

A proper feasibility study should begin with a market study. A market study determines if the trade area is oversupplied, undersupplied, or at equilibrium. It should also quantify the amount of demand in the trade area. If there is sufficient demand, phase two is a feasibility report.

In our appraisal practice at Newmark, we complete these two-phase analyses for clients and also review many feasibility studies. Unfortunately, many of the reports are based on rules of thumb or estimates unsubstantiated from market data. These analyses should include multiple methodologies to determine demand and feasibility. This section will summarize our two-phase process of a market study and a feasibility report. For clarity, we have used an example prior to the current trend of rising interest rates.

Market Study Of The Subject Trade Area

As outlined in “Self-storage Economics and Appraisal,” published by the Appraisal Institute in 2012, self-storage economics is the analysis of the market conditions that affect value using both qualitative and quantitative techniques. To evaluate the key market conditions for self-storage, an appraiser must perform a series of related analyses:

- An analysis of existing supply
- A forecast of stabilized demand, resulting in a conclusion of the state of the trade area (oversupply, undersupply, or equilibrium)
- An examination of the competitive position of a facility in relation to the competition

These conclusions of market conditions and competitive position are critical to the economics of a self-storage facility. A review of rent comparables or a sample of the competition in the trade area would be insufficient analyses. Analyzing the entire supply in a trade area is critical to the market condition conclusion, which forms the basis of forecasting long-run rents, long-term or stabilized vacancy, net operating income, and capitalization and yield rate conclusions. Ultimately, the market condition conclusion is the foundation of the valuation conclusions. Fortunately, the dynamic economic and demographic data used in the analysis of self-storage economics is readily available to appraisers.

A comparison of local, regional, and national supply data underscores the need for local trade area analysis to provide an accurate snapshot of the self-storage market for a particular facility.

National market data and trends are useful tools in general, but local trade area analysis is the essential starting point for analyzing a self-storage facility. For example, market equilibrium is measured in terms of a balance between supply and demand in each trade area. To analyze the subject trade area, four analyses are presented: two quantitative and two qualitative.

Quantitative Models

The quantitative analyses are based on a quantitative forecast of stabilized demand using our proprietary, econometric model, and an analysis of the cost of occupancy (or the ratio of average household income to average self-storage rent). Determinants of the self-storage market relate to the forces of supply and demand, as is the case with other types of real estate. The analysis of demand generators, however, is focused on four key variables:

- Population
- The percentage of renters
- Average household size
- Average household income

Similar to other types of trade areas, a self-storage trade area is “the geographic area immediately adjacent to the property from which the retail establishment obtains 60 percent to 70 percent of its total customers.” Such a detailed gravity model analysis is beyond the scope of most appraisal assignments, but these principles can be applied when determining the subject trade area.

A typical primary market is described by the population density and the proximity of existing supply. As for land use patterns, the availability of vacant land parcels for self-storage development is limited in many cities. Furthermore, self-storage developers may have difficulties obtaining entitlements because some planning and zoning authorities perceive the tax and job base to be relatively low. Cumulatively, these factors suggest that a review of several local trade areas is the best tool for measuring the market.

Under these parameters, analysts typically define the trade area of a self-storage property using a series of rings with a radius of 1.0 to 5.5 miles as outlined in survey research. In some cases, a ZIP code study of existing tenancy may assist in defining the proper trade area. For the purposes of analysis, we have used a trade, consider the typical trade area defined as a 5-mile radius.

Supply

Sources used in local trade area analysis include public records and primary survey research. The data sources vary in scope, method, and precise geography of research but are considered reasonable indicators of current trends and conditions in the subject trade area because the data has been supported by field research. For the subject, we utilized REIS, PAC-COMM, Radius, and primary survey research. The supply (competition and subject) of self-storage is summarized in the Local Market Inventory and Self Storage Supply tables below.

To test market saturation in a static equilibrium model, a forecast of demand in the subject trade area is critical to the determination of project feasibility.

Demand

Self-storage demand is measured in terms of square feet per capita. As a test of reasonableness, demand is estimated for the subject based on a simple econometric model developed by the Newmark Self Storage Group for self-storage properties. After mining demographic data for meaningful mathematical relationships for self-storage, there are four characteristics key to demand: population, percentage of renters, household size, and household income. The data is analyzed in a regression model detailed in the Demand Forecast Table below. Using multi-variable regression, the variables correlate (not cause) to demand.

Local Market Inventory					
Property Name & Address	Distance from Subject (Miles)	Year Built	No. Units	Rentable SF	Physical Occupancy
Comparable 1	0.57	2006	424	54,456	99%
Comparable 2	1.35	2000	814	129,805	96%
Comparable 3	2.51	2005	555	75,540	85%
Comparable 4	2.89	1977	1,061	91,280	87%
Comparable 5	3.15	1988	354	49,551	89%
Comparable 6	3.44	2002	443	61,425	95%
Subject		2024	613	64,450	

Self Storage Supply						
	Total Units	Total SF Available	Avg. Unit Size (SF)	Avg. Year Built	Average Occupancy	Total SF Occupied
5-Miles Radius	3,651	462,057	127	1996	92.1%	425,554

Demand Forecast									
	Total Population	% Renters	Household Size (Avg.)	Average Household Income	Existing Supply (SF)	Existing Supply (SF) / Capita	Calculated Demand (SF) / Capita	Demand - Supply (SF) / Capita	Total Unsatisfied Demand (SF)
5-Miles Radius	66,466	23.5%	3.74	\$71,766	462,057	7.64	8.74	1.10	73,118

Testing for relationships and rank, these variables indicate moderate correlation with a co-efficient of 0.7294 (Multiple R) or 0.5321 (R squared) and indicate that the primary trade area (5-mile radius) would support demand of 8.74 square feet of self-storage per person, suggesting an undersupplied of 1.10 square feet per person.

Market Equilibrium - Summary Of Econometrics

The Self Storage Market Equilibrium table on the opposite page shows the total supply (existing supply plus new construction), less occupied square feet in the trade area, results in the available supply in rentable square feet. Based on our analysis of the trade area, we have forecast a trade area vacancy, which is the amount of rentable square feet that will remain vacant. The result is the remaining rentable square feet available in the trade area shown as a negative in the table. Unsatisfied demand is the result of the multi-variable regression. Adding this to the remaining supply results in the trade area demand; if the result is a negative, then the trade area is oversupplied.

Cost Of Occupancy

As a test of reasonableness, we have calculated the cost of occupancy for the subject based on market rents (average annual unit price of the market rent forecast divided by the average household income of the trade area). In this case the cost of occupancy is below 2.00 percent. For self-storage, we note trade areas below 3.00 percent generally

have room to improve rental rates (revenue enhancement). Quantitatively, the market appears to be undersupplied within the 5-mile radius, based on local demographic factors.

Qualitative Models

The benchmark data is presented in the Local Market Inventory on the opposite page.

The subject rentable square feet per capita is above the CBSA, state, and national average, indicating potential oversupply.

Self Storage Market Equilibrium	
Trade Area	5-Miles Radius
Existing Supply	462,057
New Construction	64,450
Total Supply	526,507
Less: Occupied Square Feet	-425,554
Available Supply	100,953
Less: Market Vacancy (10%)	█ -52,651
Subtotal (Remaining Supply)	48,302
Unsatisfied Demand	73,118
Demand Less Remaining Supply	121,420
Equilibrium Forecast	Under-Supplied

Local Market Inventory Benchmark				
	Year Built	No. Units	Rentable SF	Physical Occupancy
Market Inventory Totals / Averages	1996 █	3,651 █	462,057	92.10%
Proposed / Under Construction		613	64,450	
Total Inventory (Including Proposed)		4,264	526,507	
Population (5 Miles)			66,466	
Inventory Per Capita (Existing + Proposed SF)			7.64	
CBSA Inventory Per Capita (SF)			7.07	
State Inventory Per Capita (SF)			5.69	
National Inventory Per Capita (SF)			5.70	

CBSA, State & National data from the Self Storage Almanac

However, physical occupancy in the trade area is 92.10 percent. Overall, this indicates undersupply conditions in the subject trade area.

Market Conditions Conclusion

Quantitatively the market demonstrates undersupplied conditions and the qualitatively demonstrates undersupplied to oversupplied conditions. Based on all four methodologies, we have concluded the trade area to be undersupplied, with sufficient demand for an additional 121,420 rentable square feet after accounting for the subject contemplated build of 64,450 rentable square feet.

Feasibility Report

Income Capitalization Approach - Methodology

To assist feasibility analysis, we utilize the income capitalization approach. This approach to value views the subject through the eyes of a typical investor. It is based on the premise that the higher the earnings for a property, the higher its value. This approach converts anticipated future benefits or dollar income to be derived from ownership into a present value estimated through the capitalization process. Application of the approach includes the following steps:

1. Survey the rents of comparable properties to estimate an economic market rent for the subject property. For self-storage, this step should include an analysis of each unit based on asking rent and actual rent to compare to market rent.
2. Estimate operating expenses (including economic vacancy) applicable to the subject ownership, including an analysis of the trailing three-year financials (when available) to compare patterns in effective gross income and operating expenses.

3. Derive net operating income for the subject property.
4. Estimate the remaining economic life of the subject based on the market or the investor's holding period.
5. Select the proper capitalization method and rate.
6. Capitalize the net operating income into an indication of value.

There are two capitalization methods: direct capitalization and yield capitalization. Direct capitalization is relatively simple, and data for it is easily derived from the market. Yield capitalization, however, is based on conclusions of change over a projected time frame. While yield capitalization is more complex, it is also a powerful tool of understanding capitalization theories and techniques. Direct capitalization and yield capitalization are defined as follows:

- Direct capitalization is a method used to convert an estimate of a single year's income expectancy into an indication of value in one direct step, either by dividing the income estimate by an appropriate income rate or multiplying the income estimate by an appropriate factor. Direct capitalization employs capitalization rates and multipliers extracted from the market data. Only one year's income is used. Yield and value change are implied, but not identified.
- Yield capitalization is a method in which future benefits are converted into a value indication by discounting them at an appropriate yield rate (DCF analysis) or applying an overall rate that reflects the investment's income pattern, value change, and yield rate.

As an asset class, self-storage was historically not considered institutional grade (although RE-ITs are widely traded). Over the past five years, however, investment analytics for this sector have increased significantly. Consequently, the investment market now relies on both direct and yield capitalization. Due to revenue enhancement, discounted cash flow is typically emphasized in the investment community. Considering all aspects that influence an investment decision for self-storage, both methods are analyzed in this feasibility study.

Potential Gross Income

The potential gross income (PGI) consists of “rental income” and “other income.” For self-storage properties, rental income is primarily derived from the self-storage units. Other income can be generated by outdoor vehicle storage, billboards, and rooftop space (such as cell towers). Some facilities may be mixed use with some office or retail space for rent; this rental income is typically included as a subcategory of other income because it usually reflects a secondary use rather than a primary income source. Ancillary or miscellaneous income includes:

- Late fees
- Unit insurance (such as renter’s insurance for an apartment)
- Administrative fees
- Truck rentals
- Retail sales of storage items (from the office)

The projection used in this analysis is based upon the budget and market rent, together with our assumptions as to the absorption of the vacant space, market rent growth, and renewal/turnover probability. We begin our rental income analysis by discussing certain aspects of the subject property, namely its occupancy and the quoted rent levels of its various unit types.

Unit Mix Analysis

Market analysis is critical to successful development of self-storage property and must be considered in the conclusions of the quantity, quality, and durability of the income level. Careful cash flow (static) modeling is required to reflect these market characteristics. The subject will be nearly investment grade property but will have significant appeal to private investors or regional self-storage operators. Considering the subject property, characteristics of the entire trade area and investment criteria for the subject asset class, competitive position should be at or above fair share. However, to ensure long-run viability as an investment class (real estate), further analysis warrants careful cash flow modeling and reasonable forecast parameters as seen

Subject Property - Unit Mix						
No.	Unit Size	Drive Up	Inside Down CC	No. Units	Unit Size (SF)	Total Size (SF)
1	5x10		x	47	50	2,350
2	10x10		x	48	100	4,800
3	10x10	x		408	100	40,800
4	10x15	x		110	150	16,500
Total Units		518	95	613	105.1	64,450

Summary of Rent Comparables																
No.	Property Name/ Address	Year Built	Physical Occupancy	No. Units	Rentable SF	Distance from Subject	Unit Type	5x5	5x10	5x15	10x10	10x15	10x20	10x25	10x30	20x20
1	Rent Comp 1	2006	99%	424	54,456	.57 Miles	Inside Down CC	\$128	\$205		\$423	\$580	\$721			
2	Rent Comp 2	2000	96%	814	129,805	1.35 Miles	Drive Up		\$150		\$189	\$209				
3	Rent Comp 3	2005	85%	555	75,540	2.51 Miles	Drive Up Inside Down CC			\$140	\$255 \$240	\$300				
4	Rent Comp 4	1977	87%	1,061	91,280	2.89 Miles	Drive Up Inside Down CC			\$224	\$225 \$373	\$409				
5	Rent Comp 5	1988	89%	354	49,551	3.15 Miles	Drive Up		\$177		\$220	\$357				
6	Rent Comp 6	2002	95%	443	61,425	2.14 Miles	Inside Down CC	\$148	\$212		\$312	\$404				
7	Rent Comp 7	2000	93%	358	41,175	5.11 Miles	Inside Down CC		\$180		\$272	\$308	\$392		\$476	
Subject		2024		613	64,450	---										

Rent Comparison										
Drive Up		Asking Rents \$/Month								
No.	Name	5x5	5x10	5x15	10x10	10x15	10x20	10x25	10x30	20x20
1	Rent Comp 1									
2	Rent Comp 2		\$150		\$189	\$209				
3	Rent Comp 3				\$255	\$300				
4	Rent Comp 4				\$225	\$409				
5	Rent Comp 5		\$177		\$220	\$357				
6	Rent Comp 6									
7	Rent Comp 7									
Competition Average			\$164		\$222	\$319				
Competition Low			\$150		\$189	\$209				
Competition High			\$177		\$255	\$409				
Developer's Proposed Asking					\$300	\$400				
Subject Asking vs. Survey Average					135.0%	125.5%				
Subject Askings vs. Survey Low					158.7%	191.4%				
Subject Asking vs. Survey High					117.6%	97.8%				
Newmark Forecast					\$250	\$340				
Appraiser Forecast vs. Survey Average					112.5%	106.7%				
Appraiser Forecast vs. Survey Low					132.3%	162.7%				
Appraiser Forecast vs. Survey High					98.0%	83.1%				

verified rental rates and other important parameters and compared them to our subject property. The Rent Comparables table on the opposite page summarizes the primary comparable data used in the valuation of the subject.

Rental Income Analysis By Unit Type

In order to estimate the market rates for the various unit categories, the subject units have been compared with units in similar categories. Some of the surveyed facilities do not exactly match the typical size, so available unit rates may be adjusted accordingly.

Rent Comparison										
Inside Down CC		Asking Rents \$/Month								
No.	Name	5x5	5x10	5x15	10x10	10x15	10x20	10x25	10x30	20x20
1	Rent Comp 1	\$128	\$205		\$423	\$580	\$721			
2	Rent Comp 2									
3	Rent Comp 3		\$140		\$240					
4	Rent Comp 4		\$224		\$373					
5	Rent Comp 5									
6	Rent Comp 6	\$148	\$212		\$312	\$404				
7	Rent Comp 7		\$180		\$272	\$308	\$392		\$476	
Competition Average		\$138	\$192		\$324	\$431	\$557		\$476	
Competition Low		\$128	\$140		\$240	\$308	\$392		\$476	
Competition High		\$148	\$224		\$423	\$580	\$721		\$476	
Developer's Proposed Asking			\$200		\$320					
Subject Asking vs. Survey Average			104.1%		98.8%					
Subject Askings vs. Survey Low			142.9%		133.3%					
Subject Asking vs. Survey High			89.3%		75.7%					
Newmark Forecast			\$195		\$340					
Appraiser Forecast vs. Survey Average			101.5%		104.9%					
Appraiser Forecast vs. Survey Low			139.3%		141.7%					
Appraiser Forecast vs. Survey High			87.1%		80.4%					

The adjustment of comparable rent data is difficult because textbook methodology for the income capitalization approach is limited, unlike for the other approaches. Nevertheless, rental adjustments should follow a logical and sequential path to derive a reasonable market rate conclusion. Adjustments should account for financial, locational, and physical aspects of the rental data. The seven key variables that warrant consideration for adjustment are:

- Rent basis
- Escalation
- Concessions
- Conditions of rent transaction
- Market conditions (time)
- Physical characteristics
- Location

in the Subject Property - Unit Mix Table on the opposite page.

The subject average unit size is 105 square feet, slightly smaller than the average unit size within the 5-mile radius of 127 square feet and the average unit size of the rent comparables of 126 square feet. However, these factors are considered more precisely in the selection of rents per unit and in the occupancy analysis.

Market Rent Analysis

In an effort to estimate the current market rent achievable for the subject units, we surveyed several competitive self-storage properties in and near the trade area. We gathered comparable market data for the most typical unit sizes and

More important than mathematical equivalencies, however, is actual data. For example, managers were queried about the asking rent on available, vacant units (typical of the industry) to obtain the representative rate of the comparable (and other parameters such as specials, discounts, or other concessions). This data is considered to be a reasonable representation of the market. Rent analysis should consider the elements of comparison, but rents are often best analyzed in chart or table format. Each unit is analyzed and compared to market comparables. The analysis should consider the unit size as well as location within the facility.

Subject Property - Market Rent Forecast - All Units

No.	Unit Size	Drive Up	Inside Down CC	Unit Size (SF)	No. Units	Average Asking Rent (\$ Month)	Estimated Market Rent \$/Month /Unit	Forecast Rent \$/Year	Forecast Rent \$/SF/Year
1	5x10		x	50	47	\$200	\$185	\$104,340	\$44.40
2	10x10		x	100	48	\$320	\$345	\$198,720	\$41.40
3	10x10	x		100	408	\$300	\$225	\$1,101,600	\$27.00
4	10x15	x		150	110	\$400	\$305	\$402,600	\$24.40
Total/Average		242	266	105	613	\$312	\$246	\$1,807,260	\$28.04

For self-storage properties, there can be a variety of unit types in terms of size and location within the facility. Self-storage units are often described using a figure of speech derived from the unit's position relative to a user approaching the building from the street. For example, a drive-up unit allows a customer to drive directly up to the unit or access the unit directly from outside the building. Inside Down units are located down an interior corridor inside the building. Units can further be distinguished by floor level, such as inside second level or Inside Up. Other distinctions may include Climate Control. See Rent Comparison tables on page 171.

Market Rent Forecast (All Self-Storage Units)

After careful analysis of the subject asking and market rents from the comparable facilities, we forecast subject rents for each unit type as presented in the Subject Property table. As a test of reasonableness, we have calculated the cost of occupancy for the subject based on market rents (average annual unit price of the market rent forecast divided by the average household income of the trade area). In this case the cost of occupancy is below 2.00 percent, which is considered reasonable for this trade area. For self-storage, we note trade areas below 4.00 percent generally have room to improve rental rates (revenue enhancement). Applying the market rate to all self-storage units as indicated

Rent Roll Analysis

Revenue Component	Number of Units	Total Monthly Rent	Total Annual Rent
Market Rent (All Units)	613	\$150,605	\$1,807,260
Total	613	\$150,605	\$1,807,260

Historical Revenue/Expense & Forecast

	Owner's Year 1 Proforma		Owner's Year 2 Proforma		Owner's Stabilized Year 3 Proforma		Year 1 Forecast		Year 2 Forecast		Year 3 Forecast		Year 4 Forecast	
	Total	\$/SF	Total	\$/SF	Total	\$/SF	Total	\$/SF	Total	\$/SF	Total	\$/SF	Total	\$/SF
Self Storage Income														
Actual Rent (Occupied)	\$612,970	\$9.51	\$1,721,030	\$26.70	\$2,074,666	\$32.19								
Market Rent (All Units)							\$1,807,260	\$28.04	\$1,870,514	\$29.02	\$1,935,982	\$30.04	\$2,003,741	\$31.09
Potential Self Storage Income	\$612,970	\$9.51	\$1,721,030	\$26.70	\$2,074,666	\$32.19	\$1,807,260	\$28.04	\$1,870,514	\$29.02	\$1,935,982	\$30.04	\$2,003,741	\$31.09
Billboard & Cell Tower Income														
Parking Income														
Other Rental Income														
Ancillary Income							54,218	0.84	55,844	0.87	57,520	0.89	59,245	0.92
Total Potential Gross Income	\$612,970	\$9.51	\$1,721,030	\$26.70	\$2,074,666	\$32.19	\$1,861,478	\$28.88	\$1,926,358	\$29.89	\$1,993,502	\$30.93	\$2,062,987	\$32.01
Economic Vacancy							(\$1,209,961)	(\$18.77)	(\$770,543)	(\$11.96)	(\$398,700)	(\$6.19)	(\$206,299)	(\$3.20)
Effective Gross Income	\$612,970	\$9.51	\$1,721,030	\$26.70	\$2,074,666	\$32.19	\$651,517	\$10.11	\$1,155,815	\$17.93	\$1,594,801	\$24.74	\$1,856,688	\$28.81
Operating Expenses														
Real Estate Taxes	\$7,000	\$0.11	\$8,000	\$0.12	\$8,000	\$0.12	\$295,143	\$4.58	\$315,231	\$4.89	\$335,319	\$5.20	\$355,408	\$5.51
Property Insurance	\$20,000	0.31	\$25,000	0.39	\$25,000	0.39	23,000	0.36	23,690	0.37	24,401	0.38	25,133	0.39
Utilities	\$30,000	0.47	\$35,000	0.54	\$35,000	0.54	33,000	0.51	33,990	0.53	35,010	0.54	36,060	0.56
Repairs & Maintenance	\$10,000	0.16	\$13,000	0.20	\$13,000	0.20	20,000	0.31	20,600	0.32	21,218	0.33	21,855	0.34
Administration	\$49,250	0.76	\$87,250	1.35	\$102,250	1.59	49,000	0.76	50,470	0.78	51,984	0.81	53,544	0.83
Off-Site Management (% of EGI)	\$36,000	0.56	\$100,000	1.55	\$125,000	1.94	29,318	0.45	52,012	0.81	71,766	1.11	83,551	1.30
On-Site Management	\$100,000	1.55	\$115,000	1.78	\$115,000	1.78	100,000	1.55	103,000	1.60	106,090	1.65	109,273	1.70
Advertising	\$30,000	0.47	\$33,000	0.51	\$33,000	0.51	30,000	0.47	30,900	0.48	31,827	0.49	32,782	0.51
Miscellaneous	\$0		\$0		\$0		750	0.01	773	0.01	796	0.01	820	0.01
Total Operating Expenses	\$282,250	\$4.38	\$416,250	\$6.46	\$456,250	\$7.08	\$580,211	\$9.00	\$630,665	\$9.79	\$678,410	\$10.53	\$718,423	\$11.15
Expense Ratio	46%		24%		22%		89%		55%		43%		39%	
Net Operating Income	\$330,720	\$5.13	\$1,304,780	\$20.24	\$1,618,416	\$25.11	\$71,306	\$1.11	\$525,150	\$8.15	\$916,391	\$14.22	\$1,138,265	\$17.66

Ancillary Income Comparables		
Location	Year	% of Storage Rental Income
Ancillary Income Comp 1	2021	3.45%
Ancillary Income Comp 2	2022	3.21%
Ancillary Income Comp 3	2022	2.88%
Ancillary Income Comp 4	2020	2.97%
Ancillary Income Comp 5	2022	2.81%
Average		3.06%

Ancillary Income Conclusion	
Potential Self Storage Income	\$1,807,260
Concluded Percentage	3.00%
Annual Ancillary Income	\$54,218

Absorption Static Model			
Stabilized NOI	\$1,138,265		
Less NOI Year 1	-\$71,306		
Rent Loss In Year 1		\$	1,066,958
Stabilized NOI	\$1,138,265		
Less NOI Year 2	-\$525,150		
Rent Loss In Year 2		\$	613,115
Stabilized NOI	\$1,138,265		
Less NOI Year 3	-\$916,391		
Rent Loss In Year 3		\$	221,874
Total Rent Loss		\$	1,901,947
Profit for Absorption	8.70% for profit	\$	2,001,000
Rent Loss Plus Profit		\$	3,902,947
Rounded			\$3,900,000

Effective Gross Income			
Subject Historical and Projections	EGI	EGI Per SF	EGI Change
Owner's Year 1 Proforma	\$612,970	\$9.51	-
Owner's Year 2 Proforma	\$1,721,030	\$26.70	181%
Owner's Stabilized Year 3 Proforma	\$2,074,666	\$32.19	21%
Year 1 Forecast	\$651,517	\$10.11	-
Year 2 Forecast	\$1,155,815	\$17.93	77%
Year 3 Forecast	\$1,594,801	\$24.74	38%
Year 4 Forecast	\$1,856,688	\$28.81	16%

in the table results in a potential gross income of \$1,807,260 per year or an average of \$28.04 per square foot per year. See Subject Property - Market Rent Forecast - All Units on the opposite page.

Potential Rental Income Conclusion

Consistent with the market, potential rental income is based on market rents because the subject is proposed. The collections shown on the rent roll include rent premiums and/or discounts. See Rent Roll Analysis and Historical Revenue/Expenses & Forecast tables on the opposite page.

Ancillary Income

Other income is supplemental to that derived from renting of the improvements. This includes categories such as forfeited deposits, late charges, locks, shipping, customer insurance, and other miscellaneous charges. It also includes sales of boxes and packing supplies. We have forecast 3

Vacancy & Collection Loss		
Year	Vacancy & Collection Loss (\$)	Vacancy & Collection Loss (% of Potential Income)
Year One	(\$1,209,961)	65.00%
Year Two	(\$770,543)	40.00%
Year Three	(\$398,700)	20.00%
Year Four	(\$206,299)	10.00%

percent for ancillary income. See the Ancillary Income Comparables and Ancillary Income Conclusion tables.

Vacancy And Concession Loss

Vacancy is comprised of two main components: physical vacancy and economic vacancy. Physical vacancy is the amount of vacant area (in terms of units or rentable square feet). Economic vacancy is a combination of concessions, revenue enhancement, and physical vacancy. As a result, the effective gross income may reflect vacancy higher or lower than the physical vacancy. Revenue enhancement models are consistent with competent management for the asset class, so that rent on income in place for units can be higher than the asking or street rate. Complex algorithmic models have enabled detailed governors (over 90 options) on self-storage management software to increase collections or effective gross income. Similar techniques can also be used by small operators by paying attention to tenancy, length of stay, and rents in place.

The subject property is proposed, requiring us to forecast an absorption estimate. For the purposes of our analysis, we have forecast that subject space will be absorbed within 36 months (stable in year four). In our cash flow model, we temper potential gross revenue by implementing a phase-in of the vacancy projection. The Vacancy & Collection Loss table above illustrates our global vacancy and collection loss during lease-up.

The Absorption Static Model table above shows total rent loss of \$1,901,947. In addition, prudent investors in self-storage expect a profit for the time and risk associated with lease-up to stabilization. Based on that table, the implied profit is 8.7 percent (of the stable value); this is considered a reasonable return for time and risk associated with this project.

Effective Gross Income Forecast

See the Effective Gross Income table above.

Operating Expense Analysis

The Expense Comparables table on page 174 summarizes the expenses of the subject, comparable properties, the 2023 Self-Storage Expense Guidebook national data, and the applicable NCREIF Division.

Expense Comparables										
	Self Storage Expense Guidebook			Expense Comp 1	Expense Comp 2	Expense Comp 3	Owner's Year 1 Proforma	Owner's Year 2 Proforma	Owner's Stabilized Year 3 Proforma	Stable Year Forecast
	National	Division	State							
Units	615	523	510	875	944	739				613
Rentable SF	66,886	72,371	66,794	90,220	84,361	74,800				64,450
Expense Year				2022	2022	2021				Year 4
Income										
Effective Gross Income	\$15.66	\$10.52	\$11.08	\$33.21	\$27.11	\$30.36	\$9.51	\$26.70	\$32.19	\$28.81
Operating Expenses										
Real Estate Taxes	\$1.79	\$1.49	\$1.48	\$3.04	\$4.35	\$3.15	\$0.11	\$0.12	\$0.12	\$5.51
Property Insurance	\$0.22	\$0.21	\$0.20	0.68	0.21	0.34	\$0.31	\$0.39	\$0.39	\$0.39
Utilities	\$0.41	\$0.31	\$0.28	1.38	0.71	0.38	\$0.47	\$0.54	\$0.54	\$0.56
Repairs & Maintenance	\$0.43	\$0.28	\$0.27	1.53	0.54	0.30	\$0.16	\$0.20	\$0.20	\$0.34
Administration	\$0.57	\$0.43	\$0.48	0.74	0.95	0.89	\$0.76	\$1.35	\$1.59	\$0.83
Off-Site Management	\$0.53	\$0.41	\$0.53	2.98	1.83	2.14	\$0.56	\$1.55	\$1.94	\$1.30
On-Site Management	\$1.22	\$0.89	\$0.96	1.57	1.42	2.58	\$1.55	\$1.78	\$1.78	\$1.70
Advertising	\$0.30	\$0.19	\$0.23	0.32	0.26	0.60	\$0.47	\$0.51	\$0.51	\$0.51
Miscellaneous		\$0.01	\$0.01							\$0.01
Total Operating Expenses	\$5.47	\$4.21	\$4.42	\$12.24	\$10.28	\$10.39	\$4.38	\$6.46	\$7.08	\$11.15
Operating Expense Ratio	34.92%	40.02%	39.89%	36.86%	37.92%	34.22%	46.05%	24.19%	21.99%	38.69%
Off-Site Management (% of EGI)	3.40%	3.88%	4.76%	6.06%	5.70%	6.06%	5.87%	5.81%	6.03%	4.50%

Ad Valorem Tax Analysis		
	Subject History	Conclusion
	2023	
Total Assessed Value (70% of Market)	\$1,150,000	\$13,370,000
Total Assessed Value/SF	\$17.84	\$207.45
Direct Assessments	\$0	\$0
Tax Rate	2.20750%	2.2075%
Actual / Pro Forma Taxes	\$25,386	\$295,143
Reported Tax Delinquencies	None	None
Tax Exemptions or Abatements	None	None

Real Estate Taxes

For the subject we have utilized the tax rate applied to 70 percent of the implied feasibility value at upon completion (year one) and stabilization (year four) to account for tax risk. The Ad Valorem Tax Analysis table above shows the calculation for year one at 70 percent.

Property Insurance

Property insurance expenses typically include fire and extended coverage and owner's liability coverage. Because of the variables that can occur underwriting insurance along with dynamic industry changes, a careful consideration of insurance must be undertaken. Lower rates can sometimes be achieved by blanket policies for owners with multiple locations, whereas this analysis must focus on the subject property alone. Insurance expenses can rise for reasons other than property specific such as poor yields by industry investment, concerns over real estate security, and flat rates over the recent past. Insurance is typically a very property-specific expense item since significant variation can occur from the specific building type and technology in fire, life, and safety construction

and design (such as including sprinklers in every building). In addition, some operators are selling tenant insurance and the administrative costs associated with that operation can appear to inflate the historical cost of insurance.

Utilities

Utility expenses include electricity, natural gas, water, trash, and sewer. Utilities tend to be very property specific since the exact combination of climate-controlled and non-climate-controlled units, along with the number of levels and other design characteristics, can have a significant effect.

Repairs & Maintenance

Repairs and maintenance expenses typically include all outside maintenance service contracts and the cost of maintenance and repairs supplies. Proper maintenance includes rubbish removal, sweeping and landscaping, pest controls, technology and gate maintenance, and other general maintenance items.

Administration

Administration costs are outside of payroll but include all other office-related items such as telephone, postage, bank charges, credit reports, and professional fees including accounting, legal, and data processes. This category also includes other expenses incurred in the operation of the facility not covered by the other expense categories.

Off-Site Management

The projection of income and expense assumes competent management by a professional

Total Operating Expenses

Source	Expense Ratio	\$/SF	Total
Comparables Low	22.7%	\$10.28	
Comparables High	32.0%	\$11.17	
Comparables Average	28.0%	\$10.61	
Subject Historical and Projections			
Owner's Year 1 Proforma	46.0%	\$4.38	\$282,250
Owner's Year 2 Proforma	24.2%	\$6.46	\$416,250
Owner's Stabilized Year 3 Proforma	22.0%	\$7.08	\$456,250
Appriaser Projection (Stable Year)	38.7%	\$11.15	\$718,423

management company. The capitalization rate data utilized in this appraisal, from both comparable sales and investor/market participant survey sources, includes a management fee in the net operating income estimate. We have forecast 4.50 percent for off-site management.

On-Site Management

This expense item reflects payroll costs associated with on-site management and other administrative personnel. Not included are the salaries or fees for off-site management firm personnel and services. Consideration is given to any manager's apartment or other living arrangements provided on site.

Direct Capitalization Method

Summary of Stabilized Net Operating Income		Year 4
Item Description	\$/SF	Total \$
Self Storage Income		
Market Rent (All Units)	\$31.09	\$2,003,741
Potential Self Storage Income	\$31.09	\$2,003,741
Billboard & Cell Tower Income		
Parking Income		
Other Rental Income		
Ancillary Income	0.92	59,245
Total Potential Gross Income	\$32.01	\$2,062,987
Economic Vacancy	10%	(\$206,299)
Effective Gross Income	\$28.81	\$1,856,688
Operating Expenses		
Real Estate Taxes	\$5.51	\$355,408
Property Insurance	0.39	25,133
Utilities	0.56	36,060
Repairs & Maintenance	0.34	21,855
Administration	0.83	53,544
Off-Site Management (% of EGI)	1.30	83,551
On-Site Management	1.70	109,273
Advertising	0.51	32,782
Miscellaneous	0.01	820
Ground Lease	-	0
Total Operating Expenses	\$11.15	\$718,423
Expense Ratio		39%
Net Operating Income	\$17.66	\$1,138,265
OAR		5.25%
Indicated Prospective Market Value "Upon Stabilization"		\$21,681,232
Indicated Prospective Market Value "Upon Stabilization" (Rounded)		\$21,700,000
	Price/SF	\$336.70
Less Absorption Cost		(\$3,900,000)
Indicated Prospective Market Value "Upon Completion"		\$17,800,000
	Price/SF	\$276.18

Advertising

This expense category accounts for placement of advertising, commissions, signage, brochures, etc. Advertising is crucial for the successful operation of the property. This is particularly true for facilities that are currently in absorption to stabilized operation. Associated expenses can include internet advertising, social media, telephone book advertising, promotions, promotional material, and sales staff expenses.

Miscellaneous

This expense category accounts for those typically minor, incidental operational costs that are not classified elsewhere. This is typically a very small expense in self-storage facilities and is typically forecast at \$0.01 per square foot.

Operating Expense Conclusion

The comparable data and projections for the subject are summarized in the Total Operating Expenses table above.

The subject per square foot expense ratio is 38.70 percent on year four (stable year). This is considered reasonable.

Net Operating Income

Net operating income (NOI) is a result of the effective gross income less expense. For self-storage, the emphasis is on effective gross income forecast relative to the subject historical income and income in place (rent roll).

Direct Capitalization

A summary of the direct capitalization is illustrated in the Direct Capitalization Model table at the left.

Discounted Cash Flow Analysis

Yield capitalization, or discounted cash flow analysis, converts future benefits to present value by discounting each future benefit at an appropriate yield rate, sometimes called a discount rate. In this analysis, an internal rate of return (IRR) model is used, which discounts the cash

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flows to the amount of the initial investment at the concluded IRR (bifurcated analysis). Studies indicate that more investors, whether they are individuals or corporations, are using discounted cash flow methods to make investment decisions. This is because investors are becoming more concerned with annual cash flow requirements. Federal regulations, beginning with FHLBB Regulation 41a progressing to FIRREA, has required appraisers to use more sophisticated analysis. The advantage of discounted cash flow analysis is that cash flows are specified as to quantity, variability, timing, and duration. In the 1980s, however, many investors relied solely on discounted cash flow modeling to make investment decisions. While discounted cash flow analysis is a powerful tool, it is sensitive to change and can easily be misused. Therefore, discounted cash flow analysis must be used judiciously with reasonable parameters.

Present Value of Cash Flow					
Market Value Scenario Prospective Upon Completion					
Year	Period Ending	Cash Flow Before Debt Service	Present Value of Cash Flow @ 7.00%	Present Value of Cash Flow @ 7.25%	Present Value of Cash Flow @ 7.50%
1	Nov-2023	\$64,791	\$60,552	\$60,411	\$60,271
2	Nov-2024	\$513,592	\$448,591	\$446,502	\$444,428
3	Nov-2025	\$900,443	\$735,030	\$729,902	\$724,821
4	Nov-2026	\$1,119,698	\$854,212	\$846,275	\$838,430
5	Nov-2027	\$1,161,810	\$828,354	\$818,745	\$809,269
6	Nov-2028	\$1,205,483	\$803,264	\$792,095	\$781,107
7	Nov-2029	\$1,250,775	\$778,920	\$766,299	\$753,911
8	Nov-2030	\$1,297,746	\$755,300	\$741,329	\$727,649
9	Nov-2031	\$1,346,456	\$732,383	\$717,161	\$702,289
10	Nov-2032	\$1,396,970	\$710,149	\$693,768	\$677,801
Total		\$10,257,764	\$6,706,755	\$6,612,487	\$6,519,976
Reversionary Year 11 NOI		\$1,472,953			
Property Resale @ 5.75%		\$25,616,577			
Cost of Sale @ 2.00%		\$512,332			
Present Value of Reversion		\$25,104,246	\$12,761,726	\$12,467,351	\$12,180,428
Total Present Value (Cash Flow + Reversion)			\$19,468,481	\$19,079,837	\$18,700,403
Final Value Conclusion				\$19,100,000	

Income Capitalization Approach

Discounted Cash Flow Summary - Prospective Upon Completion

Year	1	2	3	4	5	6	7	8	9	10	11	CAGR	
Self Storage Income													
Market Rent (All Units)	\$1,807,260	\$1,870,514	\$1,935,982	\$2,003,741	\$2,073,872	\$2,146,458	\$2,221,584	\$2,299,339	\$2,379,816	\$2,463,110	\$2,549,319	3.50%	
Potential Self Storage Income	\$1,807,260	\$1,870,514	\$1,935,982	\$2,003,741	\$2,073,872	\$2,146,458	\$2,221,584	\$2,299,339	\$2,379,816	\$2,463,110	\$2,549,319	3.50%	
Billboard & Cell Tower Income													
Parking Income													
Other Rental Income													
Ancillary Income	54,218	55,844	57,520	59,245	61,023	62,853	64,739	66,681	68,681	70,742	72,864	3.00%	
Total Potential Gross Income	\$1,861,478	\$1,926,358	\$1,993,502	\$2,062,987	\$2,134,895	\$2,209,311	\$2,286,323	\$2,366,020	\$2,448,498	\$2,533,852	\$2,622,183	3.49%	
Economic Vacancy	(\$1,209,961)	(\$770,543)	(\$398,700)	(\$206,299)	(\$213,490)	(\$220,931)	(\$228,632)	(\$236,602)	(\$244,850)	(\$253,385)	(\$262,218)	-14.18%	
Effective Gross Income	\$651,517	\$1,155,815	\$1,594,801	\$1,856,688	\$1,921,406	\$1,988,380	\$2,057,691	\$2,129,418	\$2,203,648	\$2,280,467	\$2,359,965	13.74%	
Operating Expenses													
Real Estate Taxes	3.00%	\$295,143	\$315,231	\$335,319	\$355,408	\$366,070	\$377,052	\$388,363	\$400,014	\$412,015	\$424,375	\$437,106	4.01%
Property Insurance		23,000	23,690	24,401	25,133	25,887	26,663	27,463	28,287	29,136	30,010	30,910	3.00%
Utilities		33,000	33,990	35,010	36,060	37,142	38,256	39,404	40,586	41,803	43,058	44,349	3.00%
Repairs & Maintenance		20,000	20,600	21,218	21,855	22,510	23,185	23,881	24,597	25,335	26,095	26,878	3.00%
Administration		49,000	50,470	51,984	53,544	55,150	56,804	58,509	60,264	62,072	63,934	65,852	3.00%
Off-Site Management (% of EGI)	4.50%	29,318	52,012	71,766	83,551	86,463	89,477	92,596	95,824	99,164	102,621	106,198	13.74%
On-Site Management		100,000	103,000	106,090	109,273	112,551	115,927	119,405	122,987	126,677	130,477	134,392	3.00%
Advertising		30,000	30,900	31,827	32,782	33,765	34,778	35,822	36,896	38,003	39,143	40,317	3.00%
Miscellaneous		750	773	796	820	844	869	896	922	950	979	1,008	3.00%
Total Operating Expenses	\$580,211	\$630,665	\$678,410	\$718,423	\$740,382	\$763,013	\$786,338	\$810,378	\$835,155	\$860,692	\$887,011	4.34%	
Net Operating Income	\$71,306	\$525,150	\$916,391	\$1,138,265	\$1,181,024	\$1,225,367	\$1,271,352	\$1,319,040	\$1,368,493	\$1,419,775	\$1,472,953	35.36%	
Capital Expenditure													
Replacement Reserves (% of EGI)	1.00%	\$6,515	\$11,558	\$15,948	\$18,567	\$19,214	\$19,884	\$20,577	\$21,294	\$22,036	\$22,805	\$23,600	13.74%
Near Term Capital Expenditure		\$0											
Total Capital Expenditure	\$6,515	\$11,558	\$15,948	\$18,567	\$19,214	\$19,884	\$20,577	\$21,294	\$22,036	\$22,805	\$23,600		
Cash Flow	\$64,791	\$513,592	\$900,443	\$1,119,698	\$1,161,810	\$1,205,483	\$1,250,775	\$1,297,746	\$1,346,456	\$1,396,970	\$1,449,354	36.45%	
KPIs													
Rent Growth (Market)		3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	
Other Income Growth		3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	
Economic Vacancy	65%	40%	20%	10%	10%	10%	10%	10%	10%	10%	10%	10%	
Expense Growth		3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	

Valuation Matrix			
Exit Cap.	Internal Rate of Return		
	7.00%	7.25%	7.50%
5.50%	\$20,048,559	\$19,646,535	\$19,254,059
5.75%	\$19,468,481	\$19,079,837	\$18,700,403
6.00%	\$18,936,742	\$18,560,364	\$18,192,885

General Cash Flow Assumptions	
Valuation Scenario:	Prospective Upon Completion
Cash Flow Start Date:	11/1/22
Investment Holding Period:	10 Years
Analysis Projection Period:	Years 1 - 11
Indicated Market Value (Rounded):	\$19,100,000
Cost of Sale	2.00%
Percentage Residual	65%
Indicated Market Value (\$/SF)	\$296.35

Present Value of Cash Flow					
Market Value Scenario Prospective As Stabilized					
Year	Period Ending	Cash Flow Before Debt Service	Present Value of	Present Value of	Present Value of
			Cash Flow @ 7.00%	Cash Flow @ 7.25%	Cash Flow @ 7.50%
1	Nov-2026	\$1,119,698	\$1,046,447	\$1,044,007	\$1,041,579
2	Nov-2027	\$1,161,810	\$1,014,770	\$1,010,044	\$1,005,352
3	Nov-2028	\$1,205,483	\$984,033	\$977,168	\$970,366
4	Nov-2029	\$1,250,775	\$954,211	\$945,345	\$936,581
5	Nov-2030	\$1,297,746	\$925,275	\$914,541	\$903,956
6	Nov-2031	\$1,346,456	\$897,201	\$884,725	\$872,452
7	Nov-2032	\$1,396,970	\$869,963	\$855,866	\$842,031
8	Nov-2033	\$1,449,354	\$843,537	\$827,934	\$812,656
9	Nov-2034	\$1,503,675	\$817,900	\$800,900	\$784,292
10	Nov-2035	\$1,560,006	\$793,028	\$774,735	\$756,905
Total		\$13,291,972	\$9,146,363	\$9,035,266	\$8,926,170
Reversionary Year 11 NOI		\$1,644,574			
Property Resale @ 5.75%		\$28,601,286			
Cost of Sale @ 2.00%		\$572,026			
Present Value of Reversion		\$28,029,261	\$14,248,655	\$13,919,981	\$13,599,627
Total Present Value (Cash Flow + Reversion)			\$23,395,017	\$22,955,247	\$22,525,797
Final Value Conclusion				\$23,000,000	

Income Capitalization Approach

Discounted Cash Flow Summary - Prospective As Stabilized

Year	4	5	6	7	8	9	10	11	12	13	14	CAGR	
Self Storage Income													
Market Rent (All Units)	\$2,003,741	\$2,073,872	\$2,146,458	\$2,221,584	\$2,299,339	\$2,379,816	\$2,463,110	\$2,549,319	\$2,638,545	\$2,730,894	\$2,826,475	3.50%	
Potential Self Storage Income	\$2,003,741	\$2,073,872	\$2,146,458	\$2,221,584	\$2,299,339	\$2,379,816	\$2,463,110	\$2,549,319	\$2,638,545	\$2,730,894	\$2,826,475	3.50%	
Billboard & Cell Tower Income													
Parking Income													
Other Rental Income													
Ancillary Income	59,245	61,023	62,853	64,739	66,681	68,681	70,742	72,864	75,050	77,302	79,621	3.00%	
Total Potential Gross Income	\$2,062,987	\$2,134,895	\$2,209,311	\$2,286,323	\$2,366,020	\$2,448,498	\$2,533,852	\$2,622,183	\$2,713,595	\$2,808,196	\$2,906,096	3.49%	
Economic Vacancy	(\$206,299)	(\$213,490)	(\$220,931)	(\$228,632)	(\$236,602)	(\$244,850)	(\$253,385)	(\$262,218)	(\$271,359)	(\$280,820)	(\$290,610)	3.49%	
Effective Gross Income	\$1,856,688	\$1,921,406	\$1,988,380	\$2,057,691	\$2,129,418	\$2,203,648	\$2,280,467	\$2,359,965	\$2,442,235	\$2,527,376	\$2,615,486	3.49%	
Operating Expenses													
Real Estate Taxes	3.00%	\$355,408	\$366,070	\$377,052	\$388,363	\$400,014	\$412,015	\$424,375	\$437,106	\$450,220	\$463,726	\$477,638	3.00%
Property Insurance		25,133	25,887	26,663	27,463	28,287	29,136	30,010	30,910	31,837	32,793	33,776	3.00%
Utilities		36,060	37,142	38,256	39,404	40,586	41,803	43,058	44,349	45,680	47,050	48,462	3.00%
Repairs & Maintenance		21,855	22,510	23,185	23,881	24,597	25,335	26,095	26,878	27,685	28,515	29,371	3.00%
Administration		53,544	55,150	56,804	58,509	60,264	62,072	63,934	65,852	67,827	69,862	71,958	3.00%
Off-Site Management (% of EGI)	4.50%	83,551	86,463	89,477	92,596	95,824	99,164	102,621	106,198	109,901	113,732	117,697	3.49%
On-Site Management		109,273	112,551	115,927	119,405	122,987	126,677	130,477	134,392	138,423	142,576	146,853	3.00%
Advertising		32,782	33,765	34,778	35,822	36,896	38,003	39,143	40,317	41,527	42,773	44,056	3.00%
Miscellaneous		820	844	869	896	922	950	979	1,008	1,038	1,069	1,101	3.00%
Total Operating Expenses		\$718,423	\$740,382	\$763,013	\$786,338	\$810,378	\$835,155	\$860,692	\$887,011	\$914,138	\$942,096	\$970,912	3.06%
Net Operating Income		\$1,138,265	\$1,181,024	\$1,225,367	\$1,271,352	\$1,319,040	\$1,368,493	\$1,419,775	\$1,472,953	\$1,528,097	\$1,585,280	\$1,644,574	3.75%
Capital Expenditure													
Replacement Reserves (% of EGI)	1.00%	\$18,567	\$19,214	\$19,884	\$20,577	\$21,294	\$22,036	\$22,805	\$23,600	\$24,422	\$25,274	\$26,155	3.49%
Near Term Capital Expenditure													
Total Capital Expenditure		\$18,567	\$19,214	\$19,884	\$20,577	\$21,294	\$22,036	\$22,805	\$23,600	\$24,422	\$25,274	\$26,155	
Cash Flow		\$1,119,698	\$1,161,810	\$1,205,483	\$1,250,775	\$1,297,746	\$1,346,456	\$1,396,970	\$1,449,354	\$1,503,675	\$1,560,006	\$1,618,419	3.75%

KPIs												
Rent Growth (Market)		3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%	3.50%
Other Income Growth		3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Economic Vacancy	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Expense Growth		3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

Valuation Matrix			
Exit Cap.	Internal Rate of Return		
	7.00%	7.25%	7.50%
5.50%	\$24,042,683	\$23,587,973	\$23,143,962
5.75%	\$23,395,017	\$22,955,247	\$22,525,797
6.00%	\$22,801,323	\$22,375,248	\$21,959,146

General Cash Flow Assumptions	
Valuation Scenario:	Prospective As Stabilized
Cash Flow Start Date:	11/1/25
Investment Holding Period:	10 Years
Analysis Projection Period:	Years 4 - 14
Indicated Market Value (Rounded):	\$23,000,000
Cost of Sale	2%
Percentage Residual	61%
Indicated Market Value (\$/SF)	\$356.87

Key modeling characteristics are detailed as follows:

Time Frame

The reversion year must be representative of the cash flow pattern, or the present value analysis will be skewed. The report is based on the premise of a sale at the value date. Therefore, an investor must carefully consider a resale strategy or the basis of the reversion. The next investor will consider the following 10 years' income. In this regard, we have based the complete value on year one to year 10 and

the as stabilized value on year four to year 13. The DCF analysis utilizes a 10-year projection period for each scenario. This is consistent with current investor assumptions.

Escalations

Sometimes called growth rates, escalations are typically based on a forecast of the Consumer Price Index (CPI). As previously concluded, the CPI forecast is 3 percent annually. Expenses are subject to inflation regardless of market conditions.

Discount Rate

Conversion of the cash flows and reversion to present equity value is by discounting at the discount rate (annual Internal Rate of Return or IRR). The discount rate (IRR) is a projection of the probable yield. It accounts for return to capital and return to equity (entrepreneurial profit). Therefore, the anticipation and expectations of investors in the market are more important than historical data. See the Present Value of Cash Flow, Income Capital Approach, Valuation Matrix, Present Value of Cash Flow, Income Capitalization Approach, and Valuation tables on the previous pages.

As a test of reasonableness of the cash flow and IRR conclusion, a changing income (projected for the subject) can be tested with a common yield capitalization model, sometimes called the Universal Formula. This is a simple mathematical relationship that considers the overall capitalization rate and the growth rate to derive the yield rate or IRR. That is, the capitalization rate plus appreciation equals the IRR; or $Y = R + A$, where $Y = \text{IRR}$, $R = \text{overall capitalization rate}$, and $A = \text{growth rate}$. On this basis, a typical overall capitalization rate for the subject would be 5.25

All-Cash Matrix											
Purchase Price		Capitalization Rate					Cash-on-Cash Return				IRR
\$ Amount	\$ PSF	Year 1	Year 2	Year 3	Year 4	Year 5	Year 3	Year 5	Year 7	Year 10	Year 10
\$23,500,000	364.62	4.84%	5.03%	5.21%	5.41%	5.61%	5.13%	5.52%	5.94%	6.64%	6.94%
\$23,400,000	363.07	4.86%	5.05%	5.24%	5.43%	5.64%	5.15%	5.55%	5.97%	6.67%	7.00%
\$23,300,000	361.52	4.89%	5.07%	5.26%	5.46%	5.66%	5.17%	5.57%	6.00%	6.70%	7.05%
\$23,200,000	359.97	4.91%	5.09%	5.28%	5.48%	5.69%	5.20%	5.59%	6.02%	6.72%	7.11%
\$23,100,000	358.42	4.93%	5.11%	5.30%	5.50%	5.71%	5.22%	5.62%	6.05%	6.75%	7.17%
\$23,000,000	356.87	4.95%	5.13%	5.33%	5.53%	5.73%	5.24%	5.64%	6.07%	6.78%	7.22%
\$22,900,000	355.31	4.97%	5.16%	5.35%	5.55%	5.76%	5.26%	5.67%	6.10%	6.81%	7.28%
\$22,800,000	353.76	4.99%	5.18%	5.37%	5.58%	5.79%	5.29%	5.69%	6.13%	6.84%	7.34%
\$22,700,000	352.21	5.01%	5.20%	5.40%	5.60%	5.81%	5.31%	5.72%	6.15%	6.87%	7.40%
\$22,600,000	350.66	5.04%	5.23%	5.42%	5.63%	5.84%	5.33%	5.74%	6.18%	6.90%	7.46%
\$22,500,000	349.11	5.06%	5.25%	5.45%	5.65%	5.86%	5.36%	5.77%	6.21%	6.93%	7.52%

*Year 1 to 10 refer to stable years only.

Leveraged Pricing Matrix										
Acquisition Cost		Cash-on-Cash Return					Loan	Fees &	IRR (Hold)	
\$ Amount	\$ PSF	Year 1	Year 2	Year 3	Year 4	Year 5	Amount	Costs	Equity	Year 10
\$23,500,000	364.62	2.52%	3.02%	3.54%	4.08%	4.64%	\$15,275,000	\$152,750	\$8,377,750	9.91%
\$23,400,000	363.07	2.53%	3.03%	3.55%	4.10%	4.66%	\$15,210,000	\$152,100	\$8,342,100	10.03%
\$23,300,000	361.52	2.54%	3.04%	3.57%	4.11%	4.68%	\$15,145,000	\$151,450	\$8,306,450	10.15%
\$23,200,000	359.97	2.55%	3.06%	3.58%	4.13%	4.70%	\$15,080,000	\$150,800	\$8,270,800	10.27%
\$23,100,000	358.42	2.56%	3.07%	3.60%	4.15%	4.72%	\$15,015,000	\$150,150	\$8,235,150	10.39%
\$23,000,000	356.87	2.57%	3.08%	3.62%	4.17%	4.74%	\$14,950,000	\$149,500	\$8,199,500	10.51%
\$22,900,000	355.31	2.58%	3.10%	3.63%	4.19%	4.76%	\$14,885,000	\$148,850	\$8,163,850	10.63%
\$22,800,000	353.76	2.59%	3.11%	3.65%	4.20%	4.78%	\$14,820,000	\$148,200	\$8,128,200	10.75%
\$22,700,000	352.21	2.60%	3.12%	3.66%	4.22%	4.80%	\$14,755,000	\$147,550	\$8,092,550	10.87%
\$22,600,000	350.66	2.62%	3.14%	3.68%	4.24%	4.83%	\$14,690,000	\$146,900	\$8,056,900	11.00%
\$22,500,000	349.11	2.63%	3.15%	3.70%	4.26%	4.85%	\$14,625,000	\$146,250	\$8,021,250	11.12%

*Year 1 to 10 refer to stable years only.

** Assumes 65% debt financing at an annual interest rate of 4.5% amortized over 30 years with loan fees and points of 1%.

percent. However, the spread to terminal rates have increased for self-storage, more in line with core assets, and therefore the IRR has declined. Considering the projected income stream based on an analysis of the quality, quantity, and duration of the income expectancy, as well as the foregoing analysis, a 7.25 percent discount rate is appropriate for the projection period. Considering the foregoing analysis, the subject discounted cash flow analyses are reasonable (see cash flow).

Sensitivity Analyses

For added support, the table on the previous page summarizes the parameters on a cash and levered basis at various price points. The investment market for self-storage is using such complex modeling to test the reasonableness of the parameters used in investment decisions. In this case, the unlevered yield (IRR) is comparable to the subject IRR used in the discounted cash flow. Moreover, the equity yield indicated in the levered model supports our analysis of equity yield in developing the subject overall capitalization rate. The analysis corroborates the valuation parameters of the appraisal. The analysis is presented in the All-Cash Matrix and Leveraged Pricing Matrix tables on the opposite page.

Cost Approach

Replacement Cost New

In estimating the replacement cost new for the subject, the following methods/data sources have been utilized, if available:

- Marshall Valuation Service (MVS) cost guide, published by Marshall and Swift, LLC, a nationally recognized publication containing construction costs
- Actual/budget construction cost figures available for comparable properties; and
- The subject’s actual construction costs (if available).

Marshall Valuation Services - Direct Cost

Salient details regarding the direct costs are

Building and Site Improvements - Cost Summary			
Improvements (Structures)			Structures
MVS Improvement Type			Self Storage
Construction Class		Mini-Warehouse Class C - Brick, block or tilt-up	
Quality			Good
MVS Section			14
MVS Page			28
Source Date			February, 2022
Base Cost PSF			\$62.50
Square Foot Refinements			
Sprinklers			3.00
HVAC			5.00
Elevators			
Adjusted Base Cost PSF			\$70.50
Height & Size Refinements			
# of Stories Multiplier			1.000
Ceiling Height Multiplier			1.000
Perimeter Multiplier			1.000
Adjusted Base Cost			\$70.50
Final Calculations		Site Improvements	
Current Cost Multiplier			1.150
Local Area Multiplier			1.260
Other Multiplier (Site Congestion, etc.)			1.000
Adjusted Base Cost		\$102.15	\$102.15
x Structure Size (SF GBA)		67,673	67,673
Adjusted Cost		\$6,913,050	\$6,913,050
Site Improvements	\$10.00/SF	\$2,121,370	\$2,121,370
+ Indirect Costs @	15.00%	\$1,355,163	\$1,355,163
MVS Indicated Cost New Before Profit		\$10,389,583	\$10,389,583

Entrepreneurial Profit			
Building and Site Improvements			Subtotal
Reconciled Cost New Before Profit			\$10,389,583
Entrepreneurial Profit @	35.00%		\$3,636,354
Replacement Cost New (RCN)			\$14,025,938
\$ PSF			\$207.26

summarized in the Cost Approach Conclusion at the end of this section. The MVS cost estimates include the following:

- average architect’s and engineer’s fees for plans, plan check, building permits and survey(s) to establish building line
- normal interest in building funds during the period of construction plus a processing fee or service charge
- materials, sales taxes on materials, and labor costs
- site preparation including finish grading and excavation for foundation/backfill
- utilities from structure to lot line figured for typical setback
- site improvements (included as lump sum additions)
- initial tenant improvement costs are included in MVS cost estimate (additional lease-up costs such as advertising, marketing, and leasing commissions are not included)

- contractor's overhead and profit, including job supervision, workmen's compensation, fire and liability insurance, unemployment insurance, equipment, temporary facilities, security, etc.

Base building costs (direct costs) are adjusted to reflect the physical characteristics of the subject. Making these adjustments, including the appropriate local and current cost multipliers, the direct building cost is indicated.

Additions

Items not included in the direct building cost estimate include parking and walks, signage, landscaping, and miscellaneous site improvements. The cost for these items is estimated separately using the segregated cost sections of the MVS cost guide.

Indirect Cost Items

Several indirect cost items are not included in the direct building cost figures derived through the MVS cost guide. These items include developer overhead (general and administrative costs), property taxes, legal and insurance costs, local

development fees and contingencies, lease-up and marketing costs, and miscellaneous costs. For self-storage, indirect costs are typically in the 10 percent to 20 percent range of direct costs.

MVS Conclusion

See Building and Site Improvements - Cost Summary table on page 179.

Entrepreneurial Profit

Entrepreneurial profit represents the return to the developer and is separate from contractor's overhead and profit. Developers are reporting a profit range from 20 percent to 35 percent with an average of 30 percent. Self-storage profit is high due to the difficulty in obtaining zoning approvals or entitlements, as municipalities tend not to like the sector because it offers no retail tax revenues and creates few jobs per facility. As a result, self-storage profit factors have been increasing over the past five years. See Entrepreneurial Profit table on page 179.

We have compared the survey research of Newmark and the developer's budget and they reasonably corroborate. Since the variance is small it confirms the reasonableness of the developer's budget. Considering the MVS data is based on multiple facilities we have relied on this for our feasibility analysis.

Depreciation

Depreciation is defined as "a loss in property value from any cause; the difference between the contributory value of an improvement and its cost at the time of appraisal." There are essentially three sources of accrued depreciation:

- Physical deterioration, both curable and incurable;
- Functional obsolescence, both curable and incurable; and
- External obsolescence.

Remaining Economic Life

There are two methods to analyzing depreciation: Remaining Economic Life and the Breakdown Method. The Remaining Economic Life model is most useful for lenders and investors because it

Age/Life Depreciation Summary		
Building and Site Improvements		Structures
Year Built	See Site	2024
Year Renovated	Improvements	None
Actual Age (Yrs.)	Depreciation	0
Economic Life (Yrs.)	Detail	45
Effective Age (Yrs.)		0
Remaining Economic Life (Yrs.)		45
Percent Depreciation		0.00%

Depreciated Replacement Cost	
Building and Site Improvements	Structures
Replacement Cost New	\$14,025,938
Less: Age/Life Depreciation	\$0
Adjusted RCN	\$14,025,938
Less: Functional Obsolescence	\$0
Adjusted RCN	\$14,025,938
Less: External Obsolescence	\$0
Depreciated Replacement Cost	\$14,025,938
\$ PSF	\$207.26

Cost Approach Conclusions	
Prospective Market Value "Upon Completion"	Value Indication
Depreciated Replacement Cost of Building and Site Improvements	\$14,025,938
Plus Land Value	\$5,300,000
Prospective Market Value "Upon Completion"	\$19,325,938
Rounded	\$19,300,000

Prospective Market Value "Upon Stabilization"	
	Value Indication
Prospective Market Value "Upon Completion"	\$19,300,000
Plus Absorption Cost	\$3,900,000
Prospective Market Value "Upon Stabilization"	\$23,200,000

involves an estimate of depreciation and remaining economic life. For example, lenders generally do not want to provide lending to a facility with remaining economic life less than the term of the loan. Remaining economic life is the ratio between the effective age and total economic life of a building applied to the cost of the improvements as of the effective appraisal date. The conclusion represents a single deduction

Entrepreneurial profit represents the return to the developer and is separate from contractor's overhead and profit. Developers are reporting a profit range from 20 percent to 35 percent with an average of 30 percent.

for accrued depreciation and forecasts remaining economic life (effective age). While MVS can provide a guide, survey research and experience in the local market are better resources. Our analysis is presented in the Age/Life Depreciation Summary table on the opposite page.


Depreciated Replacement Cost

The calculation of depreciated replacement cost is shown in the Depreciated Replacement Cost and Cost Approach Conclusions tables on the opposite page.

Milestones

The leveraged discounted cash flow model demonstrates several important milestones. First, the project is financially feasible as the implied value exceeds cost with an adequate profit factor of 35 percent. Second, the implied capitalization rate of approximately 5.25 percent is corroborated by the market acceptable rate of return. Third, the unleveraged yield rate or Internal Rate of Return of 7.25 percent is at the high end of the yield range for real estate. Fourth, the leveraged yield rate of 10.51 percent

is again a superior return compared to alternative investments. Fifth, the equity yield rate of 10.51 percent is at the low end of the range required by equity investors. For example, a typical range of 10 percent to 12 percent is considered the trigger rate for new development. Sixth, developers report a cap rate to cost should be 100 to 300 bps higher than a stabilized year one cap rate. In this case, the premium is 200 basis points excluding construction profit of 35 percent. Finally, it is noted the subject at 81 percent economic occupancy covers debt service; beyond that level of economic occupancy only improves feasibility. Considering all these milestones, the subject proposed project is considered financially feasible.

In this case, the subject trade area has sufficient demand for additional supply based on four tools of analysis. Moreover, the contemplated development (the subject property) achieves milestone of feasibility consistent with the market using financial and cost analytics. Make sure feasibility reports include detailed analyses and multiple methodologies to support credible conclusions. 

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