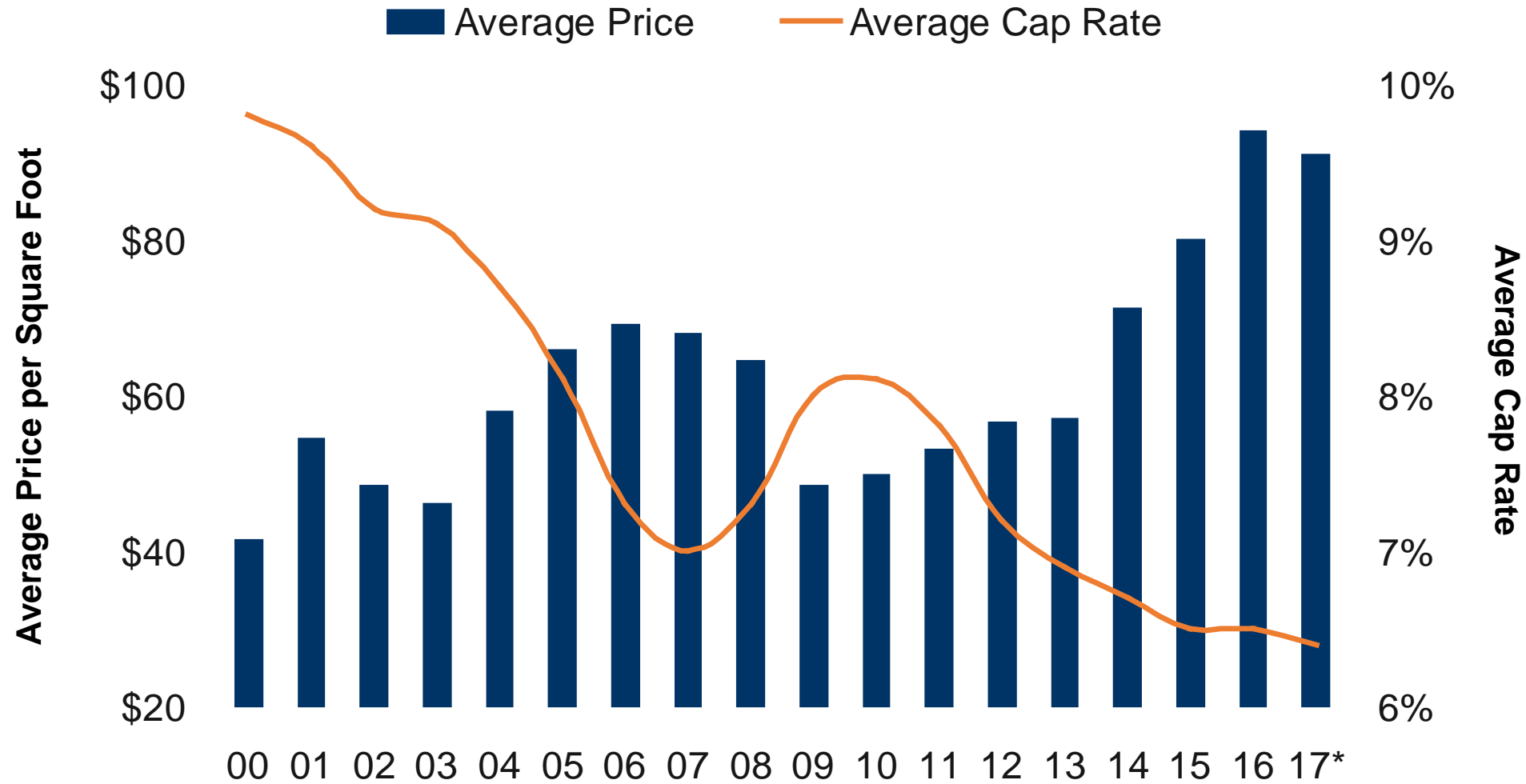
Self-Storage Investment Trends

Transaction Activity \$1M+



* Preliminary estimate for trailing 12-months through 1Q
Includes sales \$1 million and greater
Sources: Marcus & Millichap Research Services, CoStar Group, Inc.

Self-Storage Price and Cap Rate Trends



* Preliminary estimate through 1Q
Includes sales \$1 million and greater
Sources: Marcus & Millichap Research Services, CoStar Group, Inc.

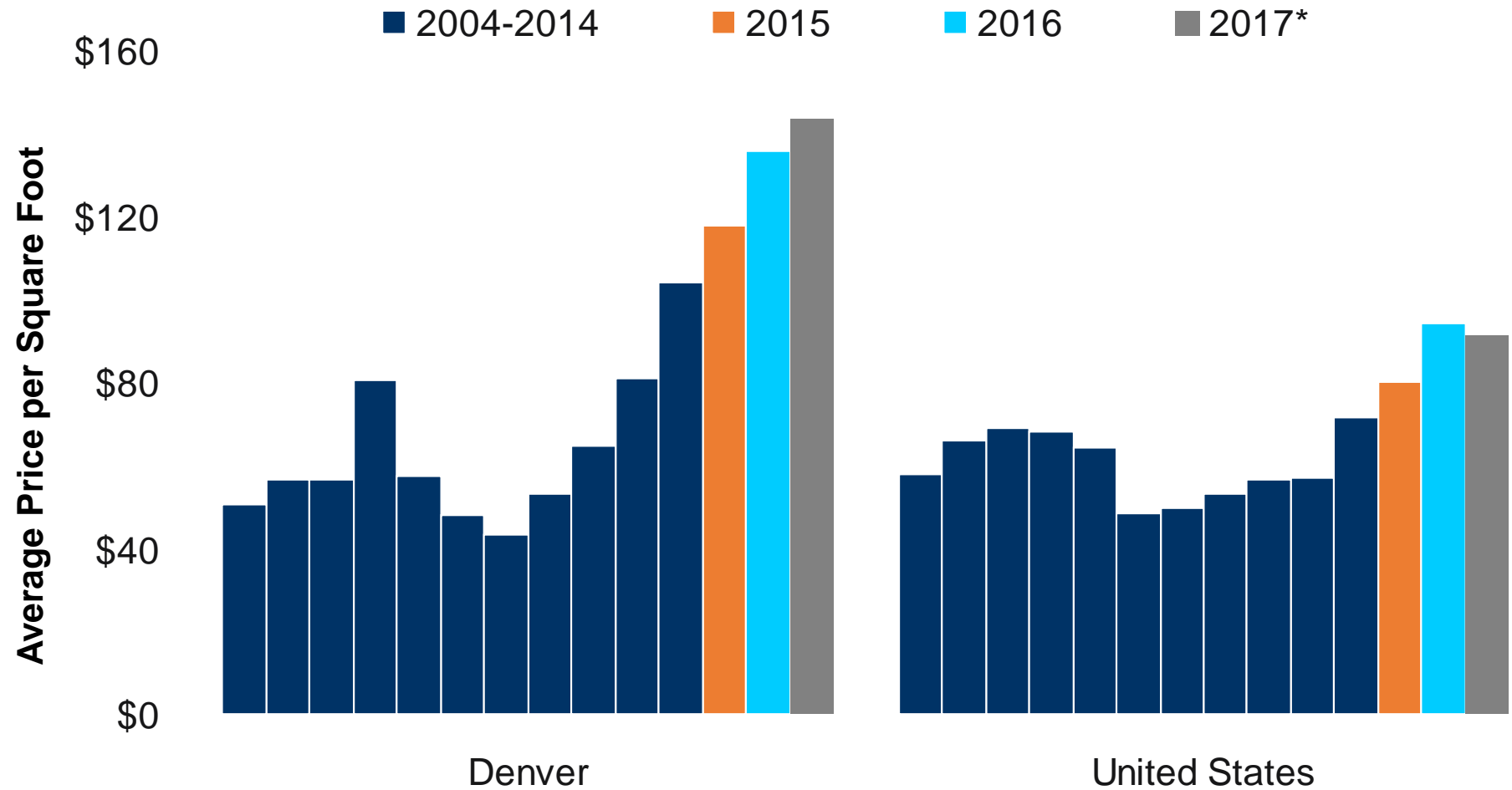
Self-Storage Cap Rate Trends By Class and Market Type

	Primary	Secondary	Tertiary	Average
Class A	4.5% - 5.5%	5.5% - 6.25%	6.5% - 7.5%	6.0%
Class B	5.5% - 7.0%	6.5% - 7.5%	7.5% - 8.5%	6.8%
Class C	6.5% - 8.0%	7.0% - 9.0%	8.0% - 10.0%	7.8%
Average	5.9%	6.9%	7.8%	6.4%

As of 1Q 2017

Sources: Marcus & Millichap Research Services, CoStar Group, Inc.

Denver Self-Storage Price Trends



* Preliminary estimate through 1Q

Sources: Marcus & Millichap Research Services, CoStar Group, Inc., Real Capital Analytics

What to Watch in 2017

What to Watch in 2017

- **Tax Changes, Deregulation and Fiscal Policy a Wildcard**
- **Rising Interest Rate Climate / Cautious Fed**
- **Impact of New Supply**
- **Pressure on Rental Rates and Occupancy**
- **Limited Prospects of Rising Cap Rates**



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