

INVESTMENT THESIS

Self-Storage & Small-Bay Flex Development

Yield-on-Cost Arbitrage in a Recovering Storage Cycle and a Chronically Under-Supplied Industrial Niche

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CONFIDENTIAL

For Authorized Recipients Only

A NOTE TO EQUITY CHECK INVESTORS

The 2022-2024 storage cycle was painful. Capital chased the post-COVID demand surge, the pipeline ballooned to 3.7% of inventory, street rates went negative for nearly three years, and operators who underwrote at peak rents are now defending occupancy with concessions. The pipeline has now contracted to 2.5% of inventory and is forecast to bottom near 1.7% through 2031. Move-in rates turned positive year-over-year for two consecutive quarters. Public Storage just announced a \$10.5 billion acquisition of National Storage Affiliates, the largest sector transaction on record, telegraphing exactly where institutional capital thinks the cycle is headed. The new-supply problem of the last cycle is the value-creation opportunity of the next one.

Small-bay industrial flex is the other half of the trade, and it is structurally rarer than storage. Vacancy in buildings under 50,000 square feet is roughly 4% nationally against 7.5% to 7.8% for total industrial, a gap that has widened steadily since 2017. Construction costs have risen 44% since the pandemic, making new sub-50K SF supply economically infeasible without below-market land basis or vertical integration. Nearly half of existing inventory was built before 1980. Small-business formation is running 50% above the pre-COVID baseline for the fifth consecutive year. The supply will not catch the demand on any reasonable timeline.

What makes this category genuinely unusual is the yield-on-cost arbitrage. Develop at a 9.0% to 9.5% unlevered yield-on-cost. Stabilize. Exit at a 6.0% market cap rate. That spread produces a 50% to 73% premium over total project cost at stabilization, math that exceeds multifamily, big-box industrial, and office by a meaningful margin. Storage and small-bay flex achieve this through low per-square-foot construction costs, NOI margins of 70%-plus, and sticky demand at low absolute price points. The execution is in the hands of vertically integrated developers, in-house construction crews, in-house leasing, in-house property management, who consistently deliver 60% to 65% cost-to-exit ratios and capture roughly 210 basis points of yield-on-cost enhancement over third-party-led platforms.

The white paper that follows lays out the thesis in full. Eight sections covering the late-stage bottoming of the storage development cycle, the structural under-supply in small-bay flex, the development-margin math, the institutional capital re-entering as buyers, the four target Sun Belt metros (Houston, Austin, San Antonio, Charlotte), the macro tailwinds, and a candid read on the risks. You will also find a side-by-side comparison of today's setup against the 2007-2009 storage oversupply collapse. They are not comparable, and the data shows why.

The thesis is one piece. The operator is the other. Storage and flex are deceptively simple to underwrite and brutally difficult to execute. The gap between a 19% net IRR and a 9% net IRR is not a market call. It is land selection, entitlement timing, hard-cost discipline, lease-up velocity, and exit timing, all controlled by people who have done it 90 times before. I have a very short list of operators I trust to develop these assets through a full cycle, and the sponsor behind this strategy is on it. Thirty-three years. Ninety-plus completed and exited projects. \$450 million-plus in cumulative exit value. 19% to 20% net IRR. 3.3x weighted-average project equity multiple. 62% cost-to-exit ratio. A 25% sponsor co-investment alongside investors and personal guarantees on property-level debt.

As always, I enjoy connecting with each of you, hearing your perspective, and remain committed to bringing you common sense investment opportunities with sponsors of character and competence.

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SECTION

Executive Summary

The U.S. self-storage development cycle is now in late-stage bottoming, with the new-supply pipeline contracting from 3.7% of inventory at the 2024 peak to 2.5% in early 2026 and forecast by Yardi Matrix to bottom near 1.7% of stock through 2031. Simultaneously, the small-bay industrial and office-warehouse flex segment, defined as buildings under 50,000 square feet with multiple tenants, is operating at roughly 4% national vacancy versus 7.5% to 7.8% for the broader industrial market, with shallow-bay rents up 40% since 2020 and only 0.5% to 0.7% of inventory under construction. Ground-up development in both categories pencils to roughly a 9.0% to 9.5% unlevered yield-on-cost against 5.5% to 6.5% exit cap rates, producing a development spread that materially exceeds multifamily, big-box industrial, and office. The strategy delivers institutional return targets without relying on cap-rate compression or rent growth heroics.

This thesis evaluates an allocation to a vertically integrated, sponsor-co-invested development fund operating across Houston, Austin, San Antonio, and Charlotte. The reference operator is AAA Storage, a 33-year-old developer with 90-plus completed and exited properties, \$450M+ in cumulative exit value, a 19-20% net IRR track record, a 3.3x weighted average project equity multiple, and a 62% cost-to-exit ratio.

<h1>2.5%</h1> <p>U.S. self-storage construction pipeline as % of inventory, January 2026, down from 3.7% peak in 2024</p>	<h1>9.0–9.5%</h1> <p>Target unlevered yield-on-cost for ground-up storage and flex development, vs. 5.5–6.5% exit cap rates</p>	<h1>4.0%</h1> <p>National vacancy for industrial buildings under 50,000 SF, vs. 7.5–7.8% for total industrial</p>	<h1>+278K</h1> <p>Charlotte MSA 5-year population gain through July 2025; Houston added 198K in 2024 alone</p>
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Three structural pillars

1. Cycle inflection in self-storage. Yardi Matrix data confirms the planned pipeline contracted 12.8% year-over-year and the prospective pipeline 21.7% year-over-year by Q4 2025, with both near pre-pandemic lows. CubeSmart and Extra Space Storage delivered the first positive same-store NOI in nearly three years in Q4 2025, with move-in rates turning positive year-over-year for two consecutive quarters. National occupancy has held above 90% throughout the entire normalization. Public Storage's \$10.5B all-stock acquisition of National Storage Affiliates announced March 16, 2026 is the largest sector transaction on record and signals that the strategic buyer pool is mobilizing capital ahead of the recovery.

2. Structural under-supply in small-bay flex. Shallow-bay vacancy has run 250+ basis points below total industrial since 2017 and the gap is widening. Construction costs have risen approximately 44% since the pandemic, making sub-50,000 SF speculative development uneconomic in most markets without below-market land basis or operational efficiencies. Nearly half of existing shallow-bay inventory was built before 1980 and over 80% before 2000, while small-business formation continues to run roughly 50%

above pre-COVID baseline. BKM Capital Partners has emerged as the only national-scale dedicated platform, surpassing \$3.2B AUM and 100 properties in 2025, with Brennan Investment Group, EQT Exeter, Stos Partners, Stonelake, and Brookfield as institutional follow-on capital.

3. Yield-on-cost arbitrage that exceeds nearly all other CRE sectors. A development built to a 9.5% unlevered yield-on-cost and exited at a 6.0% cap rate creates a 58% premium over total project cost at stabilization. Applied to a \$10M project with 70% leverage, this produces a roughly 2.94x project-level equity multiple before sponsor fees and carry. By contrast, multifamily ground-up development is currently underwriting to 5.5% to 6.5% YoC against 5.0% to 5.5% exit caps, a thinner spread. Storage and small-bay flex achieve their advantage through low per-square-foot construction costs, NOI margins of 70%-plus for storage and 75%-plus on triple-net flex, and sticky demand at low absolute rent levels.

Target markets

The reference fund targets four metros chosen for documented population growth, employment diversification, and below-national-average storage supply per capita or sub-5% small-bay vacancy. Houston is the strongest storage market in the portfolio, with 6.9 SF per capita versus the 7.8 national benchmark and a 198,000-person 2024 population gain. Austin offers a long-term flex thesis driven by the Samsung Taylor fab, Tesla Gigafactory expansion, and Apple's Parmer Lane campus. San Antonio combines record industrial NNN rents of \$9.43/SF and a tight 8.4% flex vacancy with anchor employment from Joint Base San Antonio, Toyota Manufacturing, and an emerging data-center cluster. Charlotte anchors the North Carolina footprint, with a 2.94M MSA population, North Carolina ranking #1 nationally for net domestic migration in 2025, and a 5.8% sub-125K SF industrial vacancy.

SECTION 1

The Self-Storage Development Cycle Is Late-Stage Bottoming

The pipeline collapse is now empirically confirmed

The most consequential fact about self-storage in 2026 is that the new-supply problem of the prior cycle has resolved. Yardi Matrix tracks the development pipeline through three stages: under construction, planned, and prospective. By January 2026, the under-construction pipeline stood at 50.4M net rentable square feet across 681 properties, and the total pipeline had contracted to 2.5% of existing inventory, down from 3.7% at the March 2024 peak. The Q1 2026 forecast update published by Yardi Matrix on February 12, 2026 confirmed that the planned pipeline was down 12.8% year-over-year and the prospective pipeline was down 21.7% year-over-year and now sits more than 40% below its 2023 peak.

Yardi Matrix forecasts new supply to bottom near 1.7% of stock and remain there through 2031, well below pre-GFC supply levels and consistent with disciplined replacement construction rather than speculative overbuilding. Average construction completion time has stretched to a series-high of 14.4 months, reflecting tight construction lending, tariff-driven materials inflation, and project deferrals. Loan Analytics estimates that 70% to 90% of planned projects in 2024 were paused or cancelled during this normalization.

Figure 1: U.S. self-storage development pipeline as % of inventory, 2019-2030 forecast. Buildup from 2019 (~2.0%), peak at 3.7% in early 2024, contraction through 2026 to 2.5%, with Yardi Matrix forecast trajectory bottoming near 1.7% in 2031.

Rent growth and occupancy have inflected

For three consecutive years, advertised street rates were negative year-over-year. December 2025 marked the first positive year-over-year street-rate print in nearly three years, at +0.3%, before fluctuating slightly negative again in early 2026 as the recovery digests. National occupancy held above 90% throughout the entire normalization and was 91.9% on a REIT-weighted basis as of Q4 2025. Twenty-two of the top thirty markets posted positive year-over-year rate movement in Yardi's September 2025 report.

Public-REIT data corroborates the inflection. Extra Space Storage's Q4 2025 same-store revenue grew 0.4% and same-store NOI grew 0.1%, the first positive same-store NOI print in nearly three years, with same-store occupancy at 92.6%. CubeSmart's move-in rate moved from minus 10% year-over-year in Q4 2024 to plus 2.8% in Q4 2025, the first sustained positive year-over-year street-rate trend since 2022. CubeSmart CEO Christopher Marr stated that the company has reached an inflection point as strengthening operating fundamentals are starting to flow through to key financial metrics, and NSA CEO David Cramer described the Q3 2025 backdrop as the best that they have seen in a number of years.

Demand is structural, not cyclical

The Self Storage Association's 2025 Demand Study, released June 2025 covering 2024 data, documented that household penetration of self-storage rose to 12.6% in 2024, from 11.1% in 2022, the largest two-year increase in recent decades. Roughly 16.7 million U.S. households now rent storage. Approximately one in three Americans uses storage at some point in life. Generational data from the SSA, StorageCafe,

and DXD Capital shows Millennials at 35% current usage with a 22% surge in usage over the prior two years, Gen X and Boomers as the largest established cohorts, and Gen Z at 16% current usage with 50% planning to use storage at some point.

Demand remains tied to life events captured in the industry's Four Ds framework: death, divorce, downsizing, and dislocation. Approximately 25% of demand correlates with home sales and moving, and 27% of customers fall in the Millennial-Gen Z combined cohort. Average tenant length of stay has reached 18.5 months as of Q4 2025, a 2.4% year-over-year increase reflecting the housing-freeze dynamic where high mortgage rates have locked households into homes that no longer match their needs.

Public storage REITs have outperformed for three decades

NAREIT data documents the FTSE Nareit Equity Self Storage Index returning approximately 16.7% per year on average from 1994 to 2024. Over a 23-year window from 1994 to 2017, self-storage produced a 17.43% average annual total return versus 7.54% for the S&P 500, an outperformance of roughly 990 basis points per year. Self-storage NOI growth has averaged 4.4% annually since 2008 against 2.5% inflation, a 190-basis-point real outperformance.

The sector also held during macro stress. During 2007-2009, NAREIT-tracked self-storage returned an average annual minus 3.80% versus the S&P 500's minus 22.03%, a roughly 1,820-basis-point relative outperformance. Self-storage REIT same-store occupancy fell only 5.3 points peak-to-trough during the GFC, and 10x10 non-climate-controlled rates held in a \$0.78-\$0.83 per SF range from 2008 through 2012. During 2020 COVID, self-storage transaction volume hit \$6.2B against a 2010-2021 historical average of \$4.4B.

Institutional acquisition activity is escalating

Yardi Matrix recorded \$5.9B in self-storage transaction volume year-to-date through November 21, 2025, exceeding all of 2024 and back to pre-2020 norms. Cushman & Wakefield's H1 2025 outlook reported a six-quarter average national cap rate of 5.8%, with Class A trading at 5.0% to 5.5% and Class B at 5.5% to 6.5%; approximately two-thirds of investors plan to be net buyers over the next year.

The most consequential signal is Public Storage's announced acquisition of National Storage Affiliates for an approximate \$10.5B enterprise value, an all-stock transaction announced March 16, 2026 and expected to close Q3 2026. The combined entity will own or operate roughly 4,600 properties and 327M square feet across 42 states, with \$4B in financing committed by Goldman Sachs and Wells Fargo and \$110M to \$130M in projected synergies. Combined with Extra Space Storage's \$12B+ Life Storage merger closed in 2023 and Public Storage's \$2.2B acquisition of Blackstone's Simply Self Storage in 2023, the top public REITs have telegraphed unmistakable intent to add scale through the bottom of the cycle.

Private institutional capital is equally committed. Heitman closed Heitman Value Partners Fund VI at \$2.0B in 2025 (with co-investment, \$2.6B and roughly \$6.55B of buying power with leverage), targeting 12% to 14% net IRRs. Prime Group Holdings closed Prime Storage Fund III at \$2.5B in late 2022, and Harrison Street acquired a 21-property, 1.3M NRSF self-storage portfolio across the Sun Belt in October 2025, with 71% of NOI in top-30 metros including Houston, Austin, and Charlotte. SmartStop Self Storage REIT raised \$931.5M in its April 2025 IPO and deployed roughly \$369M in 2025 acquisitions.

SECTION 2

Small-Bay Industrial / Office-Warehouse Flex Is a Structurally Under-Supplied Niche

Definitions and scope

The small-bay industrial niche encompasses multi-tenant industrial buildings under 50,000 SF with individual suite sizes typically between 1,000 and 10,000 SF, clear heights of 14 to 28 feet, and 25% to 50% office buildout for hybrid flex configurations. CBRE defines shallow-bay as buildings under 50,000 sq ft with clear heights between 14 and 28 feet, Newmark's small-bay framework covers properties between 1,000 and 10,000 square feet of suite size, and Basis Industrial frames the segment as 20,000 to 200,000 SF buildings demised into 1,000 to 10,000 SF suites.

The segment is variously called shallow-bay, light industrial, multi-tenant industrial, service industrial, flex industrial, micro-flex, and office-warehouse, all referring to the same underlying property type that serves small businesses needing a combination of office, light fabrication, distribution, service-bay, or recreation use. Industrial spaces under 100,000 SF account for approximately 41.9% of the U.S. industrial market by inventory.

Vacancy is structurally below total industrial and the gap is widening

CBRE's March 2026 research demonstrates that shallow-bay vacancy began trending below overall industrial vacancy in 2017 and the gap has widened steadily through the current cycle. By early 2024, shallow-bay vacancy was 2.5 percentage points below overall industrial vacancy, and the spread continued expanding through 2025-2026 as bulk distribution suffered from 1.1B+ SF of post-COVID big-box deliveries. As of late 2025 and Q1 2026:

- **Properties under 50,000 SF: 3% to 5% national vacancy**, below 2.5% in tightest markets
- **Properties under 100,000 SF: approximately 4% national vacancy**, vs. 9.7% for tenants over 100,000 SF
- **Total U.S. industrial vacancy Q3 2025: 7.5% to 7.8%**, a decade high projected to peak near 8.6% in 2026

Submarket evidence is even more dramatic. Las Vegas under-30,000 SF buildings show 2.7% vacancy, the Chicago I-55 corridor is below 1% for spaces under 50,000 SF, and the Phoenix Northeast Valley shallow-bay market is roughly 6% versus 16% for larger buildings.

Supply has been chronically constrained

Newmark estimates approximately 90M SF of small-bay industrial under construction nationally, equivalent to just 0.5% of existing stock, and JLL pegs only 0.7% of new U.S. industrial development activity at the shallow-bay format. Over the past four years, only 100M SF of small-bay industrial has been added against 1.1B+ SF of single-tenant bulk warehouse. Yardi Matrix data shows that while sub-100,000 SF starts rose 16% year-over-year through Q3 2025, starts for facilities over 100,000 SF declined 48% from their 2022 peak.

The constraint is structural and largely economic rather than regulatory. Construction costs have risen approximately 44% since the pandemic, making new small-bay development economically impossible in most markets without below-market land basis or vertical integration, per Basis Industrial's December 2025 whitepaper. Nearly half of existing shallow-bay inventory was built before 1980 and over 80% before 2000, with only 5% built after 2010. This aging stock, combined with the demolition of older multi-tenant industrial for higher-density redevelopment in major metros, means net additions are running below organic small-business space demand.

Rent growth has decisively outpaced big-box

Newmark and Corebridge data document that rents for bays under 50,000 SF have risen approximately 40% since 2020 versus roughly 30% for the broader industrial market, with year-over-year shallow-bay rent growth reaching as high as 6.5% in select Sun Belt and Midwest markets through 2025. CBRE reports that by 2025 shallow-bay asking rents were more than 50% higher than 2010 levels. Basis Industrial documents that small-bay commands 20% to 22% higher rent per square foot than bulk industrial.

The bifurcation between large and small is the defining trade. In the top-10 most expensive markets, 2024 rents for sub-50,000 SF rose only 1.6% as those markets digested supply, while the next 50 markets posted 5.9% rent growth in the same segment. Houston small-bay rents grew 4.0% year-over-year in 2025, with flex space at \$0.98 per SF per month NNN, the highest of all industrial subtypes. San Antonio set a record industrial NNN rent of \$9.43/SF in Q4 2025 with flex at \$13.85/SF, while Charlotte sub-125K SF asking rents reached \$10.63/SF in Q1 2026 versus \$10.16 a year prior.

Demand is tied to small-business formation, last-mile, and recreational tenants

The U.S. has approximately 34.8 million small businesses representing 99% of all firms, 46% of private-sector employment, and 61% of net new job creation since 1995. U.S. Census Business Formation Statistics show 5.62M business applications in 2025 versus 5.20M in 2024, an 8.2% increase, and Q1 2026 applications running 19.4% above the same period in 2025. Small-business formation has now run at roughly 50% above the pre-COVID baseline for five consecutive years.

E-commerce continues to drive last-mile fulfillment demand. U.S. Census data put 2025 e-commerce sales at \$1,233.7B, growing 5.4% year-over-year and reaching 16.4% of total retail. Forrester projects U.S. e-commerce to reach \$1.8T by 2030. The industry rule of thumb is that every \$1B in incremental e-commerce sales requires approximately 1.2M SF of industrial space, with disproportionate demand for sub-50,000 SF infill locations.

The tenant mix in small-bay flex has expanded materially. Traditional users include HVAC contractors, plumbers, electricians, auto repair, food distributors and co-packers, medical equipment suppliers, light manufacturers, e-commerce fulfillment operators, and building-materials suppliers. A growing share of demand now comes from consumer-recreation tenants: Pickleball Kingdom signed nearly 41,000 SF in a single Hamilton, NJ light industrial facility in 2025, and chains like The Picklr and Ace Pickleball Club are leasing 22,500 to 50,000 SF flex bays nationally. Indoor soccer, volleyball, gymnastics, golf simulators, batting cages, and martial-arts academies compete with industrial users for clear-height flex space, expanding the tenant pool and providing resilience against industrial-cycle softness.

Lease structure favors landlords

Small-bay leases are predominantly triple-net (NNN), with tenants responsible for taxes, insurance, and operating expenses, leaving the landlord with NOI margins typically in the 70%-plus range. Lease terms average three to five years with annual rent escalators of 3% or more, providing both inflation protection and frequent mark-to-market opportunities. A typical 100,000 SF multi-tenant property houses 12 to 40 tenants with no single tenant exceeding 5% to 10% of rent roll, providing diversification that big-box single-tenant industrial cannot match.

SECTION 3

Yield-on-Cost Arbitrage Beats Acquisition

The development math

The strategy is simple in form and powerful in arithmetic. Develop at a 9.0% to 9.5% unlevered yield-on-cost. Stabilize. Exit at a 6.0% market cap rate. The spread between yield-on-cost and exit cap rate is the value created.

Starting point	Stabilized point
\$10.0M total project cost (land + hard + soft + lease-up)	\$950K stabilized NOI ($\$10\text{M} \times 9.5\% \text{ YoC}$)
Develop to 9.5% YoC	Exit value: $\$950\text{K} \div 6.0\% \text{ cap} = \15.83M
70% leverage at \$7.0M	Equity proceeds at exit: $\$15.83\text{M} - \$7.0\text{M} \text{ debt} = \8.83M
Equity contribution: \$3.0M	Project equity multiple: $\$8.83\text{M} \div \$3.0\text{M} = 2.94\text{x}$ (gross of fees and carry)
	Value premium over cost: $(\$15.83\text{M} - \$10.0\text{M}) \div \$10.0\text{M} = 58.3\%$

Investor-level returns of 19% to 20% net IRR over a 6-year hold are consistent with a 3.0x project-level multiple net of sponsor fees, carried interest, and modest lease-up risk, matching the AAA Storage 33-year track record of 19% to 20% net IRRs across 90-plus completed projects.

Why this spread is wider than other CRE sectors

Sector	YoC (2026)	Exit Cap (2026)	Spread (bps)	Value Creation
Self-storage development	9.0–9.5%	5.5–6.5%	250–400	50–73% premium over cost
Small-bay flex development	8.5–9.5%	5.5–6.5%	200–400	40–73% premium over cost
Multifamily development	5.5–6.5%	5.0–5.5%	50–150	10–30% premium over cost
Big-box industrial development	6.0–7.0%	5.0–5.5%	100–200	20–40% premium over cost
Office redevelopment	varies	7.5%+	negative for most	Value destruction in most cases

Sources: Cauble Group, Public Storage 2026 development disclosure, NMHC, CBRE 2026 Multifamily Outlook, Cushman & Wakefield H1 2025 storage outlook, Public Storage Q4 2025 same-store NOI margin, Corebridge June 2025.

The structural reasons storage and flex enjoy this advantage are documented across multiple operator and broker sources:

Lower per-SF construction costs. Single-story non-climate-controlled storage runs \$25-\$50/SF, climate-controlled \$42-\$75/SF, and multi-story \$70-\$130/SF. Flex industrial runs \$85-\$125/SF including site work and tenant improvements per Tyler Cauble's analysis, and Cushman & Wakefield's 2025 Industrial Construction Cost Guide reports small ground-up industrial averaging \$139/SF nationally. These costs are materially below multifamily Class A construction at \$250-\$400/SF and big-box institutional industrial at \$150-\$200/SF in primary markets.

Low operating expense ratios. Self-storage operates at approximately 70% NOI margin nationally, with Public Storage maintaining a sector-leading 78.4% same-store NOI margin in Q4 2025. Triple-net flex achieves 75%-plus NOI margins because tenants pay taxes, insurance, and CAM directly. Multifamily by comparison runs 55% to 65% NOI margins after taxes, insurance, payroll, marketing, repairs, and turnover.

Sticky demand at low absolute prices. A 5x10 storage unit at \$100/month is a small-dollar sticky obligation that customers do not actively shop. Flex tenants paying \$1,500/month in NNN rent are similarly insensitive to single-digit rent increases because relocation costs (moving, downtime, buildout) exceed rent escalations. EQT Exeter's \$6.8B 2021 Industrial Value Fund IV exit captured this dynamic by raising occupancy from 55% to 95% and yield-on-cost from 4.8% to 6.9% through vertical integration alone, a 210-bps yield enhancement attributable to in-house design, development, and leasing.

SECTION 4

Institutional Capital Re-Entering, the Buyer Pool Is Deep

Public storage REITs

The four publicly traded self-storage REITs control 35.5% of total U.S. inventory by square footage, up from 17% in 2000. Public Storage operates 3,533 facilities across 40 states with 258M NRSF, \$4.8B in 2025 revenue, and a market cap of approximately \$42B, with an additional 35% interest in Shurgard's 332-facility European platform. Joe Russell guided more than \$1.1B in 2025 acquisitions and the company added 87 facilities for \$942.2M in 2025, with stabilized acquisition yields in the mid-6% range and roughly \$7B of acquisitions under consideration against actual execution of \$1B.

Extra Space Storage operates 4,281 stores across 43 states and DC with 330M NRSF, the largest self-storage operator by store count, with a Q4 2025 same-store occupancy of 92.6% and a Q1 2026 same-store NOI growth of 1.2%. EXR added \$483.6M in 2025 operating-store acquisitions and onboarded 281 net new third-party-managed stores. CubeSmart launched a \$250M JV with CBRE Investment Management in February 2026 and acquired the remaining 80% of a 28-store Dallas-Fort Worth portfolio for \$452.8M. National Storage Affiliates is being absorbed by Public Storage in the announced \$10.5B Q3 2026 close. SmartStop Self Storage REIT raised \$931.5M in its April 2025 IPO and deployed approximately \$369M in 2025 acquisitions.

Private institutional storage capital

Private capital is at least equally aggressive. Prime Group Holdings has invested \$5.7B+ across 400-plus storage properties and 28M+ SF since founding in 2013, with Prime Storage Fund III at \$2.5B closed in 2022. Heitman, with \$48-\$49B AUM, manages 600-plus self-storage facilities valued at \$7.8B and closed HVP VI at \$2.0B in equity (\$2.6B with co-investment, \$6.55B with leverage). Harrison Street, with over \$100B in AUM as of late 2025, acquired a 21-property, 1.3M NRSF Sun Belt storage portfolio in October 2025 in JV with Morningstar Properties (71% of NOI in top-30 metros including Houston, Austin, and Charlotte). Westport Properties operates 15.5M+ SF and crossed \$4.0B AUM in late 2025. Andover Properties operates 14M SF across 169 facilities. StorageMart, City Line Capital, Spartan Investment Group, Clear Sky Capital with QuadReal, and DXD Capital round out the top private buyers.

Small-bay flex institutional buyers

The institutional buyer pool for small-bay industrial is narrower but rapidly expanding. BKM Capital Partners, the only national-scale dedicated platform, surpassed \$3.2B AUM and 100 properties in 2025 and launched a \$1.5B JV with Kayne Anderson Real Estate, completing approximately 6M SF of acquisitions in 42 properties across six states and entering Texas and Florida for the first time. Brennan Investment Group has invested \$6.5B-plus across 60M SF in 29 states since 2010 and acquired a 13-property, 801,728 SF shallow-bay portfolio in Chicagoland and Milwaukee in October 2025, plus a 10-building, 482,312 SF portfolio across NY, NJ, PA, and FL in January 2026. EQT Exeter, with \$58B GAV and 400M SF, closed its Industrial Value Fund VI at \$4.9B in July 2024 and acquired a 13-asset, 1.6M+ SF small-to-mid-sized industrial portfolio in January 2026 across Orlando, Jacksonville, Chicago, Greenville, Houston, San Antonio, and Indianapolis.

Stos Partners closed Fund I with approximately \$500M of buying power and sold a 1.3M SF, 13-park, 38-building Indianapolis infill portfolio to Berkeley Partners in December 2025. Stonelake Capital Partners, headquartered in Austin and Dallas, sold a \$428M, 53-property Sun Belt portfolio to Brookfield in July 2025, anchored in Dallas, Houston, Atlanta, and Nashville. Brookfield, Cabot Properties, Investcorp, High Street Logistics, Berkeley Partners, Decker Capital, Dalfen Industrial, and East Capital Partners are increasingly active acquirers of small-bay product, often buying portfolios divested by Blackstone's Link Logistics.

The institutional thesis read-through is clear. Institutional capital is mobilizing on both asset categories. Developers who can produce stabilized product into this buyer pool at a 60% to 65% cost-to-exit ratio enjoy a wide and persistent execution advantage over institutional buyers competing for finished assets.

SECTION 5

The Development Margin and Cost-to-Exit Math

The institutional benchmark

Industry-standard institutional underwriting for ground-up self-storage development targets a Return on Cost (ROC) of 30% or higher, defined as $(\text{Stabilized Value} - \text{Total Project Cost}) \div \text{Total Project Cost}$. The corresponding cost-to-exit ratio is 60% to 70%, meaning total development cost lands between 60% and 70% of stabilized value. The reference operator's documented 62% cost-to-exit ratio is at the upper-quartile of industry execution.

Public Storage's 2026 development pipeline targets an 8% stabilized yield-on-cost. Independent third-party analysis by Terrapin Construction Group (2026) frames the threshold as construction cost per RSF must support unlevered yield on cost that exceeds prevailing cap rate by 150 to 250 basis points. Cap rates of 5.5% to 5.75% in 2026, combined with 8% to 9.5% YoC targets, put well-executed sponsors comfortably above this 150-to-250 bps spread.

Why integrated developers win

EQT Exeter's \$6.8B 2021 fund exit explicitly attributed a 210-bps yield-on-cost enhancement (from 4.8% to 6.9%) to vertical integration: in-house design, in-house development, and in-house leasing. Public Storage cites its unique in-house development team as a core differentiator, contributing roughly 10% margin enhancement on acquired assets via the PS platform. Metrolina Builders' analysis indicates that working with a quality design-builder can reduce costs 10% to 20%, and Atlantic Coast Construction Group documents that hard costs typically run 60% to 70% of total project budget with soft costs 15% to 25%.

For a sponsor with dedicated in-house construction crews, in-house leasing, and in-house property management, the savings stack:

- 10% to 20% reduction in hard costs vs. third-party general contractor
- 100 to 200 bps reduction in lease-up timeline through integrated leasing
- 200 to 400 bps reduction in lease-up operating losses through proprietary property management
- Documented 210 bps yield-on-cost enhancement (EQT Exeter precedent)

Construction cost trends and tariffs

The institutional risk to development is construction-cost inflation. Engineering News-Record's 1Q 2026 Cost Report shows the 20-city average yearly steel price rose 11.9% in 2025, the Materials Cost Index rose 2.5%, skilled labor rose 5.7%, common labor rose 4.0%, the Building Cost Index rose 4.2%, and the Construction Cost Index rose 3.6%. The Cushman & Wakefield April 2026 tariff analysis estimates current tariff policy raises CRE materials costs by 6.0% relative to a 2024 baseline and total project costs by approximately 3.0%.

Trump tariffs in effect through early 2026 include Section 232 steel and aluminum at 50% (raised from 25% June 4, 2025), copper and components at 50% (effective August 1, 2025), softwood lumber at 10% (derivatives 25%), and 15% to 40% reciprocal tariffs across most trading partners. AGC-NCCER survey data indicates approximately 40% of contractors expect further cost increases. The mitigant for development sponsors is value engineering, longer pre-development timelines for fixed-price subcontractor packages, and material sourcing flexibility.

Land warehousing as a strategic advantage

The reference operator's land warehousing strategy, where the sponsor entitles sites on its own balance sheet and contributes them to the fund at cost or modest markup, captures value that would otherwise accrue to land brokers or local owners. Entitlement timelines for self-storage typically run 18 to 36 months, and entitled sites in growth corridors trade at 30% to 80% premiums over raw land. By underwriting the fund's portfolio against an identified, pre-entitled site bank rather than a blind-pool acquisition program, the sponsor de-risks the most uncertain phase of development.

Risk-adjusted returns of full-cycle development

The combined math of 30%-plus return on cost, 60% to 65% cost-to-exit ratios, 18- to 24-month construction timelines, 12- to 18-month lease-ups, and 6- to 7-year holds translates to 25% to 30% project-level net margins and 19% to 20% investor net IRRs after sponsor fees and carry. The reference operator's documented 3.3x weighted-average project equity multiple over 90-plus completed projects empirically anchors this math.

SECTION 6

Target Markets

6A. Houston metro

The Houston-Pasadena-The Woodlands MSA reached approximately 7.9M residents as of July 2025, having added 198,000 residents in 2024 (the largest numeric metro gain in the U.S. behind New York) and a further 126,720 residents in 2024-25 (+1.6% YoY, the #1 numeric U.S. metro gain). Texas Demographic Center forecasts Houston reaching 10.7M by 2050 at an average 1.4% annual growth rate. The Greater Houston Partnership documents Houston as the #1 metro in U.S. net domestic migration in 2024 and #4 in international migration.

The economic base is diversified across energy (ExxonMobil, Chevron's HQ relocated to Houston in 2024, ConocoPhillips, Halliburton), healthcare (Texas Medical Center, world's largest medical complex, +10,100 jobs in 2025), aerospace (NASA Johnson Space Center), logistics (Port Houston, \$353.7B in 2025 trade), and petrochemicals. Eli Lilly announced a \$6.5B pharmaceutical manufacturing facility at Generation Park in September 2025, 1M SF, 600+ permanent jobs at \$102,503 average salary, plus 4,000 construction jobs, the first major pharma manufacturing plant in Texas. Tesla leased 1M SF at Empire West Business Park in 2025.

Key growth corridors include Fulshear (#2 fastest-growing U.S. city at +26.9% YoY in 2024), Conroe (114,581), Sugar Land (109,851), Pearland (~133,000), Cypress (Grand Parkway corridor), Katy, Rosharon (SH-288 corridor), and The Woodlands. Montgomery County added 30,011 residents in 2024 (#4 U.S. county by numeric growth), and Waller County grew 5.69% (#2 by % growth).

Self-storage: Houston has 28.05M SF across 399 facilities and 6.9 SF per capita, materially below the 7.8 national benchmark. The 10x10 non-climate rent of \$97/month was down 3% year-over-year as of January 2026, in line with national normalization. The 2026 forecast pipeline of 888,844 SF (3% of inventory) is the largest in the U.S. but still light relative to the population growth and undersupply. Houston is one of the few major metros where the storage thesis is build into a structurally undersupplied market.

Small-bay industrial: Houston Q1 2026 industrial vacancy is 7.5% overall but flex vacancy stands at 11.8% for big-box flex while sub-25K SF small-bay vacancy is materially below market average and continued rent growth into 2026, with small-bay rents up 4.0% year-over-year. Average asking rent is \$0.87/SF/month NNN with flex highest at \$0.98/SF, and Houston flex+industrial blended rent is up 10.1% year-over-year. Net absorption Q1 2026 was 3.7M SF, the 16th consecutive year of positive absorption.

6B. Austin metro

The Austin-Round Rock-San Marcos MSA reached approximately 2.61M residents in 2025, having added 58,019 residents in 2024 (+2.3%) and 267,251 residents from 2020 to 2024 (+10.8%). Austin is the 25th-largest U.S. metro and 4th-fastest-growing among metros over 1M, with a long-term Texas Demographic Center forecast of 4.64M by 2060 (+2M residents, fastest annual rate of any major Texas metro at 1.7%).

The economic base is dominated by tech and semiconductors. Tesla Gigafactory Texas employs ~21,000, with \$5B+ invested heading toward \$10B. Samsung Austin Semiconductor's \$44B Taylor fab, delayed but anchored by a \$16.5B Tesla AI chip supply contract through 2033, was 91.8% complete as of March 2025

with operations beginning in 2026 to 2027. Apple has 7,000+ employees and is expanding its Parmer Lane campus (\$1B+ total investment). Amazon has 5,000+ at The Domain and is leasing an additional 330K SF. IBM is taking over a former Meta 320K SF Domain 12 building. Dell employs ~14,000 in Round Rock. The State of Texas employs 63,000+ as the metro's largest single employer.

Key growth corridors include Georgetown (surpassed 100,000 residents in 2025; #1 fastest-growing U.S. city for three consecutive years 2021-2023; +4.8% in 2024 ranking 21st nationally), Leander (+8.7% YoY, #3 fastest-growing >50K city), Kyle (+9.1%), Cedar Park (~77,000), Pflugerville (SkyWater \$1.8B chip plant), Buda, Hutto (+10.7%), Jarrell (+28.8%), Liberty Hill (+15%), Dripping Springs (+16.9%), and Lago Vista (Lake Travis corridor). Travis County added 22,000 housing units in 2024, the 4th-highest of any U.S. county.

Self-storage: Austin has 10.12M SF across 148 facilities and 7.9 SF per capita, slightly above the 7.8 national benchmark. Average 10x10 non-climate rent was \$106/month in March 2026, down 4.5% year-over-year, among the weakest U.S. markets as Austin digests heavy 2024-2025 deliveries. The 2026 pipeline contracted 46.8% to 153,600 SF, indicating supply pressure will roll off through 2027. Austin storage requires longer underwriting horizons and selective submarket targeting; this is not the strongest near-term storage market in the portfolio.

Small-bay industrial: Big-box industrial in Austin is at an all-time-high vacancy of 14.8% (Partners), 15.2% (Savills), or 21.9% (Cushman & Wakefield), among the most oversupplied U.S. markets. Critically, flex and small-bay under 50K SF in the Austin-San Antonio I-35 corridor (Comal, Hays, Guadalupe counties) is at 4.9% vacancy versus 12.8% for big-box, per Blue Collar Commercial Group's Q2 2025 thesis. Austin small-bay flex remains highly investable, just bifurcated against big-box. Flex space rent is the highest of any industrial subtype at \$18.65/SF.

6C. San Antonio metro

The San Antonio-New Braunfels MSA reached approximately 2.79M to 2.83M residents, having added 205,000 residents from April 2020 to July 2024, with 121K from net domestic migration, 41K international, and 41K natural increase. The City of San Antonio is the 7th-largest U.S. city at 1.53M (2024). 59% of metro growth came from out-of-state migration in 2020-2024.

The economic base is anchored by Joint Base San Antonio, the largest joint base in the U.S. Department of Defense, combining Fort Sam Houston (Army Medical Command, Brooke Army Medical Center), Lackland AFB (basic training, 16th Air Force cyber operations), and Randolph AFB. Government and defense employ approximately 187,800 (15% of jobs). South Texas Medical Center employs ~180,000 with \$44.1B economic impact, anchored by UT Health San Antonio's new research hospital opened December 2024. Toyota Motor Manufacturing Texas (Tundra/Sequoia) employs 3,700 direct plus 5,600 supplier jobs, with cumulative investment of \$4.7B+ and a \$531M expansion announced June 2024 adding 411 jobs and 500K SF of rear-axle manufacturing. USAA has thousands at its 286-acre campus. Valero Energy and H-E-B are headquartered in San Antonio. Microsoft, QTS Data Centers, and CyrusOne moved into major data center facilities in 2025.

Key growth corridors include New Braunfels (~110,000, tripled from 35K in 2000), Cibolo (+20.98% from 2018-2023, median household income \$101,197, on the I-35 corridor), Schertz, Selma, Universal City, Live Oak (the SCUC distribution corridor), Boerne (Hill Country), and Bulverde. JCB announced a \$266M facility with 1,500 jobs by 2026.

Self-storage: San Antonio has 18.06M SF across 273 facilities and 9.4 SF per capita, above the 7.8 national benchmark, the most supplied of the four target markets. 2025 deliveries of 843,605 SF (4.7%

of inventory) were among the largest in the U.S. by raw SF, but the 2026 pipeline contracted 67.6% to 273,016 SF, signaling sharp supply moderation. Average 10x10 NCC rent of \$97/month is down 3% YoY, in line with national normalization. StorageCafe identifies San Antonio as one of the most economically efficient markets for storage developers and investors with \$23.5M in monthly rental income potential and \$2.6B market value.

Small-bay industrial: Q4 2025 overall industrial vacancy was 11.3% (down from 11.5% in Q3), with flex space at 8.4%, manufacturing 8.1%, and warehouse 12.4%. Average asking NNN rent set a record high of \$9.43/SF in Q4 2025, with flex highest at \$13.85/SF. Construction pipeline of 3.45M SF was down 25.8% YoY. CBRE Q1 2025 highlighted that small-bay (sub-150K SF) properties have only 8.1% vacancy versus 14% for over 300K SF, and the majority of leasing deals are sub-100K SF.

6D. Charlotte metro

The Charlotte-Concord-Gastonia MSA reached approximately 2,938,830 residents as of July 2025 per the Census Bureau Vintage 2025 release, exceeding the 2.75M target. The MSA added 278,700+ residents from April 2020 to July 2025 (+10.5%), the 7th-highest numeric growth among 387 U.S. MSAs, and 54,122 residents from 2024-25 (5th-highest single-year numeric increase nationally). North Carolina ranked #1 nationally for net domestic migration in 2025 at +84,064, and the U-Haul 2025 Growth Index ranked NC #3 among states for in-migration.

The economic base anchors Charlotte as the #2 U.S. banking center after New York. Bank of America is headquartered in Charlotte. Truist Financial is headquartered in Charlotte (\$26B revenue). Wells Fargo's East Coast hub employs approximately 27,000 in the region. LPL Financial is headquartered in Fort Mill, SC. Honeywell relocated its global headquarters to Charlotte in 2019 with a 313,000 SF HQ (\$38B revenue, Fortune 500 #119). Lowe's is headquartered in Mooresville (Iredell County). Duke Energy, Nucor, Sonic Automotive, Brighthouse Financial, and Ally Financial are also headquartered in or anchor major operations in Charlotte.

Key growth corridors include the Lake Norman / North I-77 corridor (Davidson, Cornelius, Huntersville, Mooresville), the Northeast / I-85 corridor (Concord, Kannapolis +3.0% YoY), the Southeast / Union County (Indian Trail +2.6%, Waxhaw +2.4%, Matthews, Mint Hill), the South Carolina border (Fort Mill, Tega Cay, Rock Hill, Clover +10.9% since 2020), and the West / Gaston (Belmont, Gastonia). Long-term county projections show Union +60% to 432K by 2050, Iredell +58% to 335K, York +54% to 482K, and Cabarrus +48% to 375K.

Self-storage: Charlotte has approximately 7.97M SF across 111 facilities and 7.3 SF per capita, just below the 7.8 national benchmark. December 2025 average 10x10 non-climate rent was \$100/month, down 1% year-over-year, materially better than Austin's down-4.5% trajectory. Charlotte was identified by Matthews and Yardi as a weak spot alongside Denver and Tampa during 2023-2025 due to oversupply (15.3% inventory added over three years), but registered positive year-over-year street-rate movement in Yardi's September 2025 report. 2025 deliveries of 238,356 SF (+45.7% YoY) were heavy but the 2026 pipeline is moderating. Charlotte storage benefits from 21% remote-worker share driving home-office conversions.

Small-bay industrial: Sub-125K SF industrial vacancy was 5.8% in Q1 2026, materially below the broader Charlotte industrial vacancy of 12.0% (Savills), 10.5% (Avison Young), or 8.1% (Cushman & Wakefield Q4 2025), reflecting the dominance of speculative big-box deliveries. Sub-125K SF asking rent reached \$10.63/SF in Q1 2026 versus \$10.16 a year prior. Sub-125K SF construction is only 2.2 MSF, restrained

relative to large formats. Q1 2026 sales volume of \$176.9M at \$119/SF up from \$109/SF a year prior. Charlotte was a top-5 inland market for net absorption in Q1 2026 per Cushman & Wakefield.

SECTION 7

Economic Tailwinds

Federal Reserve trajectory unlocks housing turnover

The Federal Reserve held the federal funds rate at 3.50%-3.75% at the March 17-18, 2026 and April 28-29, 2026 FOMC meetings, the third meeting in a row at this level following 75 basis points of cuts in late 2025. The December 2025 Summary of Economic Projections shows median fed funds at 3.4% end-2026, 3.1% end-2027, and 3.1% end-2028, with the longer-run neutral rate at 3.0%. The March 2026 SEP held this path largely unchanged with one cut in 2026 and one cut in 2027 as the base case. The 10-year Treasury was approximately 4.42%-4.45% in early May 2026.

Mortgage rates were 6.30% (30-year fixed) per the Freddie Mac PMMS for the week ending April 30, 2026, down 46 basis points year-over-year, with consensus 2026 year-end forecasts converging on 5.8% to 6.3% across NAR, MBA, Fannie Mae, Freddie Mac, Goldman Sachs, and Wells Fargo. 2027 forecasts run 5.30% to 5.55%.

The connection to storage demand is direct. 2025 existing-home sales totaled 4.061M, virtually flat with 2024 and the lowest since 1995, down 34% from the 2021 peak and 43% from the 2005 all-time high. Approximately 25% of self-storage demand correlates with moves and life events. NAR's Lawrence Yun forecasts modest improvement as mortgage rates ease into the 6% area, with a 2026 comeback. When housing turnover normalizes from 4.1M back toward the historical 5.2M norm, a 27% volume increase, the corresponding step-up in storage move-ins represents a significant pent-up demand release. SpareFoot's 2026 analysis directly notes that the housing freeze means more storage; 16% of Americans have already grabbed a storage unit just to cope with the mismatch, and another 25% are considering it.

Small-business formation drives flex demand

U.S. Census Bureau Business Formation Statistics show 5.62M business applications in 2025 versus 5.20M in 2024 (+8.2%), with Q1 2026 running 19.4% above the same period in 2025. Monthly business applications run roughly 430,000 to 450,000 seasonally adjusted, against a pre-pandemic baseline of 280,000 to 300,000, a structural elevation of approximately 50% sustained for five consecutive years. High-Propensity Business Applications (likely employer firms) remain similarly elevated. The Census methodology change in February 2026 (excluding internet-sales applications) will reduce reported HBA going forward but does not change the underlying signal.

Sun Belt migration intact

Census Bureau Vintage 2025 confirms that Texas added 391,243 residents (+1.25%, the largest U.S. numeric gain), North Carolina added 146,000 (+1.32%, 3rd-fastest growth pace), South Carolina added 79,958 (+1.5%, fastest by %), and Florida added approximately 200,000. North Carolina led net domestic migration at +84,064, and South Carolina followed at +66,622. Nine of the top ten fastest-growing counties (population 20K+) and 45 of the top 50 in 2025 were in the South. The U-Haul 2025 Growth Index ranked Texas, Florida, North Carolina, Tennessee, and South Carolina as the top five in-migration states, with Charlotte in the top 10 metros.

The 2024-2025 slowdown in total population growth was driven by international migration collapse (2.7M to 1.3M YoY due to immigration enforcement), not domestic patterns, which remain firmly directed to the Sun Belt.

Demographic tailwinds

The Self Storage Association's 2025 Demand Study and StorageCafe's 2025 generational survey document that 42% of Boomers currently rent storage, the highest of any generation, with peak Boomers (born 1957) now 68-69 years old in prime downsizing. 35% of Millennials rent storage with 22% growth in usage over two years. Gen Z is at 10% to 16% current usage with 50% planning to use storage, providing a 15- to 20-year demand runway. Length of stay reached 18.5 months in Q4 2025, +2.4% year-over-year, reflecting customers staying longer because they cannot move.

E-commerce scale supports last-mile small-bay

Census 2025 e-commerce sales were \$1,233.7B (+5.4% YoY, 16.4% of total retail), with Q4 2025 e-commerce growing roughly 2x total retail. Forrester projects \$1.8T by 2030 (~29% of retail). The industry rule of thumb of 1.2M SF of industrial space per \$1B in incremental e-commerce sales translates to roughly 80M to 100M SF of incremental annual industrial demand, with a disproportionate share in sub-50,000 SF infill last-mile locations.

SECTION 8

Risks and Mitigants

Risk	Mitigant
Storage cycle drags on, rent growth disappoints into 2027. Rent recovery is uneven across markets; Austin and Charlotte digestion may extend.	The development pipeline is collapsing (planned - 12.8% YoY, prospective -21.7% YoY), and Yardi forecasts new supply bottoming at 1.7% of stock through 2031. An identified, pre-entitled portfolio with 18- to 24-month construction times means deliveries hit the market in 2027-2029, into a structurally tight supply environment.
Construction cost escalation and tariffs. Steel +11.9% YoY in 2025; tariffs adding 6% to materials and 3% to total project costs.	In-house construction crews capture 10-20% hard-cost savings vs. third-party GC. Value engineering, fixed-price subcontractor packages locked at pre-development, and longer pre-construction timelines with material substitution flexibility.
Interest rate environment if Fed pause extends. Higher debt costs compress levered returns; refinancing risk on construction loans.	Equity-heavy structures with conservative leverage (60% to 70% LTV at construction conversion). Sponsor guarantees on property-level debt provide lender comfort and below-market spreads. December 2025 SEP and March 2026 SEP both signal cuts to 3.1% by 2027.
Oversupply in target submarkets. Austin storage and Charlotte storage both flagged as digesting heavy 2024-2025 deliveries.	Proprietary submarket analysis using Yardi Matrix and StorageCafe data. Multi-phase development plans within identified portfolio allowing pacing of starts. Portfolio diversification across four metros mutes single-market risk.
Tenant concentration in flex during recession. Small businesses fail at higher rates than large; consumer-recreation tenants are discretionary.	Short 3-5 year leases with annual escalators allow rapid mark-to-market and tenant turnover. Typical 100K SF property has 12-40 tenants with no single tenant over 5-10% of rent roll. Low absolute rent (\$1,500-\$3,000/month) makes replacement easy. NNN structure shifts opex risk to tenants.
Lease-up timeline risk. Storage stabilization 24-36 months in current cycle; flex may take 12-18 months.	Dedicated in-house property management and leasing team. Pre-leasing campaigns for flex starting 6 months pre-delivery. Brand and operational scale on storage drives faster street-rate capture.

Risk	Mitigant
<p>Liquidity and illiquidity. Closed-end fund structure with 7-10 year hold; LP capital locked.</p>	<p>Identified portfolio enables sale of stabilized assets at 36-48 months post-construction, providing distributions throughout the fund life rather than terminal-only. Strong institutional buyer pool (PSA, EXR, BKM, Heitman, EQT Exeter, Brookfield) ensures multiple exit paths.</p>
<p>Sponsor and operator risk. Most CRE failures are operator failures, not market failures.</p>	<p>33-year track record with 90-plus completed and exited properties, \$450M+ exit value, 19-20% net IRR, 3.3x equity multiple, 62% cost-to-exit. 25% sponsor co-invest aligns interests. Sponsor guarantees on property-level debt put sponsor net worth at risk alongside investor capital.</p>

BUBBLE COMPARISON

Why This Is Not 2007-2009

The most important counterargument to a 2026 storage development thesis is the 2007-2009 oversupply collapse. The data confirms the current cycle is structurally distinct.

Dimension	2007-2009 cycle	2025-2026 cycle
Pipeline as % of inventory at peak	Industry inventory grew ~25% from 1995-2007; pipeline was unbounded by capital discipline.	Peaked at 3.7% in March 2024; contracting to 2.5% in early 2026 with planned -12.8% YoY and prospective -21.7% YoY.
National occupancy	81.4% at end of 2007 development boom.	Above 90% throughout 2023-2026 normalization; 91.9% REIT-weighted Q4 2025.
Cap rates	Compressed from 9-10% in 1990s to ~6% by 2007 even in secondary markets.	5.8% national average; 5.0-5.5% Class A and 5.5-6.5% Class B. Reflects discipline, not exuberance.
Capital structure	Highly recourse-loan dependent; especially painful for over-leveraged assets with shorter-term maturities.	Public REITs at 19.6% leverage, lowest of all 13 REIT sectors; 82% fixed-rate debt; 94.8% unsecured debt.
Institutional participation	Investment in self-storage <\$1B mid-2000s; sector dominated by mom-and-pop with limited institutional capital.	\$50B transacted 2020-2022; REITs+U-Haul control 35.5% of inventory; Blackstone, Carlyle, Centerbridge, Heitman, Harrison Street all active.
Construction lending	Banks specifically sought out storage for loans, fueling overbuilding.	Tight construction lending; 70-90% of planned 2024 projects paused or cancelled.
Demand foundation	Penetration ~6-7% of households.	12.6% household penetration, nearly double pre-GFC; structural Millennial-Gen Z demand growth.
Performance during stress	REIT same-store occupancy fell only 5.3 points peak-to-trough; rates held flat \$0.78-\$0.83/SF 2008-2012.	Occupancy held above 90% throughout entire 2023-2025 normalization.

The current cycle is the inverse of 2007-2009 on every empirical measure that mattered. The 2007-2009 collapse was driven by speculative overbuilding, opportunistic capital, and weak demand fundamentals. The 2025-2026 setup is contracting supply, disciplined institutional capital, and accelerating demand penetration.

CONCLUSION**Late-Cycle Entry, Defensible Math**

Two empirically distinct asset categories converge into a single development thesis. Self-storage is in late-stage cycle bottoming with a contracting pipeline, inflecting rents, escalating institutional acquisition activity, and three decades of NAREIT-documented outperformance. Small-bay industrial flex is structurally under-supplied across cycles, with vacancy 250-plus basis points below total industrial since 2017, rents up 40% since 2020, and only 0.5% of stock under construction. Both categories produce 9.0% to 9.5% unlevered yield-on-cost against 5.5% to 6.5% exit cap rates, generating value premiums and project-level equity multiples that exceed every other major CRE category.

A vertically integrated developer with 33 years of track record, in-house construction, leasing, and property management, a 25% sponsor co-invest, and personal guarantees on property-level debt is the operator profile that captures the documented 210-basis-point yield-on-cost enhancement from integration (EQT Exeter precedent), the 60% to 65% cost-to-exit ratio (industry institutional benchmark), and the 30%-plus return-on-cost threshold for ground-up development.

Across Houston, Austin, San Antonio, and Charlotte, the four target metros combine 12M+ residents, documented Sun Belt domestic migration leadership, sub-7.8 SF/capita storage supply or sub-5% small-bay flex vacancy in key corridors, and anchor employment from Eli Lilly, Tesla, Samsung, Apple, Toyota, Joint Base San Antonio, Bank of America, Wells Fargo, Honeywell, and the Texas Medical Center. The portfolio is identified, the entitlements are progressing, and the institutional buyer pool has telegraphed unmistakable intent to acquire stabilized product.

The thesis is not that storage and flex are speculative growth bets. The thesis is that disciplined development at a 9.5% yield-on-cost into a 6.0% cap-rate exit market, executed by a vertically integrated sponsor with 33 years of track record, into a structurally tight supply environment in the four highest-growth Sun Belt metros, produces 19% to 20% net IRRs and 3.0x project equity multiples on a documented basis. This is a defensible, evidence-based, late-cycle entry point into two of the most attractive niches in U.S. commercial real estate.

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[Sponsor] AAA Storage internal track record (33 years, 90+ completed and exited properties, \$450M+ cumulative exit value, 19-20% net IRR, 3.3x weighted avg project equity multiple, 6.3-year average hold, 62% cost-to-exit ratio).

This thesis was prepared by Andrew Davis, Founder & CEO, Equity Check, for sophisticated high-net-worth investors evaluating an allocation to ground-up commercial real estate development in self-storage and small-bay flex industrial. It is not an offer to sell securities. Any offer can be made only by means of a private placement memorandum to qualified investors. Past performance is not indicative of future results. Forward-looking statements are subject to risks and uncertainties.