SPECIAL REPORT

STORING UP PROFITS AND BUILDING MULTI-GENERATIONAL WEALTH THROUGH SELF-STORAGE INVESTING

WELLINGS CAPITAL

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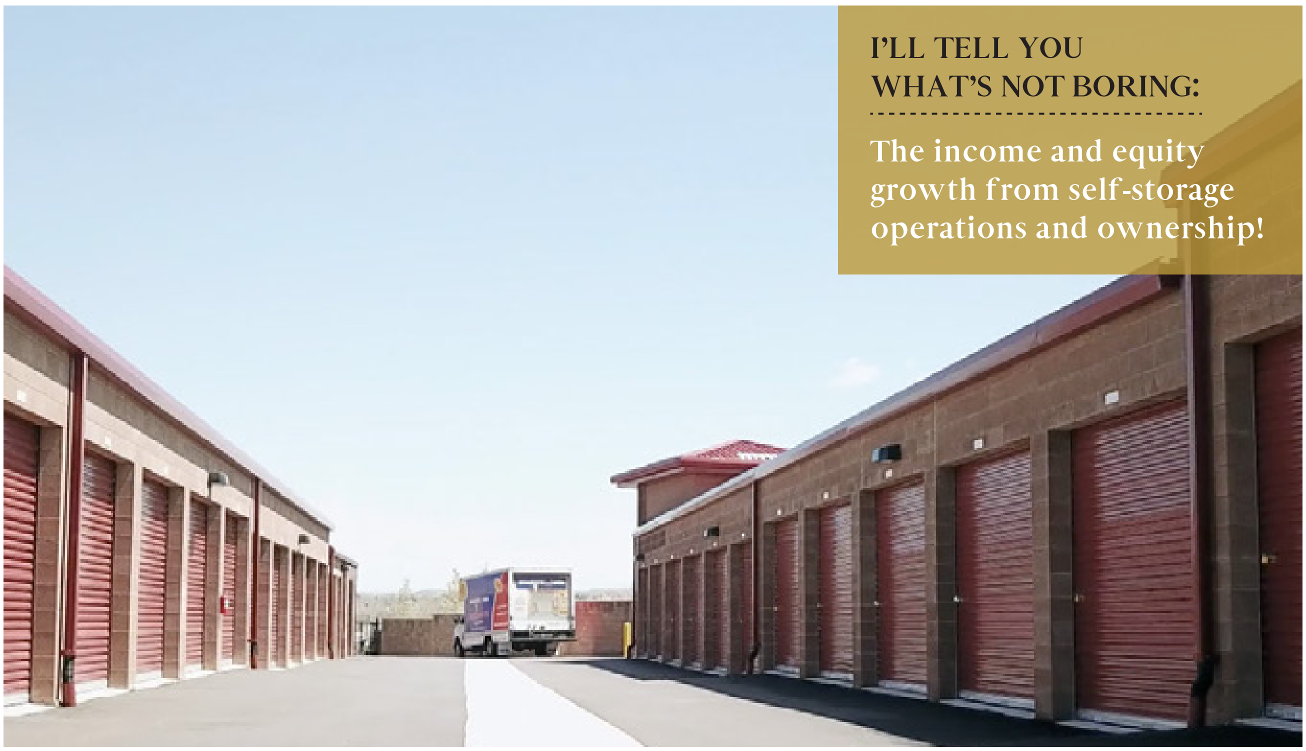
For Accredited Investors Only

Why Self-Storage?

When I originally heard about self-storage, it sounded awfully boring to me. Where are the value-adds? We're talking about four pieces of sheet metal, some rivets, a door, and a slab of concrete.

No countertops to upgrade. No cabinets. No carpet or hardwoods. No lighting or paint or staging. Multifamily just seems a lot more… well… exciting.

Perhaps this is why multifamily podcasts and books and training programs abound. While those for self-storage are rare.



I'LL TELL YOU WHAT'S NOT BORING:

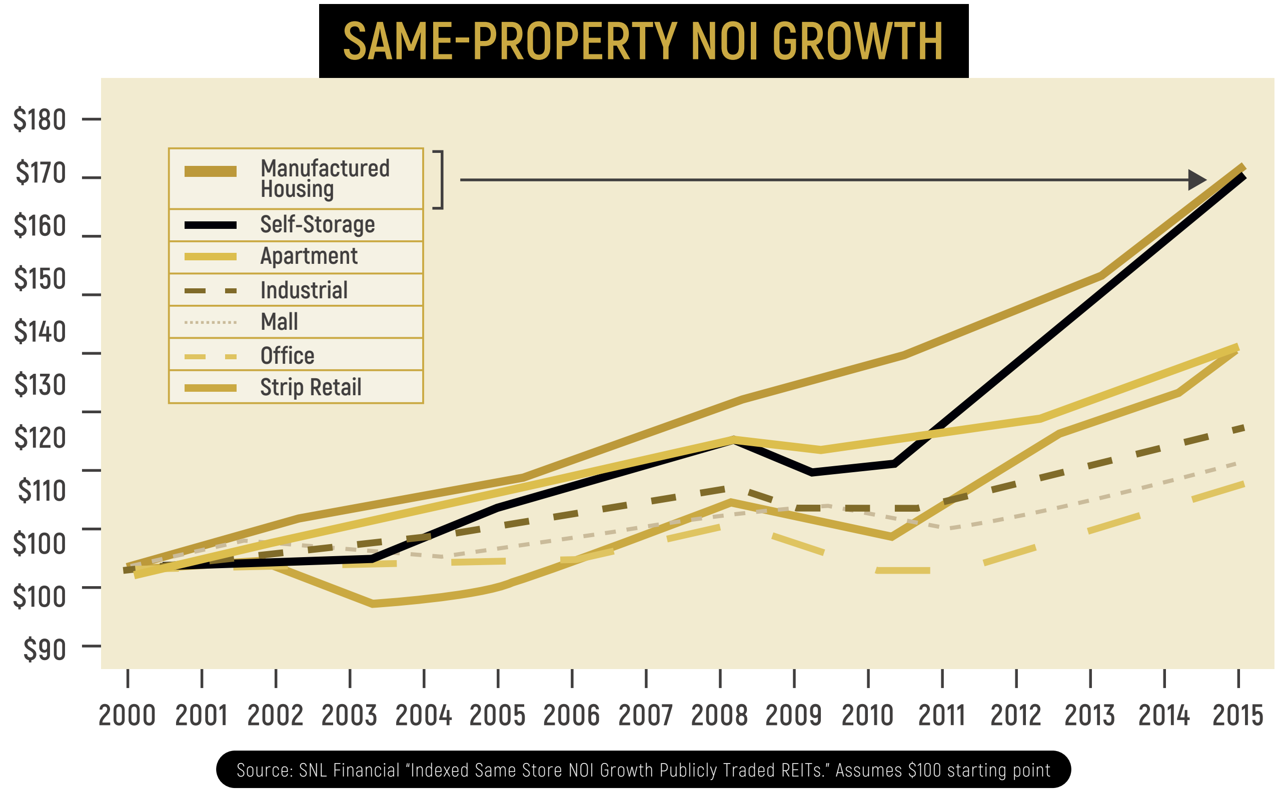
The income and equity growth from self-storage operations and ownership!

And I was surprised to learn that self-storage has a wide variety of value-add opportunities. And amazing opportunities to build wealth.

At this time in history, there are more value-add opportunities in self-storage than in most American multifamily properties*. And due to the fractional nature of self-storage ownership in the U.S., versus more corporate ownership in the more mature and consolidated multifamily realm, this trend may continue for years to come.

Check out the same-property net operating income growth in these various commercial asset classes right now. Self-storage and manufactured housing lead the pack. (Wellings Capital invests in both.)

Source: Kris Bennett at Ten Federal



Self-storage has intrinsically powerful drivers behind its income and equity growth. We'll review many of these in a moment. But one of the reasons for this sector's recent surge in popularity among investors is about overflow. There is an overflow from other asset classes like single family, multifamily and more. At the time of writing, multifamily pricing has reached such a boiling point that investors of all sizes are looking for value elsewhere.

This can be good news for self-storage syndicators and investors, but it can also mean that this sector is becoming overcrowded as well. As we'll see, the fragmented nature of self-storage ownership plays a balancing role here.

Self-Storage... So Much to Love

> How do I love thee? Let me count the ways.
> Elizabeth Barrett Browning

For this report, I originally planned to write "20 Reasons I Love Self-Storage." But when I started writing them out, I blew past 20 and got to 39. (So, I repeated one for emphasis, and you landlords all know why I chose that one!)

Those of you I've spoken to by phone or met onsite know my enthusiasm for this often-overlooked real estate investment. In this report we'll discuss the variety of factors that are driving the steady growth and popularity of this wonderful commercial asset class.

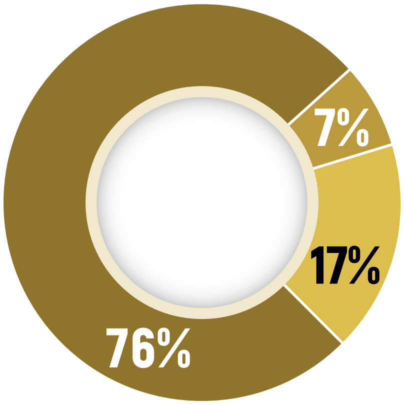
A Fragmented Market

There are over **50,000 self-storage facilities in the United States**.[1] That is more than the combined total of **MCDONALD'S**, **SUBWAYS**, and **STARBUCKS**.

That's well and good, but the great news is that about 40,000 are run by independent operators. Many of these independents are mom-and-pops, and they run their facilities that way. They don't need to run them better. They're making a profit and they're happy.

This graph shows the approximate ownership of US self-storage facilities. Note that just because about 76% of facilities are owned by independents doesn't mean that they are poorly run. But typically, even if well-managed, there is room for upside, which can be implemented by a great operator who acquires this facility.

SELF-STORAGE OWNERSHIP

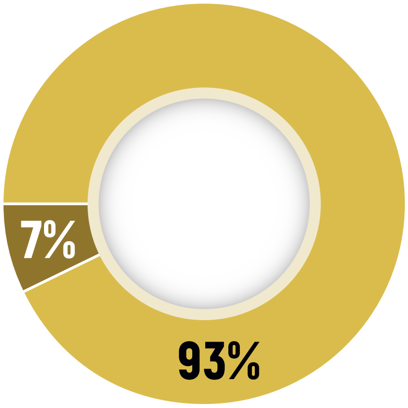


- INDEPENDENT OPERATORS
- REITS
- TOP OPERATORS

Source: 2017 Self-Storage Almanac

Contrast this ownership breakdown with the situation in multifamily right now. The apartment world has been increasingly dominated by larger, well-capitalized players, and it is hard to acquire an under-performing property. This is why our firm expanded outside of the multifamily syndication world. We really love self-storage.

SINGLE VS. MULTIPLE APARTMENT OWNERS



- INDIVIDUAL OWNERS
- MULTI-APARTMENT OWNERS

Source: National Multifamily Housing Council Website

1 Source: https://www.sparefoot.com/self-storage/news/1432-self-storage-industry-statistics/

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The Power of Acquiring from a Mom-and-Pop

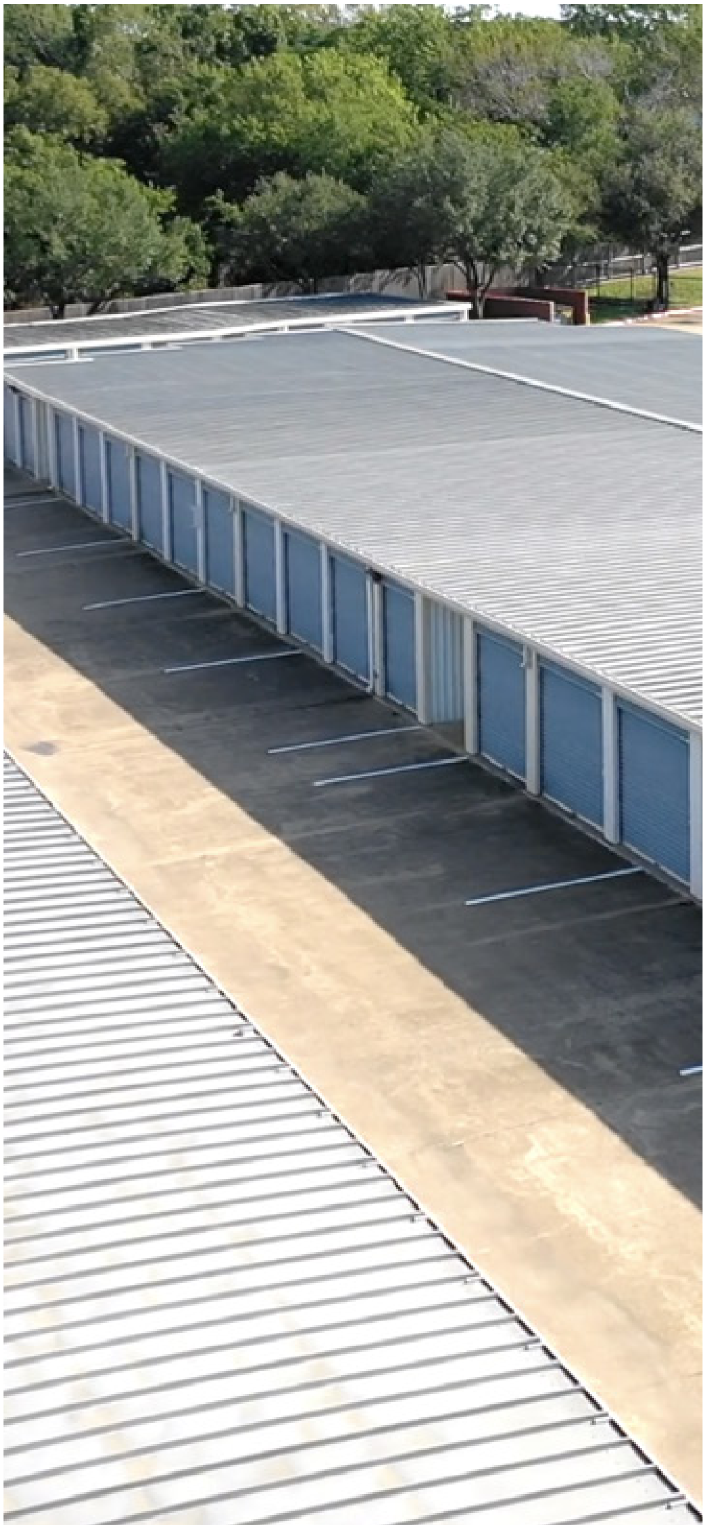
This fragmentation means that there are many acquisition opportunities that are unique to the self-storage asset class. A lot of facilities won't be candidates, but the sheer number of facilities mean that there are plenty targets to go around. Would-be buyers will want to target mom-and-pop facilities...

- In the path of progress
- On a highly traveled road with great visibility
- That are large enough to achieve economies of scale or can be expanded
- In an area where neighboring land is unavailable or cost-prohibitive
- In an under-served location

The national average self-storage density is about seven square feet per person in a three- to five-mile radius, though it varies by region and local demographics. This analysis can be quickly estimated at the Radius Plus website and elsewhere. (See www.radiusplus.com)

Acquiring an under-performing independently-operated facility has a long list of advantages for an operator/investor. It is less risk and hassle than ground-up construction, and it can provide significant upside in income and value. I will demonstrate later that the economic benefits of converting a mom-and-pop facility to a professionally-run operation are almost unparalleled (at least in my real estate experience).

The Power of Operating like a Franchise



Small operators often view their facilities as a passive parcel of real estate that throws off mailbox money. That's fine for them, and I almost constructed a facility with that mindset in the late 90s. It works for most.

But if you have the desire to take an asset like that and apply leading marketing and operations practices, you may be able to create a wonderful income for yourself and your investors and add millions to your net worth. Keep reading.

Great operators apply a multitude of professional operations and marketing techniques to turn a lagging facility into a best-in-market operation.

If you think this is a simple business, you've got it wrong. It's simple to run a basic self-storage operation as a passive asset. It's actually complex to run self-storage as a full-time, revenue- and value-maximizing business. This is not a passive income generation play.

That is unless you find a great operator who is doing all of this stuff right, and passively invest with them. Then you may be able to achieve the best of both worlds.

Refinancing or Selling to an Institutional Buyer

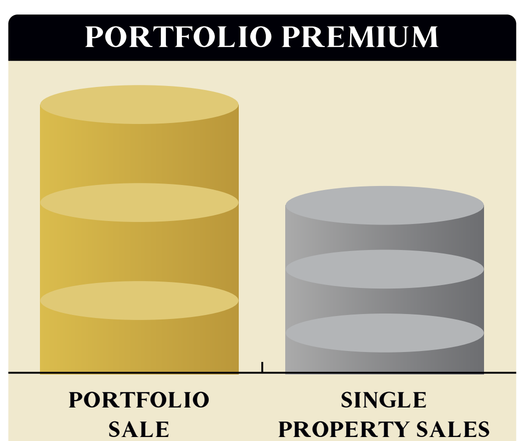
If you can convert your small-time asset to a desirable operation, you will be able to achieve much higher income levels and potentially unlock a lot of value by refinancing your debt. Many operators are able to refinance all of their (and their investors') original principal back out of the deal, leaving them a profitable income stream with no cash at risk. This effectively results in an infinite ROI.

You may also be positioned for acquisition by a REIT or another institutional buyer. If your operation is franchise-like and your revenue is stabilized, and especially if you have several similar assets in a portfolio, a REIT may come knocking at your door.

REITs are often cash-heavy and looking for stabilized, predictable income with little hassle and drama. They are looking for well-located assets where the heavy lifting has already been done. And they're often willing to pay for that work.

This can be a bonus for you and your investors since REITs will often pay extra to get what they want. Their operators and investors are willing to pay a premium to minimize drama and achieve a predictable income stream.

They will typically pay a premium for a portfolio of homogenous assets. Uniform operations lead to economies of scale and higher net operating income. And a portfolio sale reduces the transactional costs and the time needed to construct a similar portfolio through individual acquisitions.



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Sticky Tenant Base

Self-storage has among the stickiest tenant bases of any real estate asset class. No, I'm not talking about guys with Velcro suits (though it could include those people – I'm not one to judge).

Imagine this scenario. You're renting an apartment. You like it there, but it's the same old thing month-in-and out. And you plan to rent for years to come. You get a notice that your rent is going up by 6%. You're paying $1,000 per month, so this is a $60 increase. That's $720 this year, and it will probably go up again next year. You may move to avoid that rent hike.

Now imagine you're also renting a self-storage unit. It's convenient and among the nicest in the area. The staff is nice, but you don't care about that because you rarely stop by. You're paying $100 per month, and it's hitting your credit card. (You almost forgot about it.) You get a notice that your rent is going up by 6%.

Are you going to rent a U-Haul... spend a Saturday... recruit a few reluctant friends... brave the heat or cold... to move your stuff down the street? Just to save $6 per month?

Highly doubtful. Especially when you think,

> **"I'll probably only need this unit a few more months anyway. I've got to block out time to go clean that junk out of there. Maybe I'll do it on my vacation.**
> (Or next year. Or next decade.)"

See my point?

Self-storage tenants are sticky. They stick around. And they may tolerate a few rent increases annually.

And unlike apartment dwellers, they don't fraternize, so they can't compare rents. So, they won't know that the neighboring unit got an introductory rate that is three rent increases lower than theirs. It's a beautiful thing.

Recession-Resistant… Yet Performs in Booms

So, the tenants are sticky… prices can be raised… operations and marketing can be upgraded… and equity is leveraged by income and positioning. But what about the upcoming recession? (There is always one around the corner. We just don't know when. Or how severe.) Wellings Capital specifically chose self-storage, in part, because of its recession-resistance.

IN GOOD TIMES…

People are filling up their carts at Amazon and Walmart. Americans have more stuff than they can possibly use, and our credit card balances and low savings rates prove it. Baby Boomers and their parents are downsizing or passing into the next life, and their kids don't want to let go of the antiques. And the memories. The e-Commerce economy is booming, and online entrepreneurs have sprung up across the fruited plain. Many need a place to house their inventory. America is increasingly a nation of renters, and renters often need to store stuff. For a relatively small percentage of their income, they can do that at a self-storage facility.

IN BAD TIMES…

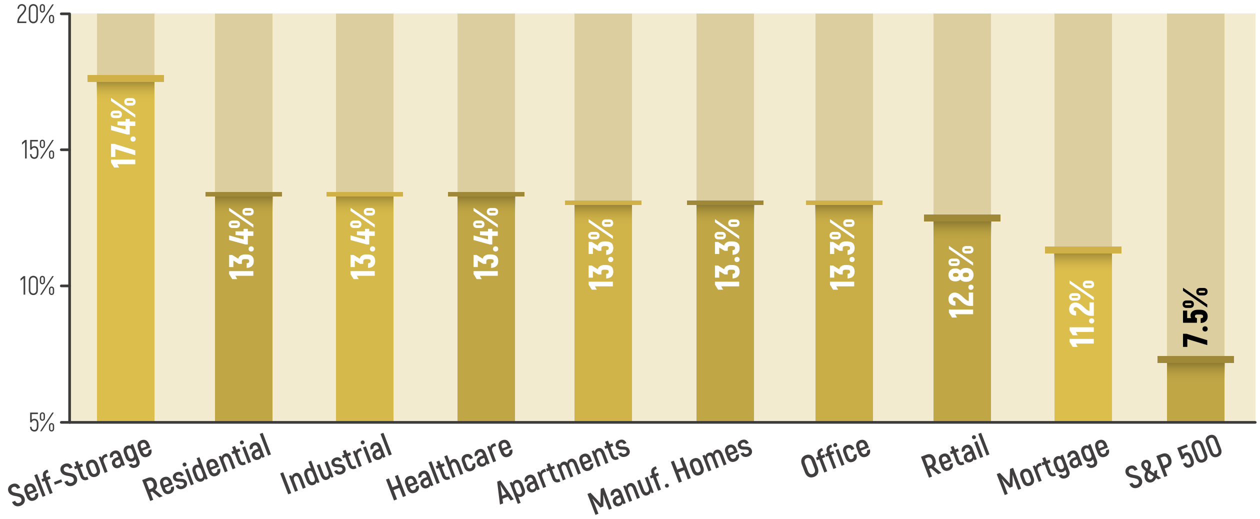
Most of what I said above is still true. Yet people are tightening their belts. Cutting costs. Thankfully, self-storage is a relatively small cost in the scheme of things. Some homeowners with 4,000 square foot homes are downsizing to 2,000 square foot homes. And some in 2,000 square foot homes are downsizing to apartments. And some in apartments are going to smaller apartments or to mobile homes.

In each of these cases people need a place to store their treasures. And self-storage is the obvious answer. This proved true in the Great Recession. And it's proven true overall in the mostly good economic times these past four or five decades, since self-storage became a thing. Though the following graph only refers to REIT performance, this will give you an idea of what I'm talking about.

WHY SELF - STORAGE?

Superior Returns: According to the national association of REIT (Real Estate Investment Trusts) the Self-Storage sector produced an average of 17.43% annual return from 1994-2017. For comparison here are the returns from other REIT sectors over the same time period.

Average Annual Return by REIT Sector vs. S&P 500 from 1994-2017



Source: NAREIT, https://dqydj.com/sp-500-return-calcutator/

Ancillary Income Opportunities

There are many ways to add income and value to self-storage facilities. Self-storage is both a real estate business and a retail business. Many mom-and-pop owners, who operate as a passive real estate parcel, won't have a showroom. This hurts marketability in so many ways.

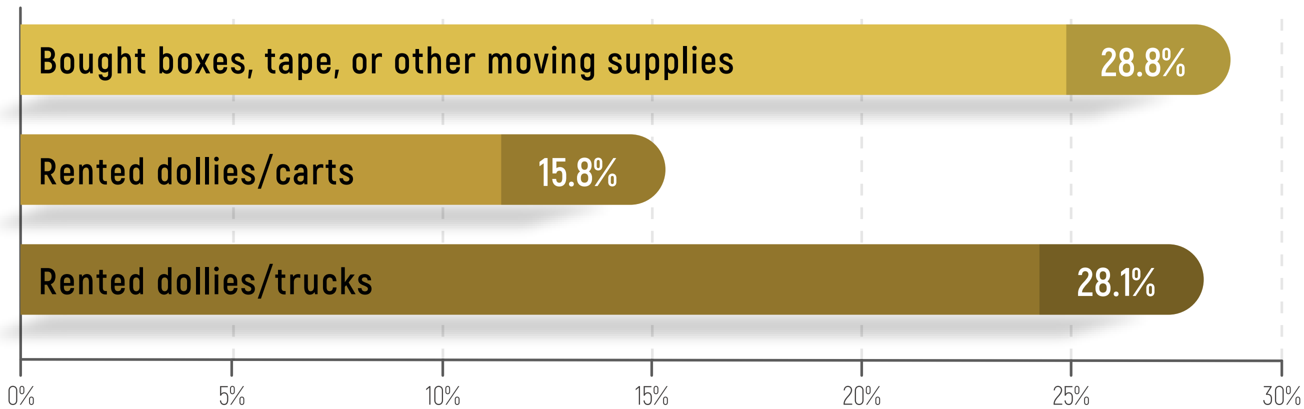
By adding a stylish showroom, professional operators have an office, a clean place to meet with tenants and make them feel at home. And a place to sell them more stuff.

Your self-storage facility will have the opportunity to sell all kinds of needed items to your prospective tenants and to the public at large. Many tenants and others need...

- Boxes
- Tape
- Scissors
- Locks
- Rental dollies and carts
- Your kids' school raffle tickets

Ok, well not that last one. But there are probably other things that you could think of to sell to the public. Here is a breakdown of what ancillary items are selling according to a recent survey.

ITEMS RENTED OR PURCHASES BY CUSTOMER



Source: 2017 Self-Storage Demand Study (SSA)

You could also provide other profitable services from your self-storage facility. Especially if you have a marginal-sized facility and are trying to justify more work for a full-time manager.

A FEW EXAMPLES INCLUDE:

- Propane Filling Station
- eBay Pack and Ship Station
- ATM, Cell Tower and Billboard Rentals

There are many other self-storage value-adds that cost little or nothing to implement. Some result from a mere change to policies and procedure, and they can often be implemented within weeks of acquiring a facility. They include:

- Implementation of administration fees
- Implementation of late fees
- Timely evictions
- Fees for paying by cash or check (small discount to pay by automatic ACH)
- Implementation of moving truck rental (U-Haul or Penske)

The implementation of truck rentals costs almost nothing in most cases (other than employee time and parking spaces), and it can generate up to $3,000 or more per month in revenue. And it can lead to increased occupancy of up to 3 to 5% ("Would you like a storage unit with that U-Haul rental?").

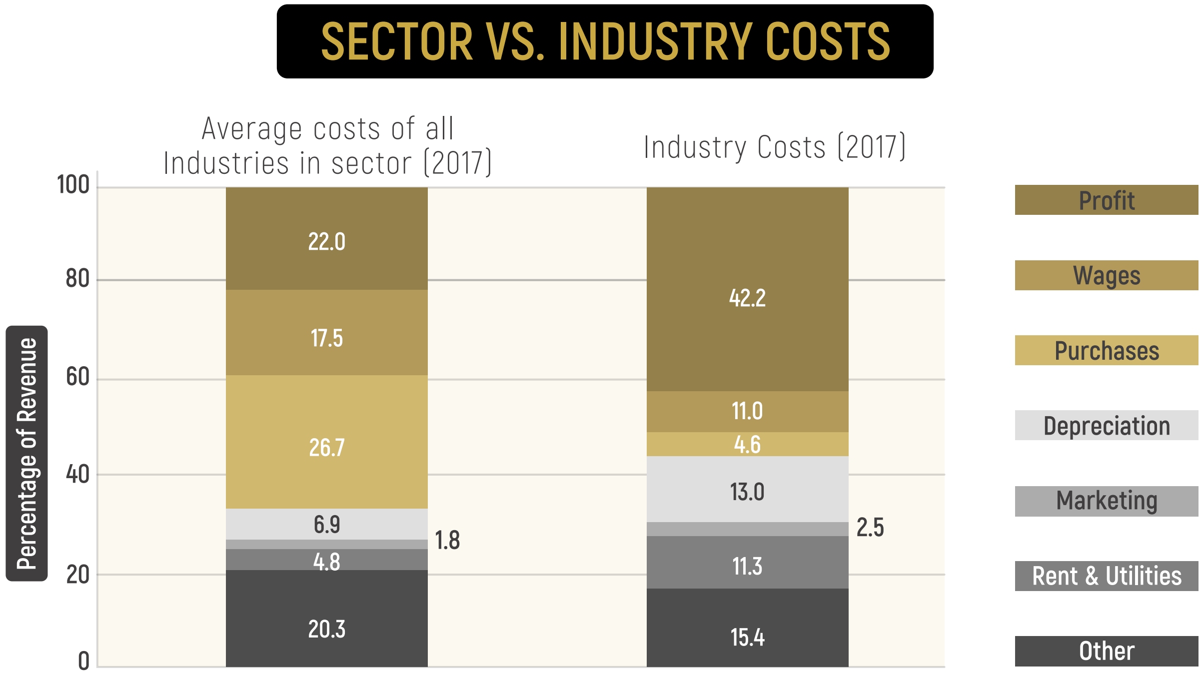
A friend of mine whose facility is in Rockledge, Florida has a particularly well-positioned storage location. When I was there last quarter his manager told me they had just hit the $5,000 per month level in monthly U-Haul commission. Even with no impact on occupancy, that could translate to an increased facility value of over $900,000! And a much greater impact to the investors' equity (due to leverage).

For no capital outlay. Just a signed contract with U-Haul, some employee training, and a few policy and procedure changes. "How can this be?" I'm glad you asked. You'll find out the answer in a moment.

Low Operating Costs

Self-storage has one of the lowest cost structures among commercial real estate asset classes. It is fairly predictable, and with no toilets, water lines, and other aggravations endured by other real estate types, it is well-suited for operators who want to minimize their hassles and expenses. Our firm just paid a $107,000 bill for a water main break in a townhome community we own, so this is an especially sweet benefit to me right now.

Here is a breakdown and comparison of the cost structure and profitability of commercial real estate in general (on the left) with self-storage (on the right).



Source: www.ibisworld.com

Lenders Love Self-Storage

It is widely known that lenders love to provide debt for self-storage facilities. Lender Neil Gussis published an Inside Self-Storage article detailing why in 2018 (Eyes Wide Open: 4 Reasons Why Lenders are Actively Pursuing Self-Storage Investments).

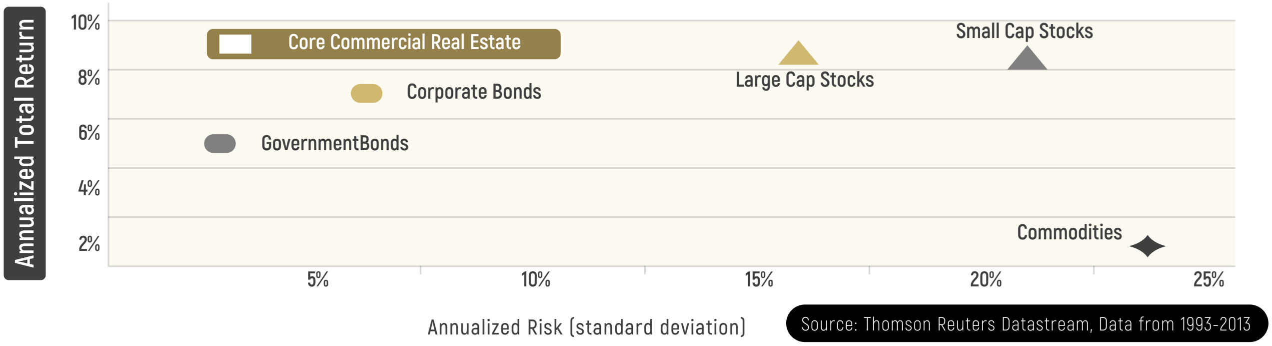
He said that commercial mortgage brokers regularly get calls from lenders these days saying they're over-allocated on multifamily and want to do more self-storage transactions. Neil claims that, "It's a well-known fact that the storage industry has had the lowest default rate of all CMBS commercial property types for more than 20 years."

You might be wondering how values in self-storage can go up so quickly. I can't wait to share this with you...

The Self-Storage Profit and Value Formula

Commercial self-storage investing has compelling demographic, financial and operational drivers that got my attention and the attention of many of our investors. The return-to-risk profile is surprisingly strong. Check out this graphic from Thomson Reuters:

20-YEAR RETURN/RISK PROFILE
Across Major Asset Classes

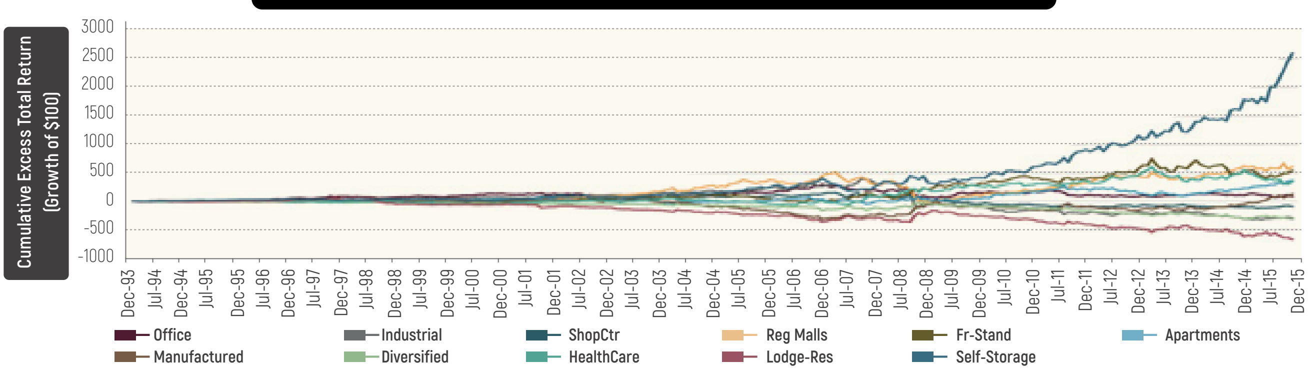


If you have invested in any of the asset classes in this graph… or if you have been burned by swinging for the fence and missing a few times… then this graph alone should be enough to get your attention. It's not easy to decipher this graph at a glance. If you're a smart investor – and I know you are since you're reading this report – your goal should be to be as high as possible on the vertical (return) axis. And as far to the left as possible on the horizontal (risk/volatility) axis.

Take a close look. Note that core commercial real estate has by far the best risk-adjusted returns of the major asset classes. This analysis applies to all core commercial real estate. **The risk-adjusted returns of self-storage, manufactured housing, and multifamily shine brightly within this class, making the case for these three sectors even more compelling.**

Now check out the performance of these various U.S. REIT Sub-Sectors from 1994 through 2015 (yes, that's self-storage leading the pack):

FIGURE 4: CUMULATIVE PERFORMANCE OF U.S. REIT SUB-SECTORS IN EXCESS OF THE FISE NAREIT U.S. EQUITY REIT INDEX JANUARY 1994-DECEMBER 2015.



This graphic was obtained from a report at institutionalinvestor.com

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The Four Pillars of Return in Commercial Real Estate

"So, Paul," I hear some of you asking, "you are trumpeting the marvelous returns and limited downside of the self-storage sector. How are these returns derived?" I'm glad you asked. Return on Investment is derived from four components. CAPT for short. Not a great acronym, but better than CATP. (Say it out loud if you didn't get it.)

C = Cash Return

A = Appreciation

P = Principal Paydown

T = Tax Benefits

CAPT 1 = C: Cash Return

This is pretty self-evident. This return is derived from the free cash flow of the property. Thanks to accelerated depreciation, it's likely that your cash returns will be higher – sometimes quite a bit higher – than the taxable income on your K-1.

Of course, this will vary widely, but for the purpose of this report, here's a very rough estimate on how your cash returns could shake out based on $100 of gross operating income…

Gross Income	$100
Less Operating Expenses	$34
Net Income	**$66**
Less Capital Reserves	$4
Less Loan Principal & Interest	$26
Less Asset Management Fee	$2
Free Cash Flow	**$34**

Without getting any deeper into the weeds, let's just say that this free cash flow represents a 4% Return on the value of the asset (ROA). That doesn't sound very exciting, right?

But the Return on Equity (cash invested) is much higher. Why? Safe Leverage. If the total debt as a percentage of the asset value is 2/3 (66.7% LTV), then the cash invested will be only 1/3 of the asset value, so the cash-on-cash return on equity for this example would be about 4% times 3 = 12%.

Typical cash-on-cash returns for profitable self-storage assets are between 3% and 7% early on, and perhaps about 12% or more later in the ownership period. (I recently invested in one that started at about 8% and is up to over 20% now.) But that's not all you get…

CAPT 2 = A: Appreciation

The value of a stabilized commercial asset is generally the Net Operating Income (NOI) divided by the Cap Rate.

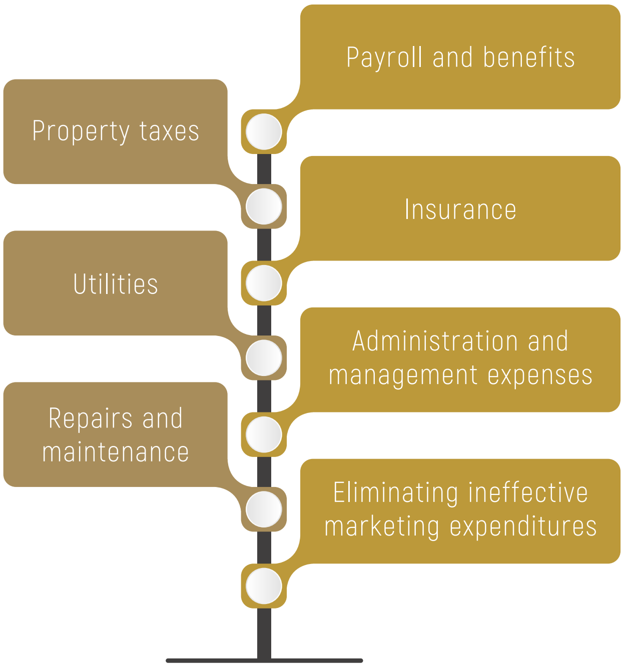
VALUE = NET OPERATING INCOME ÷ CAP RATE

While both of these numbers are subject to some market forces beyond the operator/investor's control, there are many factors that are controllable through careful planning and execution. This is where I think value-add projects shine as a sub-class of the self-storage sector. Since appreciation is a function of both NOI and Cap Rate, I will be discussing both in detail below.

Improving Net Operating Income is based on increasing rental income and other income while hopefully maintaining or decreasing operating costs as a percentage of income. Value-add properties provide an opportunity for the new owner to achieve a disproportionately high ROI on capital and management improvements made to the property. This may be derived from a long list of factors, but a few examples include increasing rents, occupancy and other income by:

- Increasing the effectiveness of marketing.
- Improving the property's interior & exterior appearance and functionality.
- Adding new (typically climate-controlled) self-storage buildings.
- Adding or improving revenue centers like truck rental, late fees, administration fees, and insurance sales.
- Adding or improving a showroom with point-of-sale items like locks, boxes, tape, and scissors.

Net Operating Income may also be improved by reducing expenses. A good asset manager and property manager will have dozens of ways to achieve this. Examples of expense categories to manage include:



Now that we've talked about the role of NOI in driving appreciation, let's move on to Cap Rate. Your cap rate (capitalization rate) represents the market's evaluation of your unleveraged yield for that asset class in that market.

Our team generally likes to invest in markets where cap rates range from 6% to 8%. Cap rates on the lower end of the spectrum (higher-priced asset purchases) can be managed by aggressive rent growth in the first few years and through interest-only loans (typically available for up to three to five years).

Let's take a second to see what this kind of cap rate means to investors. A 1,000-unit property with a net operating income of $1.2 million in 7% cap rate economy is valued at about $17.1 million ($1.2M ÷ 7%). That same property at the same net income will be valued at $21.8 million if cap rates tighten to 5.5%.

Even if this owner did nothing to improve his property and income, the value went up substantially. (Of course, investing in value-add properties means you will be taking aggressive actions to improve the property, the rents and the net income – regardless of the market. The value-adds can often more than compensate for a negative move in cap rate.)

But it's better than that...

So, what impact could a change like this one have on the value of the investors' equity? Continuing the example. Income was held constant, but the cap rate changed from 7% to 5.5%. (This can happen through economic factors, or by improving the asset to sell to a REIT.) The value of the asset moved from $17.1 million to $21.8 million, a healthy 27.5% increase in asset value.

The value to the investors is significantly magnified by leverage. If this property has 60% leverage, which is generally considered a safe level, you can multiply the Return on Asset (ROA) by 2.5x to get the Return on Equity (ROE). The math on this is ROA * 1 ÷ (1 minus LTV) so ROA * 1 ÷ (1 – 0.6) = 2.5x in this case.

So, to calculate the impact on investor equity, multiply the 27.5% increase in asset value times 2.5x and the appreciation to equity is over 68%. Just from the change in cap rate! Do you see why smart value-add operators want to acquire assets that can be improved and sold to REITs and other institutional buyers?

CAPT 3 = P: Principal Paydown

This is pretty simple, and it may not even sound like it should be part of the return. But it is cash flow that could have been distributed to the investors but instead is used to increase in equity along the way, so it is certainly part of the return. It consists of the regular paydown of your mortgage balance as part of your monthly debt payments. Your storage tenants pay down your mortgage while you sleep, and you do nothing special to achieve this benefit.

This kicks in after any interest-only period ends (if applicable). The increase in equity typically amounts to a 2% to 4% return annually. As an investor, you won't see any benefit from this in your quarterly distribution, but you will experience this benefit at the time of debt refinance or the sale of the property.

Consult your tax adviser to determine if these situations are appropriate for you
Hypothetical results may not be achieved

CAPT 4 = T: Tax Benefits

"If the American public knew how little we are taxed, we'd have a revolt on our hands!" So quoted a friend of mine before he launched into an explanation of how he and his investors could parlay $20 million cash into a $210 million commercial real estate portfolio over two decades… pocket $131 million along the way… and pay virtually no taxes. All legal and ethical.

This subject is so important that I've dedicated another special report to cover it in detail. You can request that at info@wellingscapital.com.

The Value Equation – Putting it All Together

This is possibly the key takeaway from this report, and it applies to self-storage, manufactured housing, multifamily, and all types of commercial real estate. This is where the lightbulb went on for me, as it has for so many others.

There is a reason that most of the Forbes 400, the wealthiest of the wealthy, made their money in commercial real estate or are buying it to sustain and propagate their wealth. This is the singular reason, more than others, that I tell my kids and others that…

If I would have known about the power of commercial real estate to grow my income and increase my wealth, I would never have done anything else.

If I was still in my twenties I don't know if I would have had the humility to listen to my mid-fifty's self. But you can listen. You're likely younger than me, but regardless of your age, I hope you will read this carefully and consider what I'm saying.

The value of a commercial real estate asset is unlike the value of residential real estate. Residential real estate is generally valued based on comparable properties. No matter how nicely you fix up your home, Chip and Joanna Jr., your value will still be limited by the homes in the neighborhood.

Not so with commercial real estate. The value equation for commercial real estate is:

VALUE = NET OPERATING INCOME ÷ CAP RATE

Buyers of stabilized commercial real estate are buying an income stream. Yes, they're also buying bricks and sticks and sheet metal and rivets. But they're generally focused on the income stream.

(And they may pay a premium for income potential as well. In other words, if you have additional storage buildings that were just built and are not yet leased, you should get a value assigned for those as well, but this is the exception to the general formula.)

So, your mission… if you choose to accept it… is to (drumroll… drumroll please) …

Increase the Numerator and Compress the Denominator in the Value Equation.

Yep, it's that simple. Well, maybe not simple, but certainly straightforward. We've talked about driving up revenue and driving down costs. These are the components of the numerator. We also talked about compressing the cap rate. This is the denominator. Let's put it all together with an example.

A Real Life Example

Disclaimer: I am not projecting the following returns for this asset inside our growth fund. We are targeting 19% total annual returns for the fund over the course of seven years. Some of the numbers below are theoretical in nature and cannot be accurately projected in advance, nor can these results be guaranteed.

My firm is currently partnering with an operator with decades of collective experience in buying value-add deals. Self-Storage assets that are doing "just fine" in their semi-passive mom-and-pop-owned state, but could be extremely profitable if run by a pro. This operator forces appreciation and adds profit through management efficiencies, expansion, and a variety of operating and marketing techniques.

Last month we invested with him in an asset in the Carolinas. My business partner was on the ground there for two days recently, and we are excited about seeing our operator/partner acquire it and transform it into a profit machine. Our investors are excited, too.

Here are a few highlights...

- This self-storage facility has extra land with road frontage along a major four-lane highway. (It's currently on a side street behind the highway. Visibility will go from poor to awesome.) The current scrub bushes and trees will be replaced with a beautiful new showroom and signage.
- The showroom will provide extra income in the form of boxes, tape, scissors, and locks for sale. And it provides a nice place to interact with customers.
- The operator will partner with U-Haul and potentially add a few thousand per month to the bottom line. This could have the "side benefit" of increasing occupancy 3 to 5%.
- The operator will use some of the extra land to build a beautiful climate-controlled building which will increase revenue and profits.
- The facility and all its competitors are almost completely full, and the current operator's rents are about 25% below average. Rents should be able to be increased by 20 to 25% with little effort, and maybe more after upgrading the frontage, signage, and adding a showroom.
- This operator has a great track record of selling his stabilized assets to institutional buyers like REITs. He may be able to sell at a compressed cap rate which would result in a premium price.

Let's look at the potential of a few of these items on profitability.

If he bought at a 7% cap rate and sells at a 5.4% cap rate, which is typical, this is a 29.6% increase in value in itself. (Dividing the same income by .054 versus .070 will result in a 29.6% higher sales price.) When multiplied by the leverage effect (29.6% ÷ (1 - .66)), this is another 88% increase in the value of the equity.

Increasing rents by up to 25% will increase profits substantially – perhaps 30% since costs won't necessarily increase. The effect on the value of the asset is projected at +30% (easy math: Value = Income ÷ Cap Rate). But the effect to equity investors is much higher due to leverage. With an LTV of about 66%, the impact to equity appreciation is 30% ÷ (1 - 0.66) = 88%+. (Potential of 88% equity appreciation from just raising rates!)

There is also increased income from point of sale items, U-Haul, marketing improvements and more. Assume increased net operating income of 15% from all of this. This impacts the asset value by 15%, and the equity value by 15% ÷ (1 - .66) = 44%+.

There are quite a few more ways this operator has successfully increased income and value in past projects. I didn't even count the value of adding a large new climate-controlled building for example. The combined total asset appreciation from the three changes documented above is arguably 74% (30 + 29 + 15%).

When applying leverage, this arguably results in an increased equity value of 217%. The math on this is 74% ÷ (1 - .66) = 74% ÷ 0.34 = 217%. If this takes five years, that's equity appreciation of 43% annually.

This doesn't count the ongoing cash-on-cash return from the facility, which is projected at about 8% annually to investors. This brings the projected total return to over 50% annually.

As you can see, the cumulative effect of all of these value-adds translates to an asset that has a much higher value to the buyer than it did for the seller. This provides a great margin of safety for the right buyer that has located the right asset at a fair price.

Does this mean the buyer should willingly overpay? No. But in these days of inflated prices, it is great to have a strategy that allows for a purchase like this. And the margin of safety adds to the recession-resistant nature of value-add self-storage.

Note that this is not free or easy money. This is the result of years of experience, a great operation, relationships with the right sellers and buyers, and a lot of hard work.

But the payoffs to the operator and our investors are a beautiful thing. This is why my firm is spending a lot of our time creating relationships with these types of operators. And this is why our investors are co-investing millions in deals like this one and many more.

*Investment made in November 2020 through Wellings Income Fund II. This fund is no longer open to new investments. Site visit conducted in September 2020. Past performance is no guarantee of future returns.

WOULD YOU LIKE TO LEARN MORE?

We'd love to hear from you. Contact us at info@wellingscapital.com.

You may read this report and think, "Yeah, right. It sounds good, but I'm not in a position… nor do I have the desire… to buy a self-storage facility. I can't see it happening."

I was talking with a prospective investor recently. She was an American living in Europe who was struggling with the thought of owning and operating real estate from across the Atlantic. She was trying to buy duplexes or single family homes.

After talking through what it might look like for her to invest passively instead, in a syndication, the lightbulb suddenly turned on for her. She exclaimed,

> "Why should I work harder than I need to… to make less than I could?"

This lightbulb moment has happened to many of our investors, and if this rings true for you, we would love to hear from you.

Contact us now at info@wellingscapital.com | 1-800-844-2188

> "I would rather earn 1% off a hundred people's efforts than 100% of my own efforts."
>
> JOHN D. ROCKEFELLER

*All investing involves risk; the price and value of the investments referred to in this presentation and the income from such investments may fluctuate, and investors may realize losses on these investments, including a loss of principal. We do not provide tax, accounting, or legal advice, and all investors are advised to consult with their tax, accounting, and/or legal advisers before investing.

ABOUT THE AUTHOR

Paul Moore is a successful entrepreneur, investor, author of The Perfect Investment – Create Enduring Wealth from the Historic Shift to Multifamily Housing (2016), and co-host of the wealth building podcast How to Lose Money. Paul has also authored a forthcoming book on self-storage investing.

A founding partner in Wellings Capital, Paul's investment philosophy points investors toward long-term stable investments that yield satisfying multi-generational outcomes.

After graduating with an engineering degree and then an MBA from Ohio State, Paul entered the management development track at Ford Motor Company in Detroit before departing to start a staffing company with a partner. Paul was Finalist for Ernst & Young's Michigan Entrepreneur of the Year two years straight before selling this firm to a publicly traded company.

Paul later entered the real estate sector, where he flipped over 50 homes and 25 high-end waterfront lots, appeared on HGTV's House Hunters, rehabbed rental properties, built new homes, developed a subdivision, and started two successful online real estate marketing firms. Three successful developments, including assisting with development of a Hyatt hotel and a successful multifamily project, led him into the commercial real estate arena.

Paul is a featured guest on numerous real estate podcasts, and is a regular video and blog contributor to BiggerPockets. Paul and his bride of 32 years live with their four children in Central Virginia. Paul's firm, Wellings Capital, manages multiple commercial real estate funds that seek to give investors access to the historic returns and tax savings of commercial real estate. They also have a desire to raise awareness and funding to fight human trafficking and rescue its victims.

Some Miscellaneous Facts about Self-Storage*

- The self-storage industry has been one of the fastest growing sectors of the US commercial real estate industry for over 40 years
- Approximately five of every six self-storage facilities worldwide are in the United States
- Total U.S. self-storage rentable space is over 2.5 billion square feet. This represents over 78 square miles of rentable self-storage space – over three times the size of Manhattan Island
- U.S. self-storage facilities pay more than $3.25 billion in property taxes to local jurisdictions
- The distribution of self-storage facilities is as follows: 32% urban, 52% suburban, and 16% rural
- National average rental rates: $1.25 per square foot for non-climate controlled, and $1.60 per square foot for a 10 x 10 unit
- Average occupancy rates for stabilized facilities are 88% to 90%
- Almost 10% of U.S. households rent a self-storage unit. This is up from about 6% in 1995
- U.S. self-storage facilities employ over 170,000 employees (over three per facility)
- The average size of a "primary" U.S. self-storage facility is about 57,000 square feet
- A survey of 20% of the facilities showed that 60% are one-story and 40% are two or more stories
- The same survey showed an average facility size of 546 units and a median size of 517 units
- The survey showed 18.7% of facilities offer boat and/or RV storage and 31% offer truck rentals
- The top six companies (five are REITs) own and operate about 12% of all self-storage facilities
- There are 150 companies that operate 10 or more facilities; 4,000 firms that operate two to nine facilities; and 26,000 that own operate just one facility
- There is a total self-storage capacity of 21 square feet per U.S. household
- There is a total storage capacity of 7.3 square feet for every man, woman, and child in the U.S.; thus, it is possible that every American could stand under the roof of existing self-storage with plenty of room to spare
- About 13% of all self-storage renters say they will rent for less than 3 months; 18% for 3 to 6 months; 18% for 7 to 12 months; 22% for 1 to 2 years; and 30% for more than 2 years
- Approximately 68% of self-storage tenants live in a single family home; 27% live in an apartment or condo
- Approximately 65% of tenants have a garage but still rent a unit; 47% have an attic in their home; and 33% have a basement
- 63% of self-storage tenants have an income of less than $75,000 annually; 47% have an income of under $50,000
- More than 1.5 million (6%) units nationwide are rented to military personnel; however, in communities adjacent to military bases the range is often 20% to 95%
- It took the self-storage industry 25 years to build its first billion square feet of space; the second billion were added in just eight years (1998 to 2005)
- About 84% of all U.S. counties (2,634 of 8,131) have at least one "primary" self-storage facility (primary means that storage is their main source of income)

* These facts are compiled from the SSA website and quoted from Bob Copper's "Storage 101" due diligence reports

40 Reasons I Love Self-Storage

1. No toilets.
2. A large industry. Total US facilities more than Starbucks, McDonald's and Subway combined.
3. No underground water-main breaks (we just repaired a water main at one of our apartments and the bills are still coming in. Current tally = $107,000).
4. No tenant arguments.
5. No middle of the night tenant calls.
6. No middle of the night police visits (the vacuum cleaner in unit 117 assaulted the lawn mower in unit 119).
7. Very sticky tenants. (Tenants are typically not price-sensitive.)
8. Storage is a small part of most tenants' budget.
9. Auto-billing on credit cards.
10. A fragmented industry.
11. Many mom and pop owners (acquisition targets).
12. Many mom and pop owners (easy to compete with).
13. Many mom and pop owners (behind the curve on technology for management and marketing).
14. Self-storage is not sexy (but the profits are).
15. Great financing options.
16. Very low loan default rates.
17. The highest returns of any REIT class.
18. Storage did well during the downturn.
19. Storage has done well since the downturn.
20. Units are easy to reconfigure to meet current demand.
21. Storage can be profitable in almost any market where people live.
22. Automated kiosks.
23. A multitude of ancillary income opportunities.
24. Low cost value-adds.
25. The leverage effect.
26. The self-storage value formula – expand the numerator and compress the denominator.
27. Institutional buyers.
28. Recession-resistant… yet strengthened in economic booms.
29. Flexible lease terms (easy to raise rents).
30. Easy eviction process (no people to throw out on the street).
31. Prohibitive land cost (bars competition in choice locations).
32. Low and predictable maintenance costs.
33. Easy to manage a mom & pop… a big jump up to manage a world class facility.
34. Perceived vs. actual length of stay + auto-bill makes it easier to raise rents.
35. Portfolio premiums at sale.
36. Demand continues to increase.
37. Minimal collection losses.
38. Excellent cash flow.
39. Low operating costs.
40. No toilets (yes, I know that's a repeat. Think about it.)