Michael Foy's Speech Notes from the Halifax CSSA Conference

Industry history:

- The amount of available square footage has grown approximately 50% in the last 10 years.
- Rental rates have grown at a similar pace.
- Demand for storage grows as consumer awareness grows
- Development has helped to increase awareness. Developers are spending more on visible locations, better buildings, better operations and better marketing.

United States:

- 2007: At the beginning of the credit crunch, occupancy was still high at a stellar 90%, even after landlords increased rents by 8%.
- As markets softened, facilities started to offer some concessions to keep occupancies high.
- An increase in concessions can also be attributed to the massive increase in rental rates.
- Beginning of 2008: the strengthening of the self-storage market continues.
- All companies, with exception to one, have demonstrated better same store occupancies and rents.
- Individuals moving into smaller more affordable homes and storing their excess items are driving market demand.
- This demand will eventually fade and the market will be driven more by a shifting demographic.

Development:

- New developers are entering the market and adding new product, helping to increase rates, occupancy and improve service.
- Groups are building with the intent of selling – either a vacant turnkey or fully occupied site.
- Development has done much to improve the quality of facilities and operations, forcing some older sites to upgrade in order to keep pace, while others have been able to take advantage of the rate increases without investment.
- The top 10 developers are adding as much as 4 million square feet nationwide, resulting in an approximate 6 % increase in the market. This does not include developers who are building one off sites.
- In the coming years Dymon Capital is aiming to have 100 sites across the country including their 10 in Ottawa.
- The market is capable of absorbing 35 million square feet of new storage over the next several years.
- Most of the new storage developed, has leased up very well.
- Looking at occupancy rates – the market would appear ready to accept new builds.
  - BC: over 90% occupancy
  - Alberta: over 90% occupancy
  - Saskatchewan: over 90% occupancy,
  - Manitoba: around 90% occupied
  - Southwestern Ontario: some markets are at 100% occupancy
    - GTA: approximately 85% occupied.
    - Ottawa: approximately 90% occupancy.
  - Quebec: experienced a huge amount of development and lease up. Instorage has reported over 90% occupancy.
  - East Coast: approximately 85 % occupancy.

Finance:

- 12 months ago conduit lenders were contributing approximately 90% of all self – storage lending.
- For today, and the foreseeable future, conduits do not exist.
- Interest rates on 5 year mortgages have gone from a low 5.1% to somewhere near 7.0%
- Now might be the time to weigh the risks and rewards of a floating rate mortgage.
- Because rates significantly increase with term mortgages, a floating mortgage will provide owners with savings compared to a locked-in term mortgage.
- Once rates become more stable locking into a term may then become more attractive.
- There is more mezzanine and equity capital available to good self-storage operators and developers than ever.

Operations:

- Operators have become much more aggressive in their recruiting tactics.
- In order to compete, facilities need to continue to improve the customer experience.
- Referring back to Dymon Capital, the Company has done much to provide value added service including: free pickup with a cube van, climate controlled loading bays, improved security systems, climate and humidity control, real bank vaults, wardrobe storage services, packaging services, boardroom services etc,
- The 4 ways in which to add value to a site include:
    - Selling
    - Refinancing
    - Developing
    - Invest and Improve operations and facilities

Selling:

- We will start seeing a focus on local market consolidation.
- Groups with small portfolios and one off facilities will expand their presence in local markets.
- The market is starting to decipher quality of product. 'A' class properties will continue to sell at very attractive cap rates, while lesser properties will slowly start to see cap rates move up by as much as 150 bps. This means these sites could see 15 – 20% of their value disappear if their revenues do not move up to off set the discrepancies between facilities.
- Is it a good time to sell? It depends on the owner and understanding your investment. Have your property assessed and understand all of your options.
- If you decide to sell, make sure you take everything into consideration and come up with a good solid marketing plan to maximize your return.

Final Thoughts – The Credit Crunch:

- The storage business seems to continue to grow and strengthen.
- We might still see our economy slow, however we still believe that with the supply and demand curve of our market we should stay healthy, and be able to absorb new product.