Marcus & Millichap

Self-Storage Research REPORT

2005 Annual Report

Executive Summary

- Despite a slowdown in sales activity over the last year, cap rates in the West dropped 40 basis points, to 8.25 percent.
- Investors in the South Central region put their capital to work in properties between $1.5 and $4.9 million, as sales in this price range accounted for 78 percent of the total transactions last year.
- Investors in the Southeast region drove cap rates down 30 basis points, to 8.6 percent, over the last 12 months. The median price per square foot increased 12 percent over the same period.
- Investors in the Northeast concentrated the majority of their funds in the $10 million-plus category. Transactions in this price range totaled nearly $130 million, accounting for two-thirds of total dollar volume in 2004.
- In the North Central region, sales volume and activity rose substantially last year, as higher-quality product in top-tier locations traded hands, many of which were in Illinois.

Attractive Returns Drawing Investors to Self-Storage Sector

Self-storage is gaining favor as an alternative to other commercial real estate. Sales velocity throughout the country was up 10 percent last year, driven by activity in the North Central and Northeast regions, where velocity more than doubled. Overall dollar volume reached nearly $800 million, up 50 percent from the prior year and more than two times the volume reported in 2001. The favorable lending environment, combined with significant investor competition in core property sectors, fueled increased capital flows to alternative real estate sectors, such as self-storage. As a result, cap rates dipped by more than 50 basis points to an average of 8.6 percent. While all five regions experienced a decrease in cap rates, the most significant decline was posted in the South Central region, where the average fell by more than 200 basis points, to 8.9 percent.

Strong Markets Not Limited to the West Coast

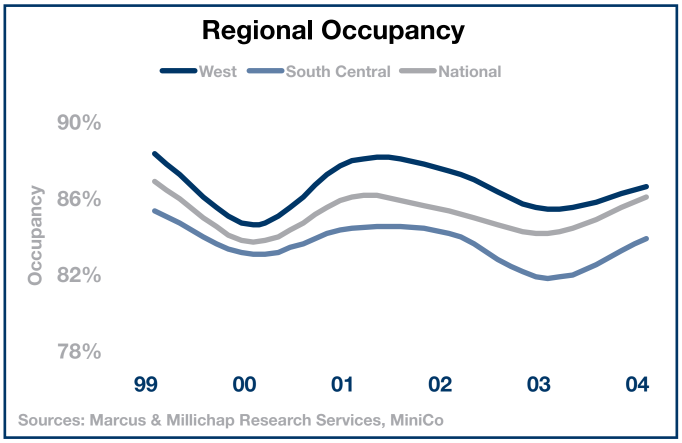
Construction activity was brisk in 2004, as almost 15 million square feet came online. In the coming year, however, developers will dramatically slow the pace of deliveries by nearly 70 percent to slightly more than 4.6 million square feet. The largest decline will be in the South Central region, where only 400,000 square feet is slated for delivery, down from 2.8 million square feet last year. In the West, the combination of slower construction activity, solid job growth and strong net in-migration trends will keep markets such as Los Angeles, Riverside and San Diego on investors' radar screens. Outside of the West, favorable economic and supply trends will entice investors to search for assets in Washington, D.C., Fort Lauderdale, Atlanta, Phoenix and Chicago. We also expect favorable supply conditions to attract attention to Minneapolis, Orlando, Las Vegas and Boston.

Self-Storage Gaining Attention

Lenders are starting to view self-storage real estate more favorably, as the sector has one of the lowest default rates when compared to multi-family, office and retail properties. In addition to individual private investors, REITs have also taken note of the potential for stronger returns in the self-storage sector. One such example is U-Store-It. After launching its IPO during the fourth quarter of 2004, U-Store-It paid $184 million for the Metro Storage portfolio of 42 facilities, making it the sixth-largest operator of self-storage facilities in the United States.

2004 Average Cap Rate Trends

West	South Central	Southeast	Northeast	North Central
8.3%	8.9%	8.6%	8.8%	9.0%



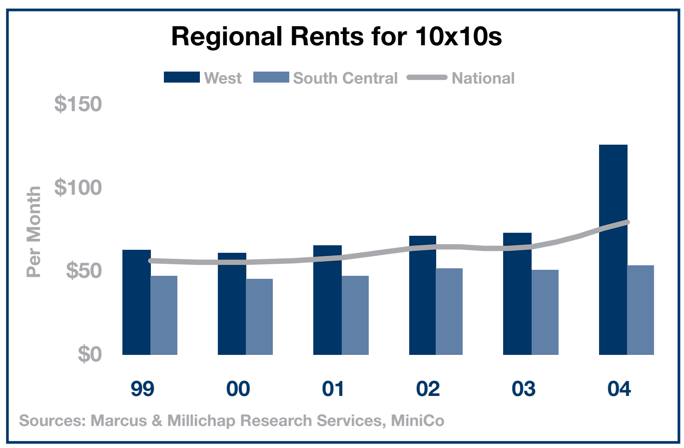
West

Following a decline in investment activity last year, self-storage transaction velocity in the West is forecast to rise this year. In 2004, many owners elected to hold properties due to the significant rent growth they were able to achieve, but with a year of strong NOI growth under their belts and interest rates forecast to rise, many are expected to begin offering properties for sale. Markets such as Los Angeles, San Diego and Riverside had very little construction over the last few years. This, combined with strong demand for self-storage product, and positive demographic and economic trends, will make these markets top performers. Even metros that have experienced high levels of construction in recent years, including Phoenix and Las Vegas, will attract investors as strong job growth and in-migration overshadow temporary supply issues.

In 2005, the greatest challenges facing investors in the West are saturation and competition. Fortunately, construction is forecast to fall by approximately 66 percent. Developers delivered large quantities of rentable square footage in recent years in states such as Arizona, Oregon, Colorado, Nevada, Washington and Utah, dampening improvement in market fundamentals. In 2004, the region registered a 110 basis point increase in occupancy to 86.6 percent, driven largely by properties in the Rocky Mountain States. The increase in occupancy allowed owners to achieve healthy rent growth, thereby further increasing NOIs. The West boasts the highest rents and posted the strongest growth in the nation last year, with 10x10 units now commanding more than $126 per month.

South Central

A decline in construction activity for the South Central region will aid operators in increasing occupancy in 2005. Last year, occupancy for South Central properties remained the lowest in the nation at 83.9 percent. This did not, however, dampen investor demand for self-storage product in the region. Total dollar volume climbed 64 percent to $55 million, and the median price per square foot rose 54 percent to $44.

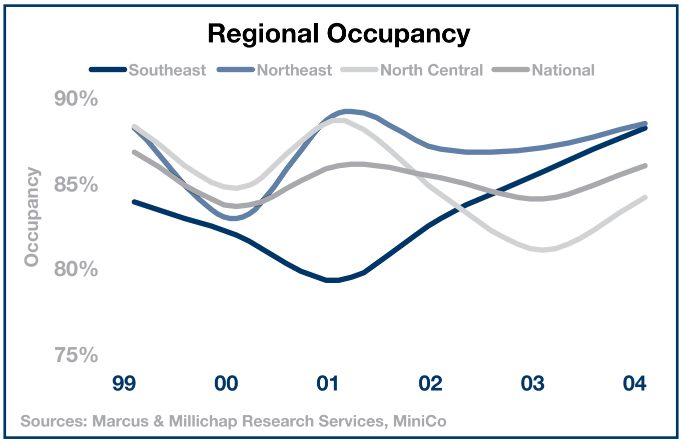


Increased demand for properties was generated by the ability of operators to provide better returns. Property owners were able to increase per-unit rents by 5.3 percent over the last year, to an average of $56.97 per month. The strongest growth was among 10x10 units, which registered an increase of 6.2 percent to $53.82 per square foot, following a decline of 2.2 percent the previous year. In addition, 69 percent of facilities in the South Central region reach 70 percent occupancy within the first 18 months of opening, the highest mark in the nation.

While development activity is on the decline, the South Central region will continue to battle the abundance of supply added in recent years. Within a five-mile radius, the number of competitors increased 43 percent to 10, while construction climbed to 1.5 facilities within a five-mile radius, up from one facility the previous year. We expect, however, that MSAs such as Dallas-Fort Worth will overcome supply issues with strong net in-migration and job growth. In fact, the Dallas area is expected to be one of the leading metro areas in net in-migration this year, as more than 42,000 new residents call the market home. Houston will also counter supply issues with strong demographic and job growth.

Southeast

The Southeast will continue to be one of the strongest performing regions, as several MSAs in the area are projected to register above-average job and population growth in 2005. Fort Lauderdale is forecast to post the second-highest job growth in the country this year, in addition to leading the nation in single-family home permits. Fort Lauderdale's hot housing market, combined with job growth and its current low supply of rentable square footage, will make the MSA one of the leading markets for self-storage investment in 2005.



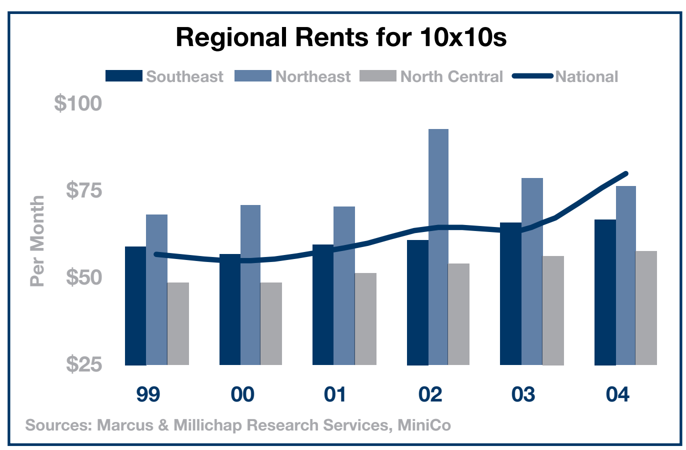
Investment activity is forecast to remain at high levels in the Southeast. Markets such as Washington, D.C., and Atlanta will remain attractive to investors, as both will boast strong job and population gains, and have compelling supply constraints. Developers brought less than 5 million square feet to market in the Southeast in 2004 and are only projected to complete 1.8 million square feet this year. Occupancy improved by 250 basis points in 2004 to 88.3 percent, and rents experienced the fourth consecutive year of growth, rising 1.8 percent.

Orlando and West Palm Beach will boast strong fundamentals in 2005. Orlando's supply is on par with its population, which along with nation-leading job growth of 4.6 percent will lure investors. West Palm Beach is forecast to record employment growth of 4.3 percent and is considered undersupplied for self-storage, both factors that will aid operators in raising occupancy and rents over the next year. Investors seeking value in the region will focus their attention on Raleigh-Durham and Charlotte, in hopes that stronger economic and demographic fundamentals will alleviate any oversupply issues.

Northeast

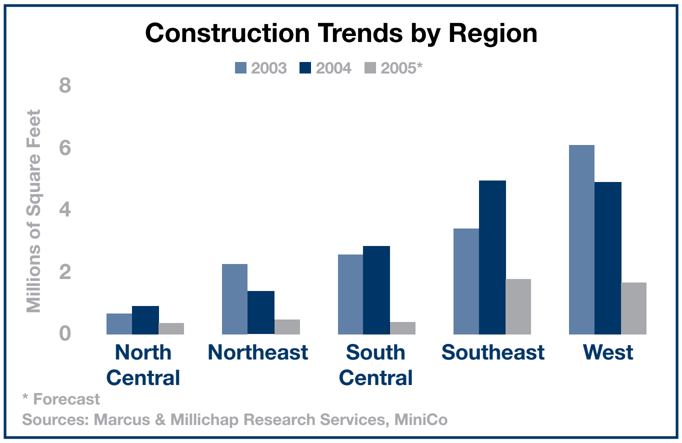
Limited supply and relatively high cap rates spurred significant investment activity in the Northeast last year. Dollar volume surpassed the $195 million mark – more than the total for the previous three years combined. The flurry of activity drove the median price per square foot up 32 percent to $65, while cap rates declined by 90 basis points to 8.8 percent. The high cost of land and raw materials reduced developers' desire to build new facilities in most urban areas, benefiting owners of existing properties.

The Northeast had the highest occupancy in the country at year-end 2004, at 88.6 percent. Within the region, New England markets posted the strongest gains in occupancy, with the overall rate jumping 500 basis points to 88.8 percent. Construction in the Northeast dropped by almost 1 million square feet last year and is forecast to decline further to 500,000 square feet in 2005. The region has the lowest number of competitors within a five-mile radius in the nation, and rents should start to trend upward over the next 12 to 24 months, after declining the last few years by as much as 16 percent due to high levels of construction activity. Markets such as New York, Boston, Providence and Northern New Jersey have a limited supply of rentable square footage per person, which will lead to higher occupancies, rising rents and a reduction in concessions.



North Central

Limited economic growth did not dampen investment activity in the North Central region last year. Transaction velocity more than doubled and dollar volume rose to $192 million. Sales were not spread evenly through the region's states, however, as 14 of the largest 15 transactions occurred in Illinois.



Buyers seeking newer properties will have fewer options in 2005, as developers are forecast to complete only 360,000 square feet of storage space this year, compared with 900,000 square feet in 2004. The rise in construction activity last year was more than offset by increased demand, which supported a 310 basis point improvement in occupancy to 84.3 percent.

After climbing more than 4 percent in 2003, rents remained relatively flat last year, as gains among 10x10 units were offset by declines in 5x10 and 10x20 units. Self-storage supply in most North Central markets is on par with population. The exceptions are Kansas City, which has an abundance of rentable square footage, and Milwaukee and Cleveland, which are undersupplied when compared to population. MSAs such as Chicago and Minneapolis will attract most of the investor attention in 2005. These metro areas are forecast to have adequate job growth to go along with positive demographic trends. Investors who are looking for more affordable properties and higher returns are expected to focus on markets such as Indianapolis, Columbus and Milwaukee.

Recent Sales Highlights

Property Name	Address	City, State	Price	Sq. Ft.	Price per Sq. Ft.
Storage Deluxe	245 W. Fordham Road	Bronx, NY	$14,175,000	58,592	$242
Sure Save USA	198 W. Artesia Boulevard	Long Beach, CA	$13,600,000	122,475	$111
Extra Space Storage	2489 Chesire Bridge Rd. N.E.	Atlanta, GA	$10,781,498	83,400	$129
Guardian Self Storage	7325 Davis Boulevard	Naples, FL	$8,950,000	99,715	$90
U-Store-It Self Storage	8250 Foothill Boulevard	Sunland, CA	$6,250,000	51,119	$122
Extra Space Self Storage	5201 N.W. 31st. Avenue	Fort Lauderdale, FL	$5,882,400	65,061	$90
Metro Storage	2114 Oakleaf Street	Joliet, IL	$5,698,000	74,750	$76
U-Haul Center Tollway	1501 Dallas Parkway	Plano, TX	$4,945,000	72,380	$68
Northpoint Storage	3435 N. Lamb Boulevard	Las Vegas, NV	$4,815,000	74,375	$65
Extra Space of Foxborough	147 Green Street	Foxborough, MA	$4,600,000	42,580	$108
Extra Space of Auburn	245-275 Washington Street	Auburn, MA	$4,600,000	55,750	$83
U-Haul Center John White	1101 E. Loop 820 Freeway	Fort Worth, TX	$4,597,000	103,500	$44
Storage USA	226 Bella Vista Road	Vacaville, CA	$4,275,000	55,725	$77
Anchor Storage	6119-6121 172nd Street N.E.	Arlington, VA	$3,175,000	61,502	$52
Crenshaw Storage	802 Crenshaw	Pasadena, CA	$3,000,000	179,370	$17
Storage Depot	12598 Tamiami Trail S.	North Port, FL	$2,600,000	29,080	$89
Paradise Mini Storage	5913 W. Paradise Lane	Glendale, AZ	$1,608,750	33,644	$48
Simply Self Storage	7472 Reliance Street	Columbus, OH	$1,365,000	41,100	$33
Store & Lock	3226 Omni Drive	Cincinnati, OH	$1,324,000	45,720	$29
Northglenn Self Storage	10828 Leroy Drive	Northglenn, CO	$1,111,000	83,756	$13

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The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. For the purposes of this report, only three unit sizes were analyzed: 5x5, 10x10 and 10x20. Sources: Marcus & Millichap Research Services, MiniCo, Inside Self-Storage, CoStar Group, Inc., Property & Portfolio Research (PPR).