Think Inside the Box:
An Analysis of Converting Commercial Property into Self Storage Facilities

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ABSTRACT

The modern self storage facility is a multi-tenant operating business that reflects the needs of residential and commercial customers. The industry has evolved from a transition asset to a property type that adheres to location qualities that typifies those of the modern retail facility while conforming to the architectural and aesthetical qualities of the community. Unfortunately, the modern day storage developer confronts thirty plus years of negative public perception that is typically associated with this asset class. Recent court cases are utilized to distill a general thought pattern for why local municipalities are curbing new construction of this market demanded asset class.

Given the mounting barriers to entry for self storage developers juxtaposed against the continued market demand for the product, the thesis attempts to find a middle ground for these market forces in the form of converting an existing commercial structure. Two facilities are extensively researched and used as a case study for establishing a model to emulate in future conversion projects. Utilizing existing precedents and additional market resources, a step-by-step qualitative and quantitative model is designed to assist in analyzing the probability of success for a future conversion opportunity.

Qualitatively, the first analysis for determining if storage conversion is applicable to the existing structure is done through the use of a feasibility analysis pertaining to the demographic attributes surrounding the property. If the property meets enough of the qualities associated with a successful facility then additional analysis is warranted. This analysis occurs on a quantitative basis using basic market and property variables to estimate the cost of construction and operating expenses associated with the region where the storage facility is located. The overall framework yields a general “go or no-go” model applicable for future self storage developers considering a property for conversion.

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Chapter One: Introduction

The self storage industry continues to mature as a property type from a use that was once viewed as a transition property to a lucrative and essential real estate property type for the United States and abroad. This thesis examines the existing building codes and recent court rulings that affect the industry. It continues by investigating the reasoning behind several local municipalities' recent unfavorable treatment of this asset class. These recent court cases and planning board decisions are used to help distill a common theme for why municipalities are casting a negative light on this property type.

Due to varying local market pressures, the reason that self storage is experiencing zoning constraints is often a local constraint. In reviewing these sources in total, a common thread arose with economics, jobs, land use, and crime as frequently cited justification for these rulings. In addition to local concerns, State's have taken a swing at the industry by implementing sales taxes for rental units. The continued pressure from government legislature creates a climate where self storage developers need to stay abreast of the changing legislation so that they can properly assess the entitlement risk's associated with development and/or ownership.

Establishing these current market forces as a possible trend affecting the industry, the paper examines the use of existing commercial buildings as a possible location for future facilities. The conversion of existing commercial structures creates a middle ground to accommodate self storage development while remaining cognizant of the political and local concerns previous addressed. Geographically, conversion developers target the urban and suburban markets because of the limited availability of land or properly zoned land for self storage. This thesis specifically focuses on conversions in the Southeastern United States and how conversions are financially and politically effective for this area of the country.

The thesis concludes with a qualitative and quantitative model that helps a developer determine if a 'for sale' subject property is a good candidate for conversion. Existing self storage conversions are examined and used as a model for replicating their successes in future projects. Demand and feasibility studies are then utilized to determine metrics for establishing a "go or no-go" analysis for existing properties. This analysis is useful in the initial due diligence phases of an investment, but obviously the common denominators for a successful self storage development are local market analysis and rational decision making, which hinges on the recognition of market conditions. Innovative facility features are also recommended in an effort to allow the owner to program the facility to the needs of the local market, thus increasing the likelihood for success of a future development.

Chapter Two: Defining Self Storage

According to the ICC International Building Code definition, self storage is defined as, "Real property designed and used for the purpose of renting or leasing individual storage spaces to customers for the purpose of storing and removing personal property on a self storage basis. A self-service storage facility is not a warehouse for purposes of Article 7 of the Uniform Commercial Code. Self Storage is the term applied to facilities offering rental on a month-to-month basis where the tenant applies her lock and has sole access to the unit. No bailment is created by the facility, i.e., no care, custody, or control. It is the rental of "air space" not physical boundaries".

Generically, a self storage facility typically occupies approximately 2.5 to five acres with five to seven one-story buildings covering the buildable land. As the industry matured, buildings were expanded to two plus stories, security features improved, moveable technology was created to provide space that matched the current demand of the market, and architectural qualities improve to create an amenity for a community.

In addition to exterior improvements, the advent of climate control units has improved the rentable environment for self storage customers. These facilities, whether newly constructed or renovated buildings, are accessed through an interior hallway and are often multi-story structures. These vertical facilities provide service elevators and customer's access their units through the use of dollies.

The Self Storage Association broadly defines self storage to include facilities that vary greatly in size, quality, construction, materials, and surveillance. Examples of some of these qualities are as follows:

- 10,000 square feet to an excess of 100,000 square feet
- Wide range of sizes – 5' x 5' to 10' x 30' or larger with the average unit size being about 100 square feet(10 x 10)
- Single and/or multi level facilities

- Resident Manager apartment on-site
- Converted buildings (old supermarkets, big box retail warehouses, etc.)
- Units divided by corrugated steel panels (most widely used), or chain-link fencing, plywood upon stud and drywall or stud and particle board.
- Moveable module units
- Gates with keypad computerized access
- Surveillance cameras & monitoring stations
- Well lit
- Completely fenced
- Paved
- Retail merchandise available

Additionally, the self storage industry is typically perceived to exhibit the following qualities:

1. Simplified structures
2. A short construction period enabling rapid initial rentals.
3. Low operating expenses and non-energy intensive.
4. Month to month leases, a market sensitive proposition.
5. Adjustable unit mix due to moveable partitions.
6. Not labor (or maintenance) intensive.
7. High building rentability (near 100% for single story, 75% for multi-story).
8. Many tenancies, spreading vacancy risk.
9. Basic function resistant to economic shifts.
10. Cash flow oriented real estate.

These items categorize the self storage industry and explain developers' desire to continue to own and develop this property type.

Chapter Three: Current Building Codes

The next chapter discusses the current building codes and zoning practices applicable to the self storage industry. Upon establishing this general framework, chapter four examines the zoning practices unique to the self storage industry. Chapter five combats the negative public perception myth of the early generation storage and how the need to transition out of this mindset will help the industry. Then chapter six reviews some recent examples of adverse conditions that are affecting the industry. Here, the general framework for why local municipalities' are reacting adversely to self storage is explored. All of this is examined because these growing trends are the future challenges that owners and operators face in the years to come.

GENERAL

In the United States, building construction is regulated by state and local government agencies using a variety of codes, standards, and regulations. Building construction regulations, in many cases, are based on codes and standards developed by private organizations. Examples of some of these organizations include, Building Officials and Code Administrators (BOCA) International; International Conference of Building Officials (ICBO); Southern Building Code Congress International (SBCCI); and National Fire Protection Association (NFPA). The code and standards of these organizations are then implemented and enforced down to the state and local jurisdictions.

Implementation and enforcement agencies often take the base case established by the aforementioned organizations and further amend these documents to regulate building safety, design, and construction. The amendments typically apply to administrative expenses and address fees, permits, plan review, and other aspects associated with code administration. These modifications are often essential to address regional differences in construction requirements for seismic, climatic, or design variations.

BUILDING CODE UNIFORMITY

For many years, industry participants have been concerned over the nation's building regulatory system. The concern stems for the number of organizations involved in the standardization and the differences that arise from local and state participation. These organizations create a concern about the problems of inconsistent code interpretation, application, and enforcement; and conflicting language in the different codes.

Taking a proactive stance on these inconsistencies, code developers and major players in regulatory area began developing a single set of integrated, comprehensive model codes in conjunction with the International Code Council (ICC) and through other venues. Participating parties continuously cited the adverse effects of the existing patchwork system on public safety and economic development. The continued marriage of code unification is apparent through the National Fire Protection Association (NFPA) recent efforts to establish it own nationwide "family of codes."

The by-product of these efforts is the minimization of the once ineffective and inefficient building codes. The unified efforts of all the parties involved create a new breed of more unified model codes. Additionally, these new codes regulate all aspects of building design and construction and are written to work together to better facilitate the building of cost-effective, safe, affordable, and accessible buildings.

The self storage industry, as well as the entire real estate industry, has been subject to all of the inconsistency in code application. Fortunately for the entire industry, a code change process has begun. In light of the publication of the ICC's International Building Code (IBC), the BOCA, ICBO, and SBCCI building codes are no longer being updated. The ICC will be updating the IBC on an 18-month cycle. The first draft edition of NFPA 5000 was published in 2000 and is attached to this document (Exhibit 1). Included in this document is the code change processes for the National Fire Protection Association (NFPA).

The benefit of this information is to serve as a guide to assist self storage developers in dealing with inconsistencies in their local codes. Most code provisions do not require interpretation and will not cause market participants difficulties, but as the preceding chapters will show, local zoning and code practices are constantly changing. Educating all parties of the current legal statutes is often the best approach for ensuring proper entitlement and code approval for a future self storage owner.

Chapter Four: Zoning Practices Unique to the Self Storage Industry

The self storage industry is a fairly new real estate product that is the beneficiary of personal and business evolution over the past three decades. The lifestyles of the modestly rich have trickled down to the norm of the middle class. The possessions and lifestyle choice that this large segment of the population desires helped to spawn the current demand for auxiliary storage for managing possessions, inventory, and our typical transitory needs. Quality and safe storage has become an amenity that the American public takes for granted that the local infrastructure will include such a place to meet their demands as inhabitants of the market.

Adding to the position that the world demands self storage, the main influence for this industry is the economic factors that helped influence the industry. First, population trends show that households move more often and therefore, require short-term storage space. Second, as the cost of construction and amount of available land decreases, the result is smaller homes that do not include traditional garages, basements, or attics, particularly in the Sun Belt states of the United States that would typically house the items that are now placed in storage. Third, identifying affordable new single-family homes, apartments, and mobile homes are unlikely to contain much storage for their occupants. Fourth, the population is more active and participates in activities that are seasonal and these items essential for participation do not need to take up space in ones existing residence. Finally, most businesses have found that constructing and providing for on-site storage has become prohibitively expensive at the same time that the number of records, files, and equipment they keep has risen. Off-site storage space is the only way to effectively manage these issues.

All of these economic forces combine to create a strong demand for storage from a continually more sophisticated marketplace. The current political and pubic perception of storage is continually fighting an uphill battle from community planners and residents because of the non-aesthetically pleasing development practices of the early storage industry participants.

Moreover, during the early years of self storage, some of the community planners viewed self storage as small conventional warehouses, and hence the name ‘mini-warehouse’ was born.

This name and stereotype has been problematic for the industry and its acceptance into conventional town zoning regulations. This label had, for many years, prevented some zoning officials from seeing that these developments differ considerably from warehouses. The main distinction lies in that warehouses have employees and self storage facilities have tenants; manufacturers usually use warehouses, whereas families and all forms of commercial enterprises use self storage facilities. Therefore, the categorization of self storage as warehouse does not accurately distinguish between the two property types. Warehouses are sometimes not wanted in certain districts and therefore self storage facilities obtained the same fate.

Local zoning regulations and the maturation of the self storage industry is helping to facilitate a change in how the two property types are viewed. As demand for self storage increases and more facilities adhere to the architectural and aesthetic make-up of the surrounding community while providing a needed amenity for its residents, more people are aware of the differences between self storage and conventional warehouses. Additionally, many communities are including regulations specifically referring to self storage facilities in their zoning ordinances.

THE DIFFERENCE BETWEEN SELF STORAGE AND WAREHOUSE

As a baseline to begin the differentiation of self storage and warehouse, a proper evaluation of the differences is in order. This analysis helps to set the stage for the recent moratoriums seen in the storage industry, as discussed in the following chapter. The three main differences between the two property types are the differentiation of the types of users, the traffic generation, and the fundamental consumer definition of self storage. These categories help to establish a public need for regulation of this property type. Oversight helps to ensure

safe, practical, and specific guidelines for self storage planning and development. Of course, like other property types, self storage has various class value distinctions and a wide array of architectural and aesthetic qualities. The industry will continue to improve public perception of this asset type and work to erase the years of negative public perception that was created through poorly thought-out business plans.

Today, developers work diligently to deliver architecturally and aesthetically pleasing facilities adhering to the current structural environment. As these facilities are developed in communities, the following items are the benefits realized by communities that can support a self storage facility:

- Self Storage facilities are quiet.
- They provide an excellent buffer between zones.
- They create very little traffic.
- They have little impact on utilities.
- They have no impact on schools.
- They provide good tax revenues.
- They provide community service.

Chapter Five: The Desired Community View of Self Storage Zoning

The modern self storage developer is required to bridge the public perception gap between the benefits that a community receives from a well-planned development and negative stereotype that typically is associated with self storage facilities. This transition is essential in reversing a trend of city planners limiting self storage facilities to industrial areas that is not conducive to properly locating a well-functioning, community benefiting facility. D. Carlos Kaslow, General Counsel for the Self Storage Association, recently parsed his recommendation into three basic points or myths about self storage for city planners and developers to remain cognizant of during the creation of a cities long-term development plans.

First, as previously stated a self storage facility is not a commercial warehouse and is defined under separate articles per the Uniform Commercial Code. Unfortunately, the historical public point of view or 'first generation' facilities continues to resonate in the minds of the city planners, thus prohibiting future self storage developers from shedding this negative perception. The basic concerns center on the architectural or aesthetic qualities, the traffic or activity, and the generation of noise and pollution by a warehouse facility and how this mindset transfers into storage facilities. In contrasting the two property types, warehouses are described as a beehive of activity. During business hours, commercial vehicles, several employees who might operate heavy equipment and continuous traffic are typically associated with warehouse facilities. Contrast this scene with self storage, where two or three employees work with possibly an electric golf cart at a facility that primarily rents to residential customers who, according to recent studies, rarely frequent their unit and create little traffic. City planners' development models should focus on a modern business serving their residents and steer clear of myths or misunderstandings of the past.

Second, traffic generation is consistently cited as a detriment to the storage business because of the amount of traffic warehouse generates and therefore this mindset is transferred to the self storage industry. This is a myth of the storage industry and was confirmed by a study

conducted in 2001 by Economic Consulting Associates about traffic generated by the storage industry. In the study, approximately 160 facilities were analyzed from all over the country. The study generated low levels of traffic associated with storage facilities. On an average, the report calculated storage facilities generate less than seven vehicles per day per 100 storage unit spaces. Therefore, if a typical 400 unit property is open for ten hours a day then approximately 2.8 vehicles will visit the facility each hour. This confirms the fact that storage facilities are not a traffic generator and create the least amount of traffic compared to any other commercial property.

Finally, the most difficult myth for the self storage industry to move away from is the public perception that it is an 'ugly' product type. This may be true of 'first and second' generation storage facilities that were constructed as transition assets with little concern for aesthetic qualities in relation to its context. Fortunately, modern facilities are locating in or near residential or non-industrial zones, thus require improved aesthetics and architectural qualities. As self storage developers continually desire to locate on to high traffic count, retail tenant like locations, city planners in each town need to enforce strict construction design standards for storage. Additionally, planners need to recognize self storage as a community benefit that is capable of adhering to the local architecture and aesthetic qualities of its community.

Self storage is a growing industry that is transitioning from a 'metal box in the cornfield' to a dynamic, aesthetically pleasing amenity for a community. The industry's primary concern is to grow at a measured pace in locations that historically were zoned for retail facilities. City planners need to avoid the three aforementioned myths of self storage when developing city development plans. Reviewing the current research conducted in this field, the application of specific zoning and building codes for self storage will help to eliminate future facilities that are anything but a benefit to a community.

Chapter Six: Recent Adverse Public Opposition of Self Storage Facilities

The self storage industry has fallen victim to negative public perception and recently has experienced increased adverse public opposition to additional development. This chapter examines several cases that attempt to limit the construction of a new self storage facility and even a town attempting to condemn a self storage facility for another private development. Each case examines the qualitative and quantitative reasons for each municipality's actions. The analysis concludes with the general trends seen through all of these cases as an attempt to further educate self storage developers' of the possible obstacles that are currently gaining momentum in the marketplace.

PASADENA, CALIFORNIA

The city of Pasadena, California is one of the most hostile communities for the self storage industry in the United States. The hostility is borne by the local government officials and the political pressure of a few citizens. Regardless of the market conditions that currently support self storage, with 18 existing storage businesses, already hold 90% occupancy levels. These type of occupancy figures combined with the demographics in the community support additional storage facilities. Unfortunately, the city council and planning commission have acted decisively to suppress any further self storage development there.

The main reasons cited for blocking additional storage facilities are the large amount of land the facilities occupy and the minimal economic impact the facilities have on the community. "The biggest issue the (planning) commission has is that the city is land-poor and storage facilities take up a lot of room and don't provide much employment," according to Fred Jones, a planning officer with the City of Pasadena.

Recently, a case has arisen in the town surround the possible construction of new self storage facilities. First, a developer under a lease agreement with a utility company is seeking a zoning exception for a parcel directly under power lines. The case is an example of self storage

facilities finding their homes in undesirable locations or atypical size lots. The council members are more willing to accept storage in areas where no other use is possible and additional tax dollars can be realized above the taxes paid on undeveloped land.

On February 28, 2006, the Pasadena Unified School District pledged to put in place measures to decrease the mounting budget gap the city is currently experiencing. The proposal calls for lifting the current ban under the city's code on self storage development to allow the aforementioned project under power lines owned by Southern California Edison. The project aids the current budget gap because the self storage developer has pledged $500,000 for a park proposed near a neighboring elementary school. The proposed self storage facility in Pasadena highlights the mounting financial and location barriers prevalent in an urban California location. Additionally, the case outlines the public perception surrounding self storage in a land poor community and is considered the status quo for future communities facing similar land constraints.

COLTON, CALIFORNIA

On March 23, 2006, a 45-day moratorium was approved to review how certain businesses fit within the current city ordinance in Colton, California. This ban affected such establishments as tobacco bars, nightclubs, tattoo and body-piercing stores, private bus terminals and mini-warehouses. The temporary ban moved to a 10-month ban on May 12, 2006 after the board was able to review these businesses affect on Colton.

The moratorium was placed on these businesses because they produced little or no sales tax, or jobs, and don't help to increase property values. The proposal also cited the aforementioned businesses as producing limited or no economic benefits to the community, consumer of large amounts of municipal services such as police and fire protection, or takes up large blocks of land but don't spur economic development. City Manager Daryl Parrish, voiced his opinion on the moratorium when he states, "It's not to say we don't want it here at all, but we

want to look at our plan and do a proper land-use analysis so we have certain uses in places and not in other." This opinion reflects how a small minority of individuals typically shape the land use of towns in America.

Moreover, the ban includes self storage with several businesses that carry socially negative stereotypes. In towns with little or no undeveloped land, retail and residential uses are typically going to receive more public support than businesses like self storage. This lack of public support and negative stereotype stemming for 'first-generation' facilities creates a high barrier to entry into markets, but also an opportunity for a keen developer to deliver a market desired product that adheres to a town's overall land-use plan.

DEPETRO V. TOWNSHIP OF WAYNE PLANNING BOARD

In the Township of Wayne, New Jersey, the construction of a self storage facility was not encumbered by the local municipality but rather existing self storage owners in the market. The case centers around a five-acre lot on Route 23 which a self storage facility is proposed for construction. The property is "bowling alley" in shape. The front portion is in a "B" business zone; the larger rear part is in an industrial park zone. Much of the latter is protected wetlands and lacks development potential.

The development received opposition from existing self storage owners because of the initial development proposal and then the townships' ruling of permitted uses in a business zone. First, the initial proposal included the construction of a detention basis in the industrial park zone which required a variance for the Board of Adjustment. When this application received opposition from competing facility owners, the proposal was revised to include all of the development in the business zone and a detention basin in the industrial portion of the site. The construction of the detention basin in the buffer zone required a zoning variance.

The plaintiff, or opposing storage owners, objected to the townships interpretation of a permitted use in the business zone. The township's director of planning viewed the proposed

use as a customer service that fit within the permitted uses in the business zone. The plaintiffs argued the use constituted a "commercial storage warehouse" and was specifically prohibited in the zone. The opposition was ultimately voted on by the planning board and the facility was a permitted use in the business zone. The board ruled that the use was not a warehouse in the traditional sense, but a "permitted commercial service whereby the public and businesses may rent space to store personal effects." Noting that warehouses typically "store large quantities of finished goods and materials for sale and distribution to market and typically entail heavy tractor-trailer traffic," it concluded that the proposed facility did not fall "within the Board's understanding of conventional warehouse operations" and would generate little tractor-trailer traffic. It also found that while the zoning ordinance excluded "lumber yards, coal yards and building material storage yards," a self storage facility does not fall within this category. The board also found that the use was particularly appropriate to the lot.

This case is an example of forced litigation on a parcel with the intent of deterring the owner or purchaser from his or her pursuit of a self storage facility. This case was unique because one typically sees this tactic from the local municipality and not opposition for existing storage facility owners. In a highly competitive industry, self storage operators need to understand the entitlement risk associated with rezoning or receiving variances for a self storage facility.

ARCADIA, CALIFORNIA

The city of Arcadia recently began the steps required toward condemning an undesirable block of town that includes a self storage facility to make room for a Mercedes Benz dealership expansion. This case moves away from the previous cases that centered around blocking the construction of a new facility and centers on eminent domain of an existing property. The use of government's condemnation power to benefit private businesses is outside the scope of this paper. But, the local city council's logic for initiating the eminent domain process on a self

storage facility that benefited the community is pertinent information in understanding the negative perception centering on self storage facilities.

On March 9, 2006, the City Council of Arcadia voted unanimously to move forward with eminent domain proceedings against Arcadia Self Storage, a four-story building on Huntington Drive just west of Santa Anita Avenue. The condemnation is one of five parcels included in a desirable downtown block that will vacate to make way for the expansion of a Mercedes Benz dealership. Per eminent domain and condemnation protocol, the city must offer each owner "fair market value" for their land and relocation expenses.

This case has received national exposure because of the parallel to the recent Supreme Court ruling of Kelo v. New London, Connecticut. For example, one of the property owners included in the Mercedes Benz expansion staged a two week protest and appeared on the Fox News program "Hannity & Colmes" to protest the city's use of eminent domain. Historically, the use of eminent domain has been a successful tool to spur economic development but sparks a debate between property rights advocates when this legal power is used to take land from one private owner to give to another.

Placing political views of eminent domain aside, the case offers valuable insight into public perception of self storage and the economic barriers for this property type. For example, Mike Eash, a resident of Arcadia, argued that the Mercedes Benz expansion would boost sales tax base and help fix the city's operating deficit. He goes on to say that, "I don't agree with Kelo either, but no resident is getting put out on the street, or put out of his home because of this". This statement confirms the fact that the public perceives housing as one of the highest form of property types and self storage, because of its limited perceived economic and community benefit, poorly and may fall victim to future eminent domain cases.

Sales tax, generated by retail tenants versus self storage, is not generated as revenue in several states. The concept of additional tax dollars through conventional retail versus self storage is an economic driver for this case and will continually gain momentum as development

opportunities for storage facilities continuously become more difficult. In the Arcadia example, the general manager of the car dealership echoed this point with his declaration that the dealership generates more than ten percent of the city's sales tax and if the dealership is unable to expand, it would have to relocate to another city. Whether this is a bluff from the dealership or not, self storage operators need to remain cognizant that towns value the additional sales tax dollars that retail facilities generate versus their self storage counterparts. This will prompt the public agencies to reserve or designate self storage facilities to parcels not suited for retail. These locations have proven typically unsuccessful for self storage facilities and the industry currently seeks locations similar to retail tenants. The demographics that a retailer associates with a desirable trade area are consistent with the demographics a self storage developer desires for future facilities.

CONCLUSION

All of these cases show growing adverse opinion toward self storage facilities. The majority of the cases originate on the West coast, but typically real estate trends originate in this location of the US. From the West coast, the trend moves over to the East coast of the United States and fills in the middle of the United States until it is seen as a common practice. Self storage developers need to stay abreast of these mounting barriers placed on new construction in California and work to educate the local city planners of the benefits of self storage. Additionally, the future self storage developer will provide facilities that compliment the existing architecture in the community with a possible mixed-use or conversion feature because of the land constraints many communities experience.

The economic reality for self storage is that it creates municipal revenues through property taxes, minimal sales tax from merchandise sales and few jobs. The expense of a self storage facility is minimal to a community because of little or no additional traffic generation and nominal increase in fixed expenses for a city (i.e. additional fire and police). Unfortunately, if a

vacant parcel is perceived as an option for conventional retail then the self storage developer will likely receive substantial opposition from local planning boards.

Moving from financial incentives, the amount of land taken up from a self storage facility is often mentioned adversely. One of the main reasons for this public perception is that first and second generation facilities typically only developed on one level are now considered a waste on the land. The only way that future self storage developer can alter these preconceived notions surrounding their product type is to compile renderings of the facility or comparable new generation properties in attempt to set the table for public demanded dense and vertically developed facilities.

The qualitative reasoning for communities mitigating future self storage facilities includes an endless supply of unsupported claims. Neighborhood groups argue against new self storage facilities by using comments such as it increases traffic, crime, and even graffiti. These arguments are an unsubstantiated attempt to block construction of a new self storage facility in their community. Future self storage developers need to stay abreast of recent self storage cases adversely affecting the industry and locally push to increase their city planners' knowledge of zoning and building codes pertaining to the storage industry. The evolution of the industry will help to improve the overall stock of self storage product and mitigate future facilities that do not improve the existing community.

Chapter Seven: Self Storage Conversions as a Solution to Adverse Political Environment

As the development growth trend increases' therefore decreasing the amount of undeveloped land and a negative public perception of self storage facilities persists, the industry needs to consider the conversion of existing facilities as an option for increasing supply where the demand for product supports additional development. Conversions typically occur in vacant retail, industrial, and warehouse facilities. Additionally, the U.S. population growth combined with the increased personal wealth and demand for additional built environment has created a need for denser development and often smaller residential units. This two pronged effect of minimal undeveloped land and living space smaller than the amount desired to store all of ones possessions creates an environment where storage is a necessary product type.

The idea of converting existing structures into storage facilities has been common practice in Europe of the past twenty plus years. Recently, the concept has gained more traction in the United States and will see continued activity for years to come. Additionally, as the economy shifts from a manufacturing economy to more service-oriented economy, the buildings that once housed the manufacturing operations will become prime candidates for conversions to storage facilities.

This chapter examines two facilities that utilized the conversion process to expand their operations into more urban settings. The first facility is located in Raleigh, North Carolina and is a conversion of a beverage distribution facility. The second facility is located in Winston-Salem, North Carolina and is a conversion of a grocery anchored retail building. Both facilities serve as an excellent model for future self storage facilities in suburban and urban markets. They were chosen because of their exposure and access combined with the limited amount of available land to develop storage facilities. In the following chapters, the case studies help to establish both qualitative and quantitative metrics for deriving an accurate "go or no-go analysis" for future development.

Case Study #1

Shurgard Self Storage
1400 Capital Boulevard
Raleigh, North Carolina

PROJECT TYPE

This project is an example of an adaptive use of a distribution facility into a self storage facility featuring climate-controlled units and state-of-the-art electronic security. Redevelopment of the 92,488 square-foot facility, began in 2005, required review from local, and state agencies to approve the final conversion plan. Ideal demographics in the surrounding area and a dearth of land available for new construction led to the developer's decision to redevelop the distribution facility.

SPECIAL FEATURES

- Adaptive Use
- State-of-the-art security system
- Climate-controlled storage units

- Adjustable storage units

DEVELOPER

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DOCUMENT IMAGES

Included in Exhibit 2 - Site Plan

GENERAL DESCRIPTION

Construction of the original building known through most of its history as the Harris Wholesale warehouse was completed in the 1987. Additions to the parcel included a 75,440

square feet, exposed steel distribution center. The property was used as a beverage distribution center and, therefore, the walls of the property were heavily insulated to chill the contents similar to a refrigerator. The thick, heavily insulated walls allowed the property to be refrigerated by chillers and/or cooling units as opposed to air conditioning forced through duct work. The roof of the building is rubber membrane. In addition to the warehouse and structure components of this property, the building contains approximately 12,000 square feet of office and a parking lot of approximately 22,000 square feet.

Today the 92,488 gross square-foot facility houses a state-of-the-art self storage facility with more than 540 units and 12,274 square feet of office. Completed in April 2006, the project represents Morningstar Properties LLC's (Morningstar), a self storage developer and management company, fourth effort of converting an urban structure into a modern storage facility.

Morningstar was interested in the property because raw land in the downtown area of Raleigh, which has positively trending demographics, is scarce and often to expensive to justify development of self storage facilities. After carefully assessing the condition of the facility and identifying the location as a site with strong current and future demographics, in 2005 Morningstar began the process of planning the renovation.

SITE HISTORY

The warehouse was constructed in 1987 under the name Harris Wholesale Incorporated. While occupying the property, Harris employed many workers and this location served as one of the larger warehouses for the Raleigh based beverage distributor. The facility operated as Harris's primary warehouse for approximately twenty years until they relocated to a new 150,000 square foot facility in the Walnut Creek Business Park. Harris Wholesale Incorporated vacated the property in May of 2004.

PLANNING/DEVELOPMENT

Morningstar first identified the site in June, 2005. The company already had developed twelve other facilities in Raleigh market and was searching for a developable site in the downtown region of the city, which market research had determined to be an underserved market. Indeed there were no storage facilities in the area, and demographic research suggested significant pent-up demand. However, the scarcity of developable land made available land too expensive to justify developing a self storage facility. Economics is the main reasons Morningstar viewed a conversion property as the most financially feasible means of entering the downtown market.

The site's location on 1400 Capital Boulevard, one of the main arteries into downtown Raleigh, placed it well within an ideal trade and demographic area. The site enjoys an average car count of 51,000 cars per day, 600 square feet of road frontage, and signage ordinances allow for ample signage to properly market the facility.

The site was owned by the Harris Wholesale Incorporated, which developed the site in 1987. The previous owners placed underground storage tanks on the facility to fuel the transportation vehicles used in the operations. These tanks were successfully removed from the property and the entire three parcel site was placed on the market. In October 2005, Morningstar Properties LLC purchased one of the parcels for $4,000,000, and began the conversion process in late November 2005.

The city of Raleigh, North Carolina utilizes a quick review process for developments that do not require variances from existing zoning. This requires all parties involved in both the pre-construction and construction components of the development to gather in one room and discuss the entire project with the planning board of Raleigh. This process helped to expedite the entitlement process and allowed Morningstar to receive building permits in six weeks after the property was purchased.

The internal units were planned by Janus International. The plan included the construction of a mezzanine level with larger units located on the first floor and the smaller units located on the second floor. Morningstar would prefer to expand the entire development into the office portion of the original building, but the loading requirements for self storage prohibited the development to encroach into the office portion of the structure.

CONSTRUCTION

The entire construction process lasted approximately six months, which was twice the amount of time that Morningstar projected in their initial analysis of the project. The reasons for the increased construction time schedule resulted from constraints from local government agencies and typical construction delays that occurred because of the changes enforced by the local agencies. These delays are hard to forecast before construction begins but serve as a guide for future conversions.

The fire marshal initiated several change requests during the final inspection of the property. First, this inspection of the elevator resulted in a non-conforming ladder that is used to climb down the elevator shaft during service calls. The code required the ladder to extend seven inches from the wall and the existing ladder was only five and a half inches from the wall. Morningstar fixed the ladder to conform to the fire marshal's request.

The cooling system provided a challenge during the construction phase because the original use allowed the fire marshal to approve the use of carbon dispensing vehicles inside the structure. Unfortunately, the fire marshal deemed the new use as property public in nature and required Morningstar to circulate air from the roof of the building to prevent carbon monoxide poisoning because of the vehicular accessibility into the building. This requirement created an additional cost for the building because four additional cooling units were needed to maintain the temperature desire for climate control units.

Finally, the fire department required additional area's of rescue to adhere to Americans with Disabilities Act (ADA). Morningstar was required to replace four, four-hour fire rated exits instead of the two hour walls that were installed. The lesson learned in this process is the city tells a developer one thing and the separate agencies will interpret their departments' requirements differently. The more interaction a developer has in the pre-construction phases with all agencies helps to minimize future delays in construction and opening of the storage facility.

MANAGEMENT

Morningstar Properties LLC developed and manages the facility under the Shurgard Self storage flag. The facility is open to tenants from 7:00 a.m. to 7:00 p.m. daily, and a manager is on-site during business hours. The entrance to the facility is on 1400 Capital Boulevard, and access is restricted by an electronic gate. Tenants' are given an access code, which opens the gate and records their time of arrival in a computer in the management office; their time of departure also is recorded.

Morningstar Properties LLC is headquartered in Matthews, NC and currently operates over 60 facilities in North and South Carolina. Founded in 1981 by Stephen Benson, the company is nationally recognized as an industry leader for its approach to customer service and building construction. Morningstar, under a partnership with Shurgard, develops and manages self storage facilities in the Carolinas.

Shurgard Storage Centers, Inc. is a leading self storage real estate investment trust, or REIT, that develops, acquires, invests in, operates and manages self storage centers and related operations in the United States and in Western Europe. They are one of the largest owners and operators of self storage centers in the United States and the largest owner in Europe.

Recently, Public Storage and Shurgard announced a merger under which Public Storage will acquire Shurgard. The merger will enhance the size of companies to a total market capitalization of approximately $18 billion and ownership interest in over 2,100 facilities in 38 states and seven European nations. The merger creates the largest self storage owner in the United States.

MARKETING/TENANTS

Marketing of self storage facilities can be difficult, and the Shurgard Storage Center (1400 Capital Boulevard) facility is no exception. Marketing to individuals is achieved largely through signage, which marks this highly visible site, and from advertisements in the telephone book and the Internet. Direct mail advertising is employed as well, but it can be expensive and inefficient; generally, for every 400 pieces sent, only one response is received. Drive-by traffic and word-of-mouth advertising is most effective. Additionally, marketing to individuals occurs with Realtor meetings, Chamber of Commerce functions, and Val-Pak mailings.

Marketing to Shurgard's business tenants is more direct. In general, commercial tenants lease more space for a longer period of time than individuals. Shurgard uses both the direct mailing and meetings with local businesses to market, a time-consuming but effective technique. Morningstar projects that residential customers typically rent for approximately five months at a location and commercial tenants average approximately two years. Therefore, the additionally time and effort required to market to commercial tenant's is financially beneficial to storage operators.

EXPERIENCE GAINED

- Multilevel self storage facilities are feasible, particularly in areas where land is scarce for additional development. At 75,440 net rentable square feet, Morningstar Self Storage at 1400 Capital Boulevard is larger than the average self storage facility in the Carolinas,

which average approximately 40,000 net rentable square feet. Additionally, the property is one of only a handful of multilevel self storage facilities in the Raleigh market. The high barriers to entry and strong demographics are expected to make this facility an excellent investment for Shurgard and Morningstar.

- Detailed planning and strong project management are essential in the redevelopment projects. The developer, who served as the general contractor with Edifice, Incorporated, used an in-house experienced cost estimator and sophisticated construction manager to keep the project on schedule and under budget. Each aspect of the redevelopment was broken down in detail, and competitive bids were solicited.
- Morningstar views conversion of vacant structures and 'first generation' storage facilities as the growth plan for their future. The company views each opportunity to invest in converting structures into storage facilities as an opportunity to increase their knowledge and construction efficiency ahead of their competition. Additionally, the existing conversions that Morningstar has participated in are successful from a community and financial perspective.

PROJECT DATA

LAND USE INFORMATION

Site Area: 4.72 acres

Gross Building Area: 80,288 square feet

Net Rentable Area: 75,440 square feet

DEVELOPMENT COST INFORMATION

Site Acquisition $4,000,000

Hard Costs $1,468,360

Soft Costs $1,096,263

Excel Sheet Attached (Exhibit Three)

Case Study #2

Shurgard Self Storage
1925 Silas Creek Parkway (336.777.1919)
Winston-Salem, North Carolina 27103

PROJECT TYPE

This project is an example of an adaptive use of a former one-story grocery anchored shopping center into a self storage facility featuring climate and non-climate controlled units. Redevelopment of the 65,138 square-foot facility began in 2000, required review from the local agencies before the approval of the final conversion plan was received. The site was selected because of demographics, street exposure, and access that the parcel offered at a price that increased the economic viability for storage on the location.

SPECIAL FEATURES

- Additional drive-up units added

- Adaptive re-use of a vacant facility (community benefit)
- Phasing of construction

DEVELOPER

Morningstar Properties LLC

10833 Monroe Road

Matthews, NC 28105

704.847.1640

GENERAL DESCRIPTION

Construction of the original building known through most of its history as retail property anchored by a Kroger grocery store was completed in the 1978. Additions to the original parcel included a 56,007 square feet of leasehold improvements. The property is constructed of exposed brick. The roof of the building is constructed of a rubber membrane. In addition to the original structure, the property includes eleven additional storage buildings which gross approximately 29,695 square feet.

Today the 85,702 gross square-foot facility houses a state-of-the-art self storage facility with more than 480 units and 54 storage lockers. Completed in 2000, the project represents Morningstar Properties LLC's (Morningstar), a self storage developer and management company, first effort of converting an urban structure into a modern storage facility. Morningstar was interested in the property because of the traffic count, exposure, and favorable demographics of the property.

SITE HISTORY

The property opened in 1978 as a Kroger grocery store. The property housed Kroger until the late 1990s when the store vacated the property. The site remained vacant for

approximately two years before Morningstar purchased the property in 2000. During the vacant period, the property became a magnet for vandalism, crime and drug activity. Therefore, when Morningstar approached the city planning board with their plans to re-zone the property to self storage, the local municipality adamantly approved the conversion. The local planning board and police department saw the conversion as an opportunity to get rid of a problem and bring tax revenue back to the city.

PLANNING/DEVELOPMENT

Morningstar performed a thorough due diligence assessment of the structural components of the property. The initial construction called for phasing the existing structure into three sections to mitigate upfront costs and fit out hallways that adhere to building and fire codes. Upon absorbing the majority of the climate controlled units and obtaining a break-even return for their investment, Morningstar built out additional units in the front and the sides of the facility.

CONSTRUCTION

The entire construction process lasted approximately five months. The project was Morningstar's first attempt at converting an existing structure and therefore construction delays and/or first time experience with such a development meant a few delays in the construction process. The main construction headache was the fire marshal and the delays that this individual placed on opening the project.

The main point of contention for Morningstar is the vague nature of the fire code, because fire issues are not a part of the building code. This enables the local fire marshal greater flexibility in interpreting the rules and hinders the developer ability to expedite the construction process to meet the requirements of an unknown entity. The owner is quoted as saying, "Even if you follow the building codes, the fire marshal can make changes when he or

she comes in later down the road. They can require additional fire walls and sprinkler systems. Its especially difficult when you are converting a large building like a former supermarket because you have this big, open building that will require fire walls and fire doors."

Chapter three presented the attempts at nationally standardizing the fire codes; however some cities designate themselves as special fire districts and therefore can set their own rules. This creates a human unknown for a developer and holds a project hostage to the personal desires of the local fire marshal. The lesson learned is that changes by the fire marshal can easily increase the cost of construction as much as three to five percent and therefore should be reviewed early in the process.

MANAGEMENT

The management of this facility is the same as the aforementioned case study.

MARKETING/TENANTS

Marketing for this facility is similar in nature to the marketing plan utilized for the Raleigh, North Carolina Capital Boulevard location. Additionally, the property manager had tremendous success with allowing religious groups to rent the previously large parking lot for picnics and fairs. These events provided tremendous amounts of advertising at an affordable price, free.

EXPERIENCE GAINED

- This conversion was Morningstar's first experience of converting an existing commercial structure into a self storage property. This experience has enabled Morningstar to gain a competitive advantage against its competitors. Moreover, the company is committed to additional conversion projects and/or rehabbing and modernizing existing structures as a major growth strategy for the company.

- The owner gained knowledge of where to locate different size units in relation to loading docks and entrance points of a facility. For example, the owner would have placed large units near the loading docks to facilitate the needs of these users. Smaller units located farther from the ingress and egress points are acceptable because these tenants are typically storing smaller, lighter items. Additionally, the addition of a mezzanine level was missed in the construction of this facility and future facilities included this feature which maximizes the net rentable square feet of the building.

PROJECT DATA

LAND USE INFORMATION

Site Area: 5.38 acres

Gross Building Area: 85,702 square feet

Net Rentable Area: 65,138 square feet

These two case studies provide an excellent framework for replicating the various qualitative and quantitative aspects of these projects in future conversion opportunities throughout the Southeast. In the chapter ten, the Raleigh property will be run through the "go or no-go" model to test the validity of the model on a successful conversion project. The model benefits from the knowledge gained by thoroughly examining these successful conversions.

Chapter Eight: Feasibility Analysis: Supply and Demand Study

The remainder of this paper is dedicated to establishing a “go or no-go” model to quickly and effectively analyze ‘for sale’ property as a candidate for a future self storage conversion project. This chapter deals with the qualitative items typical of a successful self storage location. Additionally, the concept of supply and demand is addressed in greater detail and concludes with a supply analysis to use for selecting a future conversion. Chapter nine addresses the quantitative analysis involved in constructing and operating a conversion property. The chapter serves as an overview of the financial metrics used and the costs associated with the conversion process. Finally, chapter ten presents the model in its entirety. This model was built off the principals formed in the last two chapters. Additionally, chapter ten puts the model to the test by running successful projects through the model. This process tests the model and helps to confirm its validity for future users.

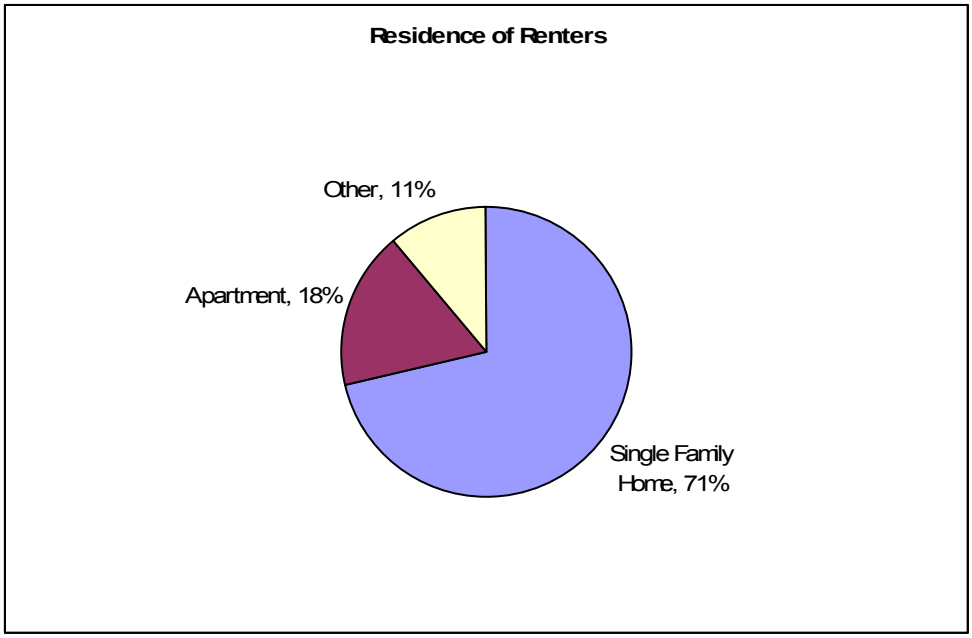
DEMAND STUDY: SELF STORAGE ASSOCIATION

In 2005, George H. Leon published a study sponsored by the Self Storage Association attempting to learn more about the demand drivers affecting the self storage industry. The study was commissioned because to date, little is known for how to properly quantify self storage demand. The industry has had the luxury of developing with the ‘Field of Dreams’ approach of “build it and they will come”. Unfortunately, for investors and developers of this property segment, the market is approaching saturation in certain markets and additional studies are needed to properly analyze demand.

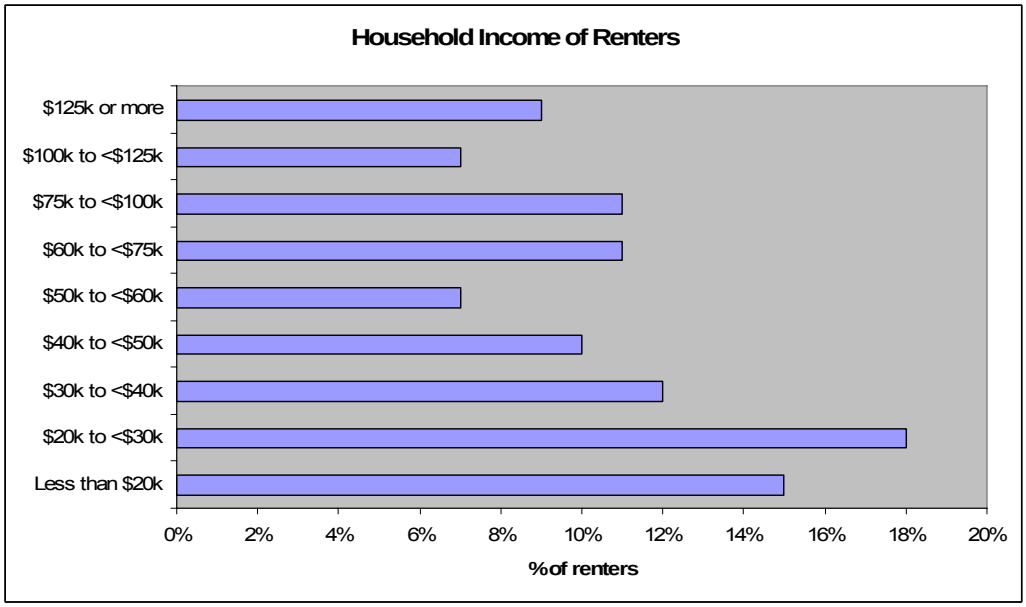
The survey polled more than 8,000 households and was completed by approximately 2,150 individuals and 383 business users. This study and statistical output is important in quantifying where the demand for storage originates in the urban and suburban markets. Holistically, the report summarized the growth of the self storage market as stagnant with limited expansion options in markets that hold a felt need. The current demand is quantified at

approximately 10.0 million households, or 9% of the total 112 million U.S. households. The absolute demand for the product is not expected to grow, but market size will be driven by population growth.

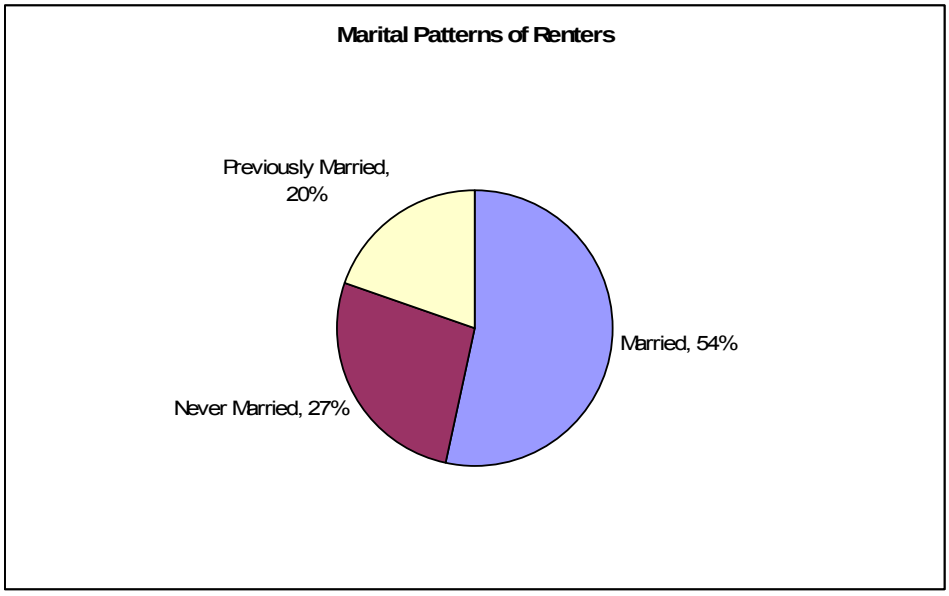
Establishing that the market for self storage is expected to grow mostly from population growth, the next question addressed is what familiar attributes the current and future users hold. The aforementioned demand study dissected self storage users into the following categories: (71%) live in single family homes, (18%) live in apartments and condos, and the remaining (11%) reside in other types of units. Additionally, the majority of self storage users (62%), own their own homes, but home renting is also a prevalent user (38%).



The income distribution of self storage renters is an additionally important feature in determining where to locate a future facility. The demand study yielded a relatively uniform distribution of renters. The largest single group of renters falls within the $20,000 to $30,000 household income bracket. The median household income is about $45,000. Additionally, a second large group occurs in the $60,000 plus range. Overall, the information is statistically insignificant from one income bracket to the next.

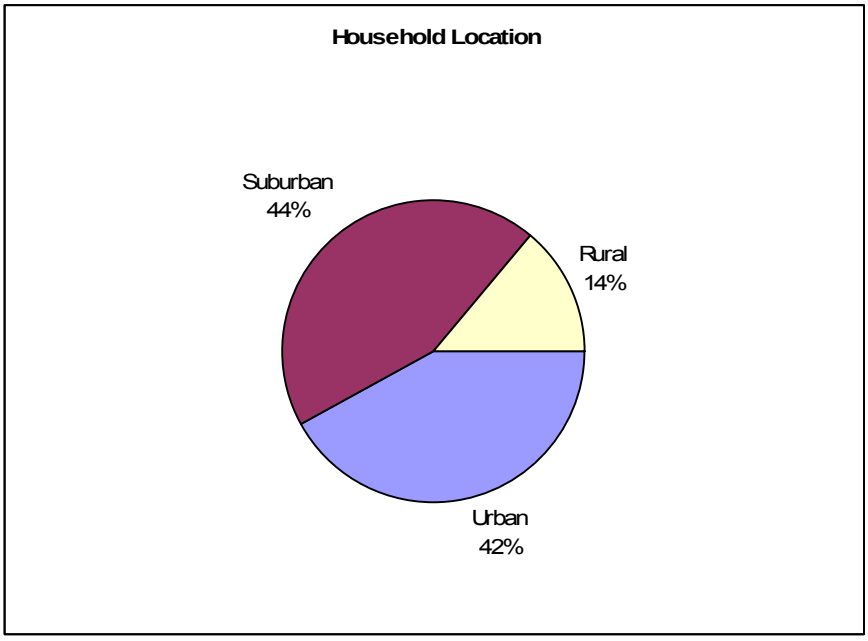


Finally, the demand study resulted in an interesting statistic of the martial patterns of the current self storage users. The current make-up is (54%) of renters are married, and the remainder were previously married (20%) and never married (27%).



Self storage renters are mostly households located in the suburban (44%) and urban (42%) areas, with the smallest fraction located in rural (14%) areas. This information is important in the initial selection of a storage facility. The Census Bureau classifies “urban” as a

core census block with a population density of at least 1,000 people per square mile and surrounding census blocks that have an overall density of at least 500 people per square mile.



This information confirms the authors focus to development opportunities in the suburban and urban markets with positive population and household growth combined with medium to high barriers to entry. Therefore, the "go or no-go" analysis limits the markets to search for properties in middle market population sizes and requires several of the demand characteristics stated in the aforementioned demand study.

SUPPLY STUDY: EXISTING PROPERTY

The premise of this section of the paper is to distill the information gathered from publications and interviews with existing storage professional into a template that allows a developer to determine if a vacate facility is a good candidate for conversion. The qualitative analysis is the first hurdle and consists of three general categories which include the market, the competition and the site itself. Creating a generic template for every market in the United States is difficult, but the analysis attempts to remain broad enough to allow the user to differentiate between particular market nuances.

Feasibility Analysis: Supply and Demand

MARKET

1. Population of MSA? >300,000 to 1,750,000 (target)

2. Population within a five mile radius of property? > 50,000 desired

3. Population growth of five mile radius of property? %> national average desired

4. Median household income in a five mile radius of property? > state average

5. Marital status? Female population?

COMPETITION

1. Number of facilities within a five mile radius of the facility?

2. Number of those facilities that have climate controlled units?

3. Occupancy of direct competitors? Is the occupancy above 85%?

SITE

1. What is the traffic count in front of the site? The ease of ingress and egress?

2. How much road frontage does the parcel have and what is the local sign ordinance?

3. Existing facility – current zoning vs. storage zoning?
   What is the condition of the structural and systems?

MARKET

The first category to consider when qualifying a self storage site as a possible candidate for conversion is the market and demographic information of the submarket. Specifically, the desired population for the Metropolitan Statistical Area (MSA) is approximately between the 300,000 to 1,750,000. The reason this figure was selected is because in the larger markets, the major regional and self storage REITs typically dominate the landscape. Additionally, several markets in the Southeast such as Raleigh/Durham, NC, Richmond, VA, Charleston, SC, West Palm Beach, FL, and Chattanooga, TN are considered middle markets that have population and growth totals conducive to a successful self storage market.

Next, the total population within a five mile radius is important for the success of the facility. An exact figure or floor amount is difficult to quantify, but a 50,000 person barrier is a good starting point depending on market or site specific constraints. In addition to the population calculations, the growth of population in the market is essential in the long term success of a property. The demand study sponsored by the Self Storage Association alluded to population growth as the major driver for additional self storage demand in the US economy. Therefore, population growth needs to gross a higher average in the location one plans to develop storage than at least the national population growth average. This growth needs to be a forecasted number because past growth does not necessarily warrant additional storage units.

Finally, the marital status and the median household income are the final two market categories that affect the future success of a storage property. The marital status follows the advice of the aforementioned demand study, but the real marketing needs to focus on the female population. It is widely believed that females account for more than 60% of all storage tenants and therefore, whether single or married, have a major impact on the bottom line of a facility. This demographic information helps the future owner understand their future tenants profile and helps them cater the facilities aesthetics to appease their desires.

Compiling the aforementioned information is relatively easy given the vast number of online companies that forecast said information. Additionally, the Census Bureau is a free

information source that is helpfully in the initial stages of feasibility, but market specific or firms with dedicated staff to update the growth of a community is the best way to stay abreast of the growth in the population. ESRI (www.esri.com) and Claritas (www.claritas.com) are examples of websites with helpful data.

COMPETITION

The due diligence surrounding the existing supply of self storage facilities is an exercise that several owners fail to engage in before development. Unfortunately for this development technique, the perceived perfect site might not lie in the perfect market and therefore a thorough analysis of the current and future supply in the market is imperative to a successful conversion. Obviously, local knowledge is essential in gathering all of the existing facilities information, but in today's Internet age the preliminary portions of a search can be completed before entering the town. Therefore, the first task of competition is identifying all of the self storage facilities in the trade area.

The Yellow Pages is a good place to start the search. From the website www.yellowpages.com, the user can search by distance (3-5 miles is a typical search distance) from the potential conversion facility. The keyword to search should include the following headings: Self-storage, Storage, Household Commercial, Moving and Storage, and Self Storage. This search should generate the existing competition in the area, but additional Internet searches using Google, or other search engines with the aforementioned keywords and "Your Town" is an appropriate audit procedure. Finally, the Reference USA is an excellent search engine for compiling a thorough list of existing facilities or an organized self-storage association representing the market.

After this list is organized, continue the search on the Internet for those facilities on the list that have their own Web sites. Here a wealth of information is available to determine items such as rental rates, hours of operation, management on site, climate controlled units, and

ancillary sales items. The following is the competition entry form for the qualitative portion of the "go or no-go" feasibility analysis (shown in greater detail in Chapter Ten):

CURRENT SUPPLY WITHIN A FIVE MILE RADIUS OF THE SUBJECT PROPERTY					
Competition's Project Name	**Distance to Subject (< 5 mi)**	**Gross Rentable SF**	**Net Rentable SF**	**Total Units**	**Estimate CC Units**
Project Name Address Phone Number	5.0	Enter	Formula	Formula	Estimate
Project Name Address Phone Number	5.0	Enter	Formula	Formula	Estimate
Existing Supply Total		**Total SF**	**Total SF**	**Total Units**	**Total**

Once the current self storage supply is compiled, the converted self storage facility is applied to the current total self storage units in the market to determine if additional units are appropriate. The model requires the user to enter the information in the previous table and the demographic information from the first part of the qualitative feasibility analysis.

Population =	Enter
Households =	Enter

Combining the two input fields yields four different market ratios that help the developer determine if the market is over supplied or if an opportunity is currently underserved in the market. The four ratios track the amount of total storage units per total population, the amount of climate controlled units per total population, the current square feet per population, and the total self storage square footage per household. The following is an example output of a supply analysis (shown in greater detail in Chapter Ten):

SUPPLY ANALYSIS

Current Market Ratio (Total Units)	
Trade Area Population	234,871
Total Existing Units	4,583
Current Market Ratio	1.95%
New Facility	642
Total Potential Units	5,226
Potential Market Ratio	2.22%

Current Market Ratio (SF)	
Trade Area Population	234,871
Total Existing SF	527,085
Current Market Ratio	2.24
New Facility	73,865
Total Potential Units	600,950
Potential Market Ratio	2.56

National Average: Units per Population
Go: < 3%
Caution: 3% to 4.5%
Avoid: > 4.5%

National Average: SF per Population
Go: < 5
Caution: 5 to 6.5
Avoid: > 6.5

Current Market Ratio (CC Units)	
Trade Area Population	234,871
Current CC Units	265
Current Market Ratio	0.11%
New Facility	642
Total Potential CC Units	907
Potential Market Ratio	0.39%

Current Market Ratio (SF per Households)	
Trade Area Households	97,011
Total Existing SF	527,085
SF per Household	5.43
New Facility	80,288
Total Potential Units	607,373
Potential Market Ratio	6.26

National Average: CC Units per Population
Go: < 2%
Caution: 2.5% to 4%
Avoid: > 4.5%

National Average: Units per Population
Go: < 12
Caution: 12 to 14
Avoid: > 14

The percentage of storage versus the total population typically runs in the four to five percent per 1,000 persons, according to market data. In addition to the calculation of all storage units in the market, the ratio of climate controlled units per total area population is an opportunity for a self storage developer to fill an unmet market need. Finally, the total square footage is observed versus the total population and the number of trade area households. Current market analysis shows the market is supporting approximately 5.54 rentable square feet per persons in America.

In compiling all of the information needed to complete the existing supply of self storage in the converted properties trade area educates the developer to the competition. The use of

the ratios frames each trade area in regards to national averages and allows the developer to recognize inefficiencies in the market. Holistically, self storage is a 'blocking and tackling' business that requires proper asset location and execution of an effective marketing and tenant retention plan. The competition section of the feasibility analysis is an imperative portion of the due diligence associated with a successful storage facility.

SITE

The final qualitative items address in the feasibility analysis deals with the existing property and its ability to convert into a successful storage facility. As the previous chapters have alluded, a successful self storage facility has many of the same location qualities that a retail facility desires. The first and most important feature is the visibility of the property from the roadway combined with the ingress and egress of the facility. According to the Self Storage Association's demand study, an observed 43% of renters rented units because they saw the facility while they were driving. This advertising method has greater success than all print (yellow pages, newspaper, and mailings) and digital media (Internet) groups combined. Therefore, an accurate traffic count and assessment of the accessibility of the property is essential to the initial due diligence.

The final visibility item a developer should consider is the amount of road frontage the parcel holds and the current zoning requirements on signage. Ample road frontage allows for greater visibility of the site and adequate space for larger vehicles to enter or turn around in the parcel. As discussed in the chapter addressing self storage moratoriums, new self storage developments are often forced to develop on odd shaped sites where these features would not attract the largest pool of tenants. Therefore, the conversion of an existing facility with road frontage and signage desired for a successful community makes it a sought after property.

Now that the developer has a good sense of the supply and demand for storage in the community, the final item associated with the site analysis is an assessment of the entitlement

risk associated with converting a facility and the overall structure of the property. The zoning requires the developer to research the 'as-of-right' zoning to determine if storage is an accepted use or assess the difficulty of rezoning the property to allow storage. Finally, if the property passes the majority of the qualitative tests located in the feasibility analysis, additional research should be performed on the existing structure. This analysis dovetails into the next chapter that quantitatively analyzes the conversion process. The model dissects the construction process into three phases and all of the financial metrics typically associated with a real estate development project.

Chapter Nine: Financial Analysis of Self Storage Conversion

The premise of this chapter is to explain the financial model that will assist the self storage developer in determining if converting an existing structure into self storage makes financial sense. Chapter seven had specific examples of the construction costs for conversion case studies and several of the financial figures are used in this model. Additionally, those case studies are excellent models to replicate after a property passes the initial qualitative and quantitative feasibility requirements. Therefore, the ultimate goal of the financial section of the analysis is to assess a property financially to determine if a property warrants additional due diligence.

The model, discussed in chapter ten, requires the input of two required returns to generate the financial return output. The model is designed for simplicity, but this chapter attempts to explain some of the details involved in the financial calculations. This chapter will thoroughly discuss the three categories comprising of the existing structure, the conversion property at stabilization, and the schedule of construction and absorption to arrive at stabilization. The net result of these three categories is a sensitivity analysis of levered and unlevered returns over a five year period. This chapter examines the specific items in each category and market forces that help shape these inputs.

BUILDING INPUT

In addition to the qualitative features of an existing property that make conversion a possibility, the financial aspect is equally as important and relatively simple to calculate during the initial feasibility process. Obviously, the sales price and size of the building are simple items to input, but the model also helps an investor determine the appropriate purchase price needed to obtain the desired yield for the investment. In addition to purchase price, the “go or no-go” model breaks the conversion process into three phases to simply the calculation.

Building Input	
Purchase of Existing Facility	Input
Pre to Purchase (per sf.)	1.50
Purchase to Shell (per sf.)	10.50
Shell to Finished (per sf.)	9.00
Building Size	Input
Months of Construction (insert 2 to 8)	5
Efficiency	90.00%
Net Rentable SF	Formula
Avg. Unit Size	115
# of Units	Formula
GP$ per Unit/month (base case)	Formula

First, the model attempts to quantify the approximate amount needed to review the property during the due diligence phase (Pre to Purchase). For example, items such as seismic, structural, and environmental reports are typically generated during this stage of the acquisitions process. If a structure contains extensive contamination or asbestos, for example, the likelihood of converting the facility into an asset that yields an appropriate return for the amount of risk incurred is highly unlikely. Therefore, if the amount of pre-purchase to purchase cost exceeds $5.00 per square foot and land is priced at market (no discount versus clean land), then the developer should consider moving on to the next opportunity.

Second, the model requires an input of cost per square foot of taking the existing facilities shell and internal components from current state to the desired structural and mechanical state needed for a modern storage facility. These costs include site work and demolition, concrete and resteel, roofing system, third party contracts (i.e. architect, engineer, survey, etc.), sprinkler system and any other mechanical systems applicable to the building at large and not the specific storage units. Historically, the cost for this phase of the development runs between $5.00 per square foot and $15.00 per square foot. The model allows the user to change the construction figures, but typically the model works from the current rental rates. Using these income numbers, the user can work backwards in determining the maximum amount that is feasible to justify the conversion process. The final stage, discussed in the following paragraph, is the easiest portion of the conversion to estimate and ranges from $8 to

$10 per square foot range. Therefore, the due diligence and core structure to storage ready modernization needs to fall in a range less than $20 to justify conversion at the current rental rates in the Southeast.

The last category needed in the conversion process is the amount per square foot required to convert the existing shell and mechanical system into usable storage units that generate the income addressed in the stabilized conversion facility section of this model. From a hard cost perspective, the items included in this category include the internal structural components, the metal buildings and systems, the conveying systems, the security features, the office, and the furniture, fixtures and equipment. The cost per square foot of this category generally runs between $5.00 and $15.00. Simplifying these calculations even further, if the three categories combined appear to exceed $30 per square (contingent on the land price) then the likelihood of a successful conversion is doubtful.

The remainder of the model generates a project summary that is helpful in determining if the financial information makes sense in the space market. The only variable in the table is the efficiency percentage, which is a function of the existing facility. From the existing structure, the average unit size is fixed at the market average of 115 square feet then the number of units is derived to ensure the facility is within the current averages in the market. Finally, the average rent per unit per month is calculated using the base case model as the gross income figure.

STABILIZED CONVERSION FACILITY

This portion of the model dissects the hypothetically converted facility into an income-producing asset. The figures used in this calculation are market driven but broad enough that extensive due diligence is not needed in order to determine if additional research is warranted. For example, the buildings operating revenue and expenses track the published figures in the Mini Storage Magazine's 2004 operating expense guide for the Southeast region.

Southeast Region Operating Expenses - 2004				
	Range			
	Low $/SF	High $/SF	Average $/SF	% of Expenses
Taxes	$0.09	$1.19	$0.48	10.58%
Insurance	$0.05	$0.55	$0.21	4.56%
Repairs & Maintenance	$0.04	$2.78	$0.35	7.80%
Administration	$0.02	$2.99	$0.38	8.41%
On-Site Management	$0.06	$4.64	$1.28	28.35%
Off-Site Management	$0.10	$0.79	$0.51	11.38%
Utilities	$0.05	$0.82	$0.31	6.85%
Advertising	$0.00	$1.60	$0.32	7.11%
Miscellaneous	$0.01	$3.49	$0.68	14.96%
Total Expenses	**$1.59**	**$9.62**	**$3.47**	**100.0%**
Expense/Income Ratio	7.91%	99.73%	49.92%	
Total Facilities Responding	75			
Total Rentable Area (SF)	2,580,824			
Average Rentable Area (SF)	37,403			
Average Gross Income	$7.76			

This report was published by Mini Storage messenger and includes the responses of approximately 75 facilities. Obviously, the survey includes units in rural, suburban, and urban locations and consequently dilutes the average income and possibly skews the operating expenses. The targeted location of a conversion facility is urban or suburban markets with high barriers to entry and thus the income levels should adjust accordingly to the market. Regardless, the data is a good starting point for the “go or no-go analysis”.

Stabilized Conversion Facility	
Bldg. Revenue (per sf.)	$ 14.19
Bldg. Op. Exp. (per sf.)	3.50
Vacancy @ Stabilization	15.00%
Growth	2%
Exit Cap Rate (Rf + Cap Ex - Growth + Dep)	8.50%
Replacement Reserves	$0.15
Interest Rate	8.25%
Construction Loan (LTC %)	80.00%
Brokerage Fee (Disposition)	1.00%

The first three input categories ("Stabilized Conversion Facility") are generally derived from the local real estate market and require a brief analysis of the supply and demand forces surrounding the proposed conversion property. Additionally, the use of conservative underwriting in regards to the vacancy, growth rate, and exit capitalization rate is essential in creating an appropriate contingency cushion for the in-depth due diligence phase. The exit capitalization rate (risk free rate + capital expenditures – growth anticipation + depreciation) should include an additional 50 to 100 basis points over the going-in capitalization rate to reflect the depreciation of the facility.

Finally, the last four items in the stabilized conversion facility matrix deal with the market forces affecting the current financing and future disposition of the asset. Replacement reserves are typically required by lenders to help ensure the asset that they fund at time zero is similar in character throughout the term of the loan. Maintaining a reserve account for future repairs is an appropriate practice regardless of if a lender requires such an action. Next, the interest rate and the size of the construction loan is dependant upon the risk profile of the borrower and the property. Obviously, the numbers used in this section reflects a typical borrower of self storage property but should be changed to reflect each properties specific situation. Lending percentages are a function of cost and run between the high 80s to low 90s depending on bank underwriting requirements. Brokerage fees range from .75% to 1.5% depending on the firm marketing the property and the ultimate sales price of the asset.

CONSTRUCTION AND ABSORPTION SCHEDULE

The final category in the financial analysis of the "go or no-go" study is the assumptions used for the pre-construction, construction and absorption schedule. Obviously because the project centers on the conversion of an existing facility, the option of deferring a large portion of the cost through phasing construction is not applicable to this analysis. The entire construction cost is taken in year one and for simplicity, all of the operating expenses associated with a

stabilized property were included from day one. Therefore, the analysis is broken into quarters to signify the percentage of economic income derived by the facility as a percentage of effective gross income of the stabilized property.

Absorption - Physical	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Q1	0%	43%	88%	100%	100%	100%
Q2	5%	53%	93%	100%	100%	100%
Q3	15%	70%	98%	100%	100%	100%
Q4	30%	80%	100%	100%	100%	100%

SENSITIVITY ANALSIS

The output of the three aforementioned categories yields a base line return analysis on a levered and unlevered basis. The net operating income with the sales calculation and financial analysis (base case) is shown in the following chapter in more detail. From the base case, a sensitivity analysis is used to determine how susceptible the analysis is to market conditions. The analysis projects the projects return by altering two variables, stabilized occupancy and gross potential income. Again, this calculation is shown in greater detail in the following chapter.

This section enables a self storage developer to spend minimal time during the due diligence period to determine the financial feasibility of a conversion. The analysis is broken into three categories that combine market storage forces with financial market forces. The use of the qualitative worksheet (Chapter Eight) and the quantitative “go or no-go” analysis in this chapter are essential tools in establishing the framework for the “go or no-go” initial feasibility model.

In conclusion, the financial analysis from this paper provides a general feel for a project. The worksheet and models are established to help determine if a project has the makings of a successful project and location. If this section generates a positive result, the developer should continue to research the variables used in the model to verify the initial analysis of the project.

The following chapter outlines an analysis of two conversion facilities and outlines how simple and effective this model is for future developers.

Chapter Ten: Execution of "Go or No-Go" Conversion Model

This chapter blends the analysis of the previous two chapters into a "go or no-go" model that is effective in determining if a 'for sale' property is a good candidate for a self storage conversion. First, channels are explored where a self storage developer is able to identify potential conversions structures. Then, the model is introduced and explained in further detail. Finally, the model is tested using existing self storage conversions as a proxy and recommendation are provided for where the model can improve in the future.

Historically, the commercial real estate market was a local business that required local contacts, thus precluding individuals for straying far from their local region. Today, an increasing number of websites offer commercial opportunities combined with a plethora of demographic information. This allows investors to strategically research a facility and a market without having to initially travel to the property. Ultimately, successful real estate investors hold a deep understanding of a market and this concept will be true going forward.

In the due diligence stage, Internet websites are applicable for the initial feasibility portion of the study. For example, site such as www.loopnet.com or www.ccim.com provide commercial listings of 'for sale' properties in the United States. The first hurdle of the acquisition is to target properties in the Southeast that fall within a trade area that exhibits many of the demographic qualities inherent to a success self storage development. Within the "go or no-go" model, the 'target market' tab identifies 43 market that fall within the middle market population size category (Exhibit Four). From these cities, the user can search one of the aforementioned websites for either a warehouse or a retail property between 30,000 square feet and approximately 100,000 square feet. The key to shortening the list is to identify properties on a more major road and a location that is highly visible by passing traffic.

Once such a property is identified, the model requires the user to enter minimal information into four categories of the "go or no-go" model to determine if the property makes sense to convert into self storage on both a qualitative and quantitative basis. The user enters

information only in the "go or no-go" worksheet tab and current competition in the 'Supply' worksheet to generate the overall results. At this stage of the model, general market numbers in the Southeast are utilized throughout the model. If a user or market deviates from these norms, a user may manipulate the model by using the instructions in the 'Step-by-step' worksheet.

The first category deals with the subject property for conversion. The model asks for the user to enter the address of the property with the gross square footage and the initial sales price of the facility. The property section appears as follows in the model:

PROPERTY	**Enter from the subject property here:**	
	Address:	Enter Address of Property
	Building Gross SF:	Enter SF
	Purchase $:	Enter Purchase $

Next, the model asks the user to utilize an Internet demographic sites that generate the total population and the total households in a five mile radius of the aforementioned address. The market section in the template is as follows:

MARKET		
Enter the population and the total households within a five mile radius of the subject property (various websites generate this type of information).	**Population =**	Enter
	Households =	Enter

Then, the model instructs the user to investigate either the search engine Google (www.google.com) or the on-line version of the Yellow Pages (www.yellowpages.com) to generate a list of all the existing properties within a five mile radius of the subject property. Both of these websites require the user to enter the city and state with keywords to generate a list of self storage properties in the area. Keywords for self storage facilities include self storage, mini storage and storage. From this list, it behooves the user to double check the distance of the subject property to the competition through a mapping program like MapQuest (www.mapquest.com) to ensure a five mile radius around the subject property.

Once an exhaustive list of the competitive properties is compiled, the model instructs the user to enter the gross square footage of the facility. The easiest way to generate this

information is to utilize the Internet tax records of the county that the competition resides. This information is entered in the gross rentable square foot block and then the model generates the net rentable square footage and total units at that facility. The model uses the national average of 90% efficiency to generate the net rentable square footage. The total number of units is derived by dividing the net rentable square footage by the national average of 115 square feet per unit. Finally, the user may enter the total number of climate controlled units through additional tax record information or local product knowledge. This category does not affect the qualitative analysis of the model, but establishes a possible competitive advantage for the subject property.

CURRENT SUPPLY WITHIN A FIVE MILE RADIUS OF THE SUBJECT PROPERTY					
Competition's Project Name	**Distance to Subject (< 5 mi)**	**Gross Rentable SF**	**Net Rentable SF**	**Total Units**	**Estimate CC Units**
Project Name Address Phone Number	5.0	Enter	Formula	Formula	Estimate
Project Name Address Phone Number	5.0	Enter	Formula	Formula	Estimate
Existing Supply Total		**Total SF**	**Total SF**	**Total Units**	**Total**

The totals from the 'Supply' worksheet link back to the "Go or No-Go" worksheet to keep all of the analysis on one page. The net result of the total is summarized in the following table:

CURRENT STOCK

Summary of the Total from 'Supply' Worksheet:

Competition's Project Name	**Distance to Subject (< 5 mi)**	**Gross Rentable SF**	**Net Rentable SF**	**Total Units**	**Estimate CC Units**
Project Name Address Phone Number	5.0	Total SF	Total SF	Total Units	Total
Existing Supply Total from Supply Tab		**Total**	**Total**	**Total**	**Total**

Finally, the model utilizes the metrics discussed in the chapter eight that outlines general market parameters on the amount of stock that a given population will support. Therefore, the model combines the inputs of the market category with the total current stock to determine if the property is located within a market that can support additional stock. The model requires the property to exhibit a high probability of success before generating a 'GO' response in the market result box. The three possible outputs for this section include 'go', 'maybe' and 'no'. The output appears as follows in the model:

MARKET "GO OR NO-GO"	GO

To complete the model, the user needs to input the return percentages one desires to achieve given the risk associated with a self storage facility located in the subject market. Additionally, the model allows the user to differentiate between a levered and unlevered return. The financial category is the final section of the model and appears as follows in the model:

FINANCIAL		
Enter your required return:	**Levered Return**	**Enter**
	Unlevered Return	**Enter**
FINANCIAL "GO OR NO-GO"		**GO**
OVERALL ANALYSIS		**BUY THE PROPERTY !**

The "go or no-go" model is useful for quickly analyzing a subject property to determine if said property warrants additional due diligence at the local level. For this reason, the model utilizes general market average but requires the property to meet or exceed these averages in order to generate a positive response in the overall analysis section. The assumption for this stringent metric is that inherently additional hurdles will be uncovered during the property visit that will minimize the initial results. Therefore, in an interest of time and desire to uncover above average properties, the analysis requires both the market and the financial results to yield positive results.

TESTING THE MODEL

Now that the four category model is established, the thesis tests the model on two existing, successful conversion properties in the Southeast to debug and/or improve the validity of the model. The first property is the Raleigh, North Carolina Morningstar property examined in the case study. The second property is a Devon Self Storage property in Stone Mountain, Georgia. The author is deeply familiar with the North Carolina market and testing the model in a well known market helps to confirm the stock and the proper input in the model. The results of the model are shown in exhibit five of the thesis. Holistically, the model generated a positive financial result with extremely favorable qualitative analysis.

The second property yielded a cautious result and is shown in greater detail in exhibit six of the thesis. The financial analysis was further confirmed when the author spoke with the developer of this project. In 1996, the property was constructed for approximately $2,650,000 excluding the cost of the land. The model generated a figure of $3,060,000 for that same work ten years later. Assuming an average annual two percent grow in construction costs over this time period, the model is roughly accurate in calculating all costs excluding the cost of land. Additionally, the author increased the initial $3,000,000 land cost to reflect a two percent growth in price or $3,650,000 as the input for today's land price.

In addition to increasing the cost of the land, the author adjusted the efficiency of the building to reflect the developer's estimate of approximately 116,000 square feet of net rentable square feet in the building. Therefore, the efficiency was adjusted to 84% from the base case of 90% in the model. Obviously, the model attempts to apply generalities to all markets, but building specific changes are appropriate in generating an accurate snapshot of the conversion for the thesis.

LESSONS LEARNED

The “go or no-go” model is helpful for its simplicity and general market parameters. Unfortunately, development and human purchasing behaviors are not generic and require market specific analysis. The two main categories that require additional analysis is the current market rental rate, or income and the absorption rate of the facility. Income figures are generated off the current market average unit mix and the analysis of several self storage facilities appraisals in the Southeast. Additional research into the proposed market can help to solidify the figures used in the initial analysis.

The next category of further investigation is the absorption schedule used in the model. Currently, the schedule is smoothly calculated over a two and a half year absorption period which begins after the entered construction period is over. In discussing absorption with current market participants, several organizations create their own market absorption schedules for each region from their existing market knowledge. This area needs additional research or independent party assurance to confirm the market can absorb the future space attributable to the converted building. This analysis is appropriate after the initial market feasibility that the “go or no-go” analysis generates.

Finally, the success of a conversion project typically hinges on the effectiveness of the initial structural assessment of the property and the cost effectiveness and speed at which a construction firm can execute a conversion. All of the major self storage developers that focus on conversion have an in-house construction staff that is experienced at the ‘soup to nuts’ conversion process. Therefore, the larger self storage companies have created a niche where ‘mom and pop’ self storage developer do not compete. A typical conversion project is too complex and too expensive for a small operator to pursue these opportunities. This lack of competition in the market is an excellent opportunity for a small real estate fund to create a niche of converting facilities itself throughout the United States.

Chapter Eleven: Innovations and Conclusion

The self storage industry continuously evolves to cater the market that demands this product. Recently, facilities have added wine storage or lock-box services to add additional amenities for the end-user and cash flow to the owner. This chapter identifies trends that might warrant incorporating in future self storage facilities.

The best way to cater a product for your local market is to understand the habits of your customers. For example, climate controlled units allowed pharmaceutical representatives the option of storing their products at storage facilities instead of their home. This concept was identified in the March 2006 issue of Mini-Storage Messenger in an article discussing trends in the self storage industry. Anne Ballard, president of Universal Management Company states, "a large commercial base in climate, especially pharmaceutical representatives that are required by federal law to use climate control, has also allowed rental rates on these units to increase".

Self storage units that were close to hospitals, medical parks, or all major highways were beneficiaries of this growing trend. As an additional feature to these users, new storage facilities should consider including a small office where such traveling employees could stop and work between client visits. The facility can include free wireless Internet and additional administrative services (example – printer, fax, etc.) at a nominal charge for the user. A workstation for said tenants would ensure maximum client satisfaction and help to attract additional commercial tenants who typically rent longer than residential tenants and could possibly increase the stay for residential tenants.

Targeting a specific type of worker has upside for certain facilities, and targeting an entire age group has even more potential. National homebuilders are targeting more and more age restricted or age targeted communities. These communities are welcomed by local communities because of their fiscal benefit and minimal burden on the town's operating budget. From a self storage perspective, these communities are typically a second-home for the

residents or relocation from another community. Transient activity warrants temporary storage, and therefore self storage is a strong candidate to thrive in and around these communities.

Tracking the development of any of the national homebuilders that cater to 55+ communities is an excellent business model for a self storage developer. The due diligence involved in this development strategy requires constant monitoring of the various national homebuilders web sites and/or maintaining relationships with local real estate brokers who typically sell large land parcels to said developers. The self storage development may or may not occur in a converted commercial building, but the same qualitative feasibility analysis along with a modified quantitative analysis is appropriate in determining if a location warrants a facility.

Any population growth or transient activity that holds the typical demand drivers that warrant new or additional self storage facilities is an opportunity for additional development. Utilizing the qualitative and quantitative models presented in this thesis is an excellent starting point, but catering a facility to the specific needs of the market will help to ensure long-term success. Innovative concepts help to differentiate one facility from the other and are essential in developing and maintaining a successful storage facility. The industry is evolving with time, but understanding the current trends in land use combined with a successful due diligence analysis helps to create a competitive advantage for developers willing to invest the time.

In conclusion, this thesis analyzed the current regulatory trends and land planning trends affecting the industry. From these trends, the concept of conversions was addressed as a way to further meet market demand for this product while minimizing the negative public perception of this asset type. Then, two case studies were dissected and used in conjunction with interviews and published materials to determine appropriate metrics to use for the analysis of the supply of the market, the demand for the product, the financial returns, and the construction costs to apply to future projects. All of these chapters build to the final “go or no-go” analysis which is designed to assist in the initial feasibility of a “for sale” subject property. The model requires four input categories and allows the user to modify the model to properly reflect the

market of such property. The model was successfully tested on two facilities and concepts for future innovations and market trends concluded the paper. Self storage is a young and growing industry that will experience consistent growth in the years to come. Conversions of existing commercial structures will help foster that growth and the “go or no-go” analysis is an effective tool for aiding a developer in assessing an opportunity.

Exhibit 1: FIRE CODE

NFPA Draft 5000 – NFPA 101 Life Safety Code

Issues	NFPA 5000 – NFPA Building Code, 1st Draft Edition	2000 NFPA 101 Life Safety Code
DEFINITION		
Self-Service Storage Facility	Not Listed.	Not Listed.
OCCUPANCY		
Use or Occupancy	(§6.1.13.1) Defines Occupancy, Storage - An occupancy used primarily for the storage or sheltering of good, merchandise, products, vehicles, or animals.	(§3.3.134.14) Defines **Occupancy, Storage** – An occupancy used primarily for the storage or sheltering of goods, merchandise, products, vehicles, or animals. (§42.1.1) The requirements of this chapter shall apply to both new and existing storage occupancies.
Hazardous Materials	(§6.3.1.2) Hazard of contents shall be determined by the authority having jurisdiction on the basis of the character of the contents and the processes or operations conducted in the building or structure.	
STRUCTURAL		
Floor Loads	(§37.2.1) The unit live loads set forth in Table 37.2.1 shall be taken as the minimum live loads to be used in the design of buildings for the occupancies listed; and loads at least equal shall be assumed for uses not listed in Table 37.2.1, but that create or accommodate similar loadings. Table 37.2.1, Minimum Unit Live Loads: For storage- light, table indicates a live load of 125 psf. For storage- heavy not less than (to be determined by occupancy),	Not Addressed.

	the live load is 250 psf.	

FIRE AND LIFE SAFETY

Occupant Loads	(§29.1.7) The occupant load, in number of persons from whom means of egress and other provisions are required, shall be determined on the basis of the maximum probable population of the space under consideration. Explanatory Material: There is no occupant load factor specified for storage occupancies. Rather, the actual probable maximum number of persons present needs to be considered in determining the occupant load.	(§42.1.7) The occupant load, in number of persons for whom means of egress and other provisions are required, shall be determined on the basis of the maximum probable population of the space under consideration.
Egress	(§29.2.4.1) Every building or structure used for storage and every section thereof considered separately shall have not less than two separate means of egress as remotely located from each other as means practicable. Exception No. 1: In low hazard storage occupancies a single means of egress shall be permitted from any story or section. Exception No. 2: In ordinary hazard storage occupancies, a single means of egress shall be permitted from any story or section, provided that the exit can be reached within the distance permitted as a common path of travel. (Section 29.2.5.4 States common paths of travel shall not Exceed 50 feet if unsprinklered building Or 100 feet if sprinklered throughout.)	(§42.2.4.1) Every building or structure used for storage and every section thereof considered separately shall have not less than two separate of egress as remotely located from each other as practicable. Exception No. 1: In low hazard storage occupancies a single means of egress shall be permitted from any story or section. Exception No. 2: In ordinary hazard storage occupancies, a single means of egress shall be permitted from any story or section, provided that the exit can be reached within the distance permitted as a common path of travel. (Section 42. 2.5.4 states common paths of travel shall not exceed 50 feet if unsprinklered building or 100 feet if sprinklered throughout.)
	(§29.2.6.1) In low hazard storage occupancies, limitations on travel distance to exits shall not be required.	(§42.2.6.1) In low hazard storage occupancies, limitations on travel distance to exits shall not be required.
	(§29.2.6.2) In ordinary hazard storage	(§42.2.6.2) In ordinary hazard storage

	Occupancies, travel distance shall not Exceed 200 feet if unsprinklered building Or 400 feet if building is protected Throughout by approved, supervised automatic sprinkler system.	Occupancies, travel distance shall not Exceed 200 feet if unsprinklered building or 400 feet if building is protected throughout by approved, supervised automatic sprinkler system.
Fire Walls	(§8.3.1) Each part of a building separated by one or more fire division walls shall be permitted to be considered a separate building when the fire division wall meets the requirements of the section. (§8.3.1.1) Fire division walls shall be of not less than 3-hour fire-resistive construction in buildings of all types of construction.	Not Addressed.
Sprinklers	(§29.4.1) High-rise storage occupancies shall comply with the automatic sprinkler requirements of §32.2.2.1. Exception No. 1: Low hazard storage occupancies; Exception No. 2: Existing storage occupancies. (§32.2.2.1) High-rise buildings shall be protected throughout by an approved, supervised automatic sprinkler system per Section 11.3.1. A sprinkler control valve and a water flow device shall be provided for each floor.	(§42.4.1) High-rise storage occupancies shall comply with the automatic sprinkler requirements of §11.8.2.1. Exception No. 1: Low hazard storage occupancies; No. 2: Existing storage occupancies. (§11.8.2.1) High-rise buildings shall be protected throughout by an approved, supervised automatic sprinkler system per Section 9.7. A sprinkler control valve and a water flow device shall be provided for each floor.
ACCESSIBILITY		
Minimum number of units	Not addressed.	Not addressed.
Dispersion of	Not addressed.	Not addressed.

EXHIBIT TWO: MORNINGSTAR CAPITAL BOULEVARD SITE MAP

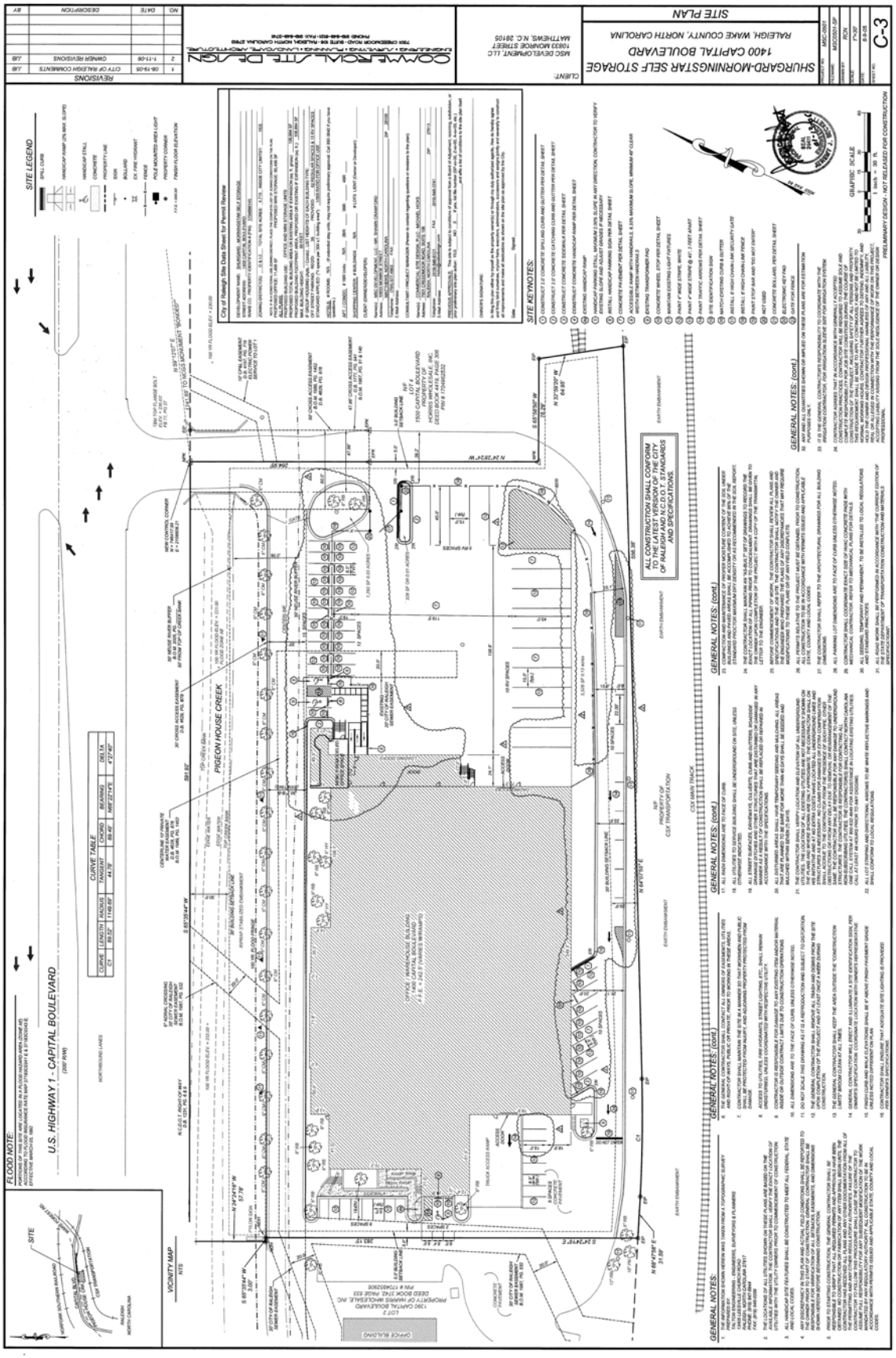


EXHIBIT THREE: MORNINGSTAR - CAPITAL BOULEVARD CONSTRUCTION BUDGET

Shurguard Self-Storage (1400 Capital Boulevard)		
	Cost $	% of Total Exp.
Site Acquisition Costs		
Land	1,000,000	15.23%
Title Insurance	5,000	0.08%
Title Search	3,000	0.05%
Improvements	2,990,000	45.55%
Easements	2,000	0.03%
Total	4,000,000	60.93%
Hard Costs		
General Conditions	17,100	0.26%
Site Work/Demolition	72,682	1.11%
Concrete & Resteel	91,658	1.40%
Doors, Windows & Storefronts	28,000	0.43%
Finishes	11,718	0.18%
Specialties	46,725	0.71%
Metal Buildings and Systems	525,388	8.00%
Conveying Systems	130,000	1.98%
Mechanical	29,500	0.45%
Electrical	60,000	0.91%
Overhead and Profit (5%)	60,000	0.91%
Construction Contingency Allowance	76,000	1.16%
Rated Corridor & Clean-up	35,150	0.54%
Office Construction Cost	150,000	2.28%
Permits, Licenses (Construction)	13,225	0.20%
Signage	15,000	0.23%
Security/Gates	36,000	0.55%
FF&E	12,000	0.18%
Computer	3,000	0.05%
Architect - Construction	18,000	0.27%
Engineer - Construction	21,000	0.32%
Survey/Topo - Construction	2,500	0.04%
Testing	2,000	0.03%
Miscellaneous Admin - Construction	10,535	0.16%
Construction Insurance	1,179	0.02%
Total	1,468,360	22.37%
Soft Costs		
Real Estate Taxes	18,333	0.28%
Legal	16,000	0.24%
Schematic Design - Architect	5,000	0.08%
Survey/Topo, Engineer - Entitlement	11,900	0.18%
Environmental Audit	6,000	0.09%
Internal Teams	28,331	0.43%
Financing Fee	58,071	0.88%
Development Fee	276,530	4.21%
Loan fees/interest	674,098	10.27%
Development Contingency	2,000	0.03%
Total	1,096,263	16.70%
Total Development Cost	**6,564,623**	**100.00%**

STORAGE UNIT INFORMATION	
Non-Climate-Controlled Storage:	0 units
Climate-Controlled Storage:	542 units
Total Storage to Date:	542 units
DEVELOPMENT SCHEDULE	
Planning Started:	Jun-05
Site Purchased:	Oct-05
Site Approval:	Dec-05
Construction Started:	Dec-05
Sales Started:	May-06

EXHIBIT FOUR: TARGET MARKETS: SOUTHEAST UNITED STATES

TABLE						
		Population Estimates				
	Geographic area	July 1, 2004	July 1, 2003	July 1, 2002	July 1, 2001	July 1, 2000
	Metropolitan statistical areas					
1	Kingsport-Bristol-Bristol, TN-VA	300,669	300,047	299,032	298,455	298,496
2	Wilmington, NC	303,246	293,774	287,545	281,405	275,707
3	Savannah, GA	310,714	305,095	301,369	296,920	293,619
4	Tallahassee, FL	331,655	327,499	324,253	322,479	320,931
5	Fayetteville, NC	347,751	344,755	340,661	337,313	336,713
6	Hickory-Lenoir-Morganton, NC	352,734	350,629	348,911	346,997	343,048
7	Montgomery, AL	355,181	352,902	351,211	348,684	347,037
8	Huntsville, AL	362,459	357,598	352,924	347,931	343,787
9	Port St. Lucie-Fort Pierce, FL	364,772	349,030	337,155	327,452	320,600
10	Shreveport-Bossier City, LA	381,817	378,644	377,119	376,540	376,137
11	Asheville, NC	387,248	382,566	377,962	373,846	370,423
12	Mobile, AL	400,526	399,943	399,655	400,518	400,094
13	Lexington-Fayette, KY	424,661	420,861	415,493	412,844	409,452
14	Pensacola-Ferry Pass-Brent, FL	437,135	429,301	424,144	418,348	412,791
15	Winston-Salem, NC	441,607	437,172	433,365	428,687	423,370
16	Durham, NC	451,212	445,452	440,862	434,362	425,911
17	Deltona-Daytona Beach-Ormond Beach, FL	478,670	467,651	459,480	451,607	445,001
18	Chattanooga, TN-GA	489,609	486,519	483,305	480,201	477,191
19	Cape Coral-Fort Myers, FL	514,295	492,489	475,542	459,132	443,868
20	Augusta-Richmond County, GA-SC	515,314	510,422	507,002	503,175	500,339
21	Jackson, MS	517,275	510,265	505,102	501,612	498,337
22	Palm Bay-Melbourne-Titusville, FL	519,387	505,756	495,799	486,500	477,824
23	Lakeland, FL	524,389	510,841	500,194	492,110	485,488
24	Charleston-North Charleston, SC	583,434	572,411	563,687	555,356	550,519
25	Greenville, SC	583,867	578,145	572,849	568,015	561,754
26	Little Rock-North Little Rock, AR	636,636	629,305	622,493	616,969	611,961
27	Knoxville, TN	647,170	640,641	632,251	624,943	617,451
28	Sarasota-Bradenton-Venice, FL	651,862	634,460	620,293	605,750	592,749
29	Greensboro-High Point, NC	667,542	662,065	656,607	651,964	645,412
30	Columbia, SC	679,456	671,113	662,568	655,496	649,014
31	Wilmington, DE-MD-NJ	680,268	672,945	665,367	658,709	652,579
32	Baton Rouge, LA	728,731	721,473	715,113	710,332	707,391
33	Raleigh-Cary, NC	914,680	887,501	861,123	834,069	804,131
34	Birmingham-Hoover, AL	1,082,193	1,073,969	1,065,854	1,060,675	1,053,380
35	Richmond, VA	1,154,317	1,138,485	1,124,650	1,111,562	1,100,093
36	Louisville, KY-IN	1,200,847	1,190,210	1,180,396	1,172,393	1,165,135
37	Jacksonville, FL	1,225,381	1,197,332	1,173,869	1,148,537	1,126,190
38	West Palm Beach-Boca Raton-Boynton Beach, FL	1,243,230	1,212,395	1,187,457	1,158,816	1,135,788
39	Memphis, TN-MS-AR	1,250,293	1,238,859	1,226,726	1,216,581	1,208,329
40	New Orleans-Metairie-Kenner, LA	1,319,589	1,315,810	1,313,463	1,312,039	1,315,727
41	Nashville-Davidson--Murfreesboro, TN	1,395,879	1,372,121	1,352,920	1,336,907	1,317,252
42	Charlotte-Gastonia-Concord, NC-SC	1,474,734	1,439,085	1,406,713	1,374,680	1,339,878
43	Virginia Beach-Norfolk-Newport News, VA-NC	1,644,250	1,625,044	1,605,058	1,586,774	1,580,134

Demographic and Income Profile

SJM

1400 Capital Blvd
Raleigh, NC 27603

Site Type: Radius

Latitude: 35.799122
Longitude: -78.63658
Radius: 5.0 miles

Summary	2000	2005	2010
Population	188,620	208,758	234,871
Households	75,836	85,368	97,011
Families	40,001	43,175	47,263
Average Household Size	2.27	2.25	2.25
Owner Occupied HUs	37,028	42,068	48,128
Renter Occupied HUs	38,808	43,300	48,882
Median Age	30.9	32.8	33.9

Trends: 2005-2010 Annual Rate	Area	State	National
Population	2.39%	1.94%	1.22%
Households	2.59%	2.2%	1.27%
Families	1.83%	2.01%	1.00%
Owner HHs	2.73%	2.36%	1.46%
Median Household Income	3.12%	2.98 %	3.25%

	2000		2005		2010	
Households by Income	Number	Percent	Number	Percent	Number	Percent
< $15,000	11,152	14.7%	10,576	12.4%	10,286	10.6%
$15,000 - $24,999	9,788	12.9%	9,149	10.7%	8,448	8.7%
$25,000 - $34,999	10,696	14.1%	10,248	12.0%	9,894	10.2%
$35,000 - $49,999	12,846	16.9%	14,342	16.8%	14,344	14.8%
$50,000 - $74,999	14,486	19.1%	16,584	19.4%	18,935	19.5%
$75,000 - $99,999	7,742	10.2%	10,053	11.8%	12,835	13.2%
$100,000 - $149,999	5,930	7.8%	9,478	11.1%	14,165	14.6%
$150,000 - $199,000	1,534	2.0%	2,364	2.8%	4,125	4.3%
$200,000+	1,655	2.2%	2,570	3.0%	3,976	4.1%
Median Household Income	$41,567		$48,039		$56,016	
Average Household Income	$55,335		$65,009		$76,219	
Per Capita Income	$22,980		$27,598		$32,495	

	2000		2005		2010	
Population by Age	Number	Percent	Number	Percent	Number	Percent
0 - 4	11,043	5.9%	12,471	6.0%	14,134	6.0%
5 - 14	19,979	10.6%	22,817	10.9%	24,455	10.4%
15 - 19	15,022	8.0%	15,693	7.5%	16,764	7.1%
20 - 24	25,140	13.3%	23,456	11.2%	28,774	12.3%
25 - 34	36,563	19.4%	38,139	18.3%	37,361	15.9%
35 - 44	27,738	14.7%	31,660	15.2%	35,830	15.3%
45 - 54	21,851	11.6%	25,856	12.4%	30,666	13.1%
55 - 64	12,842	6.8%	17,387	8.3%	22,398	9.5%
65 - 74	9,717	5.2%	10,398	5.0%	12,010	5.1%
75 - 84	6,603	3.5%	8,063	3.9%	8,657	3.7%
85+	2,123	1.1%	2,815	1.3%	3,822	1.6%

	2000		2005		2010	
Race and Ethnicity	Number	Percent	Number	Percent	Number	Percent
White Alone	111,011	58.9%	118,803	56.9%	129,799	55.3%
Black Alone	60,702	32.2%	67,183	32.2%	75,688	32.2%
American Indian Alone	736	0.4%	833	0.4%	959	0.4%
Asian Alone	5,651	3.0%	7,518	3.6%	10,117	4.3%
Pacific Islander Alone	95	0.1%	120	0.1%	147	0.1%
Some Other Race Alone	6,837	3.6%	9,784	4.7%	12,526	5.3%
Two or More Races	3,587	1.9%	4,518	2.2%	5,636	2.4%
Hispanic Origin (Any Race)	14,215	7.5%	19,119	9.2%	24,313	10.4%

Data Note: Income is expressed in current dollars.

Market Profile

SJM

Latitude: 35.799122 Longitude: -78.63658	1400 Capital Blvd Raleigh, NC 27603 Radius: 1.0 miles	1400 Capital Blvd Raleigh, NC 27603 Radius: 3.0 miles	1400 Capital Blvd Raleigh, NC 27603 Radius: 5.0 miles
2000 Total Population	10,470	82,951	188,620
2000 Group Quarters	706	12,066	16,396
2005 Total Population	11,275	89,243	208,758
2010 Total Population	12,534	98,678	234,871
2005 - 2010 Annual Rate	2.14%	2.03%	2.39%
2000 Households	5,367	30,562	75,836
2000 Average Household Size	1.82	2.32	2.27
2005 Households	5,882	33,593	85,368
2005 Average Household Size	1.79	2.29	2.25
2010 Households	6,603	37,796	97,011
2010 Average Household Size	1.79	2.29	2.25
2005 - 2010 Annual Rate	2.34%	2.39%	2.59%
2000 Families	2,207	15,545	40,001
2000 Average Family Size	2.61	3.04	2.94
2005 Families	2,293	16,272	43,175
2005 Average Family Size	2.61	3.05	2.95
2010 Families	2,454	17,575	47,263
2010 Average Family Size	2.6	3.05	2.96
2005 - 2010 Annual Rate	1.37%	1.55%	1.83%
2000 Housing Units	5,841	32,831	80,945
Owner Occupied Housing Units	48.7%	45.3%	45.7%
Renter Occupied Housing Units	43.2%	47.8%	47.9%
Vacant Housing Units	8.2%	6.9%	6.3%
2005 Housing Units	6,471	36,418	92,010
Owner Occupied Housing Units	48.7%	44.9%	45.7%
Renter Occupied Housing Units	42.2%	47.4%	47.1%
Vacant Housing Units	9.1%	7.8%	7.2%
2010 Housing Units	7,301	41,155	105,036
Owner Occupied Housing Units	49.3%	45.1%	45.8%
Renter Occupied Housing Units	41.1%	46.7%	46.5%
Vacant Housing Units	9.6%	8.2%	7.6%
Median Household Income			
2000	$41,495	$38,665	$41,567
2005	$48,516	$44,937	$48,039
2010	$57,544	$52,840	$56,016
Median Home Value			
2000	$176,322	$174,457	$143,260
2005	$210,817	$206,735	$171,411
2010	$257,325	$251,029	$210,375
Per Capita Income			
2000	$31,681	$23,281	$22,980
2005	$37,706	$28,378	$27,598
2010	$45,781	$33,983	$32,495
Median Age			
2000	34.9	31.6	30.9
2005	36.9	33.7	32.8
2010	39.3	35.1	33.9

Latitude: 35.799122 Longitude: -78.63658	1400 Capital Blvd Raleigh, NC 27603 Radius: 1.0 miles	1400 Capital Blvd Raleigh, NC 27603 Radius: 3.0 miles	1400 Capital Blvd Raleigh, NC 27603 Radius: 5.0 miles
2000 Population 15+ by Sex and Marital Status			
Total	9,079	69,898	157,491
Females	54.6%	50.7%	50.7%
Never Married	22.4%	19.2%	18.4%
Married, not Separated	18.4%	19.4%	20.5%
Married, Separated	1.6%	1.9%	1.9%
Widowed	5.6%	4.9%	4.2%
Divorced	6.6%	5.2%	5.7%
Males	45.4%	49.3%	49.3%
Never Married	19.5%	21.5%	21.5%
Married, not Separated	19.5%	21.9%	22.2%
Married, Separated	1.4%	1.4%	1.3%
Widowed	1.2%	1.1%	0.9%
Divorced	3.8%	3.4%	3.5%
2000 Population 16+ by Employment Status			
Total	9,041	69,139	155,705
In Labor Force	70.4%	64.8%	69.7%
Civilian Employed	68.2%	59.1%	65.0%
Civilian Unemployed	2.1%	5.7%	4.6%
In Armed Forces	0.1%	0.0%	0.1%
Not in Labor Force	29.6%	35.2%	30.3%
2005 Civilian Population 16+ in Labor Force			
Civilian Employed	95.5%	91.9%	91.8%
Civilian Unemployed	4.5%	8.1%	8.2%
2010 Civilian Population 16+ in Labor Force			
Civilian Employed	95.7%	92.3%	92.3%
Civilian Unemployed	4.3%	7.7%	7.7%
2000 Females 16+ by Employment Status and Age of Children			
Total	4,934	35,035	78,883
Own Children < 6 Only	6.9%	6.0%	6.7%
Employed/in Armed Forces	4.0%	3.4%	3.9%
Unemployed	0.4%	0.3%	0.3%
Not in Labor Force	2.5%	2.3%	2.5%
Own Children < 6 and 6-17 Only	4.1%	4.4%	4.6%
Employed/in Armed Forces	1.6%	2.2%	2.6%
Unemployed	0.3%	0.3%	0.3%
Not in Labor Force	2.2%	1.9%	1.8%
Own Children 6-17 Only	9.0%	11.1%	12.5%
Employed/in Armed Forces	6.4%	8.0%	9.5%
Unemployed	0.2%	0.4%	0.4%
Not in Labor Force	2.4%	2.8%	2.6%
No Own Children < 18	80.0%	78.5%	76.2%
Employed/in Armed Forces	49.0%	40.1%	43.9%
Unemployed	1.8%	3.9%	3.1%
Not in Labor Force	29.2%	34.5%	29.2%

Market Profile

SJM

Latitude: 35.799122 Longitude: -78.63658	1400 Capital Blvd Raleigh, NC 27603 Radius: 1.0 miles	1400 Capital Blvd Raleigh, NC 27603 Radius: 3.0 miles	1400 Capital Blvd Raleigh, NC 27603 Radius: 5.0 miles
2000 Households by Type			
Total	5,367	30,562	75,836
Family Households	41.1%	50.9%	52.7%
Married-couple Family	29.5%	33.6%	36.2%
With Related Children	10.9%	14.1%	15.6%
Other Family (No Spouse)	11.6%	17.3%	16.5%
With Related Children	7.5%	11.3%	10.7%
Nonfamily Households	58.9%	49.1%	47.3%
Householder Living Alone	47.2%	38.5%	34.4%
Householder Not Living Alone	11.7%	10.7%	12.9%
Households with Related Children	18.4%	25.4%	26.3%
Households with Persons 65+	18.1%	21.0%	17.2%
2000 Households by Size			
Total	5,367	30,562	75,836
1 Person Household	47.2%	38.5%	34.4%
2 Person Household	33.0%	32.2%	33.6%
3 Person Household	10.6%	13.2%	14.8%
4 Person Household	6.1%	9.2%	10.2%
5 Person Household	1.9%	4.0%	4.1%
6 Person Household	0.7%	1.7%	1.6%
7+ Person Household	0.5%	1.4%	1.3%
2000 Households by Year Householder Moved In			
Total	5,374	30,540	75,801
Moved in 1999 to March 2000	24.6%	25.0%	29.5%
Moved in 1995 to 1998	35.7%	32.3%	31.9%
Moved in 1990 to 1994	14.3%	13.3%	13.2%
Moved in 1980 to 1989	11.2%	11.8%	10.7%
Moved in 1970 to 1979	5.6%	7.9%	7.3%
Moved in 1969 or Earlier	8.7%	9.7%	7.4%
Median Year Householder Moved In	1996	1996	1996
2000 Housing Units by Units in Structure			
Total	5,818	32,803	80,909
1, Detached	52.9%	53.1%	47.4%
1, Attached	4.4%	4.4%	7.9%
2	8.9%	7.4%	4.7%
3 or 4	10.3%	10.2%	8.8%
5 to 9	9.1%	9.5%	12.2%
10 to 19	7.3%	6.9%	10.7%
20+	6.8%	7.9%	7.1%
Mobile Home	0.2%	0.6%	1.2%
Other	0.0%	0.0%	0.0%
2000 Housing Units by Year Structure Built			
Total	5,817	32,807	80,908
1999 to March 2000	0.6%	1.0%	2.3%
1995 to 1998	2.5%	3.2%	6.9%
1990 to 1994	2.7%	3.3%	6.4%
1980 to 1989	14.6%	12.5%	21.2%
1970 to 1979	6.4%	12.9%	20.7%
1969 or Earlier	73.1%	67.1%	42.5%
Median Year Structure Built	1952	1960	1974

"GO OR NO-GO" ANALYSIS

The purpose of this model is to enter property and market information for a "for sale" property to determine if it is a good candidate for self storage conversion. The two main hurdles for the "go or no-go" are the market and the financial analysis. The model is broken down into four categories. Variables in the property, the market and the financial category are entered on this page, and the current stock is entered on the next worksheet.
Adjust the red fields to determine the initial feasibility:

PROPERTY **Enter from the subject property here:**

Address:	1400 Capital Blvd., Raleigh, NC 27603
Building Gross SF:	80,288
Purchase $:	$ 4,000,000

MARKET

Enter the population and the total households within a five mile radius of the subject property (various websites generate this type of information).

Population =	234,871
Households =	97,011

CURRENT STOCK

Use a search engine (ex. Google) to determine the current supply of properties within a five mile radius and enter that information plus the buildings gross square footage (typically found in that counties tax records) in the 'Supply' worksheet:

Summary of the Total from 'Supply' Worksheet:

Competition's Project Name	Distance to Subject (< 5 mi)	Gross Rentable SF	Net Rentable SF	Total Units	Estimate CC Units
Project Name					
Address					
Phone Number	**5.0**	620,100	558,090	4,853	265
Existing Supply Total from Supply Tab		**620,100**	**558,090**	**4,853**	**265**

MARKET "GO OR NO-GO" **GO**

FINANCIAL

Enter your required return:

Levered Return	**30%**
Unlevered Return	**15%**

FINANCIAL "GO OR NO-GO" **GO**

OVERALL ANALYSIS **BUY THE PROPERTY !**

NOTE: The model assumes general market averages to generate the results. Obviously, all markets are not the same and the model allows a user to cater their analysis to fit the specifics of each properties market. (User should use the Step-by-step' worksheet to guide them through customizing the model to the specifics of their deal.)

CURRENT SUPPLY WITHIN A FIVE MILE RADIUS OF THE SUBJECT PROPERTY

Competition's Project Name	Distance to Subject (< 5 mi)	Gross Rentable SF	Net Rentable SF	Total Units	Estimate CC Units
Morningstar Mini Storage 3701 S Wilmington St., Raleigh, NC 27603 919.662.5262	5.0	45,000	40,500	352	50
Morningstar Mini Storage 4222 Atlantic Avenue, Raleigh, NC 27604 919.872.7717	3.8	43,000	38,700	337	50
Public Storage 2610 Yonkers Road, Raleigh, NC 27604 919.828.0727	2.7	61,100	54,990	478	-
Public Storage 3500 Maitland Drive, Raleigh, NC 27610 919.231.6220	3.0	55,500	49,950	434	-
Uncle Bob's Self-Storage 2701 McNeill Street, Raleigh, NC 27608 919.832.2423	1.5	26,000	23,400	203	50
Uncle Bob's Self-Storage 2401 S Wilmington Street, Raleigh, NC 27603 919.832.9475	1.5	35,000	31,500	274	-
SAF-T-Stor Self Storage 4204 Capital Blvd, Raleigh, NC 27604 919872.7076	4.4	7,500	6,750	59	-
U-Stor-it 2004 Brentwood Road, Raleigh, NC 27604 919.872.2200	3.7	74,000	66,600	579	-
Uhaul Co - 3001 Capital 3001 Capital Blvd., Raleigh, NC 27601 919.231.7161	2.4	60,000	54,000	470	50
Ample Storage Center 1400 Diggs Drive, Raleigh, NC 27603 919.834.4420	4.6	30,000	27,000	235	-
Ample Storage - Gorman 404 Gorman Street, Raleigh, NC 27607 919.833.1225	3.0	55,000	49,500	430	30
Ample Storage Center - Capital 1807-101 Capital Blvd., Raleigh, NC 27604 919.755.6358	1.4	89,000	80,100	697	35
Ample Storage Center - Bush 3450 Bush Street, Raleigh, NC 27609 919.878.0233	4.2	39,000	35,100	305	-
Existing Supply Total		**620,100**	**558,090**	**4,853**	**265**

"GO OR NO-GO" FEASIBILITY ANALYSIS

STEP-BY-STEP DIRECTIONS

"Edit only the red fields in the worksheets"

1. Limit/target search to the MSA's shown in the 'Target Markets' worksheet.
   - Population size (2004) targeted between > 300,000 and < 1,750,000

Raleigh-Cary, NC

2. Go to www.esri.com or www.claritas.com for market information on "for sale" property.
   Compile the following information for the address of the "for sale" property (aid in establishing a good trade area):

- Population within a 5 mile radius (> 50,000 desired)	234,871
- Population growth within 5 mile radius (> national %)	2.39%
- Median Household Income (> state average)	$ 48,039
- % of population married and % of population - female?	42.7% / 50.4%
- Trade Area Households (5 miles)	97,011

   Utilize this market information as an additional due diligence analysis of the subject properties market.

Compile the current self storage competition in a five mile radius around the proposed "for sale" property:

3. Go to www.yellowpages.com and www.google.com and enter the city and storage type keywords
   (shown on the right) and enter results in the table found in the 'Supply' worksheet.
   (enter all properties within a 5 mile radius of subject property):

Raleigh-Cary, NC
Try the following words: self storage, warehouse, mini storage, storage

4. Visit the county website for the properties compiled in step number three to help determine the size of the facility - search in tax department and find the gross square footage of the facility (www.google.com - search for county and state).
   Enter data in the table in the 'Supply' worksheet:

   The table uses the following national averages, plus manually enter a guess of the climate controlled units:
   (adjust the assumptions in the 'Supply' worksheet if different for properties market)
   - Used a 90% efficiency to arrive at Net Rentable SQFT
   - National Average of 115 sf per unit determines total units
   - Climate controlled units are estimated through on-line pictures or descriptions
     (property visit/phone calls aid in the final analysis)

Compile market and site specific information on the subject ("for sale") property:

5. Adjust the estimated months of construction, and building efficiency ratio in the
   "Building Input" section of the 'New Facility & Assumptions' worksheet if appropriate.

6. Adjust market specific information (interest rate, percentage (LTC) of construction loan) and/or additional fields in the "Stabilized Conversion Facility" section of worksheet 'New Facility & Assumptions'.
   These figures should reflect the current market interest rate and the borrowers appetite for borrowing.

7. Adjust market rental amounts in "Analysis of Building Revenue" in the 'New Facility & Assumptions' workbook by searching www.shurgard.com or www.publicstorage.com. For both of these sites, enter the zip code of the "for sale" property and select the closest location and the price list for these properties.
   Telephoning a current facility in the trade area is an additionally effective means of establishing rental figures.

Due Diligence

8. What is the traffic count on the road in-front of the site? Amount of road frontage? Number of Ingress and Egress points?
   Finally, does the current zoning allow for self storage? Yes/No Yes

NEW FACILITY & ASSUMPTIONS

Building Input		
Purchase of Existing Facility	$	4,000,000
Pre to Purchase (per sf.)		1.50
Purchase to Shell (per sf.)		10.50
Shell to Finished (per sf.)		9.00
Building Size		80,288
Months of Construction (insert 2 to 8)		5
Efficiency		92.00%
Net Rentable SF		73,865
Avg. Unit Size		115
# of Units		642
GP$ per Unit/month (base case)		$136

Stabilized Conversion Facility		
Bldg. Revenue (per sf.)	$	14.19
Bldg. Op. Exp. (per sf.)		3.50
Vacancy @ Stabilization		15.00%
Growth		2%
Exit Cap Rate (Rf + Cap Ex - Growth + Dep)		8.50%
Replacement Reserves		$0.15
Interest Rate		8.25%
Construction Loan (LTC %)		80.00%
Brokerage Fee (Disposition)		1.00%

Unit Dimensions by Consumer Segment

Unit Dimensions	Total	Temporary	Long-term	Military	Student
5 feet by 5 feet or smaller	11.2%	8.3%	13.8%	8.9%	20.2%
5 feet by 10 feet	23.3%	22.4%	24.3%	11.0%	32.5%
10 feet by 10 feet	26.4%	27.2%	25.7%	28.2%	22.8%
10 feet by 15 feet	13.0%	13.7%	12.6%	12.7%	8.3%
10 feet by 20 feet	16.9%	19.8%	14.1%	16.0%	12.0%
10 feet by 30 feet or large	9.3%	8.7%	9.6%	23.2%	4.1%
TOTAL	**100%**	**100%**	**100%**	**100%**	**100%**

Analysis of Building Revenue

Feet	Feet	Total Units Size	Enter Market Rate	Annual Rent	Avg. per SSA survey	$/SF*AVG
5	5	25	65	780	11.2%	3.5
5	10	50	75	900	7.8%	1.4
5	15	75	90	1,080	7.8%	1.1
7.5	10	75	90	1,080	7.8%	1.1
10	10	100	105	1,260	26.4%	3.3
10	15	150	125	1,500	13.0%	1.3
10	20	200	150	1,800	8.5%	0.8
10	25	250	180	2,160	8.5%	0.7
10	30	300	255	3,060	9.3%	0.9
				13,620	100%	$ 14.19

Absorption - Physical	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Q1	0%	43%	88%	100%	100%	100%
Q2	5%	53%	93%	100%	100%	100%
Q3	15%	70%	98%	100%	100%	100%
Q4	30%	80%	100%	100%	100%	100%

SUPPLY ANALYSIS

Current Market Ratio (Total Units)	
Trade Area Population	234,871
Total Existing Units	4,853
Current Market Ratio	2.07%
New Facility	642
Total Potential Units	5,495
Potential Market Ratio	2.34%

Current Market Ratio (SF)	
Trade Area Population	234,871
Total Existing SF	558,090
Current Market Ratio	2.38
New Facility	73,865
Total Potential Units	631,955
Potential Market Ratio	2.69

National Average: Units per Population
Go: < 3%
Caution: 3% to 4.5%
Avoid: > 4.5%

National Average: SF per Population
Go: < 5
Caution: 5 to 6.5
Avoid: > 6.5

Current Market Ratio (CC Units)	
Trade Area Population	234,871
Current CC Units	265
Current Market Ratio	0.11%
New Facility	642
Total Potential CC Units	907
Potential Market Ratio	0.39%

Current Market Ratio (SF per Households)	
Trade Area Households	97,011
Total Existing SF	558,090
SF per Household	5.75
New Facility	80,288
Total Potential Units	638,378
Potential Market Ratio	6.58

National Average: CC Units per Population
Go: < 1.5%
Caution: 1.5% to 2.5%
Avoid: > 2.5%

National Average: Units per Population
Go: < 12
Caution: 12 to 14
Avoid: > 14

QUANTITATIVE "GO OR NO-GO" ANALYSIS

Rate Sensitivity

Unlevered		Economic Occupancy			
	Rental Rate	**80%**	**88%**	**90%**	**85% (Base)**
	-10.00%	8.26%	12.75%	13.81%	**16.36%**
	-5.00%	10.81%	15.30%	16.37%	**16.36%**
	5.00%	15.53%	20.05%	21.12%	**16.36%**

Levered		Economic Occupancy			
	Rental Rate	**80%**	**88%**	**90%**	**85% (Base)**
	-10.00%	4.94%	19.96%	23.72%	**30.38%**
	-5.00%	14.45%	28.01%	30.96%	**30.38%**
	5.00%	28.64%	40.72%	43.45%	**30.38%**

Base Case

Year	1	2	3	4	5	6	Yr 5 Sale
Growth	1.0000	1.0200	1.0404	1.0612	1.0824	1.1041	712,369
Absorption	13%	61%	94%	100%	100%	100%	8.50%
Income	115,778	578,657	909,437	982,915	1,002,573	1,022,624	8,380,809
Expense	(281,008)	(286,628)	(292,361)	(298,208)	(304,172)	(310,256)	
Replmt. Reserves	(12,043)	(12,043)	(12,043)	(12,043)	(12,043)		
Cost	(5,837,905)	-	-	-	-		(83,808)
Sale	-	-	-	-	8,297,001		8,297,001
Total	(6,015,179)	279,986	605,033	672,663	8,983,358		
CF	(177,273)	279,986	605,033	672,663	8,983,358		
Principal Balance	-	-	-	-	(4,670,324)		
Equity	(1,167,581)	-	-	-	-		
Mortgage (I/O)	(192,651)	(385,302)	(385,302)	(385,302)	(385,302)		
BTCF	(1,537,505)	(105,316)	219,731	287,362	3,927,732		

Occupancy	**80%**							
Rate	**-10%**							
Year	**1**	**2**	**3**	**4**	**5**	**6**		
Growth	1.0000	1.0200	1.0404	1.0612	1.0824	1.1041		**Yr 5 Sale**
Absorption	13%	61%	94%	100%	100%	100%	Year 6 - NOI	551,057
Income	97,515	487,379	765,980	827,867	844,425	861,313	Exit Cap	8.50%
Expense	(281,008)	(286,628)	(292,361)	(298,208)	(304,172)	(310,256)	Value	6,483,029
Replmt. Reserves	(12,043)	(12,043)	(12,043)	(12,043)	(12,043)		Broker	(64,830)
Cost	(5,837,905)	-	-	-	-		Net Income	6,418,199
Sale	-	-	-	-	6,418,199			
Total	(6,033,442)	188,707	461,576	517,616	6,946,408			
CF	(195,536)	188,707	461,576	517,616	6,946,408			
Principal Balance	-	-	-	-	(4,670,324)			
Equity	(1,167,581)	-	-	-	-			
Mortgage (I/O)	(192,651)	(385,302)	(385,302)	(385,302)	(385,302)			
BTCF	(1,555,768)	(196,595)	76,274	132,314	1,890,782			
IRR (Unlevered)	**8.26%**							
IRR (Levered)	**4.94%**							

Occupancy	**88%**							
Rate	**-10%**							
Year	**1**	**2**	**3**	**4**	**5**	**6**		
Growth	1.0000	1.0200	1.0404	1.0612	1.0824	1.1041		**Yr 5 Sale**
Absorption	13%	61%	94%	100%	100%	100%	Year 6 - NOI	637,189
Income	107,266	536,116	842,578	910,654	928,867	947,444	Exit Cap	8.50%
Expense	(281,008)	(286,628)	(292,361)	(298,208)	(304,172)	(310,256)	Value	7,496,339
Replmt. Reserves	(12,043)	(12,043)	(12,043)	(12,043)	(12,043)		Broker	(74,963)
Cost	(5,837,905)	-	-	-	-		Net Income	7,421,375
Sale	-	-	-	-	7,421,375			
Total	(6,023,690)	237,445	538,174	600,403	8,034,027			
CF	(185,785)	237,445	538,174	600,403	8,034,027			
Principal Balance	-	-	-	-	(4,670,324)			
Equity	(1,167,581)	-	-	-	-			
Mortgage (I/O)	(192,651)	(385,302)	(385,302)	(385,302)	(385,302)			
BTCF	(1,546,017)	(147,857)	152,872	215,101	2,978,401			
IRR (Unlevered)	**12.75%**							
IRR (Levered)	**19.96%**							

Occupancy	**90%**							
Rate	**-10%**							
Year	**1**	**2**	**3**	**4**	**5**	**6**		
Growth	1.0000	1.0200	1.0404	1.0612	1.0824	1.1041		**Yr 5 Sale**
Absorption	13%	61%	94%	100%	100%	100%	Year 6 - NOI	658,722
Income	109,704	548,301	861,728	931,351	949,978	968,977	Exit Cap	8.50%
Expense	(281,008)	(286,628)	(292,361)	(298,208)	(304,172)	(310,256)	Value	7,749,666
Replmt. Reserves	(12,043)	(12,043)	(12,043)	(12,043)	(12,043)		Broker	(77,497)
Cost	(5,837,905)	-	-	-	-		Net Income	7,672,169
Sale	-	-	-	-	7,672,169			
Total	(6,021,253)	249,630	557,324	621,099	8,305,932			
CF	(183,347)	261,673	569,367	633,143	8,317,975			
Principal Balance	-	-	-	-	(4,670,324)			
Equity	(1,167,581)	-	-	-	-			
Mortgage (I/O)	(192,651)	(385,302)	(385,302)	(385,302)	(385,302)			
BTCF	(1,543,579)	(123,629)	184,065	247,841	3,262,349			
IRR (Unlevered)	**13.81%**							
IRR (Levered)	**23.72%**							

Occupancy	**80%**							
Rate	**-5%**							
Year	**1**	**2**	**3**	**4**	**5**	**6**		
Growth	1.0000	1.0200	1.0404	1.0612	1.0824	1.1041		**Yr 5 Sale**
Absorption	13%	61%	94%	100%	100%	100%	Year 6 - NOI	598,908
Income	102,932	514,455	808,535	873,860	891,337	909,164	Exit Cap	8.50%
Expense	(281,008)	(286,628)	(292,361)	(298,208)	(304,172)	(310,256)	Value	7,045,979
Replmt. Reserves	(12,043)	(12,043)	(12,043)	(12,043)	(12,043)		Broker	(70,460)
Cost	(5,837,905)	-	-	-	-		Net Income	6,975,519
Sale	-	-	-	-	6,975,519			
Total	(6,028,024)	215,784	504,131	563,609	7,550,641			
CF	(190,119)	227,827	516,174	575,652	7,562,684			
Principal Balance	-	-	-	-	(4,670,324)			
Equity	(1,167,581)	-	-	-	-			
Mortgage (I/O)	(192,651)	(385,302)	(385,302)	(385,302)	(385,302)			
BTCF	(1,550,351)	(157,475)	130,872	190,350	2,507,058			
IRR (Unlevered)	**10.81%**							
IRR (Levered)	**14.45%**							

Occupancy	**88%**							
Rate	**-5%**							
Year	**1**	**2**	**3**	**4**	**5**	**6**		
Growth	1.0000	1.0200	1.0404	1.0612	1.0824	1.1041		**Yr 5 Sale**
Absorption	13%	61%	94%	100%	100%	100%	Year 6 - NOI	689,825
Income	113,225	565,901	889,388	961,246	980,471	1,000,080	Exit Cap	8.50%
Expense	(281,008)	(286,628)	(292,361)	(298,208)	(304,172)	(310,256)	Value	8,115,583
Replmt. Reserves	(12,043)	(12,043)	(12,043)	(12,043)	(12,043)		Broker	(81,156)
Cost	(5,837,905)	-	-	-	-		Net Income	8,034,427
Sale	-	-	-	-	8,034,427			
Total	(6,017,731)	267,229	584,984	650,995	8,698,683			
CF	(179,826)	279,272	597,027	663,038	8,710,726			
Principal Balance	-	-	-	-	(4,670,324)			
Equity	(1,167,581)	-	-	-	-			
Mortgage (I/O)	(192,651)	(385,302)	(385,302)	(385,302)	(385,302)			
BTCF	(1,540,058)	(106,029)	211,725	277,736	3,655,100			
IRR (Unlevered)	**15.30%**							
IRR (Levered)	**28.01%**							

Occupancy	**90%**							
Rate	**-5%**							
Year	**1**	**2**	**3**	**4**	**5**	**6**		
Growth	1.0000	1.0200	1.0404	1.0612	1.0824	1.1041		**Yr 5 Sale**
Absorption	13%	61%	94%	100%	100%	100%	Year 6 - NOI	712,554
Income	115,799	578,762	909,601	983,092	1,002,754	1,022,809	Exit Cap	8.50%
Expense	(281,008)	(286,628)	(292,361)	(298,208)	(304,172)	(310,256)	Value	8,382,984
Replmt. Reserves	(12,043)	(12,043)	(12,043)	(12,043)	(12,043)		Broker	(83,830)
Cost	(5,837,905)	-	-	-	-		Net Income	8,299,155
Sale	-	-	-	-	8,299,155			
Total	(6,015,158)	280,091	605,197	672,841	8,985,693			
CF	(177,252)	292,134	617,241	684,884	8,997,737			
Principal Balance	-	-	-	-	(4,670,324)			
Equity	(1,167,581)	-	-	-	-			
Mortgage (I/O)	(192,651)	(385,302)	(385,302)	(385,302)	(385,302)			
BTCF	(1,537,484)	(93,168)	231,939	299,583	3,942,110			
IRR (Unlevered)	**16.37%**							
IRR (Levered)	**30.96%**							

Occupancy	**80%**							
Rate	**5%**							
Year	**1**	**2**	**3**	**4**	**5**	**6**		
Growth	1.0000	1.0200	1.0404	1.0612	1.0824	1.1041		**Yr 5 Sale**
Absorption	13%	61%	94%	100%	100%	100%	Year 6 - NOI	694,610
Income	113,767	568,608	893,643	965,845	985,162	1,004,865	Exit Cap	8.50%
Expense	(281,008)	(286,628)	(292,361)	(298,208)	(304,172)	(310,256)	Value	8,171,878
Replmt. Reserves	(12,043)	(12,043)	(12,043)	(12,043)	(12,043)		Broker	(81,719)
Cost	(5,837,905)	-	-	-	-		Net Income	8,090,159
Sale	-	-	-	-	8,090,159			
Total	(6,017,189)	269,937	589,239	655,594	8,759,106			
CF	(179,284)	281,980	601,283	667,637	8,771,149			
Principal Balance	-	-	-	-	(4,670,324)			
Equity	(1,167,581)	-	-	-	-			
Mortgage (I/O)	(192,651)	(385,302)	(385,302)	(385,302)	(385,302)			
BTCF	(1,539,516)	(103,322)	215,981	282,335	3,715,523			
IRR (Unlevered)	**15.53%**							
IRR (Levered)	**28.64%**							

Occupancy	**88%**							
Rate	**5%**							
Year	**1**	**2**	**3**	**4**	**5**	**6**		
Growth	1.0000	1.0200	1.0404	1.0612	1.0824	1.1041		**Yr 5 Sale**
Absorption	13%	61%	94%	100%	100%	100%	Year 6 - NOI	795,096
Income	125,144	625,469	983,008	1,062,430	1,083,678	1,105,352	Exit Cap	8.50%
Expense	(281,008)	(286,628)	(292,361)	(298,208)	(304,172)	(310,256)	Value	9,354,073
Replmt. Reserves	(12,043)	(12,043)	(12,043)	(12,043)	(12,043)		Broker	(93,541)
Cost	(5,837,905)	-	-	-	-		Net Income	9,260,532
Sale	-	-	-	-	9,260,532			
Total	(6,005,813)	326,798	678,604	752,178	10,027,995			
CF	(167,907)	338,841	690,647	764,222	10,040,038			
Principal Balance	-	-	-	-	(4,670,324)			
Equity	(1,167,581)	-	-	-	-			
Mortgage (I/O)	(192,651)	(385,302)	(385,302)	(385,302)	(385,302)			
BTCF	(1,528,139)	(46,461)	305,345	378,920	4,984,412			
IRR (Unlevered)	**20.05%**							
IRR (Levered)	**40.72%**							

Occupancy	**90%**							
Rate	**5%**							
Year	**1**	**2**	**3**	**4**	**5**	**6**		
Growth	1.0000	1.0200	1.0404	1.0612	1.0824	1.1041		**Yr 5 Sale**
Absorption	13%	61%	94%	100%	100%	100%	Year 6 - NOI	820,218
Income	127,988	639,684	1,005,349	1,086,576	1,108,307	1,130,473	Exit Cap	8.50%
Expense	(281,008)	(286,628)	(292,361)	(298,208)	(304,172)	(310,256)	Value	9,649,621
Replmt. Reserves	(12,043)	(12,043)	(12,043)	(12,043)	(12,043)		Broker	(96,496)
Cost	(5,837,905)	-	-	-	-		Net Income	9,553,125
Sale	-	-	-	-	9,553,125			
Total	(6,002,968)	341,013	700,945	776,325	10,345,217			
CF	(165,063)	353,056	712,988	788,368	10,357,260			
Principal Balance	-	-	-	-	(4,670,324)			
Equity	(1,167,581)	-	-	-	-			
Mortgage (I/O)	(192,651)	(385,302)	(385,302)	(385,302)	(385,302)			
BTCF	(1,525,295)	(32,246)	327,686	403,066	5,301,634			
IRR (Unlevered)	**21.12%**							
IRR (Levered)	**43.45%**							

QUANTITATIVE "GO OR NO-GO" ANALYSIS

Base Case						
		Year 1	Year 2	Year 3	Year 4	Year 5
IRR (Unlevered)	**16.36%**					
Multiple of Cost	**1.78**					
COC (Unlevered)		**-3.04%**	**4.80%**	**10.36%**	**11.52%**	**153.88%**
IRR (Levered)	**30.38%**					
Equity Multiple	**3.39**					
COC (Levered)		**-31.68%**	**-9.02%**	**18.82%**	**24.61%**	**736.40%**

Capital Budget and Operating Statement				
Cost		$ per sf.		
Initial Purchse - Land (30%)	$	14.95	$ 1,200,000	
Initial Purchse - Building (70%)		34.87	2,800,000	
Pre to Purchase		1.50	120,432	
Purchase to Shell		10.50	843,024	
Shell to Finished		9.00	722,592	
Interest Carry		1.89	151,857	
		72.71	5,837,905	
Operating Statement				% EGI
Revenue	$	14.19	$ 1,048,497	
Other Income		0.47	35,000	
Vacancy		15.0%	(157,275)	
Effective Gross Income	$	11.54	926,222	
Operating Exp.		3.50	(281,008)	30%
NOI		8.04	645,214	

QUANTITATIVE "GO OR NO-GO" ANALYSIS

Individual Investor					
	Year 1	Year 2	Year 3	Year 4	Year 5
Net Cash Flow	(165,230)	292,029	617,076	684,707	698,401
Depreciation	(118,921)	(118,921)	(118,921)	(118,921)	(118,921)
Interest	(192,651)	(385,302)	(385,302)	(385,302)	(385,302)
Taxable Income	(476,802)	(212,193)	112,854	180,484	194,178
Ordinary Income Tax (40%)	190,721	84,877	(45,141)	(72,194)	(77,671)
Tax Dep. Recapture (25%)					(148,651)
Capital Gains - Tax (15%)					(359,832)
Gain on Sale (Proceeds - Debt)					3,626,676
Total	(286,081)	(127,316)	67,712	108,291	(391,976)

Break Even Point					
	Year 1	Year 2	Year 3	Year 4	Year 5
BTCF (No Debt)	**(6,015,179)**	**279,986**	**605,033**	**672,663**	**8,983,358**
BTCF (Debt)	**(1,537,505)**	**(105,316)**	**219,731**	**287,362**	**3,927,732**
ATCF (Debt)	**(1,346,785)**	**(20,438)**	**174,590**	**215,168**	**(285,098)**

INTEREST CALCULATION

CONSTRUCTION INTEREST CALCULATION WORKSHEET

Interest Rate 8.25%	Pre-Construction Financing		Post Construction Financing		Construction Period Calculations Months of Construction													
					2		3		4		5		6		7		8	
Land	$4,000,000	Construction	$1,565,616	Mo.	%	$67,238	%	$126,057	%	$147,557	%	$151,857	%	$176,485	%	$197,595	%	$220,659
Development Costs	$120,432	Development	$120,432															
		Land	$1,200,000	1	80	$31,273	75	$29,319	60	$23,455	40	$15,637	38	$14,855	36	$14,073	34	$13,291
Carry Time (days)	30	Original Building	$2,800,000	2	92	$35,964	85	$33,228	70	$27,364	51	$19,937	48	$18,764	44	$17,200	42	$16,418
Interest Cost Pre-Construction	$28,328	Total	$5,686,048	3			90	$35,182	85	$33,228	62	$24,237	59	$23,064	53	$20,719	50	$19,546
		Constr. Time (days)	150	4					90	$35,182	74	$28,928	68	$26,582	62	$24,237	58	$22,673
				5							89	$34,792	78	$30,491	71	$27,755	66	$25,800
Months of Construction	5			6									88	$34,401	79	$30,882	74	$28,928
Months 2, 3 or 4 Calculation	$0			7											88	$34,401	80	$31,273
Months 5,6,7or 8 Calculation	$151,857			8													88	$34,401
				9														
							$97,729		$119,229		$123,529		$148,157		$169,267		$192,331	

Demographic and Income Profile

SJM

		Latitude:	33.800836
5502 Memorial Dr		Longitude:	-84.212374
Stone Mountain, GA 30083	Site Type: Radius	Radius:	5.0 miles

Summary	2000	2006	2011
Population	221,088	229,748	237,616
Households	82,583	86,642	89,751
Families	53,467	53,436	53,523
Average Household Size	2.63	2.60	2.60
Owner Occupied HUs	48,518	51,088	52,665
Renter Occupied HUs	34,065	35,554	37,086
Median Age	32.5	34.0	34.3

Trends: 2006-2011 Annual Rate	Area	State	National
Population	0.68%	2.61%	1.30%
Households	0.71%	2.63%	1.33%
Families	0.03%	2.26%	1.08%
Owner HHs	0.61%	2.77%	1.41%
Median Household Income	3.41%	3.68%	3.32%

	2000		2006		2011	
Households by Income	Number	Percent	Number	Percent	Number	Percent
< $15,000	8,271	10.0%	6,566	7.6%	5,622	6.3%
$15,000 - $24,999	8,806	10.7%	6,179	7.1%	5,165	5.8%
$25,000 - $34,999	11,224	13.6%	8,552	9.9%	6,241	7.0%
$35,000 - $49,999	15,678	19.0%	14,790	17.1%	12,696	14.1%
$50,000 - $74,999	18,656	22.6%	19,535	22.5%	19,749	22.0%
$75,000 - $99,999	9,241	11.2%	12,093	14.0%	13,043	14.5%
$100,000 - $149,999	7,175	8.7%	11,586	13.4%	15,161	16.9%
$150,000 - $199,000	2,060	2.5%	4,201	4.8%	5,805	6.5%
$200,000+	1,426	1.7%	3,140	3.6%	6,267	7.0%
Median Household Income	$47,054		$57,751		$68,285	
Average Household Income	$58,415		$75,132		$92,348	
Per Capita Income	$22,202		$28,615		$35,174	

	2000		2006		2011	
Population by Age	Number	Percent	Number	Percent	Number	Percent
0 - 4	16,589	7.5%	16,489	7.2%	17,262	7.3%
5 - 9	16,505	7.5%	15,355	6.7%	15,096	6.4%
10 - 14	15,611	7.1%	15,826	6.9%	15,627	6.6%
15 - 19	14,595	6.6%	15,849	6.9%	15,531	6.5%
20 - 24	16,357	7.4%	17,781	7.7%	19,908	8.4%
25 - 34	41,355	18.7%	37,398	16.3%	37,995	16.0%
35 - 44	38,818	17.6%	37,110	16.2%	34,592	14.6%
45 - 54	28,166	12.7%	32,037	13.9%	34,130	14.4%
55 - 64	14,873	6.7%	20,909	9.1%	25,004	10.5%
65 - 74	9,714	4.4%	10,594	4.6%	11,438	4.8%
75 - 84	6,326	2.9%	7,419	3.2%	7,355	3.1%
85+	2,181	1.0%	2,981	1.3%	3,677	1.5%

	2000		2006		2011	
Race and Ethnicity	Number	Percent	Number	Percent	Number	Percent
White Alone	73,148	33.1%	69,923	30.4%	66,438	28.0%
Black Alone	127,516	57.7%	134,486	58.5%	141,441	59.5%
American Indian Alone	423	0.2%	454	0.2%	482	0.2%
Asian Alone	10,144	4.6%	12,554	5.5%	14,556	6.1%
Pacific Islander Alone	107	0.0%	113	0.0%	129	0.1%
Some Other Race Alone	3,879	1.8%	5,265	2.3%	6,693	2.8%
Two or More Races	5,870	2.7%	6,953	3.0%	7,876	3.3%
Hispanic Origin (Any Race)	8,985	4.1%	11,401	5.0%	13,796	5.8%

Market Profile

SJM

Latitude: 33.800836 Longitude: -84.212374	5502 Memorial Dr Stone Mountain, GA 3008 Radius: 1.0 miles	5502 Memorial Dr Stone Mountain, GA 3008 Radius: 3.0 miles	5502 Memorial Dr Stone Mountain, GA 3008 Radius: 5.0 miles
2000 Total Population	14,507	110,229	221,088
2000 Group Quarters	87	2,986	4,271
2006 Total Population	15,949	114,261	229,748
2011 Total Population	16,714	117,931	237,616
2006 - 2011 Annual Rate	0.94%	0.63%	0.68%
2000 Households	4,979	38,996	82,583
2000 Average Household Size	2.9	2.75	2.63
2006 Households	5,476	40,441	86,642
2006 Average Household Size	2.9	2.75	2.6
2011 Households	5,726	41,700	89,751
2011 Average Household Size	2.9	2.75	2.6
2006 - 2011 Annual Rate	0.9%	0.62%	0.71%
2000 Families	3,413	25,543	53,467
2000 Average Family Size	3.45	3.31	3.2
2006 Families	3,579	25,208	53,436
2006 Average Family Size	3.51	3.36	3.22
2011 Families	3,621	25,103	53,523
2011 Average Family Size	3.54	3.39	3.23
2006 - 2011 Annual Rate	0.23%	-0.08%	0.03%
2000 Housing Units	5,279	40,799	86,057
Owner Occupied Housing Units	48.4%	44.9%	56.4%
Renter Occupied Housing Units	45.9%	50.7%	39.6%
Vacant Housing Units	5.6%	4.5%	4.1%
2006 Housing Units	5,857	42,711	91,005
Owner Occupied Housing Units	47.3%	44.6%	56.1%
Renter Occupied Housing Units	46.2%	50.1%	39.1%
Vacant Housing Units	6.5%	5.3%	4.8%
2011 Housing Units	6,238	44,723	95,602
Owner Occupied Housing Units	45.0%	43.5%	55.1%
Renter Occupied Housing Units	46.8%	49.7%	38.8%
Vacant Housing Units	8.2%	6.8%	6.1%
Median Household Income			
2000	$43,294	$42,328	$47,054
2006	$52,648	$51,265	$57,751
2011	$62,093	$60,390	$68,285
Median Home Value			
2000	$110,871	$108,855	$124,125
2006	$147,184	$146,113	$168,179
2011	$174,658	$173,844	$202,457
Per Capita Income			
2000	$17,815	$18,207	$22,202
2006	$21,872	$22,379	$28,615
2011	$26,016	$26,641	$35,174
Median Age			
2000	29.5	29.7	32.5
2006	30.6	30.6	34.0
2011	30.7	30.7	34.3

Latitude: 33.800836 Longitude: -84.212374	5502 Memorial Dr Stone Mountain, GA 3008 Radius: 1.0 miles	5502 Memorial Dr Stone Mountain, GA 3008 Radius: 3.0 miles	5502 Memorial Dr Stone Mountain, GA 3008 Radius: 5.0 miles
2000 Population 15+ by Sex and Marital Status			
Total	10,787	84,063	172,610
Females	54.7%	51.9%	53.3%
Never Married	20.3%	19.6%	17.9%
Married, not Separated	20.3%	19.4%	21.9%
Married, Separated	2.7%	2.0%	1.7%
Widowed	3.3%	3.8%	4.4%
Divorced	8.1%	7.1%	7.3%
Males	45.3%	48.1%	46.7%
Never Married	18.9%	20.2%	18.0%
Married, not Separated	21.0%	21.2%	22.7%
Married, Separated	1.2%	1.6%	1.2%
Widowed	0.5%	0.7%	0.8%
Divorced	3.7%	4.4%	4.0%
2000 Population 16+ by Employment Status			
Total	10,602	82,706	169,976
In Labor Force	75.3%	71.8%	70.8%
Civilian Employed	70.0%	67.3%	66.8%
Civilian Unemployed	5.0%	4.4%	3.9%
In Armed Forces	0.3%	0.1%	0.1%
Not in Labor Force	24.7%	28.2%	29.2%
2006 Civilian Population 16+ in Labor Force			
Civilian Employed	88.7%	89.5%	90.9%
Civilian Unemployed	11.3%	10.5%	9.1%
2011 Civilian Population 16+ in Labor Force			
Civilian Employed	88.9%	89.6%	91.0%
Civilian Unemployed	11.1%	10.4%	9.0%
2000 Females 16+ by Employment Status and Age of Children			
Total	5,805	42,946	90,815
Own Children < 6 Only	8.8%	9.1%	7.9%
Employed/in Armed Forces	5.3%	6.0%	5.3%
Unemployed	0.5%	0.5%	0.4%
Not in Labor Force	3.0%	2.6%	2.2%
Own Children < 6 and 6-17 Only	7.2%	7.4%	6.3%
Employed/in Armed Forces	5.5%	5.2%	4.3%
Unemployed	0.4%	0.3%	0.3%
Not in Labor Force	1.3%	1.9%	1.7%
Own Children 6-17 Only	21.5%	17.9%	17.0%
Employed/in Armed Forces	17.3%	13.7%	13.1%
Unemployed	1.0%	0.9%	0.6%
Not in Labor Force	3.2%	3.4%	3.3%
No Own Children < 18	62.5%	65.5%	68.7%
Employed/in Armed Forces	37.8%	39.6%	40.6%
Unemployed	3.7%	2.7%	2.4%
Not in Labor Force	21.0%	23.2%	25.8%

Market Profile

SJM

Latitude: 33.800836 Longitude: -84.212374	5502 Memorial Dr Stone Mountain, GA 3008 Radius: 1.0 miles	5502 Memorial Dr Stone Mountain, GA 3008 Radius: 3.0 miles	5502 Memorial Dr Stone Mountain, GA 3008 Radius: 5.0 miles
2000 Households by Type			
Total	4,978	38,995	82,583
Family Households	68.6%	65.5%	64.7%
Married-couple Family	37.7%	36.6%	40.7%
With Related Children	22.2%	21.0%	20.9%
Other Family (No Spouse)	30.8%	28.9%	24.0%
With Related Children	22.2%	20.3%	16.3%
Nonfamily Households	31.4%	34.5%	35.3%
Householder Living Alone	22.6%	24.9%	26.1%
Householder Not Living Alone	8.8%	9.6%	9.1%
Households with Related Children	44.4%	41.2%	37.2%
Households with Persons 65+	11.4%	11.5%	15.6%
2000 Households by Size			
Total	4,979	38,996	82,583
1 Person Household	22.6%	24.9%	26.1%
2 Person Household	28.5%	29.1%	31.3%
3 Person Household	18.4%	18.1%	17.6%
4 Person Household	15.2%	14.2%	13.4%
5 Person Household	7.5%	7.3%	6.5%
6 Person Household	3.9%	3.5%	2.8%
7+ Person Household	3.9%	2.9%	2.2%
2000 Households by Year Householder Moved In			
Total	4,963	38,967	82,507
Moved in 1999 to March 2000	32.9%	30.1%	25.4%
Moved in 1995 to 1998	35.3%	38.8%	34.6%
Moved in 1990 to 1994	12.4%	13.8%	15.9%
Moved in 1980 to 1989	11.6%	8.7%	11.7%
Moved in 1970 to 1979	4.6%	4.4%	6.1%
Moved in 1969 or Earlier	3.2%	4.2%	6.3%
Median Year Householder Moved In	1997	1997	1996
2000 Housing Units by Units in Structure			
Total	5,262	40,811	85,964
1, Detached	44.8%	45.0%	58.1%
1, Attached	6.8%	6.5%	5.8%
2	0.7%	2.0%	1.4%
3 or 4	9.0%	8.6%	6.7%
5 to 9	17.8%	15.6%	10.7%
10 to 19	13.7%	14.0%	9.7%
20+	6.9%	7.9%	7.3%
Mobile Home	0.2%	0.4%	0.2%
Other	0.0%	0.0%	0.0%
2000 Housing Units by Year Structure Built			
Total	5,262	40,795	85,953
1999 to March 2000	1.4%	1.0%	1.2%
1995 to 1998	2.6%	2.7%	3.4%
1990 to 1994	5.4%	6.4%	7.3%
1980 to 1989	30.1%	31.9%	27.4%
1970 to 1979	34.2%	30.4%	25.6%
1969 or Earlier	26.4%	27.6%	35.1%
Median Year Structure Built	1977	1977	1976

"GO OR NO-GO" ANALYSIS

The purpose of this model is to enter property and market information for a "for sale" property to determine if it is a good candidate for self storage conversion. The two main hurdles for the "go or no-go" are the market and the financial analysis. The model is broken down into four categories. Variables in the property, the market and the financial category are entered on this page, and the current stock is entered on the next worksheet.
Adjust the red fields to determine the initial feasibility:

PROPERTY **Enter from the subject property here:**

Address:	5502 Memorial Drive, Stone Mountain, GA 30083
Building Gross SF:	138,537
Purchase $:	$ 3,650,000

MARKET

Enter the population and the total households within a five mile radius of the subject property (various websites generate this type of information).

Population =	229,748
Households =	86,642

CURRENT STOCK

Use a search engine (ex. Google) to determine the current supply of properties within a five mile radius and enter that information plus the buildings gross square footage (typically found in that counties tax records) in the 'Supply' worksheet:

Summary of the Total from 'Supply' Worksheet:

Competition's Project Name	Distance to Subject (< 5 mi)	Gross Rentable SF	Net Rentable SF	Total Units	Estimate CC Units
Project Name					
Address					
Phone Number	**5.0**	1,038,440	934,596	8,127	1,724
Existing Supply Total from Supply Tab		**1,038,440**	**934,596**	**8,127**	**1,724**

MARKET "GO OR NO-GO" MAYBE

FINANCIAL

Enter your required return:

Levered Return	**30%**
Unlevered Return	**15%**

FINANCIAL "GO OR NO-GO" **GO**

OVERALL ANALYSIS **WAIT FOR THE NEXT DEAL**

NOTE: The model assumes general market averages to generate the results. Obviously, all markets are not the same and the model allows a user to cater their analysis to fit the specifics of each properties market. (User should use the Step-by-step' worksheet to guide them through customizing the model to the specifics of their deal.)

CURRENT SUPPLY WITHIN A FIVE MILE RADIUS OF THE SUBJECT PROPERTY

Competition's Project Name	Distance to Subject (< 5 mi)	Gross Rentable SF	Net Rentable SF	Total Units	Estimate CC Units
Colonial Storage Center: Stone Mountain 1440 N. Hairston, Stone Mountain, GA 770.469.2875	1.9	35,850	32,265	281	112
Shurgard Self Storage 840 Hambrick Road, Stone Mountain, GA 404.296.1999	1.0	70,000	63,000	548	219
Metro Self Storage 1491 N. Hairston Road, Stone Mountain, GA 770.469.7770	2.7	99,050	89,145	775	-
Attic Self Storage 4944 Memorial Dr., Stone Mountain, GA 404.294.9901	3.0	38,800	34,920	304	-
Public Storage 1844 Mountain Industrial Blvd, Tucker, GA 770.938.4344	1.5	62,000	55,800	485	194
Public Storage 3400 Lawrenceville Hwy, Tucker, GA 770.908.2330	3.0	61,080	54,972	478	191
Public Storage 1438 Montreal Road, Tucker, GA 770.938.9904	4.0	69,900	62,910	547	219
Public Storage 4343 Covington Hwy, Decatur, GA 404.288.0066	4.9	75,135	67,622	588	235
Public Storage 3748 Covington Hwy, Decatur, GA 404.284.2521	4.1	113,800	102,420	891	356
Public Storage 2940 N Decatur Rd, Decatur, GA 404.296.2100	4.0	63,000	56,700	493	197
Tucker Stone Mountain SS & U-Haul 4695 Hammermill, Road, Tucker, GA 770.934.5310	3.9	55,000	49,500	430	-
Hub Inc Unit Warehouse A 2146 Flintstone Drive, Tucker, GA 770.270.1605	4.7	41,350	37,215	324	-
Storage USA 1257 S Hairston Road, Stone Mountain, GA 770.322.00283	4.1	75,400	67,860	590	-
Storage USA 735 Hambrick Road, Stone Mountain, GA 404.296.9669	1.2	97,100	87,390	760	-
Decatur Self Storage 2915 E Ponce De Leon Ave., Decatur, GA 404.378.3232	5.0	80,975	72,878	634	-
Existing Supply Total		**1,038,440**	**934,596**	**8,127**	**1,724**

"GO OR NO-GO" FEASIBILITY ANALYSIS

STEP-BY-STEP DIRECTIONS

"Edit only the red fields in the worksheets"

1. Limit/target search to the MSA's shown in the 'Target Markets' worksheet.
   - Population size (2004) targeted between > 300,000 and < 1,750,000

   Stone Mountain, GA

2. Go to www.esri.com or www.claritas.com for market information on "for sale" property.
   Compile the following information for the address of the "for sale" property (aid in establishing a good trade area):

- Population within a 5 mile radius (> 50,000 desired)	229,748
- Population growth within 5 mile radius (> national %)	2.61%
- Median Household Income (> state average)	$ 57,751
- % of population married and % of population - female?	47.5% / 52.2%
- Trade Area Households (5 miles)	86,642

   Utilize this market information as an additional due diligence analysis of the subject properties market.

Compile the current self storage competition in a five mile radius around the proposed "for sale" property:

3. Go to www.yellowpages.com and www.google.com and enter the city and storage type keywords
   (shown on the right) and enter results in the table found in the 'Supply' worksheet.
   (enter all properties within a 5 mile radius of subject property):

Stone Mountain, GA
Try the following words: self storage, warehouse, mini storage, storage

4. Visit the county website for the properties compiled in step number three to help determine the size of the facility - search in tax department and find the gross square footage of the facility (www.google.com - search for county and state).
   Enter data in the table in the 'Supply' worksheet:

   The table uses the following national averages, plus manually enter a guess of the climate controlled units:
   (adjust the assumptions in the 'Supply' worksheet if different for properties market)
   - Used a 90% efficiency to arrive at Net Rentable SQFT
   - National Average of 115 sf per unit determines total units
   - Climate controlled units are estimated through on-line pictures or descriptions
     (property visit/phone calls aid in the final analysis)

Compile market and site specific information on the subject ("for sale") property:

5. Adjust the estimated months of construction, and building efficiency ratio in the
   "Building Input" section of the 'New Facility & Assumptions' worksheet if appropriate.

6. Adjust market specific information (interest rate, percentage (LTC) of construction loan) and/or additional fields
   in the "Stabilized Conversion Facility" section of worksheet 'New Facility & Assumptions'.
   These figures should reflect the current market interest rate and the borrowers appetite for borrowing.

7. Adjust market rental amounts in "Analysis of Building Revenue" in the 'New Facility & Assumptions' workbook by searching
   www.shurgard.com or www.publicstorage.com. For both of these sites, enter the zip code
   of the "for sale" property and select the closest location and the price list for these properties.
   Telephoning a current facility in the trade area is an additionally effective means of establishing rental figures.

Due Diligence

8. What is the traffic count on the road in-front of the site? Amount of road frontage? Number of Ingress and Egress points?
   Finally, does the current zoning allow for self storage? Yes/No Yes

NEW FACILITY & ASSUMPTIONS

Building Input		
Purchase of Existing Facility	$	3,650,000
Pre to Purchase (per sf.)		1.50
Purchase to Shell (per sf.)		10.50
Shell to Finished (per sf.)		9.00
Building Size		138,537
Months of Construction (insert 2 to 8)		5
Efficiency		84.00%
Net Rentable SF		116,371
Avg. Unit Size		115
# of Units		1,012
GP$ per Unit/month (base case)		$136

Stabilized Conversion Facility		
Bldg. Revenue (per sf.)	$	14.19
Bldg. Op. Exp. (per sf.)		3.50
Vacancy @ Stabilization		15.00%
Growth		2%
Exit Cap Rate (Rf + Cap Ex - Growth + Dep)		8.50%
Replacement Reserves		$0.15
Interest Rate		8.25%
Construction Loan (LTC %)		80.00%
Brokerage Fee (Disposition)		1.00%

Unit Dimensions by Consumer Segment

Unit Dimensions	Total	Temporary	Long-term	Military	Student
5 feet by 5 feet or smaller	11.2%	8.3%	13.8%	8.9%	20.2%
5 feet by 10 feet	23.3%	22.4%	24.3%	11.0%	32.5%
10 feet by 10 feet	26.4%	27.2%	25.7%	28.2%	22.8%
10 feet by 15 feet	13.0%	13.7%	12.6%	12.7%	8.3%
10 feet by 20 feet	16.9%	19.8%	14.1%	16.0%	12.0%
10 feet by 30 feet or larger	9.3%	8.7%	9.6%	23.2%	4.1%
TOTAL	**100%**	**100%**	**100%**	**100%**	**100%**

Analysis of Building Revenue

Feet	Feet	Total Units Size	Enter Market Rate	Annual Rent	Avg. per SSA survey	$/SF*AVG
5	5	25	65	780	11.2%	3.5
5	10	50	75	900	7.8%	1.4
5	15	75	90	1,080	7.8%	1.1
7.5	10	75	90	1,080	7.8%	1.1
10	10	100	105	1,260	26.4%	3.3
10	15	150	125	1,500	13.0%	1.3
10	20	200	150	1,800	8.5%	0.8
10	25	250	180	2,160	8.5%	0.7
10	30	300	255	3,060	9.3%	0.9
				13,620	100%	$ 14.19

Absorption - Physical	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Q1	0%	43%	88%	100%	100%	100%
Q2	5%	53%	93%	100%	100%	100%
Q3	15%	70%	98%	100%	100%	100%
Q4	30%	80%	100%	100%	100%	100%

SUPPLY ANALYSIS

Current Market Ratio (Total Units)	
Trade Area Population	229,748
Total Existing Units	8,127
Current Market Ratio	3.54%
New Facility	1,012
Total Potential Units	9,139
Potential Market Ratio	3.98%

Current Market Ratio (SF)	
Trade Area Population	229,748
Total Existing SF	934,596
Current Market Ratio	4.07
New Facility	116,371
Total Potential Units	1,050,967
Potential Market Ratio	4.57

National Average: Units per Population
Go: < 3%
Caution: 3% to 4.5%
Avoid: > 4.5%

National Average: SF per Population
Go: < 5
Caution: 5 to 6.5
Avoid: > 6.5

Current Market Ratio (CC Units)	
Trade Area Population	229,748
Current CC Units	1,724
Current Market Ratio	0.75%
New Facility	1,012
Total Potential CC Units	2,736
Potential Market Ratio	1.19%

Current Market Ratio (SF per Households)	
Trade Area Households	86,642
Total Existing SF	934,596
SF per Household	10.79
New Facility	116,371
Total Potential Units	1,050,967
Potential Market Ratio	12.13

National Average: CC Units per Population
Go: < 1.5%
Caution: 1.5% to 2.5%
Avoid: > 2.5%

National Average: Units per Population
Go: < 12
Caution: 12 to 14
Avoid: > 14

QUANTITATIVE "GO OR NO-GO" ANALYSIS

Rate Sensitivity

Unlevered		Economic Occupancy			
	Rental Rate	**80%**	**88%**	**90%**	**85% (Base)**
	-10.00%	14.71%	19.85%	21.06%	**23.86%**
	-5.00%	17.63%	22.77%	23.98%	**23.86%**
	5.00%	23.02%	28.18%	29.40%	**23.86%**

Levered		Economic Occupancy			
	Rental Rate	**80%**	**88%**	**90%**	**85% (Base)**
	-10.00%	24.85%	38.17%	41.87%	**47.82%**
	-5.00%	33.34%	45.95%	48.81%	**47.82%**
	5.00%	46.56%	58.47%	61.22%	**47.82%**

Base Case

Year	1	2	3	4	5	6	Yr 5 Sale
Growth	1.0000	1.0200	1.0404	1.0612	1.0824	1.1041	1,053,517
Absorption	13%	61%	94%	100%	100%	100%	8.50%
Income	179,885	899,067	1,413,003	1,527,166	1,557,709	1,588,863	12,394,321
Expense	(484,880)	(494,577)	(504,469)	(514,558)	(524,849)	(535,346)	
Replmt. Reserves	(20,781)	(20,781)	(20,781)	(20,781)	(20,781)		
Cost	(6,728,300)	-	-	-	-		(123,943)
Sale	-	-	-	-	12,270,378		12,270,378
Total	(7,054,074)	383,709	887,754	991,827	13,282,458		
CF	(325,775)	383,709	887,754	991,827	13,282,458		
Principal Balance	-	-	-	-	(5,382,640)		
Equity	(1,345,660)	-	-	-	-		
Mortgage (I/O)	(222,034)	(444,068)	(444,068)	(444,068)	(444,068)		
BTCF	(1,893,469)	(60,359)	443,686	547,760	7,455,750		

Occupancy	**80%**							
Rate	**-10%**							
Year	**1**	**2**	**3**	**4**	**5**	**6**		
Growth	1.0000	1.0200	1.0404	1.0612	1.0824	1.1041		**Yr 5 Sale**
Absorption	13%	61%	94%	100%	100%	100%	Year 6 - NOI	805,605
Income	151,818	758,784	1,192,530	1,288,880	1,314,658	1,340,951	Exit Cap	8.50%
Expense	(484,880)	(494,577)	(504,469)	(514,558)	(524,849)	(535,346)	Value	9,477,703
Replmt. Reserves	(20,781)	(20,781)	(20,781)	(20,781)	(20,781)		Broker	(94,777)
Cost	(6,728,300)	-	-	-	-		Net Income	9,382,926
Sale	-	-	-	-	9,382,926			
Total	(7,082,142)	243,427	667,281	753,542	10,151,954			
CF	(353,842)	243,427	667,281	753,542	10,151,954			
Principal Balance	-	-	-	-	(5,382,640)			
Equity	(1,345,660)	-	-	-	-			
Mortgage (I/O)	(222,034)	(444,068)	(444,068)	(444,068)	(444,068)			
BTCF	(1,921,536)	(200,641)	223,213	309,474	4,325,247			
IRR (Unlevered)	**14.71%**							
IRR (Levered)	**24.85%**							

Occupancy	**88%**							
Rate	**-10%**							
Year	**1**	**2**	**3**	**4**	**5**	**6**		
Growth	1.0000	1.0200	1.0404	1.0612	1.0824	1.1041		**Yr 5 Sale**
Absorption	13%	61%	94%	100%	100%	100%	Year 6 - NOI	939,700
Income	166,999	834,663	1,311,783	1,417,768	1,446,124	1,475,046	Exit Cap	8.50%
Expense	(484,880)	(494,577)	(504,469)	(514,558)	(524,849)	(535,346)	Value	11,055,292
Replmt. Reserves	(20,781)	(20,781)	(20,781)	(20,781)	(20,781)		Broker	(110,553)
Cost	(6,728,300)	-	-	-	-		Net Income	10,944,739
Sale	-	-	-	-	10,944,739			
Total	(7,066,960)	319,305	786,534	882,430	11,845,233			
CF	(338,661)	319,305	786,534	882,430	11,845,233			
Principal Balance	-	-	-	-	(5,382,640)			
Equity	(1,345,660)	-	-	-	-			
Mortgage (I/O)	(222,034)	(444,068)	(444,068)	(444,068)	(444,068)			
BTCF	(1,906,355)	(124,763)	342,466	438,362	6,018,526			
IRR (Unlevered)	**19.85%**							
IRR (Levered)	**38.17%**							

Occupancy	**90%**							
Rate	**-10%**							
Year	**1**	**2**	**3**	**4**	**5**	**6**		
Growth	1.0000	1.0200	1.0404	1.0612	1.0824	1.1041		**Yr 5 Sale**
Absorption	13%	61%	94%	100%	100%	100%	Year 6 - NOI	973,224
Income	170,795	853,632	1,341,596	1,449,990	1,478,990	1,508,570	Exit Cap	8.50%
Expense	(484,880)	(494,577)	(504,469)	(514,558)	(524,849)	(535,346)	Value	11,449,690
Replmt. Reserves	(20,781)	(20,781)	(20,781)	(20,781)	(20,781)		Broker	(114,497)
Cost	(6,728,300)	-	-	-	-		Net Income	11,335,193
Sale	-	-	-	-	11,335,193			
Total	(7,063,165)	338,275	816,347	914,652	12,268,553			
CF	(334,865)	359,055	837,128	935,432	12,289,334			
Principal Balance	-	-	-	-	(5,382,640)			
Equity	(1,345,660)	-	-	-	-			
Mortgage (I/O)	(222,034)	(444,068)	(444,068)	(444,068)	(444,068)			
BTCF	(1,902,559)	(85,013)	393,060	491,364	6,462,626			
IRR (Unlevered)	**21.06%**							
IRR (Levered)	**41.87%**							

Occupancy	**80%**							
Rate	**-5%**							
Year	**1**	**2**	**3**	**4**	**5**	**6**		
Growth	1.0000	1.0200	1.0404	1.0612	1.0824	1.1041		**Yr 5 Sale**
Absorption	13%	61%	94%	100%	100%	100%	Year 6 - NOI	880,102
Income	160,252	800,939	1,258,782	1,360,485	1,387,694	1,415,448	Exit Cap	8.50%
Expense	(484,880)	(494,577)	(504,469)	(514,558)	(524,849)	(535,346)	Value	10,354,142
Replmt. Reserves	(20,781)	(20,781)	(20,781)	(20,781)	(20,781)		Broker	(103,541)
Cost	(6,728,300)	-	-	-	-		Net Income	10,250,600
Sale	-	-	-	-	10,250,600			
Total	(7,073,708)	285,581	733,533	825,146	11,092,665			
CF	(345,408)	306,362	754,313	845,927	11,113,445			
Principal Balance	-	-	-	-	(5,382,640)			
Equity	(1,345,660)	-	-	-	-			
Mortgage (I/O)	(222,034)	(444,068)	(444,068)	(444,068)	(444,068)			
BTCF	(1,913,102)	(137,706)	310,245	401,859	5,286,738			
IRR (Unlevered)	**17.63%**							
IRR (Levered)	**33.34%**							

Occupancy	**88%**							
Rate	**-5%**							
Year	**1**	**2**	**3**	**4**	**5**	**6**		
Growth	1.0000	1.0200	1.0404	1.0612	1.0824	1.1041		**Yr 5 Sale**
Absorption	13%	61%	94%	100%	100%	100%	Year 6 - NOI	1,021,647
Income	176,277	881,033	1,384,660	1,496,533	1,526,464	1,556,993	Exit Cap	8.50%
Expense	(484,880)	(494,577)	(504,469)	(514,558)	(524,849)	(535,346)	Value	12,019,375
Replmt. Reserves	(20,781)	(20,781)	(20,781)	(20,781)	(20,781)		Broker	(120,194)
Cost	(6,728,300)	-	-	-	-		Net Income	11,899,181
Sale	-	-	-	-	11,899,181			
Total	(7,057,683)	365,675	859,411	961,195	12,880,015			
CF	(329,383)	386,456	880,191	981,975	12,900,796			
Principal Balance	-	-	-	-	(5,382,640)			
Equity	(1,345,660)	-	-	-	-			
Mortgage (I/O)	(222,034)	(444,068)	(444,068)	(444,068)	(444,068)			
BTCF	(1,897,077)	(57,612)	436,123	537,907	7,074,088			
IRR (Unlevered)	**22.77%**							
IRR (Levered)	**45.95%**							

Occupancy	**90%**							
Rate	**-5%**							
Year	**1**	**2**	**3**	**4**	**5**	**6**		
Growth	1.0000	1.0200	1.0404	1.0612	1.0824	1.1041		**Yr 5 Sale**
Absorption	13%	61%	94%	100%	100%	100%	Year 6 - NOI	1,057,033
Income	180,283	901,056	1,416,129	1,530,545	1,561,156	1,592,379	Exit Cap	8.50%
Expense	(484,880)	(494,577)	(504,469)	(514,558)	(524,849)	(535,346)	Value	12,435,683
Replmt. Reserves	(20,781)	(20,781)	(20,781)	(20,781)	(20,781)		Broker	(124,357)
Cost	(6,728,300)	-	-	-	-		Net Income	12,311,326
Sale	-	-	-	-	12,311,326			
Total	(7,053,676)	385,699	890,880	995,207	13,326,853			
CF	(325,377)	406,479	911,661	1,015,987	13,347,633			
Principal Balance	-	-	-	-	(5,382,640)			
Equity	(1,345,660)	-	-	-	-			
Mortgage (I/O)	(222,034)	(444,068)	(444,068)	(444,068)	(444,068)			
BTCF	(1,893,071)	(37,589)	467,593	571,919	7,520,926			
IRR (Unlevered)	**23.98%**							
IRR (Levered)	**48.81%**							

Occupancy	**80%**							
Rate	**5%**							
Year	**1**	**2**	**3**	**4**	**5**	**6**		
Growth	1.0000	1.0200	1.0404	1.0612	1.0824	1.1041		**Yr 5 Sale**
Absorption	13%	61%	94%	100%	100%	100%	Year 6 - NOI	1,029,097
Income	177,120	885,248	1,391,285	1,503,694	1,533,767	1,564,443	Exit Cap	8.50%
Expense	(484,880)	(494,577)	(504,469)	(514,558)	(524,849)	(535,346)	Value	12,107,019
Replmt. Reserves	(20,781)	(20,781)	(20,781)	(20,781)	(20,781)		Broker	(121,070)
Cost	(6,728,300)	-	-	-	-		Net Income	11,985,948
Sale	-	-	-	-	11,985,948			
Total	(7,056,839)	369,891	866,036	968,355	12,974,086			
CF	(328,540)	390,671	886,816	989,136	12,994,867			
Principal Balance	-	-	-	-	(5,382,640)			
Equity	(1,345,660)	-	-	-	-			
Mortgage (I/O)	(222,034)	(444,068)	(444,068)	(444,068)	(444,068)			
BTCF	(1,896,233)	(53,397)	442,749	545,068	7,168,159			
IRR (Unlevered)	**23.02%**							
IRR (Levered)	**46.56%**							

Occupancy	**88%**							
Rate	**5%**							
Year	**1**	**2**	**3**	**4**	**5**	**6**		
Growth	1.0000	1.0200	1.0404	1.0612	1.0824	1.1041		**Yr 5 Sale**
Absorption	13%	61%	94%	100%	100%	100%	Year 6 - NOI	1,185,541
Income	194,833	973,773	1,530,414	1,654,063	1,687,144	1,720,887	Exit Cap	8.50%
Expense	(484,880)	(494,577)	(504,469)	(514,558)	(524,849)	(535,346)	Value	13,947,539
Replmt. Reserves	(20,781)	(20,781)	(20,781)	(20,781)	(20,781)		Broker	(139,475)
Cost	(6,728,300)	-	-	-	-		Net Income	13,808,064
Sale	-	-	-	-	13,808,064			
Total	(7,039,127)	458,415	1,005,164	1,118,724	14,949,578			
CF	(310,828)	479,196	1,025,945	1,139,505	14,970,359			
Principal Balance	-	-	-	-	(5,382,640)			
Equity	(1,345,660)	-	-	-	-			
Mortgage (I/O)	(222,034)	(444,068)	(444,068)	(444,068)	(444,068)			
BTCF	(1,878,521)	35,128	581,877	695,437	9,143,651			
IRR (Unlevered)	**28.18%**							
IRR (Levered)	**58.47%**							

Occupancy	**90%**							
Rate	**5%**							
Year	**1**	**2**	**3**	**4**	**5**	**6**		
Growth	1.0000	1.0200	1.0404	1.0612	1.0824	1.1041		**Yr 5 Sale**
Absorption	13%	61%	94%	100%	100%	100%	Year 6 - NOI	1,224,652
Income	199,261	995,904	1,565,196	1,691,655	1,725,488	1,759,998	Exit Cap	8.50%
Expense	(484,880)	(494,577)	(504,469)	(514,558)	(524,849)	(535,346)	Value	14,407,670
Replmt. Reserves	(20,781)	(20,781)	(20,781)	(20,781)	(20,781)		Broker	(144,077)
Cost	(6,728,300)	-	-	-	-		Net Income	14,263,593
Sale	-	-	-	-	14,263,593			
Total	(7,034,699)	480,547	1,039,946	1,156,317	15,443,452			
CF	(306,399)	501,327	1,060,727	1,177,097	15,464,232			
Principal Balance	-	-	-	-	(5,382,640)			
Equity	(1,345,660)	-	-	-	-			
Mortgage (I/O)	(222,034)	(444,068)	(444,068)	(444,068)	(444,068)			
BTCF	(1,874,093)	57,259	616,659	733,029	9,637,525			
IRR (Unlevered)	**29.40%**							
IRR (Levered)	**61.22%**							

QUANTITATIVE "GO OR NO-GO" ANALYSIS

Base Case						
		Year 1	Year 2	Year 3	Year 4	Year 5
IRR (Unlevered)	**23.86%**					
Multiple of Cost	**2.26**					
COC (Unlevered)		**-4.84%**	**5.70%**	**13.19%**	**14.74%**	**197.41%**
IRR (Levered)	**47.82%**					
Equity Multiple	**5.83**					
COC (Levered)		**-40.71%**	**-4.49%**	**32.97%**	**40.71%**	**954.06%**

Capital Budget and Operating Statement				
Cost		$ per sf.		
Initial Purchse - Land (30%)	$	7.90	$ 1,095,000	
Initial Purchse - Building (70%)		18.44	2,555,000	
Pre to Purchase		1.50	207,806	
Purchase to Shell		10.50	1,454,639	
Shell to Finished		9.00	1,246,833	
Interest Carry		1.22	169,023	
		48.57	6,728,300	
Operating Statement				% EGI
Revenue	$	14.19	$ 1,651,862	
Other Income		0.30	35,000	
Vacancy		15.0%	(247,779)	
Effective Gross Income	$	10.39	1,439,083	
Operating Exp.		3.50	(484,880)	34%
NOI		6.89	954,203	

QUANTITATIVE "GO OR NO-GO" ANALYSIS

Individual Investor					
	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Net Cash Flow	(304,994)	404,490	908,534	1,012,608	1,032,860
Depreciation	(144,444)	(144,444)	(144,444)	(144,444)	(144,444)
Interest	(222,034)	(444,068)	(444,068)	(444,068)	(444,068)
Taxable Income	(671,472)	(184,022)	320,023	424,097	444,349
Ordinary Income Tax (40%)	268,589	73,609	(128,009)	(169,639)	(177,740)
Tax Dep. Recapture (25%)					(180,554)
Capital Gains - Tax (15%)					(815,726)
Gain on Sale (Proceeds - Debt)					6,887,738
Total	(402,883)	(110,413)	192,014	254,458	(729,672)

Break Even Point					
	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**
BTCF (No Debt)	**(7,054,074)**	**383,709**	**887,754**	**991,827**	**13,282,458**
BTCF (Debt)	**(1,893,469)**	**(60,359)**	**443,686**	**547,760**	**7,455,750**
ATCF (Debt)	**(1,624,880)**	**13,250**	**315,677**	**378,121**	**(606,009)**

INTEREST CALCULATION

CONSTRUCTION INTEREST CALCULATION WORKSHEET

Interest Rate 8.25%	Pre-Construction Financing		Post Construction Financing		Construction Period Calculations Months of Construction													
					2		3		4		5		6		7		8	
Land	$3,650,000	Construction	$2,701,472	Mo.	%	$77,563	%	$139,260	%	$164,062	%	$169,023	%	$197,433	%	$221,784	%	$248,390
Development Costs	$207,806	Development	$207,806															
		Land	$1,095,000	1	80	$36,076	75	$33,821	60	$27,057	40	$18,038	38	$17,136	36	$16,234	34	$15,332
Carry Time (days)	30	Original Building	$2,555,000	2	92	$41,487	85	$38,331	70	$31,567	51	$22,998	48	$21,646	44	$19,842	42	$18,940
Interest Cost Pre-Construction	$26,522	Total	$6,559,277	3			90	$40,586	85	$38,331	62	$27,959	59	$26,606	53	$23,900	50	$22,548
		Constr. Time (days)	150	4					90	$40,586	74	$33,370	68	$30,665	62	$27,959	58	$26,155
				5							89	$40,135	78	$35,174	71	$32,017	66	$29,763
Months of Construction	5			6									88	$39,684	79	$35,625	74	$33,370
Months 2, 3 or 4 Calculation	$0			7											88	$39,684	80	$36,076
Months 5,6,7or 8 Calculation	$169,023			8													88	$39,684
				9														
							$112,738		$137,540		$142,500		$170,910		$195,261		$221,868	

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