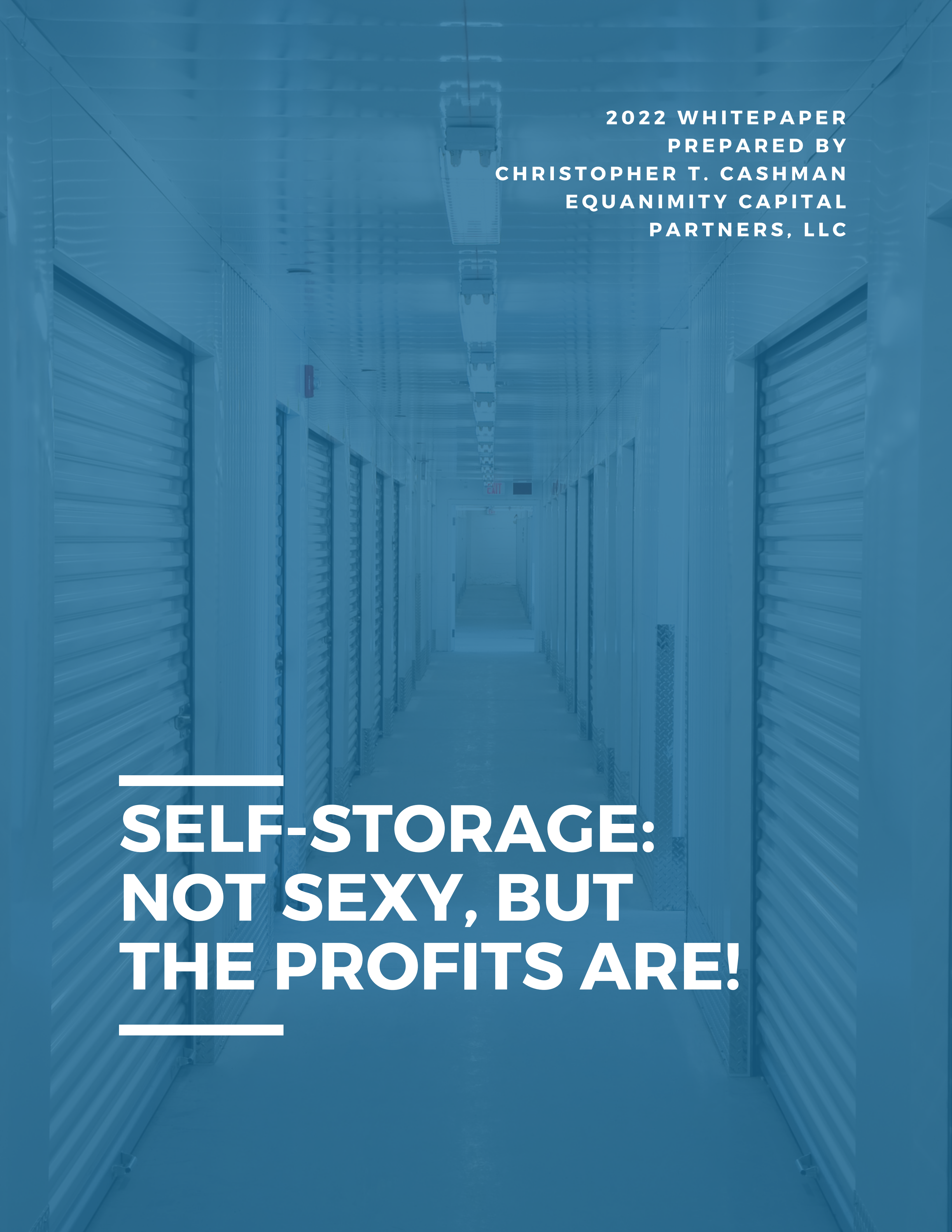
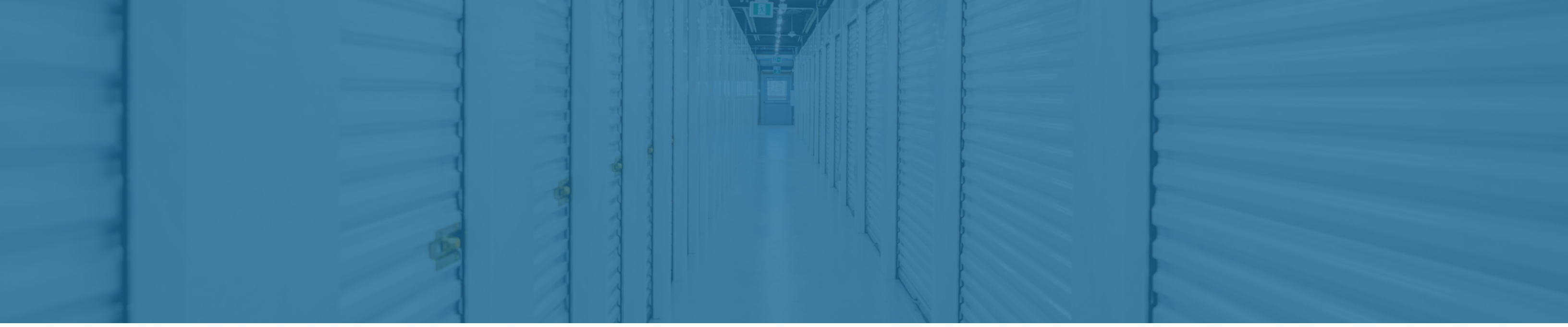


2022 WHITEPAPER
PREPARED BY
CHRISTOPHER T. CASHMAN
EQUANIMITY CAPITAL
PARTNERS, LLC

SELF-STORAGE: NOT SEXY, BUT THE PROFITS ARE!



OVERVIEW OF THE SELF-STORAGE INDUSTRY

The Self-Storage industry was born in the late 1950s and 1960s in Florida and Texas, initially for landowners to move property that was not earning income to income-generating usage. The industry expanded in the 1970s when Public Storage began to “institutionalize” it. Even though it is still relatively new and maturing as an industry, Self-Storage has become big business.

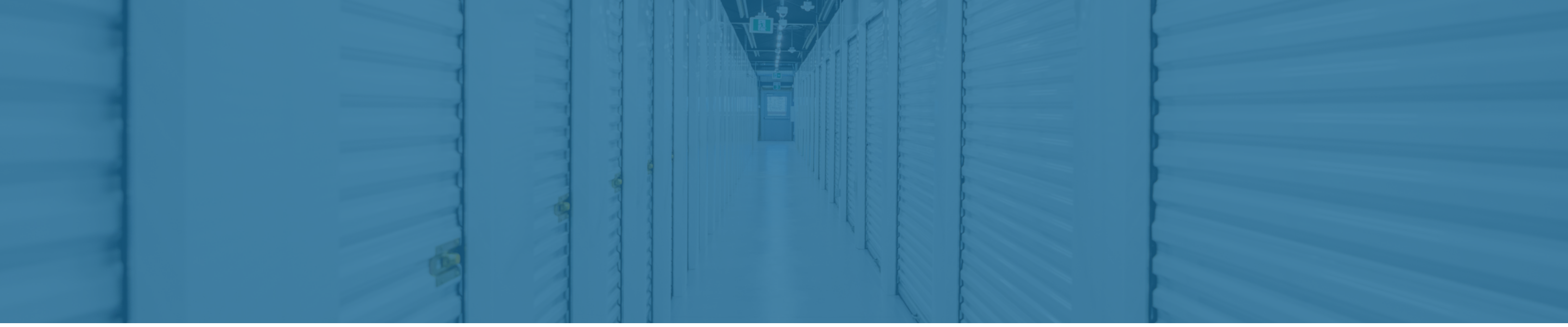
Our research revealed very impressive information for us as Self-Storage investors. Most outstanding was the fact that this industry has a huge “mom and pop" ownership with 63.3% of present owners having only one facility. Many of these owners have reached a “status quo” operation, meaning they are happy to have full occupancy with the same tenants, many they have come to know on a personal level. Often no website has been created and minor repairs are needed but often overlooked. A salaried employee and use of Yellow Page Ads are common practice.

According to Real Capital Analytics, commercial real estate sales volume of $68.4 billion, reported for last year's third quarter, was down 57% on a year-over-year basis. Seeking a safe harbor through the pandemic a growing number of investors are moving to the recession-resistant Self-Storage asset class. Before the pandemic, our team was already shifting into this asset class.

The Self-Storage industry is steadily expanding at an average annual rate of 7.7% since the boost it received during the Great Recession. From the period December 2007 – June 2009, commercial real estate sector REIT's reported losses as high as 60%. However, the Self-Storage sector REIT's posted positive returns of 5%.

Presently there are more than 60,000 Self-Storage facilities in the United States.

The historic growth of the Self-Storage market is demonstrated by its decade-long run of strong annual revenue growth. From 2010 through 2019, average annual revenue grew by 5% topping out at $39.5 billion in 2019. Projections indicate an annual increase in revenue growth of nearly 12% by 2024.

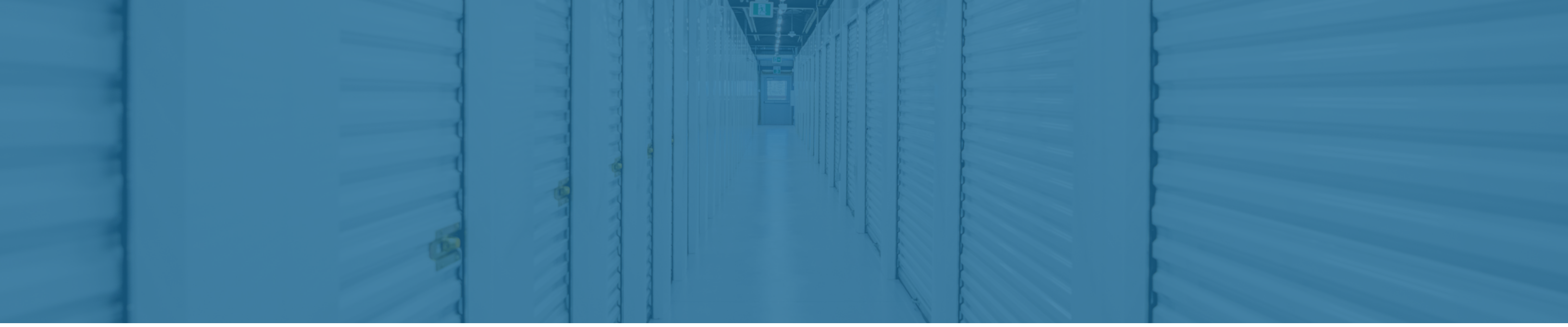


Self-Storage, historically known as a "mom and pop" business and often ignored by investors and lenders alike, sounds boring until you dig a little deeper into the history and profits that often outperform other real estate asset classes. In this white paper, we will dive into what is causing a surge in Self-Storage popularity and our specific acquisition strategies.

The Self-Storage industry was born in the late 1950s and '60s in Florida and Texas for landowners to add additional cashflow by building Self-Storage facilities on vacant land that previously was non-income producing; a strategic move as it met the demand Americans had for storage. Now, there are more than 24 million Self-Storage units in more than 60,000 Self-Storage facilities in the US. The historic strength of this market is demonstrated by its decade-long run of annual revenue growth.

U.S. SELF-STORAGE ANNUAL REVENUE

Let's take a closer look at the Self-Storage demand drivers, the investment opportunity, the operating and rental structure, and why lenders also love this asset class.



DEMAND

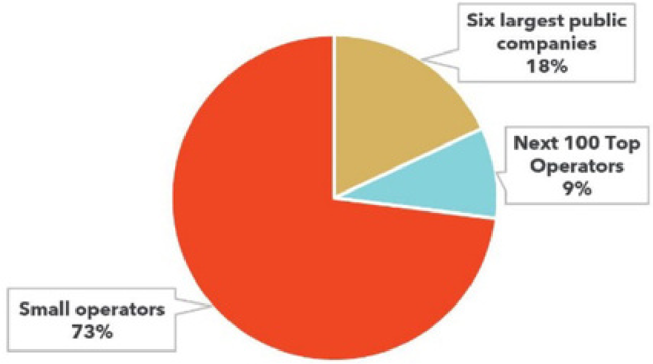
Industry experts typically cite the “4 D's of Self-Storage" - divorce, dislocation, death, and downsizing as the main drivers of the market demand. The COVID pandemic has amplified all these life events. Shutdowns, stay-at-home orders, unemployment, college closures, and over one million deaths have caused severe dislocation and significant downsizing across the country.

Temporary business closures also drive the use of Self-Storage as businesses grapple with current and future space management issues. A recent IBIS World Industry Report on storage and warehouse leasing found that one in 11 Americans are now using Self-Storage units, paying an average of more than $90 per space, per month.

OPPORTUNITY

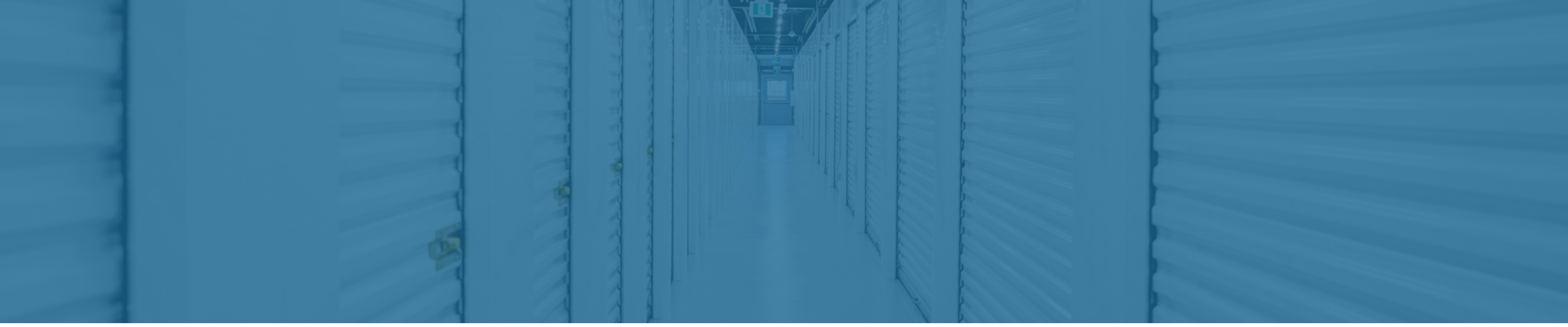
Seeking a safe harbor through the pandemic, a growing number of investors, large and small, are moving to the recession-resistant Self-Storage asset class. The Self-Storage industry has been steadily expanding at an average rate of 7.7% since the boost it received over a decade ago. While other commercial Real Estate Investment Trust (REIT) sectors suffered losses as high as 60%, Self-Storage REIT's posted positive total returns of 5% during this same recent recession. The Self-Storage industry remains extremely fragmented with over 70% of facilities owned by small, private owners who own three or fewer facilities. Yield-driven investors found the higher cap rates attainable in this asset class, averaging in the mid-6% range for the past couple of years, so attractive that total sales volume topped $31.9 billion between 2015 and the end of 2021.

SELF-STORAGE INDUSTRY OWNERSHIP



Source: Self-Storage Almanac, 2019

This presents opportunities for a wide range of individual investors and small investment groups to strategically enter the market. Local owners who are ready to sell their smaller, older facilities are prime targets as these facilities do not fit the larger institutional investors' or REIT investment criteria. REIT's view 50,000 – 60,000 square feet as their minimum requirement to purchase a facility.



OPERATING STRUCTURE

With much lower operating and capital expenses, Self-Storage operations typically yield 60% to 70% net operating income (NOI). The very nature of this business significantly reduces unexpected repairs and expenses. Items subject to capital expenditures are few and predictable. According to Dave Hettinger, national account manager at Motili (a leading Self-Storage HVAC firm), the Self-Storage asset class has outperformed every other Commercial Real Estate (CRE) asset class. "On average, storage operators enjoy an enviable 41% profit margin, compared to the 22% average profit margin across all industries." (Self-Storage Almanac, 2019)

RENT STRUCTURE (FLEXIBILITY)

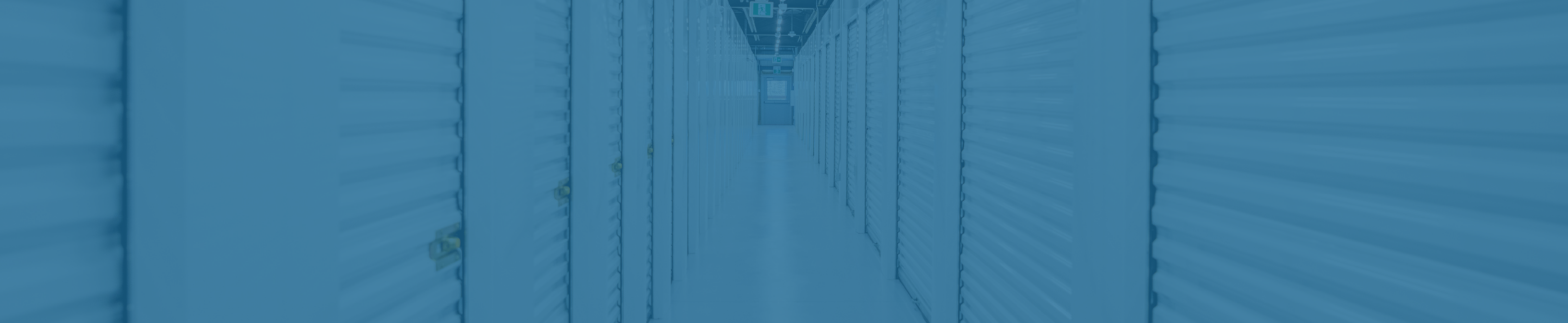
Unlike the long-term lease structure of other CRE asset classes such as office, retail, or multifamily, Self-Storage units are rented on a month-to-month basis. This gives Self-Storage operators maximum flexibility to raise or reduce rents as the local market dictates. This flexibility allows for more rent increases pushing profits yet higher. Even with nominal increases in rent, tenants are reluctant to move as most likely they would find the same or higher rates at other facilities in the area.

WHY SOME LENDERS TODAY LOVE SELF-STORAGE INVESTMENTS

Lenders are aware that the Self-Storage asset class has the lowest default rate in over 20 years. Diversification of tenants mitigates credit risk, fewer physical improvements are necessary, and there are no leasing commissions. The underlying fundamental requirements are consistent and forecasted occupancy rates are strong. Previously, many commercial real estate lenders kept their eyes tightly shut when it came to Self-Storage loans, they did not understand the asset class, had little interest in learning more about the industry, and focused their vision on more familiar property types. Lenders have come to understand that although storage rentals are month-to-month leases, the length of stay is statistically predictable, with residential tenants staying one year or more and commercial tenants staying two years or more.

With hundreds of individual customers, none of whom independently compose a meaningful percentage of the rent roll, the loss of any given tenant will not cause a major cashflow disruption. Lenders have been exposed to and come to appreciate its success and viability.

Let's now look at the industry ownership and owners' habits.



SELF-STORAGE INDUSTRY IS STILL EXTREMELY “MOM AND POP” OWNERSHIP

73% of Self-Storage facilities are owned by small, private owners who have three or fewer facilities; often referred to as “mom and pop” businesses. (Self-Storage Almanac 2019)

TYPICAL “MOM AND POP” OWNERSHIP MENTALITY:

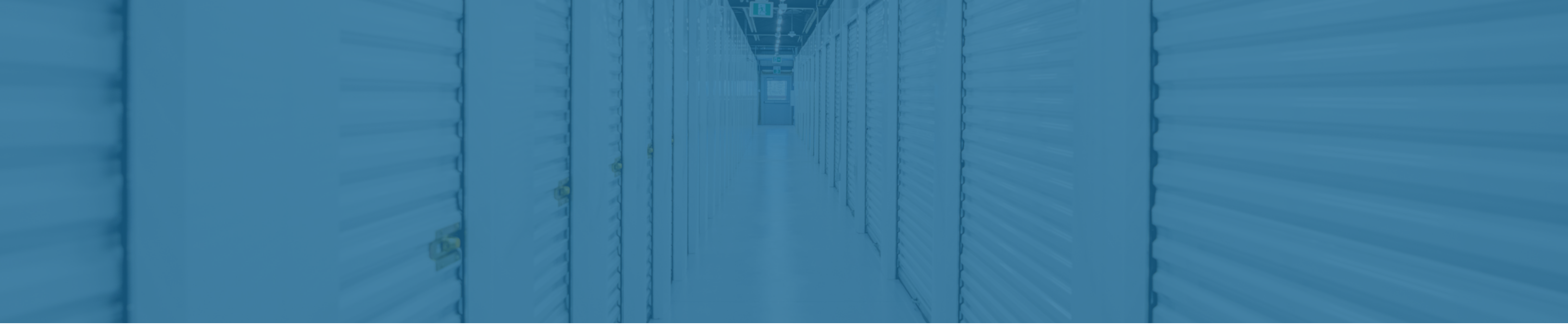
- “We rent what we have” with no plans for additional storage, often leaving land vacant that could be used for expansion
- Since rents often stay below market value, they are not maximizing income potential; they become friendly with the tenants
- A salaried employee is often retained on site
- Repairs and maintenance are often ignored or delayed along with the improvement and/or updating of lighting, security cameras, gates, and keypad entry systems
- Typically, low or no marketing budget, and no modern website; often Yellow Page ads are used instead of modern websites and mobile devices utilizing the power and reach of digital technology and Search Engine Optimization (SEO)
- Owners get comfortable with the cash flow and often ignore the computer-aided strategies of dynamic and value pricing

As more than 63% of these facilities are owned by individuals who only own one facility, our asset management group focuses on sellers fitting the above “mom and pop” description. For example, sellers often charge under-market rents, most often caused by owners focused on keeping 100% occupancy. They are often unaware of the true market rates and/or have come to know many of the tenants on a personal level making the raising of rents awkward. Our team seeks out facilities with untapped land to be developed to expand the existing facility’s size to appeal to the larger players or REIT's for interest in purchasing from us.

SUMMARY

The Self-Storage market experienced significant growth over the past decade. Before the pandemic, strong economic growth fueled vigorous job growth, household formation, and increased consumer spending, all important drivers of Self-Storage demand. Down-sizing baby boomers and demand for smaller apartment units in the urban cores placed living space at a premium, further driving this specialty market’s growth.

Excitement is running high as increased interest has pushed demand higher in this asset class.



TEAM STRATEGY - SIMPLE, SPECIFIC, DUPLICATABLE

Our team first looks at the most important statistics in the area which are demographics and job growth, then follows our strict acquisition criteria. The focus is on a specific, simple strategy, already proven successful and duplicatable. For continued success, our team focuses on acquiring properties that fit the team's strict criteria, mostly "mom and pop" facilities. We review buying opportunities weekly and submit offers based on our acquisition strategies. Our interest is in acquiring properties that are expandable or are conversions to interior climate control storage. (Example: older, vacant K-Mart, Sears, Walmart stores and empty warehouses, etc.)

Our team buys right, manages right, and finances right. Once purchased, we contract with the best-of-breed management company to implement our take-over management strategy during the transition period, merging software platforms and databases. In addition, the third-party management team will oversee the facility, raise rents to market value, introduce tenant insurance policies, implement dynamic and value pricing strategies, and create an asset-specific website. The site manager will interview and hire a part-time employee to coordinate with the management company for weekly walk-throughs and interactions with the third-party managers. This employee is the "go-to" contact person should issues arise.

CASE STUDIES

Our first two expansion acquisitions have resulted in success for both the owner/managers as well as the investors who participated.

American Self Storage, LLC in Ellijay, GA

Description at time of purchase:
99% occupied
30 – 40% below market rents
Purchase price $2,407,000
Purchase Date: August 24, 2021
Climate & Non-Climate Units: 248
8 office/apartments
Rentable square feet: 33,434
Site size: 7.56 acres
Price per SF: $71.99
Actual realized annualized return to investors: 28 – 30%*
Sales Price: $3.6m
Time Owned: 10 months
Annualized Investor Return: 28–30%

*Not finalized due to holdback amount (approximately $100K) to settle any outstanding taxes, legal fee, accounting fee, vendor billings, etc.

Once acquired we implemented our specific strategy. We cut the full-time employee, earning a salary of $35,000/year. We immediately implemented rent increases to market rates. Dynamic pricing and value pricing were phased in along with renters' insurance. Congruently we began the expansion plan exceeding the original conservative plans of 72 non-climate control units adding 96 additional units for a total of 11,520 rentable square feet.

We completed the expansion of the property and then walked the site with our strategic partner, a real estate broker who specializes in Self-Storage and who manages all of our sales. Having been involved from the beginning stages, he capitalized on his firsthand knowledge of the asset and was able to facilitate a win/win transaction with a buying group looking to expand in the Ellijay area.

Renegade Self Storage, LLC in Murphy, NC

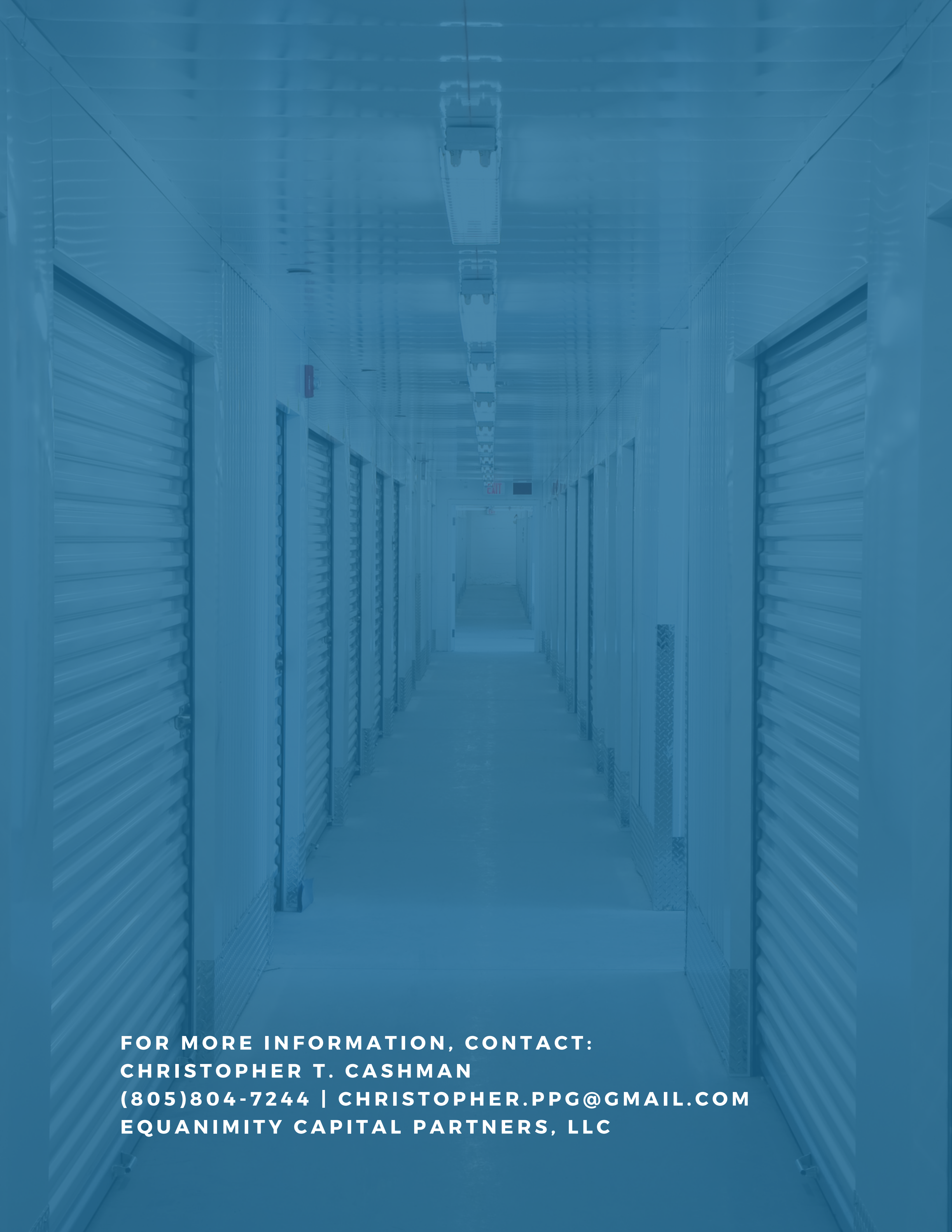
Description at time of purchase:
95% occupied
15 - 25% below market rents
Purchase price $2,444,000
Purchase Date: February 1, 2021
Climate & Non-Climate Units: 264
Rentable square feet: 36,100
Site size: 6.95 acres
Price per SF: $67.70
Anticipated annualized return to investors: 30 – 50%

As of now, based on our current construction projections, we will put Renegade Self-Storage on the market in Q1 of 2023 and expect to get $5 million or more, pushing the investor's annualized return to approximately 30 - 50%.

CONCLUSION

As we look forward to 2023, and we see the Fed revealing it wants to get the Fed Funds rate to 4.25% by yearend, we are continuing our forward momentum with acquisitions and strategic dispositions.

Also, with Fed officials wanting to stay politically neutral, but with a rate hike coming just six days before the elections, it all but guarantees a big change in leadership. Now, that's good news for Wall Street, since it loves gridlock—and we're going to get a lot of gridlock in Washington, D.C. after the mid-term elections. We feel this will continue the upward pressure on cap rates and we will continue to be flexible with all our asset management decisions.



FOR MORE INFORMATION, CONTACT:
CHRISTOPHER T. CASHMAN
(805)804-7244 | CHRISTOPHER.PPG@GMAIL.COM
EQUANIMITY CAPITAL PARTNERS, LLC