# PUBLIC STORAGE (PSA)

**Company Snapshot**

Green Street

## Company Overview

### Profile

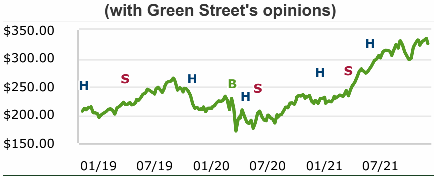
Public Storage (PSA) is by far the largest self-storage operator with a ~$68 billion portfolio. In '06, PSA acquired its largest competitor, Shurgard, for $5.5 billion in a "win-win" deal that remains the largest ever in self-storage. PSA owns 35% of Shurgard Europe and 42% of PS Business Parks (PSB), a flex industrial REIT. PSA's predecessor came public in '80 and became a fully integrated REIT in '95.

### Current Market Info (12/02/2021)

| | |
|---|---|
| **Recommendation:** | **HOLD** |
| Last Price: | $334.99 |
| 52-Wk Range: | $ 213.82 - 337.71 |
| Market Cap (MM): | $59,241 |
| Div Pace/Yield: | $8.00 / 2.4% |
| AFFO Multiple: | 24.1x (12 Mo Fwd) |

**PSA's Price Performance**

(with Green Street's opinions)




### Executive Team

| | |
|---|---|
| Ronald L. Havner Jr. | Chairman |
| Joe Russell | CEO |
| Tom Boyle | CFO |

### Key Investment Themes

**+ "Bullet-Proof" Balance Sheet:** PSA has one of the lowest leverage ratios (12% comprehensive leverage) in Green Street's U.S. coverage universe. The company has diversified away from preferred equity as its sole source of debt financing in the past two years as the company has issued $2.5 billion (>50% of total liabilities ex-preferred) of unsecured notes at a very attractive price (~2% average rate for 7-10 year average term), lowering the cost of its fortress balance sheet. That said, PSA intends to increase its leverage target from 4.0x net debt and preferred equity/EBITDA to a range of 4-5x, with flexibility to fleetingly surpass 5x for attractive opportunities.

**• Platform / Track Record:** PSA has the largest platform in the industry and generated attractive total returns throughout most of its history. More recently however, the company has struggled to keep pace with its smaller, and at times more nimble, competition. That said, the company appears to be effectively utilizing its balance sheet and the extensive data provided by operating the largest portfolio in the sector.

**- PSB Investment:** PSA's 42% equity ownership of PS Business Parks is rooted in the firms' shared history, administrative functions, and an extremely low tax basis for PSA. The stake hampers the liquidity of PSB shares and fails to recognize that PSA shareholders can simply buy PSB to gain exposure. The tax burden makes it very unlikely that PSA will reduce its stake.

### Recent Commentary

PSA's second quarter operating results surprised to the upside, with same-store revenue and NOI growth of 14% and ~22%, respectively. NOI growth was aided by a ~6% reduction in expenses YoY, primarily due to decreases in on-site property manager payroll costs and marketing expenses. On the external growth front, PSA acquired 83 facilities during and subsequent to 3Q21, bringing total acquisition volume to ~$5B (9% expansion of operating real estate) thus far in '21. PSA's revised FY21 guidance featured same-store NOI growth of 13.9% at the midpoint, an increase of 320 bps.

## Portfolio

### Top-10 Markets

| Market | # of Assets | Square Feet | % of Total Sq Ft |
|---|---|---|---|
| 1. Los Angeles | 213 | 15,200 | 8.2% |
| 2. San Francisco | 130 | 8,100 | 4.4% |
| 3. Chicago | 129 | 8,100 | 4.4% |
| 4. Dallas | 102 | 6,600 | 3.5% |
| 5. Atlanta | 98 | 6,400 | 3.4% |
| 6. Houston | 92 | 6,400 | 3.4% |
| 7. New York | 90 | 6,400 | 3.4% |
| 8. Seattle | 87 | 5,900 | 3.2% |
| 9. Miami | 83 | 5,800 | 3.1% |
| 10. District of Columbia | 89 | 5,500 | 3.0% |
| **Top-10 Markets:** | **1,113** | **74,400** | **40%** |
| **PSA Totals:** | **2,678** | **186,000** | **100%** |

### Other Key Metrics

| | |
|---|---|
| Cap-ex Reserve % NOI: | 3.7% |

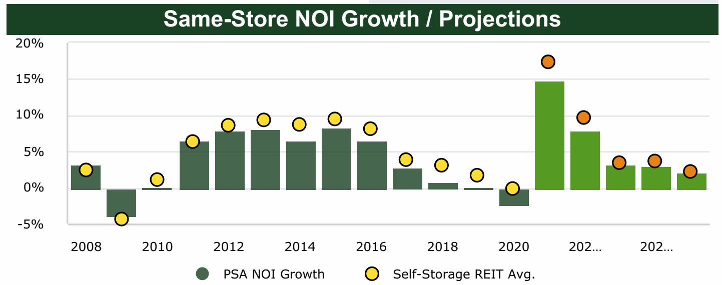
### Portfolio Statistics

| | |
|---|---|
| Properties / NRSF: | 2,678 / 186,000 |
| Occupancy: | N/A |
| Rent PSF: | N/A |

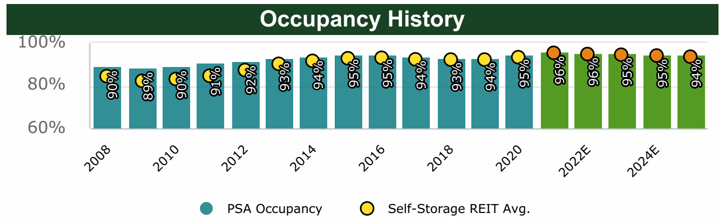
### Performance (3Q21)

| | |
|---|---|
| SS Occupancy Growth: | N/A bps |
| SS Revenue Growth: | N/A |
| SS Expense Growth: | N/A |
| SS NOI Growth: | N/A |

### Same-Store NOI Growth / Projections




### Occupancy History



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## Capital Structure and Liquidity

### Key Metrics

| | |
|---|---|
| Leverage w/Preferreds: | 16% |
| Debt-to-EBITDA: | 2.7x |
| % Debt Fixed: | 100% |

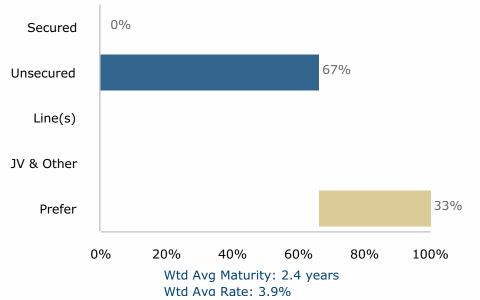
### Unsecured Credit Ratings

| | S&P | Moody's |
|---|---|---|
| Rating | A | A2 |
| Outlook | STABLE | STABLE |

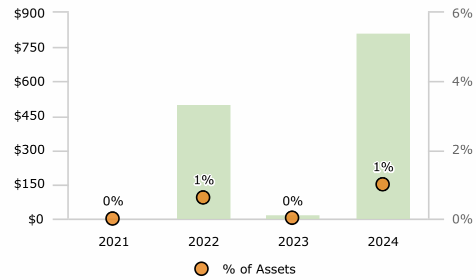
### Credit Facilities

| | |
|---|---|
| Availability / Total Size ($M) | $479 / $500 |
| Pricing | L+70 |

### Composition of Leverage*



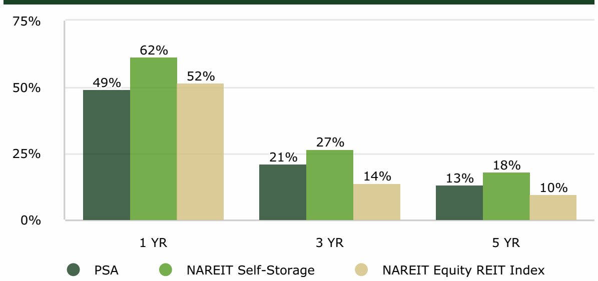

### Debt Maturity Schedule ($M)*




*Based on 3Q21 statements

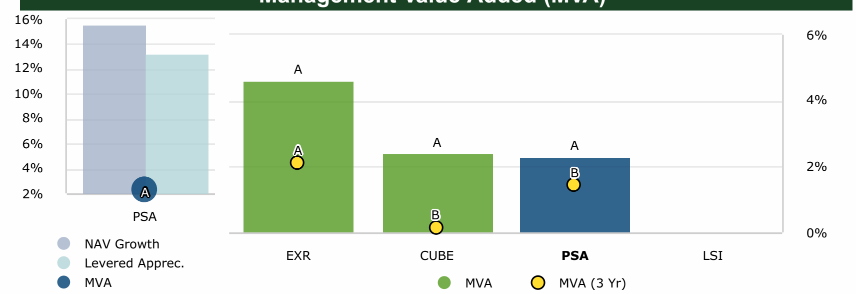
## Track Record

### Total Returns




Source: Bloomberg, NAREIT as of 10/31/2021. Returns are annualized.

### Management Value Added (MVA)*




*MVA = Annualized NAV Growth – Annualized Levered Property Appreciation (09/30/2012 to 08/31/2017)

## Valuation

### Condensed NAV Estimate as of 12/03/2021

| | |
|---|---|
| Based on financial statements from: | 09/30/2021 |
| Currency (all prices in thousands except NAV/sh): | USD |
| *Pro-rata NOI over the next 12 mo's, by prop. sector:* | |
| Self-Storage (US) | $2,753,177 |
| **Total "nominal" NOI** | **$2,753,177** |
| Cap-ex reserve (% of NOI) | 3.7% |
| Total "economic" NOI | $2,650,902 |
| Economic Cap Rate | 3.9% |
| Equivalent Nominal Cap Rate | 4.0% |
| Value of Operating Real Estate | $68,147,951 |
| Current Assets | $958,247 |
| Construction in Progress (CIP + Value Creation) | $811,079 |
| Other Tangible Assets | $11,793,246 |
| **Total Assets** | **$81,710,523** |
| Current Liabilities | $474,198 |
| Mark-to-Market Debt Adjustment | $85,946 |
| Preferred Stock | $4,424,747 |
| Other Liabilities | $8,700,432 |
| **Total Liabilities** | **$13,793,331** |
| Net Asset Value | **$67,917,193** |
| # of Shares (diluted) | 176,846 |
| **NAV / sh** | **$384.05** |

### Earnings

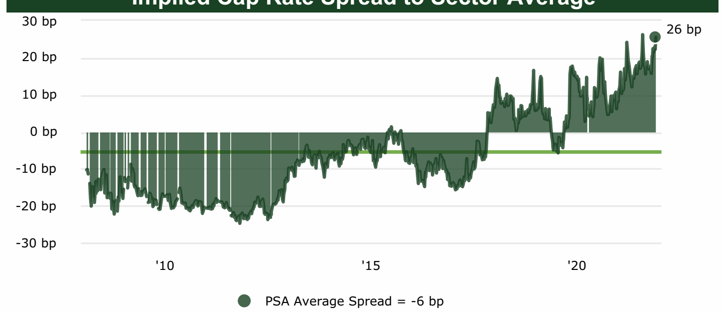
| | 2021 | 2022 | 2023 |
|---|---|---|---|
| GS FFO /sh | $13.17 | $14.77 | $15.98 |
| Consensus FFO/sh* | $12.38 | $13.32 | $14.16 |
| GS AFFO/sh | $12.03 | $14.10 | $15.21 |
| GS AFFO Yield | 3.6% | 4.2% | 4.5% |

*Source: Bloomberg

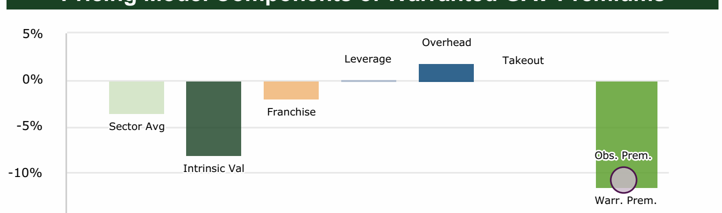
### Key Valuation Metrics

| | Nominal Cap Rate | Implied Cap Rate | AFFO Yld '21 | Dividend Yield | Div. Cov. '21 AFFO |
|---|---|---|---|---|---|
| PSA | 4.0% | 4.5% | 3.6% | 2.4% | 1.5x |
| Self-Storage | 4.0% | 4.3% | 3.5% | 2.5% | 1.4x |

### Implied Cap Rate Spread to Sector Average




### Pricing Model Components of Warranted GAV Premiums




| | PSA | Sector-Peers |
|---|---|---|
| Comprehensive Leverage Ratio | 12% | 18% |
| Overhead (as a % of assets) | 0.12% | 0.22% |