



SELF STORAGE SALES NETWORK

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A Tale of Two Markets - The REITs and the Rest of Us by Michael L. McCune

Believing that the “audience is almost always right” (as in the television game show, *Who Wants to Be a Millionaire*) we thought we would ask our readers to opine on what the future would bring with regards to several indicators that we have no control over and that significantly impact the value of self storage in the intermediate term. The results of the survey are in and are summarized on the enclosed flyer. As you can see, our “audience” is somewhat less than enthusiastic that these uncontrollable factors are looking positive for rising values.

While we **strongly** believe that the future of self storage as an investment in the long run is quite positive, we would agree with the results of the survey that there are some dark clouds appearing on the horizon as to self storage values in the intermediate term. Indeed, we have started to see that cap rates have ticked up somewhat, which of course impacts real estate prices. If our “audience” is correct, the real question becomes; how long is the “intermediate term” or, for that matter, when does the “long term” begin? Unfortunately, our crystal ball fogs up a bit at this point, for these are truly the important questions for owners who have some limits on their investment horizons, i.e. planned retirement, health issues or other personal reasons to sell in the intermediate term, however defined. As we have discussed in the past, these uncontrollable factors (cap rates, interest rates, and new competition) can have a dramatic impact on the intermediate term value of a facility.

It occurred to me that it might be insightful to provide some useful perspectives and take a look at what has happened to the large Self Storage REITs over the last few months, as the Wall Street crowd has assessed the current performance and the future value of self storage. These REITs collectively own an estimated 3,100 facilities throughout the U.S. and are generally considered to be quite effective competitors in the self storage marketplace. The information in Chart I will give you some perspective on the magnitude of recent value changes and the speed with which they can occur. In a generally rising stock market, declines in particular groups of stocks suggest that there is a change in the perceptions of value in the minds of many large investors. *However, let me be absolutely clear, values of individual self storage facilities have not had similar declines*

and are, in fact, selling at or near all-time highs! Clearly, though, the future market could be impaired by this decline in the REITs values and their appetite for more facilities.

Chart I: 2007 REIT Stock Prices

REIT	2007 High	2007 Low	Current 7/10/07
Sovran (SSS)	\$63.93 (2/7/07)	\$47.18 (6/27/07)	\$48.17 (-24.7%)
Extra Space (EXR)	\$20.53 (3/12/07)	\$16.29 (7/10/07)	\$16.29 (-20.6%)
Public Storage (PSA)	\$117.16 (2/8/07)	\$74.28 (6/27/07)	\$76.29 (-34.9%)
Dow Jones Change	12,510 (2/7/07) → 13,501 (7/10/07) (+7.9%)		

The REITs’ management teams are experienced, not only in self storage, but also in real estate valuation. I thought it might be useful to see what the insiders thought about the future market by examining when they thought it was prudent to sell some of their investments in self storage and what has happened to the prices subsequent to their investment decisions. Chart II below shows the major sales and purchases by insiders; those that must report the sales of stock (generally, directors and senior management). A quick glance would suggest that some of the insiders’ sales were certainly timely in light of the future market or that their modest purchases reflected concern.

Chart II: Insider Stock Trading

REIT	Public Storage (PSA)	Extra Space (EXR)	Sovran Self Storage (SSS)
2007 Net Sales:	-244,500 shares sold	+384,140 shares purchased	+10,448 shares purchased
Largest Sale:	B. Wayne Hughes, Jr.: 240,000	N/A	Robert Attea: 9,600
Largest Purchase:	John Reyes, CFO: 10,000	Kenneth Woolley: 91,905	Robert Attea: 7,896
2006 Net Sales:	-935,830 shares sold	-104,199 shares sold	+32,806 shares purchased
Largest Sale:	B. Wayne Hughes: 534,600	Kenneth Woolley: 430,500	Kenneth Myszka: 5,000
Largest Purchase:	B. Wayne Hughes, Jr.: 162,000	Kenneth Woolley: 110,100	Robert Attea: 12,201

Source: Vickers Stock Research Corp., 2007

What does all this mean for you? First, it means that you have to seriously evaluate your own objectives and personal situation. If, for example, you have an investment horizon that is five years or longer, your property is not over-leveraged, your facility is competing well and there are barriers to entry in your market, then most of this information is probably just mildly interesting and you can sleep at night knowing that this is just another cycle of the real estate market. If you are a serious buyer of self storage, it is likely that returns on your purchases of self storage may improve and you may want to be on the lookout for some good buys. However, if you are thinking about selling in the “intermediate term” for any reason or you are plagued by the possibility of significant new competition in your market or your financing has a short term (say, under five years) or you have an adjustable mortgage rate, you may want to think about refinancing or even think about doing what some of the Big Guys do when they see the market turning.