



Self Storage Industry Report

Dallas MSA - Performance and Pipeline Data
September 2017

Executive Summary

The recent acceleration of self storage development activity in the U.S. has created great concern regarding the impact of new supply on industry performance. The consensus opinion around the industry indicates that supply growth will continue at a strong rate into 2018, which means that now more than ever, there is a great need for market trend transparency.

Historically, the industry has lacked reliable and consistent data for measuring this type of new supply influx and its impact on market performance. A lack of supply data, in addition to limited transparency into performance, contributes to overall industry uncertainty.

That is where STR comes in. Currently, we are tracking self storage pipeline activity in more than 30 MSAs nationwide and measuring performance data for several major industry markets.

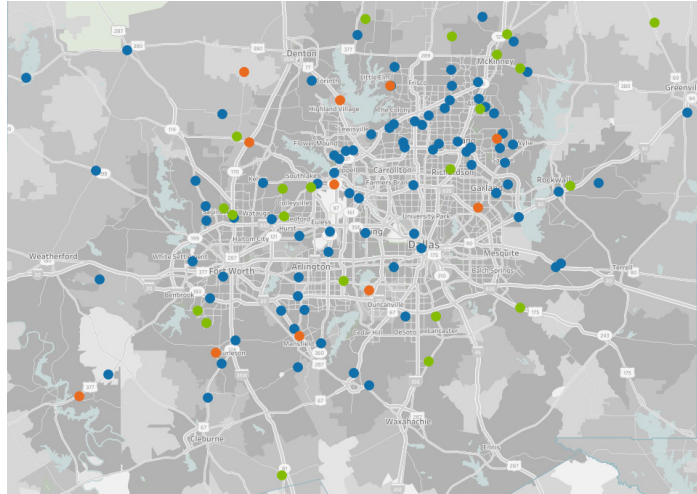
This report will present a holistic view of the Dallas-Fort Worth-Arlington, Texas, self storage industry with insights into existing and new supply as well key operating and financial performance metrics.

Existing and New Supply

Among the ¹Top 25 MSAs by existing supply, Dallas-Fort Worth-Arlington has the second-largest presence with 999 open and operating facilities accounting for 48.6 million net rentable square feet (NRSF). In Texas, the Dallas MSA has the second-largest number of self storage facilities and NRSF available despite being the least densely supplied area among the state's four largest MSAs (Austin, Dallas, Houston and San Antonio). With a population of roughly 7.2 million, STR estimates that there are currently 6.7 NRSF/Capita.

¹ Top 25 MSAs include: Atlanta, Austin, Boston, Charlotte, Chicago, Dallas, Denver, Houston, Los Angeles, Miami, Minneapolis, Nashville, New York, Orlando, Philadelphia, Phoenix, Portland, Riverside-San Bernardino, Sacramento, San Antonio, San Diego, San Francisco, Seattle, Tampa, Washington, D.C.

Dallas-Fort Worth-Arlington



Category

- Abandoned & Deferred
- Expansion & Renovation
- New Construction

2017 Population

- 0 to 766
- 766 to 2,160
- 2,160 to 6,210
- 6,210 to 20,000
- 20,000 to 122,000

Pipeline projects with inexact addresses are not plotted on the maps.

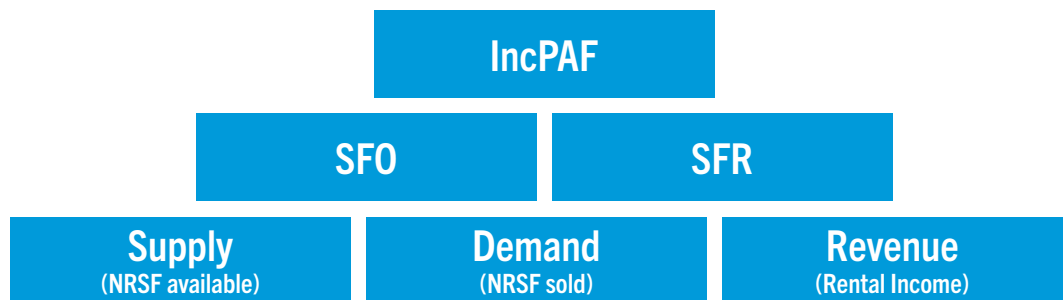
With a population increase of more than 12% since 2010, industry stakeholders have identified Dallas as a prime market for commercial real estate development. STR is tracking more than 1,200 projects in the nationwide self storage pipeline, and with 161 projects in various phases of development, Dallas has the largest pipeline of any U.S. MSA. These totals include projects that are New Construction, Under Renovation or Expansion, as well as Abandoned, Deferred and Unconfirmed projects that are yet to be approved. If all projects were to be completed, Dallas would potentially add 12.0 million NRSF to the 48.6 million existing NRSF in the MSA. That means Dallas faces the largest potential supply increase (25%) of any major Texas MSA. However, it is worth noting that STR does not expect the completion of all 161 projects given that 73 projects are currently in the more uncertain phases of the pipeline (Unconfirmed, Planning and Deferred). If all pipeline projects were to be completed, Dallas MSA self storage density would increase to 8.4 NRSF/ Capita.

Total Projects		161
New Construction	Total	109
	Unconfirmed	5
	Planning	49
	Final Planning	16
	In Construction	39
Expansion/Renovation	Total	30
	Expansion	30
	Renovation	0
Abandoned/Deferred	Total	22
	Abandoned	3
	Deferred	19

With the looming threat of this new supply, STR aims to present a transparent view of market performance by collecting facility-level performance data directly from operators. Our benchmarking platform will allow us to provide industry stakeholders with accurate, thorough and actionable visibility into market trends, which will subsequently inform smarter operational and development decisions.

STR Performance Methodology

The graphic below outlines STR's self storage key performance indicators (KPIs) and methodology.



STR starts with the basic foundation of performance drivers—Supply, Demand and Revenue, or in self storage specific terms: Net Rentable Square Feet Available, Net Rentable Square Feet Rented, and Rental Income. STR combines these core foundational metrics to calculate key performance indicators (KPIs) used to normalize and accurately benchmark industry performance at levels ranging from an individual facility to the full U.S. self storage industry in aggregate.

- Square Foot Occupancy (SFO) is defined as the number of Square Feet Rented divided by the number of Square Feet Available (Demand/Supply), or more simply, the percentage of NRSF rented during the measured time period.
- Square Foot Rate (SFR) is defined as the Total Rental Income divided by the Square Feet Rented (Revenue/Demand), or the average rental income generated per rented square foot during the measured time period.
- Rental Income Per Available Square Foot (IncPAF) is defined as Total Rental Income divided by Square Feet Available (Revenue/Supply), or the average rental income per facility square foot. This metric can be thought of as a combination of the Square Foot Rate and the Square Foot Occupancy. IncPAF, which can also be calculated by multiplying SFO and SFR, is thought of by STR to be one of the most direct metrics to obtain the broader picture of facility performance.

STR also tracks unit-level performance in terms of Unit Occupancy, Unit Rental Rate and Rental Income Per Available Unit (IncPAU) as well as monthly Unit Move-Ins and Unit Move-Outs. NRSF-based metrics are the most accurate means to normalize aggregated, facility performance data due to the wide range of self storage unit sizes available. Conversely, just as all KPIs offer valuable performance insights, per-unit metrics remain valuable for guiding operational decisions.

All performance metrics are aggregated to calculate MSA performance. STR leverages the company's more than 30 years of experience in providing benchmarking services for the hotel industry to ensure the highest level of data quality and confidentiality. No individual facility's or operator's data will ever be isolated or disclosed.

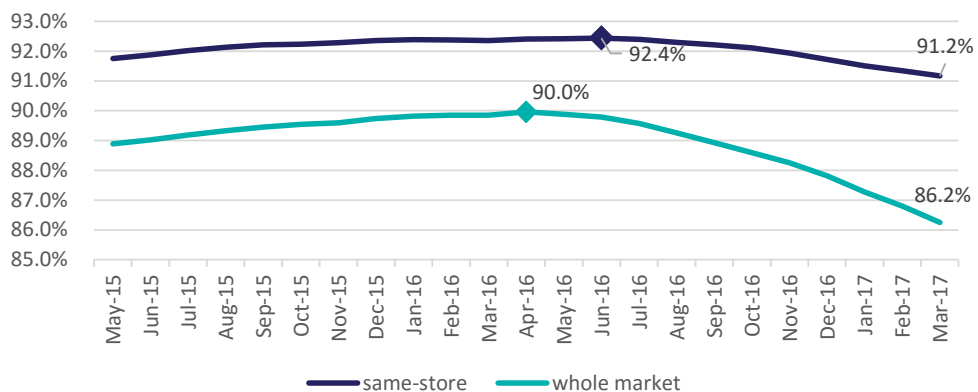
When evaluating industry performance, STR distinguishes "whole market" from "same-store sales" performance. A facility is designated as same-store when it has had at least 80% Square Foot Occupancy for 12 consecutive months. Whole market performance is the performance of all data reporting facilities in a market, regardless of same-store status (i.e. whole market includes facilities in lease-up).

Performance Data

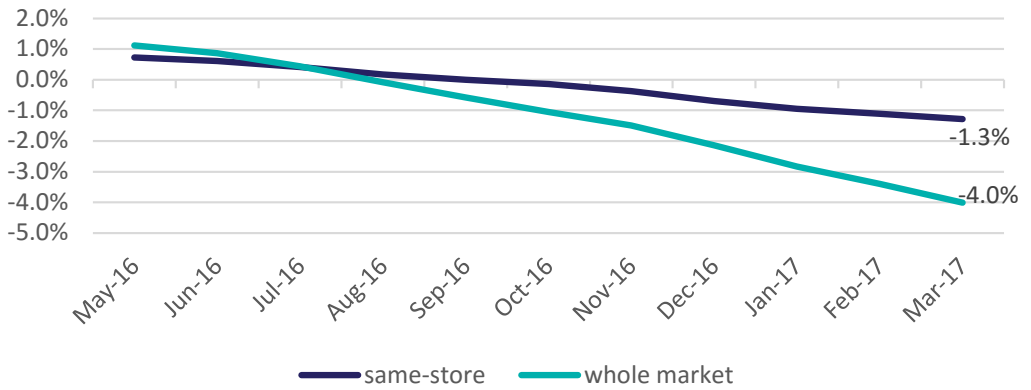
Occupancy

As a whole, self storage facilities in the Dallas MSA are experiencing declining square foot occupancy (SFO) rates. Whole market trailing 12-month (TTM) SFO was down 4.0% as of March 2017, and the decline accelerated in the later months of that time period. Whole market occupancy for the MSA peaked in April of 2016 at a reasonably high 90.0%, but TTM occupancy rates have been declining since. As one would expect, same-store occupancy levels are higher and more stable than the whole market picture, and they are declining to a lesser degree. The March 2017 TTM same-store occupancy rate for Dallas MSA facilities was 91.2%, down 1.3% from the recent June 2016 peak of 92.4%.

Square Foot Occupancy 12MMA

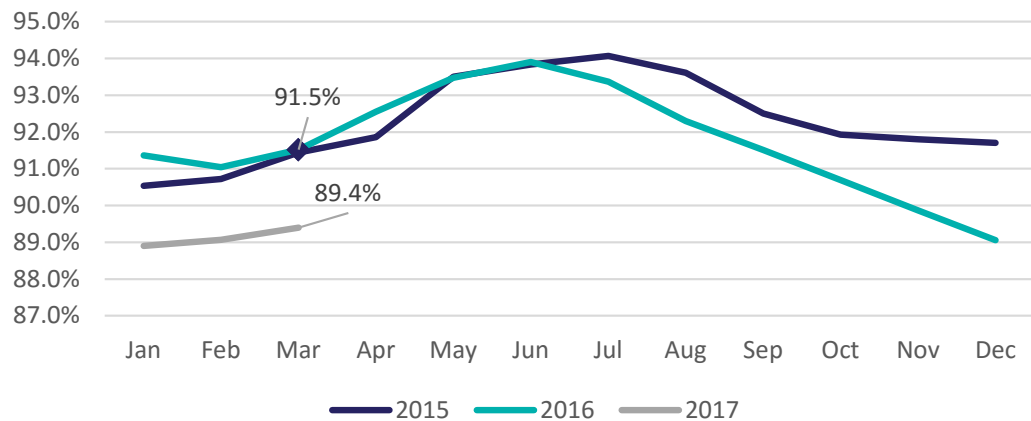


Square Foot Occupancy % Change, 12MMA

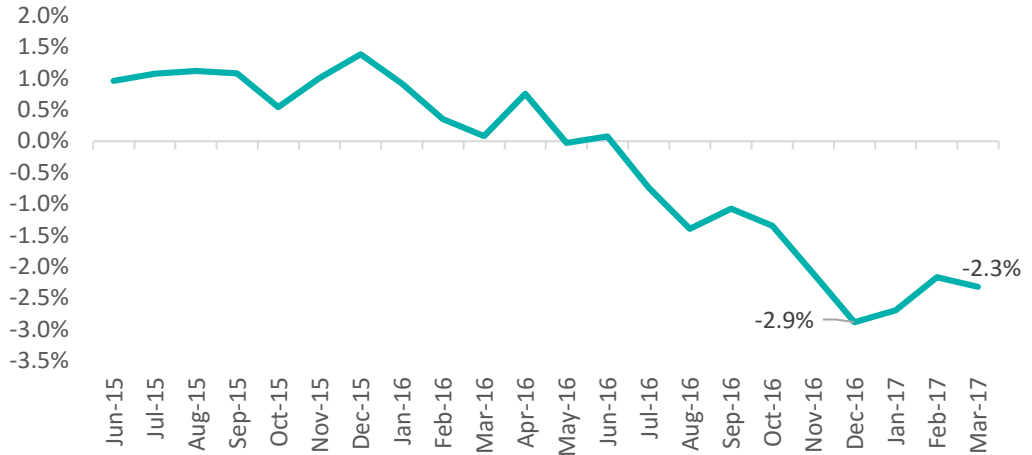


The chart below shows the monthly same-store SFO trend from January 2015 through March 2017. Same-store occupancy rates met or exceeded prior year rates in year-over-year comparisons until June 2016. Monthly occupancy rates started to decline in July of 2016 and continued to decline year over year. March same-store occupancy was 89.4%, down from 91.5% the prior year. Despite the declining occupancy rates, the year-over-year rate of decline lessened. March same-store occupancy rates were down 2.3% compared with a 2.9% decline in December, which was the largest decline in STR's Dallas MSA data.

Monthly Square Foot Occupancy Same-Store, 12MMA



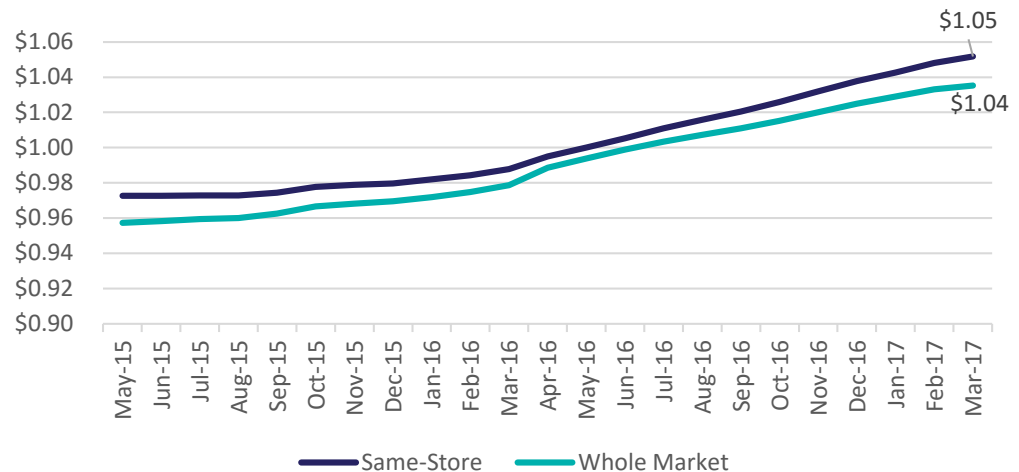
Monthly Square Foot Occupancy % Change, Same-Store



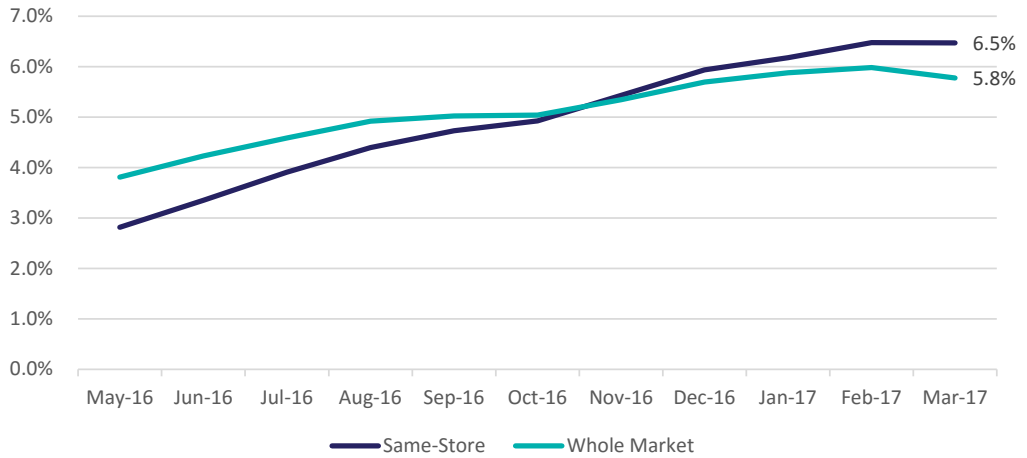
Rates

Despite declining SFO, Dallas Square Foot Rates (SFR) continue to grow. Both whole market and same-store facility SFRs are at peak levels and increased 5.8% and 6.5%, respectively, compared with March 2016. Prior to November 2016, whole market SFR growth outpaced same-store growth. SFR growth is significantly stronger in Dallas than the other major Texas MSAs. This strong rate growth could be attributed to the fact that Dallas has the lowest NRSF per capita among the major Texas MSAs.

Square Foot Rate 12MMA



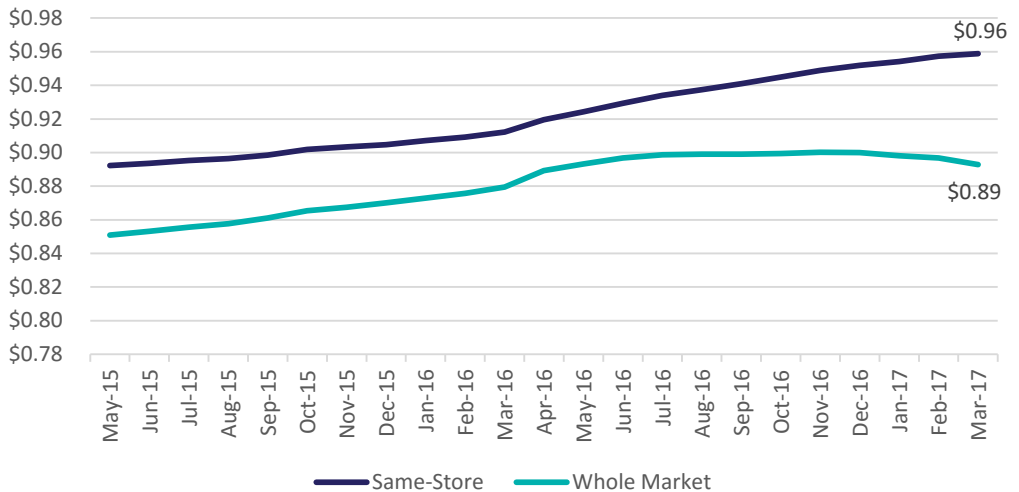
Square Foot Rate 12MMA % Change



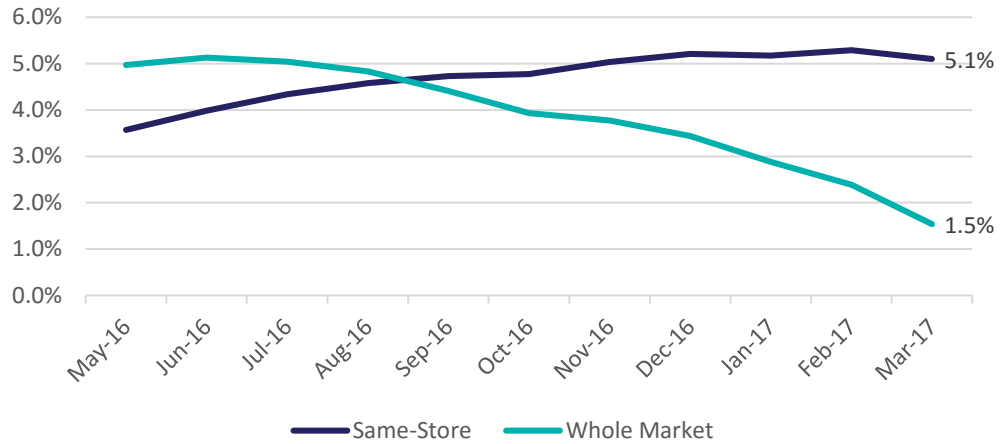
Rental Income per Available Square Foot

Dallas rental Income per Available Square Foot (IncPAF) is growing, but that growth is beginning to decelerate as SFO levels decline. Due to higher SFO, Dallas MSA same-store facilities have historically had a higher IncPAF than the entire Dallas market. Currently, Dallas same-store facilities have \$0.07 greater IncPAF than the whole market, which includes lease-up facilities. Same-store IncPAF has been growing faster than the Dallas market as a whole since September 2016.

Rental Income Per Available Square Foot 12MMA



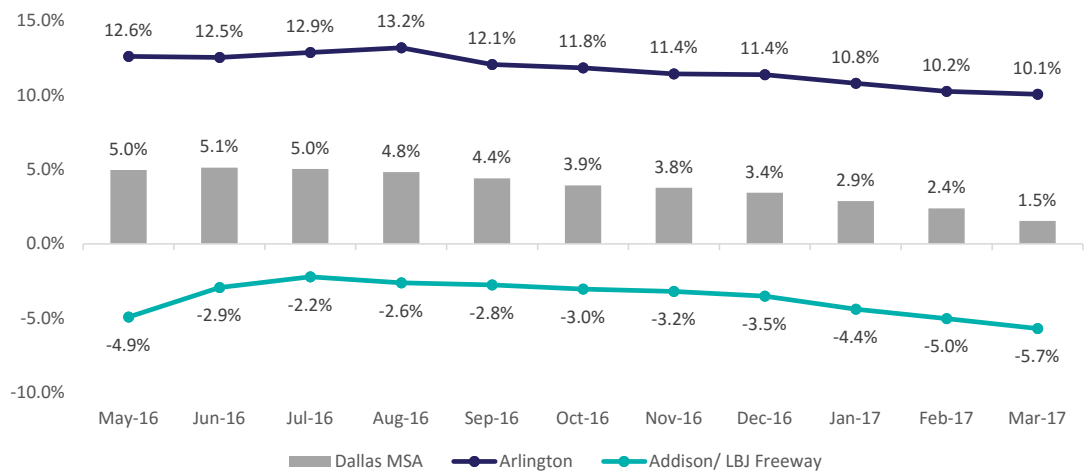
Rental Income Per Available Square Foot 12MMA % Change




Submarket Snapshot

STR further segments all MSAs into submarkets, or geographical subsets of MSAs. There are more than 10 submarkets within the Dallas MSA, all consisting of varying levels of competition, customer demographic profiles, and other factors that lead to differentiation of performance. The chart below briefly illustrates how two Dallas MSA submarkets, Arlington and Addison/LBJ Freeway, can produce very different performance despite their geographic proximity.

Rental Income per Available Square Foot 12MMA % Change, Whole Market





The Arlington and Addison/LBJ Freeway submarkets have had distinctively different IncPAF growth since May 2016. Additionally, neither submarket's growth curve looks similar to the overall Dallas MSA. Arlington is outperforming the entire MSA with higher than 10% YOY IncPAF growth since May of 2016, while the Addison/LBJ Freeway submarket has had consistently declining IncPAF. Arlington occupancy growth is weakening but has yet to turn negative, while the Addison/LBJ submarket has experienced square foot occupancy declines ranging from -6.8% to -8.6% every month since May 2016. Occupancy growth has fueled very strong Square Foot Rate growth in Arlington, as SFR had increased 9.2% as of March 2017. Despite declining SFO rates, Addison/LBJ Freeway's SFR grew modestly at 3.2% as of March.

Takeaways

The Dallas-Fort Worth-Arlington MSA is anticipated to see an influx of new supply over the next one to two years. However, many of those projects are in the earliest, most uncertain phases of development and are at the greatest risk of falling out of the pipeline. In addition, the Dallas area has one of the fastest growing populations in the U.S., and it currently has the lowest NRSF/Capita of the four major Texas MSAs. Demographically, Dallas may be able to absorb the new supply into the market without significantly affecting long-term market performance.

Current Dallas MSA performance is softening due to months of declining occupancy rates. However, operators have managed to grow square foot rates, partially offsetting the declining occupancy rates, and netting growth for overall IncPAF. Rates may experience downward pressure in the next one to two years as the market reacts to new supply. It is also important to note that all submarkets are not performing similarly, as illustrated by the Addison/LBJ Freeway and Arlington submarket comparison. Opportunity for strong self storage industry performance still exists within the Dallas MSA.

Appendix

Category	Phase	Definition
Expansion & Renovation	Expansion	An increase in square footage for an existing facility.
	Renovation	An update to an existing facility that does not increase facility square footage.
New Construction	Unconfirmed	Potential projects that remain unconfirmed at this time. STR is unable to verify the existence of these projects through a verifiable source.
	Planning	A project that has been proposed to local planning authorities and is seeking permitting (e.g. zoning or obtaining Specific Use Permits) but has not yet received building permits.
	Final Planning	A project that is approved and has received building permits but is not yet In Construction.
	In Construction	A project that has started construction.
Abandoned & Deferred	Abandoned	A pipeline project that has been terminated with no future activity anticipated. This differs from a Closed facility in that an Abandoned facility was never open and operating.
	Deferred	A project that has been proposed for development and appears paused or stopped (for example, was denied at any stage of planning, zoning or permitting) but is expected to resume development in the future.
Closed		A facility that was open and operating and now is no longer open to the public for business.

Definitions

Square Foot Occupancy (SFO)

The percentage of the net rentable square feet at the facility that was occupied during the time period

SFO = Square Feet Rented/Square Feet Available

**Rental Rate
(RR)**

The average rental rate per occupied unit that the facility achieved during the time period

$$RR = \text{Total Rental Income/Units Rented}$$

**Square Foot Rate
(SFR)**

The rental income per occupied square foot that the facility achieved during the time period

$$SFR = \text{Total Rental Income/Square Feet Rented}$$

**Rental Income Per Available
Unit (IncPAU)**

The rental income per available unit that the facility achieved during the time period

$$\text{IncPAU} = \text{Total Rental Income/Units Available}$$

**Rental Income Per Available
Square Foot (IncPAF)**

The rental income per available square foot that the facility achieved during the time period

$$\text{IncPAF} = \text{Total Rental Income/Square Feet Available}$$

**Unit Move-Outs
(UMO)**

Total number of units that were vacated during the period (i.e. the unit became unoccupied and available for a new renter) or unit rentals that were terminated by the company during the period

**Unit Move-Ins
(UMI)**

Total number of new units rented during the current period

About STR

STR provides clients from multiple market sectors with premium, global data benchmarking, analytics and marketplace insights. Founded in 1985, STR maintains a presence in 16 countries with a corporate North American headquarters in Hendersonville, Tennessee, and an international headquarters in London, England. For more information, please visit str.com.