Public Storage Analysis

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UNC CHARLOTTE STUDENT MANAGED INVESTMENT FUND

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What is Public Storage (NYSE: PSA)?

- Founded in 1972, largest self-storage REIT in the U.S.
- Owns ~3,300+ facilities, 218M+ rentable square feet
- Operates in 40 states
- Sector: Self-storage (highly resilient, recession-resistant)
- REIT structure: pays out ~70–80% of earnings as dividends

Our Position

Symbol	Description	Qty (Quantity)	Price	Price Chng % (Price Change %)	Price Chng $ (Price Change $)	Mkt Val (Market Value)	Day Chng $ (Day Change $)	Day Chng % (Day Change %)	Cost Basis	Gain $ (Gain/Loss $)	Gain % (Gain/Loss %)
PSA	PUBLIC STORAGE REIT	47.2571	$274.26	-0.01%	-$0.02	$12,960.73	-$0.95	-0.01%	$13,550.51	-$589.78	-4.35%

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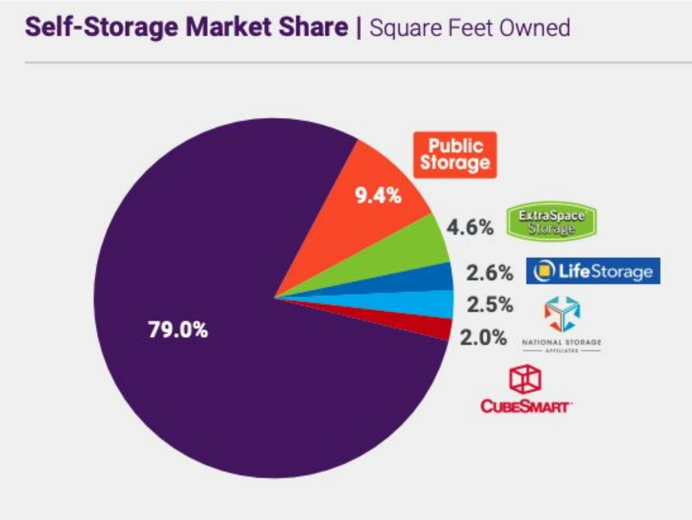
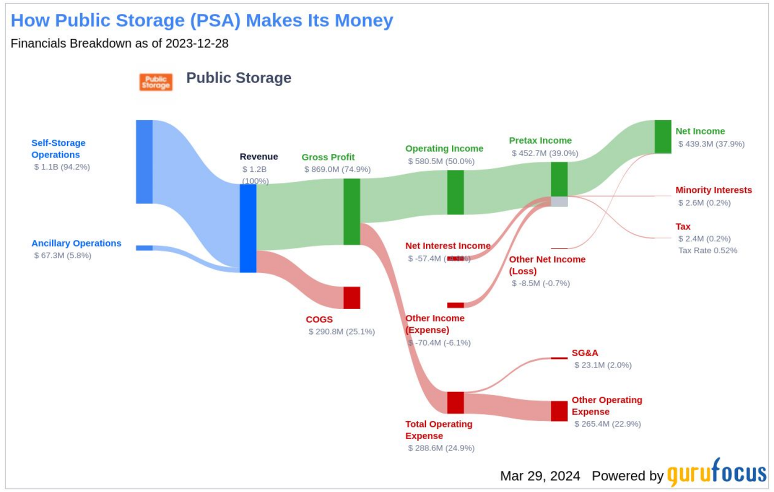
Self-Storage Sector Overview



- Needs-based demand (life events: moving, marriage, divorce, downsizing)
- Extremely low capex relative to other real estate sectors
- High margins (PSA EBITDA margins ~75%+)
- Low customer acquisition cost creates steady revenue
- Very fragmented industry (70% owned by mom-and-pop operators), so consolidation has an upside.

Qualitative Outlook & Drivers



- Same-store revenue growth: annual rent increases on existing tenants
- Acquisitions: buying smaller operators (industry still highly fragmented)
- Development pipeline: new facilities in high-density urban/suburban markets
- Technology: revenue management systems, digital leasing
- Operational efficiency: automation, centralized call centers, lower payroll needs

They own a merchandise business, a property management business, and an insurance business that covers losses in self-storage properties.

Strengths and Risks

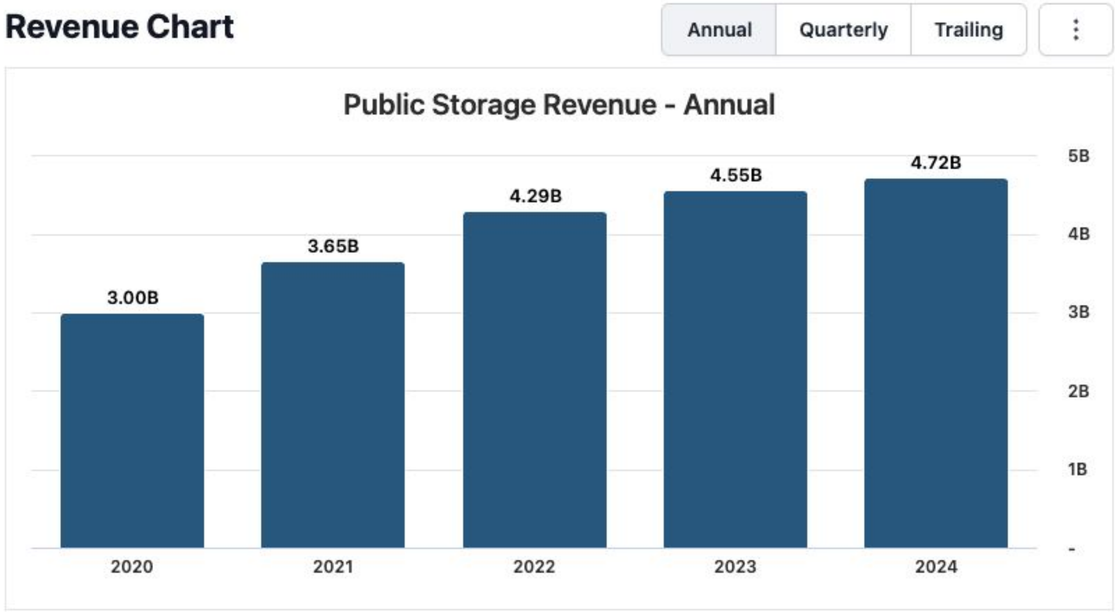
Strengths

- Largest footprint → unmatched brand recognition
- Lowest cost of capital in the sector
- Best margins (scale = pricing power)
- Lowest capex burden among all real estate types
- Fortress balance sheet which equals cheaper financing

Risks

- Rising interest rates creates lower valuations & slower expansions
- Potential supply influx in some metro areas
- Economic slowdowns reduce move-ins
- Rent controls or regulation risks (early signs in California)
- Inflation hitting labor and utilities

Key Financial Metrics



- Revenue growth (3–5% range)
- Same-store NOI growth (2–3% range)
- AFFO (Adjusted FFO) trend
- Debt metrics: low leverage
- Dividend yield ~4%

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Approach to DCF

What is a REIT-style DCF?

- A DCF that projects **AFFO(adjusted free cash flow_**, not traditional free cash flow
- Uses **NOI(net operating income)** and **cap rates**, not revenue and EBIT
- Adjusts for **maintenance capex, leasing costs, and straight-line rent**
- Terminal value is based on a **terminal cap rate** rather than a perpetual growth rate
- Reflects **how real estate is actually bought, sold, and valued** in the market
- Standard method used by **institutional REIT analysts** and **real estate private equity**

DCF Assumptions:

- Discount rate: 9.5%
- Terminal cap rate: 5.75%
- Same-store NOI growth: 2%
- Maintenance capex: 6% NOI

NAV Assumptions:

- NOI: $3.3–3.4B
- Cap rate: 5.75%
- Net debt: (~$8.7B)

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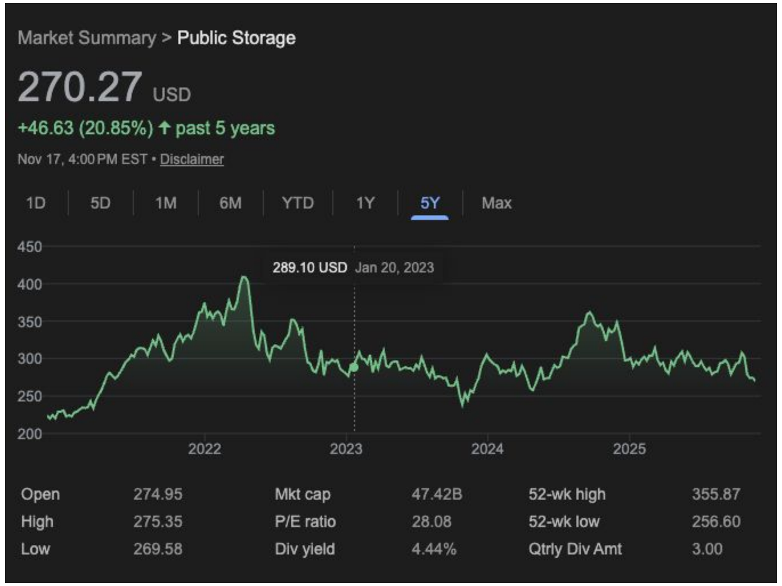
Investment Recommendation



Final Recommendation: HOLD

Why?

- NAV vs price → roughly fair value
- DCF → slight overvaluation
- Strong business but priced appropriately and appreciates in recession periods
- Interest-rate sensitivity limits upside
- Dividend is solid but not enough to justify a Buy
- No catalyst for dramatic value unlock right now