



Self-Storage Business Operations Plan

414 S. San Gabriel Boulevard

Background

Established in 2013, 1784 Capital Holdings, LLC is committed to establishing the highest standards within the self-storage industry through state-of-the-art construction, attractive architectural design, professional management, and enhanced security. You can learn more about 1784 Capital Holdings at <https://1784holdings.com/self-storage>.

Facility Description

The climate-controlled self-storage facility will occupy approximately 190,232 square feet of the 199,358 square foot building and would include a 1,000 square foot ground floor rental office.

Hours of Operation

The self-storage facility will be accessible to tenants with secured access from 5:00 AM to 10:00 PM daily. The rental office will be open from 8:00 AM to 6:00 PM daily.

Security

1784 Capital Holdings, LLC is an industry leader in securing our self-storage sites. As described in our Security Plan, which has been reviewed by the San Gabriel Police Department, this project will include a state-of-the-art surveillance system that will be in use 24-7. Self-storage staff will conduct regular walks around the site exterior and throughout the building interiors when they are on-site. All exterior access doors and doors between uses will have security keypads for building access from 5AM to 10PM, daily. Keypads will not allow entry to the self-storage component of the building outside of these hours. The entry to the self-storage office will be equipped with a standard Honeywell (or similar) security system. Exterior lighting will be installed throughout the site to provide adequate visibility at night. Light fixtures will be carefully installed to ensure no spillover onto adjacent properties.

Project Benefits

414 S. San Gabriel Boulevard

- Provides the essential benefit of state-of-the-art, climate-controlled self-storage, which is in high demand in San Gabriel. Demand for conveniently located self-storage is largely driven by increased multi-family housing development, as a larger percentage of the population lives in smaller dwelling units. Conveniently located self-storage is an important ingredient in sustaining multi-family residential development.
- Offers flexible studio and exhibition space for artists located at the ground floor along the San Gabriel Blvd. frontage, as well as public art along San Gabriel Blvd.
- Provides dynamic artistic programming for the San Gabriel community.
- Features an attractive architectural design that transforms an underutilized site and enhances the surrounding community.
- Offers enhanced security through state-of-the-art 24-7 surveillance, nighttime lighting, and controlled keypad access.
- Proposed 2.93:1 FAR allows Project to meet high demand for self-storage and Artists & Makers Studios in a manner that is compatible with the character of the surrounding built environment, without generating significant traffic impacts.
- Provides a less intensive use with far less vehicular trips than many of the other types of industrial and commercial uses allowed on this site.
- Provides 50 parking spaces, as well as bike parking, which exceeds parking demand for the proposed mix of uses.
- Provides adequate yard setbacks to accommodate extensive landscaping and street front activation, and 25-foot dedication along Gladys Avenue.
- Includes substantial infrastructure, landscaping, and aesthetic improvements, including undergrounding of utility lines, streetscape improvements, and widening of Gladys Avenue by 25-feet (with full roadway, sidewalk, and parkway).
- Provides additional tangible benefits to the City through development impact and permitting fees.
- Generates 38 permanent on-site job opportunities, as well as up to 80 construction jobs on-site daily during the approximately 16-month construction period.



Management & Consulting, LLC

Summary Site Review

**420 S. San Gabriel Blvd.,
San Gabriel, California**

Prepared For:

Mr. Markus Hartl
1784 Capital Holdings, LLC



August 31, 2020

Mr. Markus Hartl

Via E-Mail

Re: 420 S San Gabriel Blvd.,
San Gabriel, CA

Mr Hartl:

Please find enclosed our review of the proposed self storage development at the intersection South San Gabriel Boulevard and Commercial Avenue in San Gabriel, California.

In response to your inquiry regarding changes within the marketplace I have reviewed our original projections, noted the changes observed and made a few basic recommendations regarding minor changes related to Covid-19 that we believe should be incorporated into the design and management of the site.

We continue to believe that this site is a superior location within the market.

If you require any additional information, please feel free to contact me at your convenience.

Sincerely,

A handwritten signature in black ink that reads "Robert Francis". The signature is written in a cursive, flowing style.

Robert Francis CPM

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Executive Summary

The site located at 420 South San Gabriel Boulevard in San Gabriel, California, is an assemblage of eleven individual lots in a neighborhood of dense residential development, employment opportunities, and commerce.

The site is centered in an area with both residential and commercial properties.

Based on our investigation, we feel there is little chance of rates dropping at this location.

We believe that if this location was developed and stabilized in today's marketplace, valuations would be based on capitalization rates of around 5%.

Scope and Purpose of This Report

This report was prepared to update our original 2018 analysis for demand of a new state-of-the-art self-storage facility on South San Gabriel Boulevard in San Gabriel, California.

Specifically, we were asked to address how the current Covid-19 pandemic may impact the proposed development.

Our methodology for both reports included analysis of both the existing and projected demographics for the area, existing competitive locations, their rates and price structure, visitation to the proposed site, and the incorporation of our proprietary projections for absorption and demand.

To provide a more convenient comparison, we have prepared this report in the same format as the original.

Please note that our consideration does not include any revenue projections for the site's 9,100 square feet of retail space.

General Information Regarding Self Storage

No one knows where the first self-storage property was developed, but it is largely accepted to have been built in the southwestern United States in the late 1950s or early 1960s, primarily for use of deployed military personnel. The industry really took hold in the late 1970s and began an expansion campaign that has not slowed substantially through 2020.

- As a point of contrast, by 1984 there were approximately 6,600 properties containing 289.7 million square feet of rental space. Between 1998 and 2005 an additional billion square feet of product were added to the market. By the end of 2016, the United States had approximately 49,000 individual storage facilities, containing more than 2.3 billion square feet of space, and in 2020 there are an estimated 51,250 locations containing more than 3.6 billion square feet of space.
- Most of these facilities are owned by independent operators, with the large publicly-traded firms controlling less than 10% of the total market.

Location and Visibility are Critical

- With the proliferation of new sites came an increasing awareness of location.
- As customers became familiar with the advantages of self-storage, it spawned tremendous growth within the asset class, triggering a proliferation of new construction. With competition becoming increasingly intense, those sites that were instantly recognizable and located within a prospect's daily commute realized substantially more success than their counterparts in more industrial areas. Targeted siting was no longer an option; it became a necessary part of the recipe for success.
- Storage is a micro market business, not a destination point. Unlike housing or even grocery locations, price points in storage do not cause customers to leave their normal commutes unless there is no other option.
- Identifying a self-storage facility and branding its location with a prospective customer involves spaced repetition. Seeing the property, the sign, and any other identifying details such as storage doors or distinctive architectural features all combine with the property's curb appeal to create a positive image.
- This key demand for visibility and curb appeal is explained in the 2020 *Analysis of Self Storage Demand*, prepared for the Self Storage Association by Dr. George H. Leon. Leon's study indicated that, as a first point of contact, more storage customers visited the site before calling. This point is underscored in the same report, where it indicated that the majority of storage users only visited one site prior to renting.

Appearance, Accessibility, and Convenience Are Equally Important

- The spaced repetition of passing and recognizing a storage facility several times a week is important, but equally important is the property's appearance and curb appeal. It is critical that a property be recognized, instantly identifiable, and as aesthetically pleasing as possible in order to create a positive image in the potential customer's mind.
- The key elements of signage and landscaping should be designed to draw the potential customer's eye from the sign, to the entrance, and ultimately to the rental office.
- Accessibility is a crucial part of the sale. Customers frequently use rental trucks which are significantly larger than the vehicles they are accustomed to driving. Additionally, professional moving vans reaching nearly 80 feet in length are commonplace at storage facilities. Good traffic circulation within the site is critical. Just the perception that navigating drives or entrances might be a problem can cause potential customers to look elsewhere.

The Customer Base

- The storage business is retail-oriented in nature and is generally considered to be a Point of Sale Business, with customers only leasing based on need.
- Within the business, the tenant profile is typically categorized as Residential or Commercial. In broad terms, the higher the ratio of residential customers, the higher the unit turnover and volatility of the site.
- A typical storage facility offers only month-to-month leases. While this short-term agreement has benefits for both the owner and customer, it does require actively soliciting business daily via advertising, referral programs, and direct solicitation of business or professional users. Should any one of these components falter, the entire leasing program suffers.

The Cost of Doing Business

- Self-storage is an income-driven business model.
- Operating expense fundamentals for self-storage are similar to those of a hotel. The basic costs of being open for business do not vary greatly between an empty building and a full one. The difference between success and failure is occupancy-dependent.

Self-Storage Serves a “Point of Need” Market

- Virtually every self-storage customer leases their space during a time of crisis. Very few customers have the ability or opportunity to plan to store their goods. The decision regarding which property to use is largely driven by the customer’s impressions of sites with which they are familiar.
- Business and professional customers storing records or merchandise and residential customers storing household items are all under pressure to solve a problem. Combining the economic hardship of a monthly rent payment with the pressure of finding the right place quickly creates real stress that needs to be mitigated by the rental agent in order to secure the lease.
- In our experience, having worked with nearly 500 locations, the combination of a well-designed location, excellent accessibility, great signage, and exceptional curb appeal combine to become one critical component in reducing this stress level, and having the prospect “think of us” when faced with leasing a space.

A Degree of Exclusivity

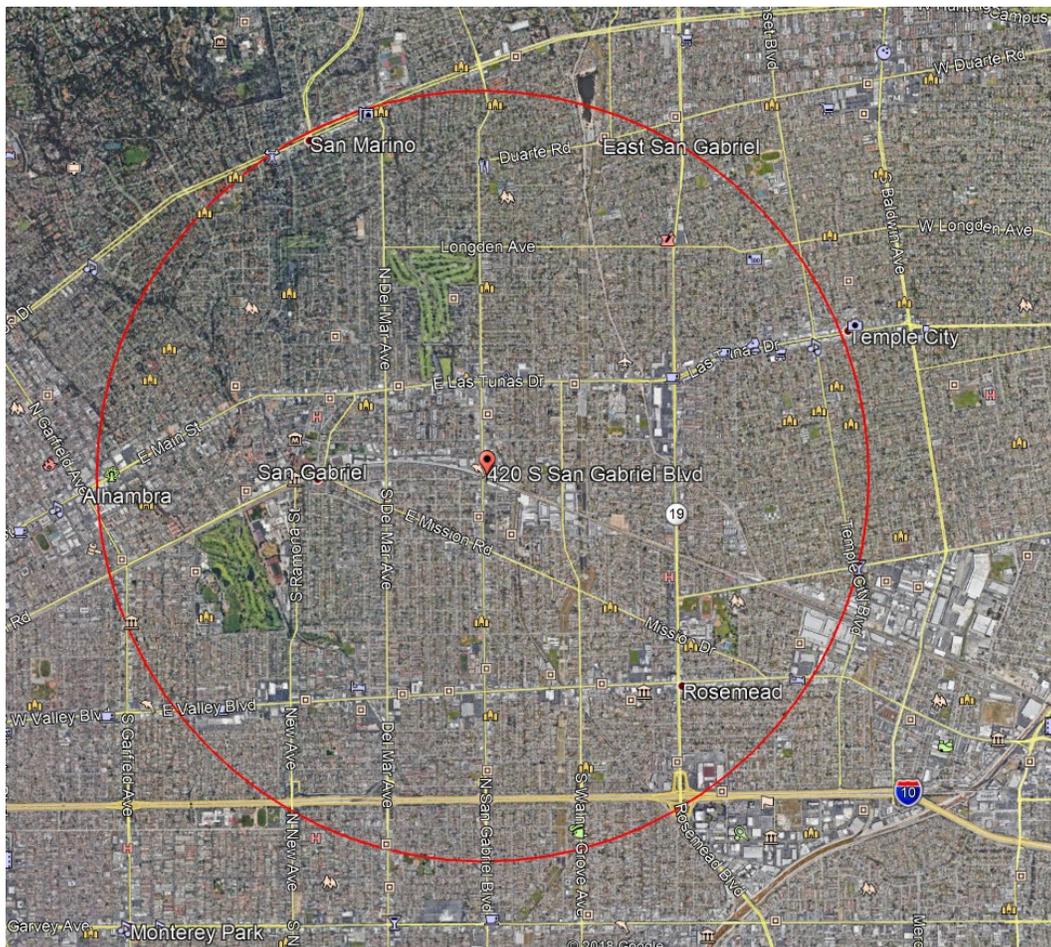
The competition for buildable land in Los Angeles County is great. Along with this concerted demand come higher rates and expected values. The land prices within this market have economically limited most development.

The subject property is strategically positioned on heavily-travelled South San Gabriel Boulevard, a major north-south connector extending from Highway 60 on the south to I-210 and Sierra Madre Boulevard on the north (while also intersecting with I-10 along its north-south route).

This busy street serves as a catalyst for the area's employment base. Within two miles of the subject there are more than 5,580 businesses hosting an employment base of more than 37,771. When the study radius is extended to just three miles, these numbers double.

Area of Influence

Because the Los Angeles market is so densely populated, we believe the target market for this site is a combination of a tight two-mile radius and very modest eight-minute drive time.



Demographics

Area Population and Incomes

It is important to note that all population projections are performed actuarially, using the most recent (2010) census data.

The average household size of 3.17, when coupled with median home prices of \$655,962, create real demand for storage.

The population totals within a two-mile radius of the site are projected to be 116,374 residing in 36,574 households. When the eight-minute drive time was sampled, the total population is projected to be 209,574 in 66,601 households.

It is important to note that the projected drive times provided by ESRI have apparently been revised creating substantial increases in population.

These populations also have expected growth factors of between .9% and 1%, respectively, over the next five years.

Household incomes within the area of influence average slightly more than \$98,000 per year, with an anticipated growth rate of 2.24% annually.

Competitive Market

This is a competitive market for self-storage, however, most of the product available is smaller, older “first generation” lacking modern amenities and curb appeal. In consideration of competitive sites outside of the subject’s target area, we consider the effective competitive radius to be greater than the area of influence. In this instance we used a three-mile radius to identify potential competition.

While considering the market, we reviewed pricing for more than 36 individual unit sizes. Our rate review disclosed that none of the competitive sites offer climate-controlled storage.

This comprehensive review indicated that the best (highest) pricing was in the subject’s Area of Influence.

We have identified ten potential competitors for market share within a three-mile radius of the subject.

- Public Storage – 550 South San Gabriel Blvd., San Gabriel, California
- Walnut Grove Self Storage - 5216 Walnut Grove Ave., San Gabriel, California - *PROPOSED DEVELOPMENT*
- San Gabriel Self Storage – 126 East Las Tunas Drive, San Gabriel, California
- Stor Mor Self Storage – 8635 Valley Blvd., Rosemead, California
- PSA Self Storage – 600 S Garfield Ave. Alhambra, California
- PSA Self Storage – 8000 S Artson St. Rosemead, California
- Storage Etc. – 8659 Garvey Av. & 2747 La Presa Ave, Rosemead, California (operated as a single site)
- Everest Self Storage – 8306 E Garvey Av. Rosemead, California
- El Monte Stor It Now Self Storage – 10212 E Valley Blvd. El Monte, California

Collectively, these locations total approximately 537,545 gross square feet of storage.

Recommended Square Footage

Based on our observations and subsequent calculations, we believe the optimum size of this facility in this marketplace should not exceed 150,000 net rentable square feet.

The Proposed Development

The current proposed development would consist of two five-story buildings each containing four stories above grade and one lower level floor.

The buildings will contain approximately 199,358 gross square feet of space, partitioned into 9,126 square feet of artist studio space with the balance dedicated to self-storage, common areas, and a rental office.

Artist Studio Space

The 9,126 square feet of artist studio space will be divided into individual studio rooms and a community room / gallery area for area artists to display their work and for community use.

Self Storage

After deductions for artist space, the community center, a rental office, and common areas, the balance of the space should yield approximately 138,000 net rentable square feet of self-storage space, divided into 1,540 individual spaces averaging 89.5 square feet each.

This is well within the maximum demand and recommendations outlined within this report.

Significant Variables Contrasted with those of the Original Site Review

In contrasting this review with the original study, both rates and demographics have shifted within the market. We believe both of these categories are related to the inherent inconveniences caused by the Covid-19 restrictions and pursuant slowdown.

Demographics

The reported population totals have slightly decreased within three miles of the site; however, the ESRI drive time population projections have increased dramatically. When each of these variables are considered they create a small increase in projected demand, despite reducing our drive time potential from 10 minutes to only a conservative 8-minute commute.

Rates

The street, or asking, rates have also shifted, but are returning to normal with some unit types showing modest increases and a few other sizes appearing to be seasonally reduced.

Of special interest, it would appear that overall occupancies are even stronger than our last market review.

When these price changes are considered, with most other rates remaining fairly stable, we consider these variations to be less Covid-related and more market driven, indicating a healthy rental market for well-located sites.

Covid-19 Considerations

After having reviewed our initial study, and the area's present profile, we are more convinced than ever of this site's potential for success.

We believe the recent rate plateau within this micro market is a direct result of Covid-19 restrictions. We believe that the market will resume its former profile very quickly. In past crisis situations, people would vacate space as normal but there were few new rentals. We have not observed this pattern of behavior during the shutdown periods in those areas where self-storage was deemed an essential service.

Based on our review of the information published by the CDC, The Self Storage Association, Minico Publishing, and Inside Self Storage, we believe the following activities are worthwhile inclusions to your operating and development plans:

Architectural

- Install portable Lexan partitions at each rental counter.
- Provide necessary toilet sanitation stations.
- Incorporate UV light or other disinfectant methods within the building's HVAC system to decontaminate the environment.
- Provide sanitation dispenser/stations in the halls and at the management office.

Management

- Make face masks and Nitrile gloves available for all move ins.
- Enforce social distancing within the rental office.
- Limit the number of people within the same corridors.
- Consider the use of kiosk rental and payment areas. When manned by a live attendant, kiosks offer strong closing rates for rentals and a convenient limited contact means of both leasing and rent payments for customers.

Maintenance

- Sanitize all handles and locks daily.
- Mop all hallways, restrooms, and common areas with sanitizing chemicals daily.
- Sanitize loading carts and equipment after each use.
- Sanitize elevator buttons, interior touch surfaces, and exterior door handles three times daily.

These steps should provide not only a safer environment for your clients and staff, but will add a unique marketing component that will be appreciated within this market.

Conclusion

We believe this site presents an outstanding opportunity for redevelopment into a modern self-storage facility.

Proximity to transportation and a unique tie to the area's artistic community combine to make the site both visually and functionally appealing.

If this location was stabilized and offered for sale in today's marketplace, we would expect its value to be calculated with a capitalization rate of around 5%.