LEITBOX STORAGE PARTNERS

Contact:
Owen Mulvaney
omulvaney@leitbox.com

The Fifth Generation of Self-Storage

It's hardly a secret that self-storage companies have performed well over the last year. For example, Public Storage, the owner of over 2,500 self-storage facilities across the U.S., has seen its common stock (NYSE: PSA) increase 80% from May 2020. Extra Space Storage (NYSE: EXR, 1,906 properties) is up 91% since April 1, 2020.[1] CubeSmart (NYSE: CUBE, 1,266 properties) is up 111% over the same time period.[1] Private company U-Haul International owns and manages more than 71 million square feet of storage space nationwide.[2] Even with these giant owners of self-storage facilities, the sector is still relatively fragmented, with about 70% of all units owned by mom-and-pop operators.[3] The "big guys" in the industry, including listed REITs, generate attractive returns by acquiring portfolios of existing facilities, expanding existing properties, re-branding, and improving operational efficiency. Then there are the nontraded REITs, like SmartStop Self Storage REIT, Inc., that have also performed well. Mainly through acquiring existing facilities, this REIT that is purely dedicated to self-storage assets, has grown to have 158 owned and managed facilities with 107,000 units as of September 30, 2021.[4] SmartStop's previous nontraded REIT offerings have succeeded in giving investors returns that rank among the highest among all nontraded REITs through their full-liquidity events. Institutional investors have also made large portfolio investments in the last few years within the self-storage sector. For example, Blackstone REIT has acquired 150 self-storage properties with 11.8 million square feet as part of its massive CRE portfolio.[5] The favorable performance may not continue, but there are numerous reasons we like self-storage and its prospects for the future.

Leitbox Storage Partners Has a Targeted Approach

Following a targeted strategy in the self-storage sector is Leitbox Storage Partners, a privately held vertically integrated, full-service development and acquisition firm that states "We do storage differently." Blue Vault caught up with Bill Leitner last week, the founder and CEO of Leitbox, to learn about what he calls the "fifth generation of self-storage." Bill's background has included over 25 years of developing retail real estate for some of the biggest tenants in the U.S. That experience in locating and developing retail properties has given him a unique perspective on how to successfully locate and develop self-storage properties. Unlike the companies named above, Bill's company strives to create value by successfully locating self-storage in urban, densely populated locations, where "city officials have no interest in a metal building with roll-up orange doors."

Leitbox defines its fifth-generation approach by three primary factors: design, location, and use. The design is typically a three-plus story building with architectural articulation resembling an urban mixed-use project. The design will blend in with adjacent retail properties. When you look at a Leitbox development, you might be hard-pressed to identify it as a self-storage facility. The ground floor will usually contain a variety of retail and/or professional offices. In the past, self-storage has been simply that: storage. By employing a mixed-use strategy, Leitbox can sometimes gain access to urban locations that might not otherwise be welcoming to self-storage. We believe that in the future municipalities may not allow this kind of development, but when available it can be a successful strategy. The fifth- generation approach introduces an entirely new use into the physical plant. This evolution is both better for the community and, in Bill's view, required to get the best locations.

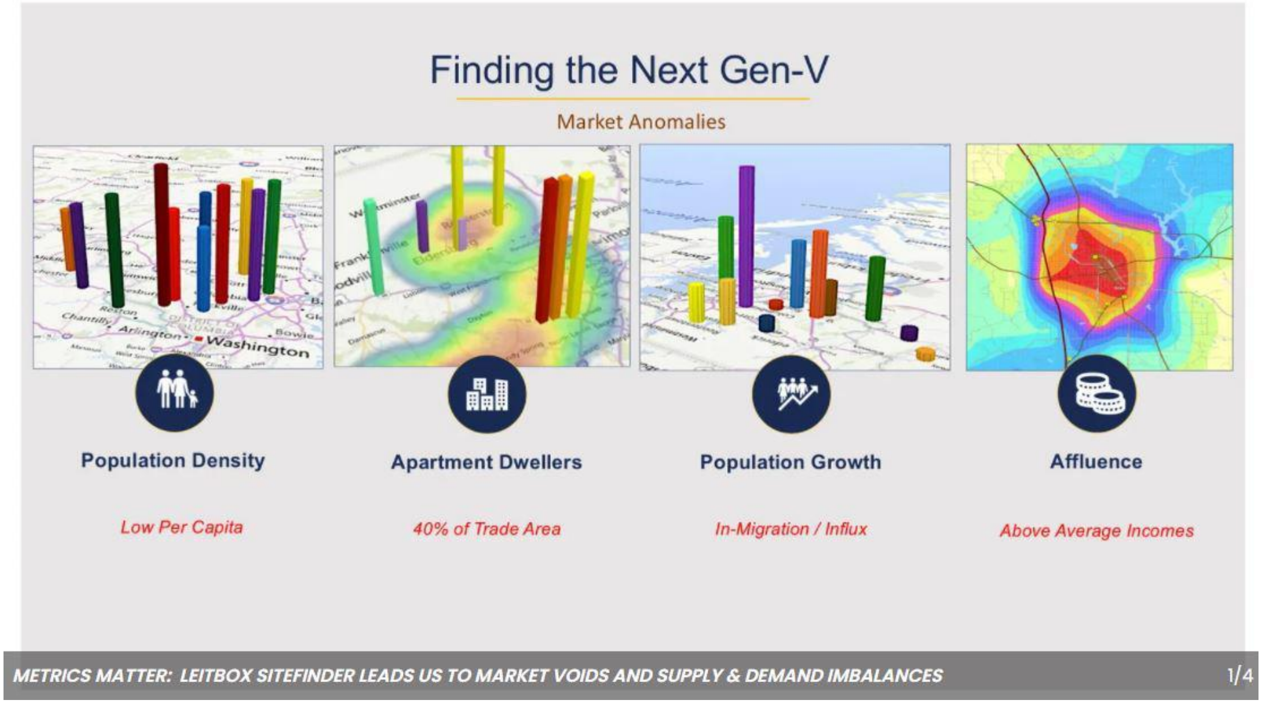
From a political standpoint, why would a mayor or city council approve a storage facility in their premier retail corridors? The typical storage facility does not generate employment, does not generate significant sales tax revenue, and it does not produce material impact fees.

Fifth generation storage integrates other uses to overcome this reluctance. By introducing what Leitbox calls high urban street retail components that produce a great looking storefront, more jobs and sales tax revenues. This is accomplished by typically dedicating about 4,000 square feet on the ground floor of a 90,000-square-foot building to retail or office tenants.

This approach also has an impact on profitability. By integrating the mixed-use component, there is a benefit in terms of break-even occupancy, potentially decreasing the risk of the overall investment. With 4,000 square feet of retail, open and operating on day one, in Bill's opinion the break-even occupancy can decline on average from 50 percent occupancy to 35 percent. The retail lease income is about the same amount as 15 percent of the storage income, and the retail pays 100 percent of its contractual rent on day one, so there is no absorption period. The lower break-even can translate into a greater profit opportunity. Leitbox employs the same leasing standards that Bill has sought to implement for the past 25 years. Fifth generation storage that incorporates mixed uses can be creative. We understand that this opens the door to more potential risks, specifically retail, office, and industrial risk, but Leitbox has seen quasi-industrial uses such as last mile retail in New York, artisan offices coupled with street-front galleries in Arizona, and even city fire departments in Pennsylvania. The storage component usually has only six to eight customers per day, so parking does not usually create any traffic conflicts.

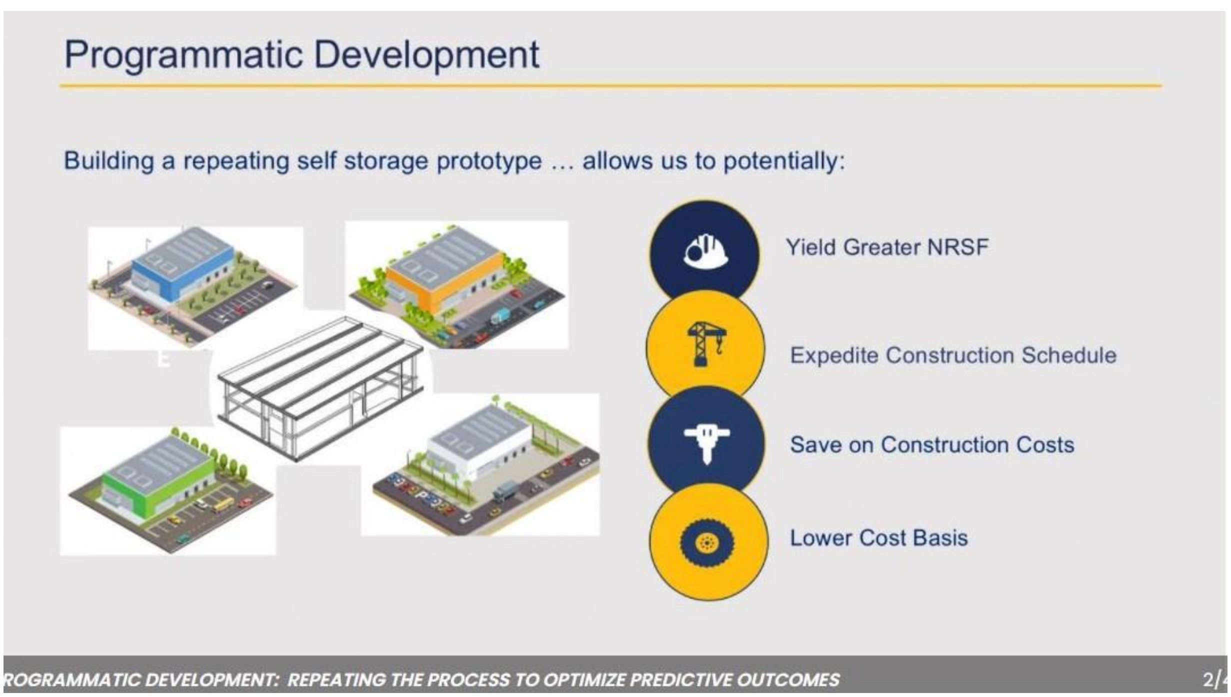
Finding the Next Generation Five Location

Leitbox utilizes a proprietary site finder model that looks for market anomalies. The model crunches data that includes population density, percentages of apartment dwellers, relatively higher in-migration and population growth, and above average incomes. Bill Leitner calls this a "market up" approach that identifies individual sites as possessing a supply/demand anomaly. Each site can be exploited using one of four approaches: 1) a programmatic development that is built by Leitbox from the ground up wherein they repeat the development of their self-storage prototype; 2) a mixed-use development with other uses outside storage into the physical plant, 3) a value-add income-producing acquisition, or lastly, 4) conversion of a retail use. Not all markets are alike, so, by using a multi-faceted approach to self- storage investment, Leitbox strives to insure the most important investment criteria remain atop the decision tree: location, location, location.



Programmatic development is the Leitbox approach to mitigating risk, shorten construction time frames, and improve the certainty of on-time and on-budget delivery. The final product, a mixed-use storage facility with ground floor retail, is designed to blend well with the surrounding retail due to the selection of exterior features, but the entire facility will be constructed using the proven Leitbox template, making the execution more like a manufacturing process.

By building a repeatable self-storage prototype, Leitbox believes its developments may yield a higher net rental per square foot, achieve an expedited production schedule, save on construction costs, and end up with a lower cost basis.



Raise Quick, Sell Quick

Leitbox raised $25 million in its first offering and has already returned 30% of investor capital with the sale of one of the six properties owned by the fund, which provided a 33% IRR within 18 months. (Past performance is not indicative of future results.) Three more properties are expected to be sold in the first quarter of 2022. One attractive quality about self-storage investments is the exit flexibility. Properties developed by Leitbox can be sold at three stages: 1) Certificate of occupancy before the first lease is signed; 2) Lease-up before the property is fully occupied, and 3) Stabilization when high occupancies are generating rent. Buyers of the Leitbox developments often prefer to buy at certificate of occupancy, when gains in value can be realized as the property is leased up. In many cases, the large public self-storage REITs are the likely operators and purchasers of completed Leitbox projects.

In a recent webinar presented by Blue Vault, Curtis Shoch, National Sales Manager for Leitbox, stressed that the Company's strategy is to raise capital quickly, invest it promptly, sell projects quickly and return capital to investors, then move on to the next program. When asked why Leitbox prefers this approach, he said Leitbox believes the highest returns can be achieved with quicker execution, a Leitbox strength. Although this may not happen with every transaction due to unforeseen market conditions it is what Leitbox strives to implement. Holding stabilized assets is not how higher IRRs are generated. The Leitbox "market up" approach is all about exploiting niche opportunities rather than operating large portfolios that generate only market rates of return.

Perhaps the difference in the Leitbox approach can be illustrated by this quote from the Public Storage

10-Q *(Leitbox is not affiliated with Public Storage):*

> "It typically takes at least three to four years for a newly developed or expanded self-storage facility to stabilize with respect to revenues. Physical occupancy can be achieved as early as two to three years following completion of the development or expansion, through offering lower rental rates during fill-up. As a result, even after achieving high occupancy, there can still be a period of elevated revenue growth as the tenant base matures and higher rental rates are achieved."6

Leitbox intends to raise capital, deploy capital into developments or re-purposed properties, and sell those assets quickly, in stark contrast to the buy-and-hold strategies of the largest self-storage companies.
For more insights into the Leitbox Self Storage approach, see:
Fifth generation self-storage in REALASSETS ADVISER, July/August 2021, by Bill Leitner

Footnotes

1. *Yahoo! Finance*
   - *Public Storage - https://finance.yahoo.com/quote/PSA?p=PSA&.tsrc=fin-srch*
   - *Extra Space Storage - https://finance.yahoo.com/quote/EXR?p=EXR&.tsrc=fin-srch*
   - *CubeSmart - https://finance.yahoo.com/quote/CUBE?p=CUBE&.tsrc=fin-srchuhaul*
2. *U-Haul - https://www.uhaul.com/Articles/About/U-Haul-Shares-Plans-for-Self-Storage-Facility-Coming-To-Durango-25927/*
3. *Extra Space Company Presentation 9/30/2021 – Slide 29*
4. *SmartStop Self Storage - https://www.bakersfield.com/ap/news/smartstop-self-storage-reit-inc-acquires-self-storage-facility-in-the-denver-metropolitan-area/article_ed751d32-b13a-51dc-b411-ce41fb5cf1c6.html*
5. *Blackstone REIT Presentation – 6/30/2021 – Slide8 - https://www.breit.com/wp-content/uploads/sites/4/2019/12/BREIT-Marketing-Presentation.pdf?v=1631307247*
6. *Public Storage (NYSE: PSA)* 10Q Pg. 53