



Japanese rental storage market

**Prepared for:
Tokyo Real Estate Fund Forum
October 25th, 2012**



Introduction to Quraz

Quraz is the largest owner and operator in the ¥24bb indoor Japanese rental storage market

Company overview

Founded	2001
Business	Rental storage investor and operator
Owner	The Baupost Group
Assets under management	¥47 billion
Number of assets	45 total 42 owned fee-simple
Gross floor area	135,000 m ²
Number of units on a fully built-out basis	28,000
Number of customers	21,000
Corporate HQ	Osaki, Tokyo
Number of employees	185

Revenue and growth

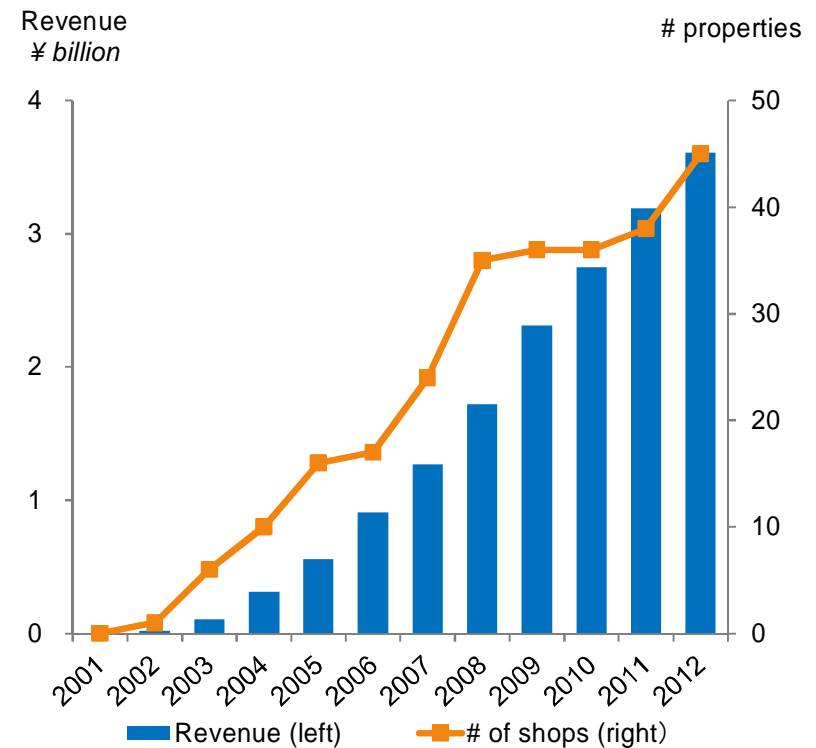




Table of Contents

I. Self-storage market

- p Product**

- p Market landscape**

II. Market potential

III. Asset class attributes

IV. Economics – case-study



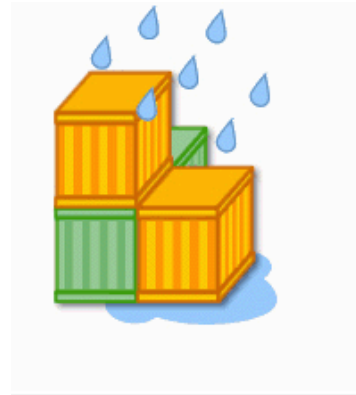
I. Self-storage market

The focus of this presentation is indoor rental storage



**Indoor rental storage
(often called “trunkroom”)**

- Steel storage units provided indoor, utilizing vacant office buildings
- Each unit is exclusively used by one user
- Comprehensive security and HVAC systems
- Often 24-hour access
- Generally located in dense, residential areas



**Outdoor rental storage
(container-storage)**

- Steel storage containers, often stacked
- Each unit is exclusively used by one customer
- Lower priced service
- Less convenient areas
- Customers property is prone to damages due to adverse outdoor climate
- Lower security



**Trunkroom
(regulated)**

- Warehouse-like environment
- Operator assumes possession and responsibility for customer’s property
- Regulated, subject to certain warehousing laws
- Access only during business hours

Source: Rental Storage Association of Japan website, Quraz, Yano Research Institute



Product definition and segments

Asset image

The focus of this presentation is indoor rental storage

**Indoor rental storage
(often called “trunkroom”)**



**Outdoor rental storage
(container-storage)**



**Trunkroom
(regulated)**





Indoor rental storage Product (Quraz)

Convenient



Free parking



Same-day visit & move-in



24-hour individual access

Comfortable



Reconditioned facilities



Clean & bright interior



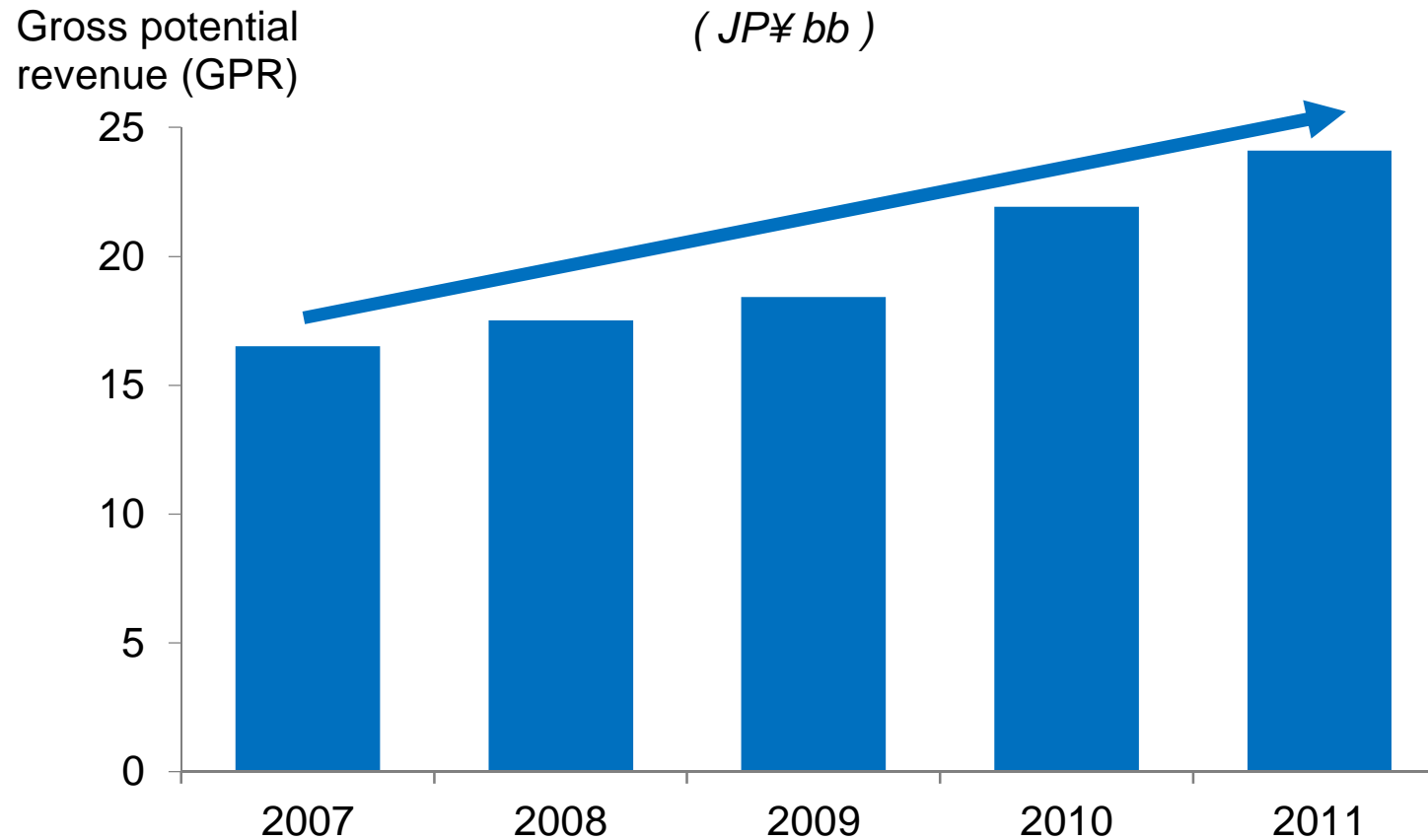
Temp & humidity controlled



Indoor rental storage market

Indoor rental storage market growing by 10% per year

Indoor rental storage industry



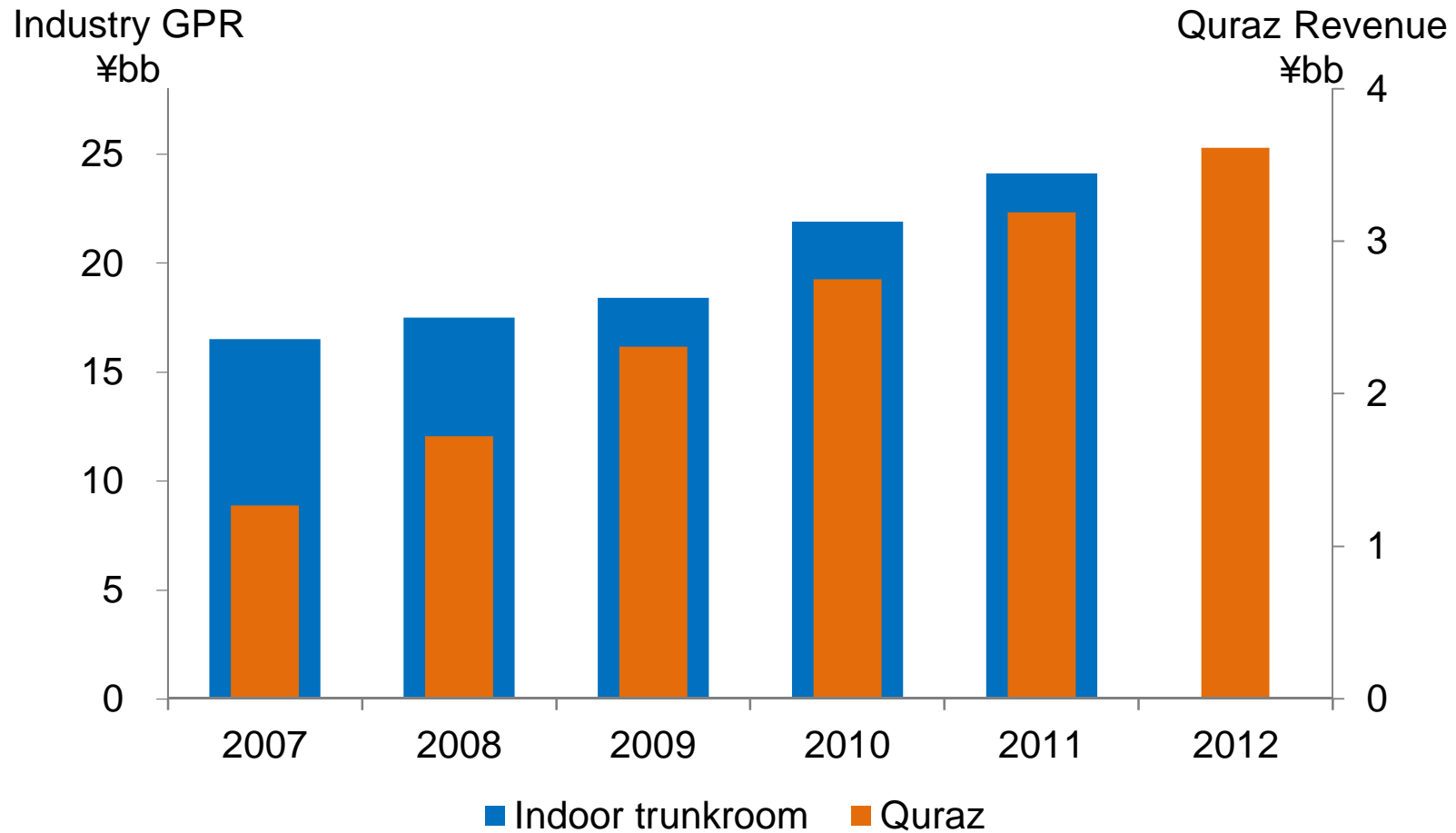
Source: Management estimates based on internal annual supply survey that captures all self-storage capacity in Japan at the end of Q3 each year.



Indoor rental storage market

10% annual market growth confirmed by 20% annual Quraz growth

Growth – Indoor rental storage industry vs. Quraz



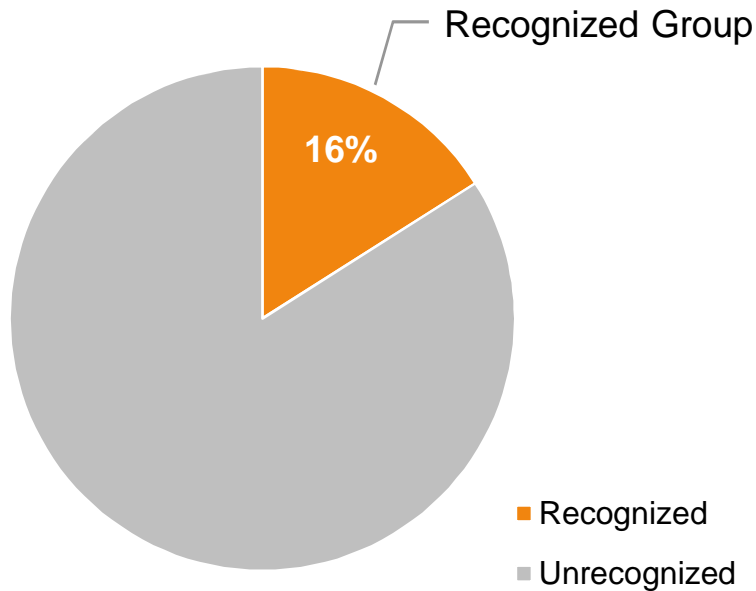
Source: Management estimates based on internal annual supply survey that captures all self-storage capacity in Japan at the end of Q3 each year.



Indoor rental storage market Key growth driver

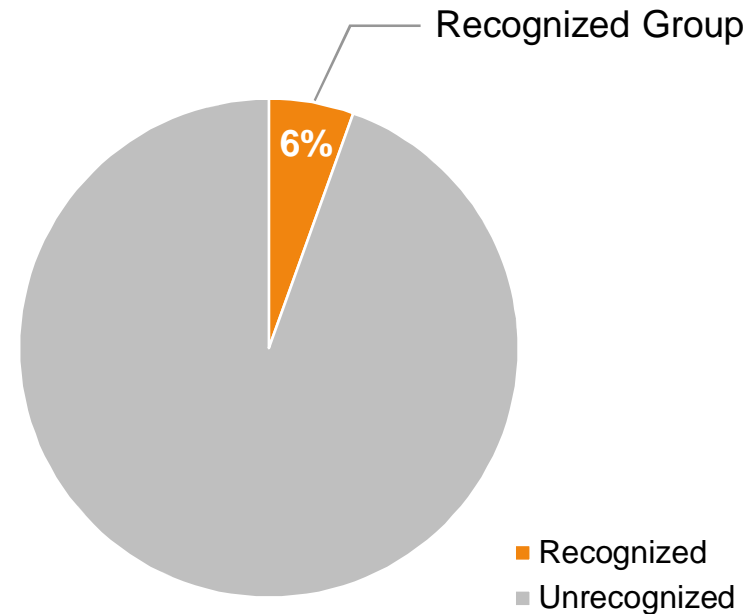
Low product awareness is in part driving market growth

Storage Recognition Rate (Quraz)



Source: Compiled with information from TNS-Infoplan. Local Penetration and Awareness Research, 2008

Storage Recognition Rate (Yano Research)



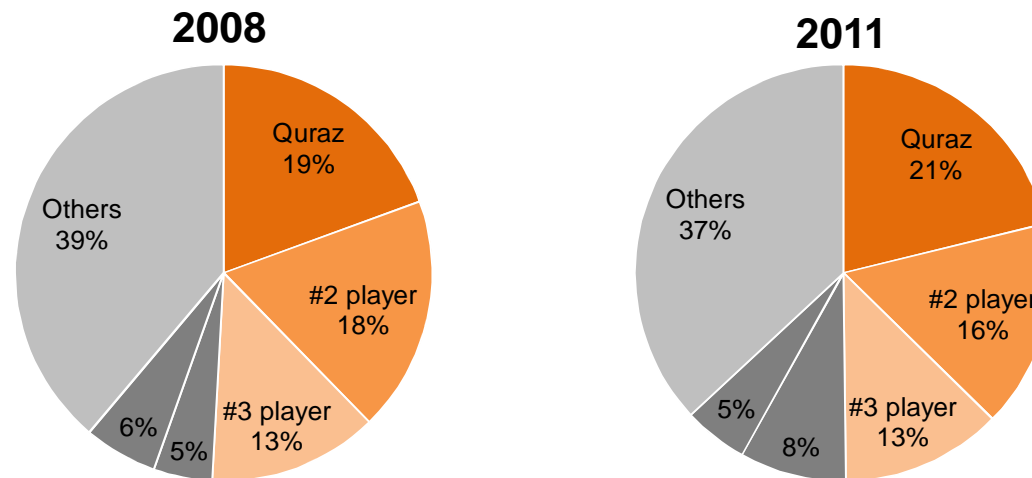
Source: Compiled with information from Yano Research Institute, Research Report, 2011



Indoor rental storage market Key players, market share

Top three players have consistently maintained 50% market share

	<u>Gross Potential Revenue (Ybb)</u>			
	2008	2009	2010	2011
Quraz	3.4	3.8	4.7	5.1
#2 player	3.2	3.3	3.6	3.9
#3 player	2.3	2.5	2.8	3.0
#4 player	0.8	1.1	1.9	2.0
#5 player	1.0	1.0	1.1	1.2
Top five comps	10.7	11.7	14.1	15.2
Others	6.8	6.7	7.8	8.9
Total indoor	17.5	18.4	21.9	24.1



Source: Management estimates based on internal annual supply survey that captures all self-storage capacity in Japan at the end of Q3 each year.

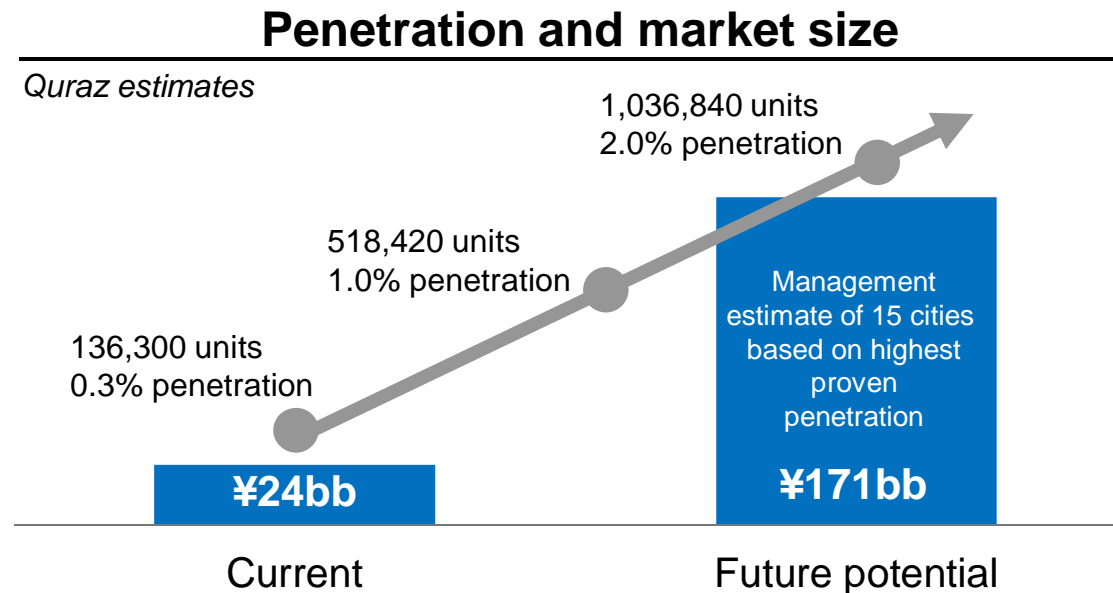


II. Market potential



Indoor rental storage market Future potential

Quraz estimates that market will grow by 7x over next 20 years



Assumptions

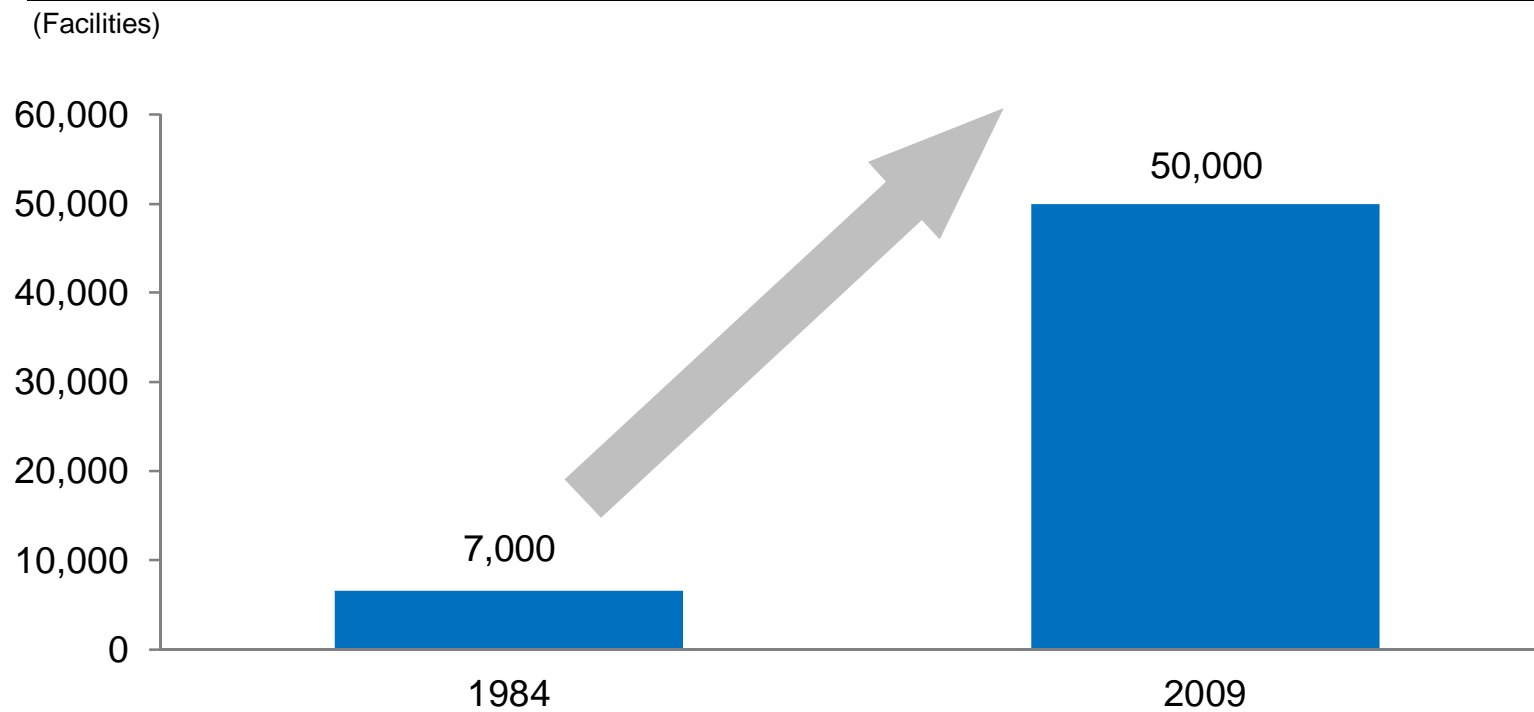
- Future potential assumes top 15 markets reach highest proven penetration in Tokyo (5%)
- 5% proven penetration in Tokyo is based on 3rd-party research commissioned by Quraz



U.S. rental storage Market

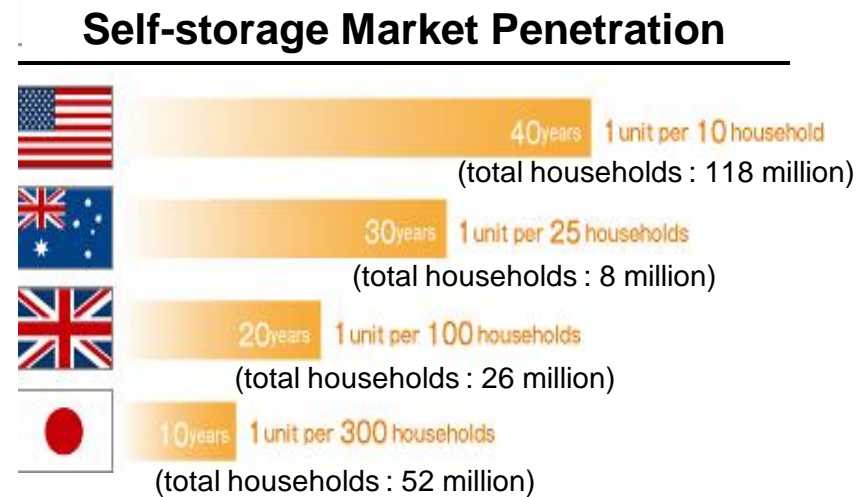
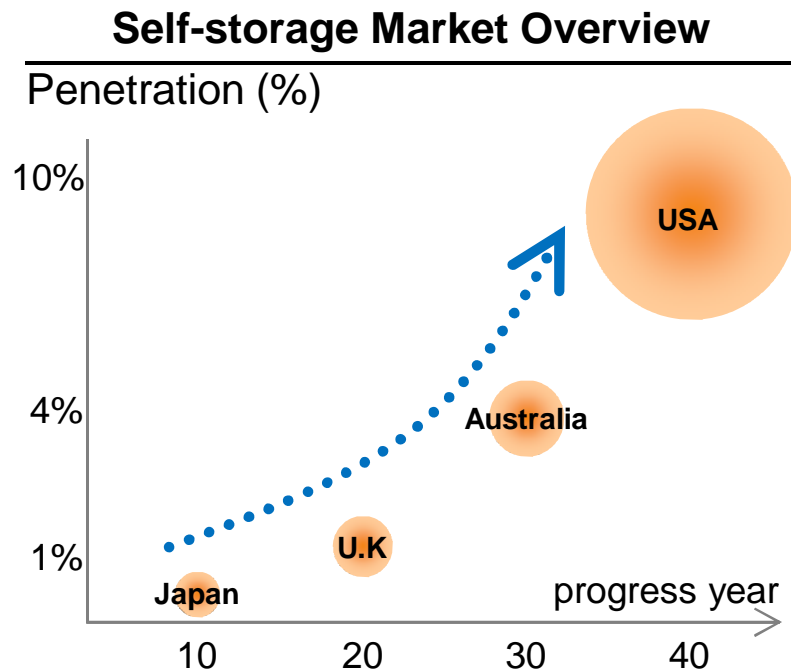
US market actually grew by 7x over past 20 years

Facilities in USA



Source: Self Storage Association, Yano Research Institute

US self-storage market has demonstrated consistent double-digit annual growth since the 1970s



- Self-storage business was started about 40 years ago (1970s) in the United States
- Since then, US capacity has averaged 10% annual growth resulting in 10% penetration
- Japanese penetration level, at 0.3%, is one of the lowest in the developed world

Source: Company data, Self-Storage Almanac 2012

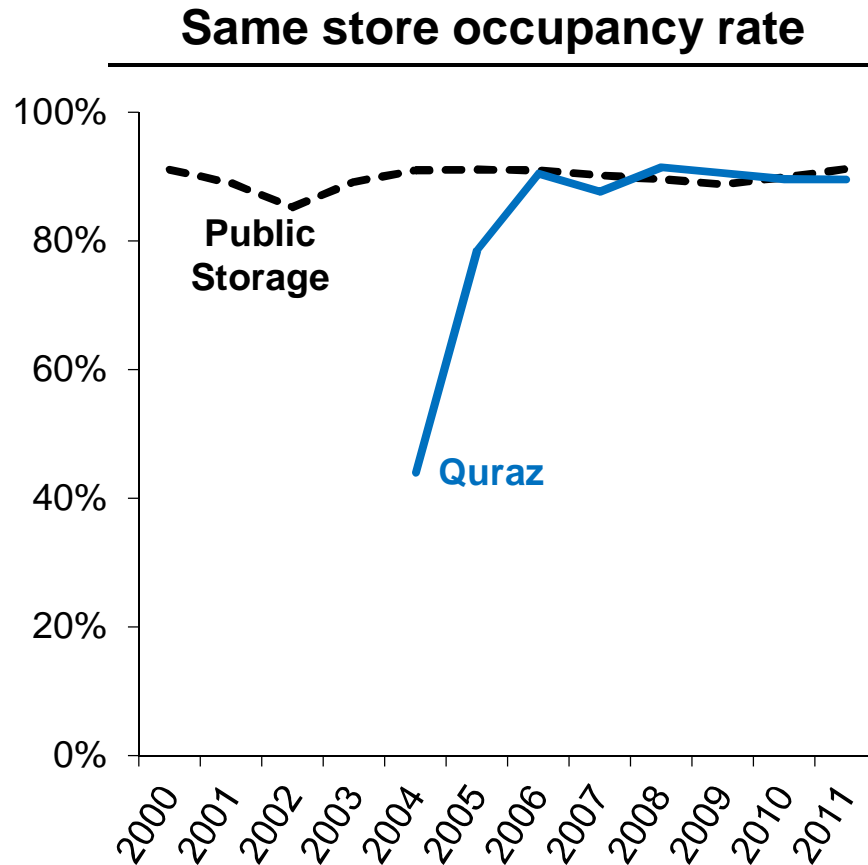


III. Asset class attributes



Product class attributes Resilient stabilized occupancy

*Rental storage absorbs recessions better than other asset classes.
Revenue and NOI is extremely stable and highly predictable.*



The self-storage industry has historically absorbed recessions better than other asset classes because:

- The product category features countercyclical qualities
- There is a high degree of customer “stickiness” and inertia once customers move-in
- Even at a shop-level, no single tenant represents even 1% of revenue

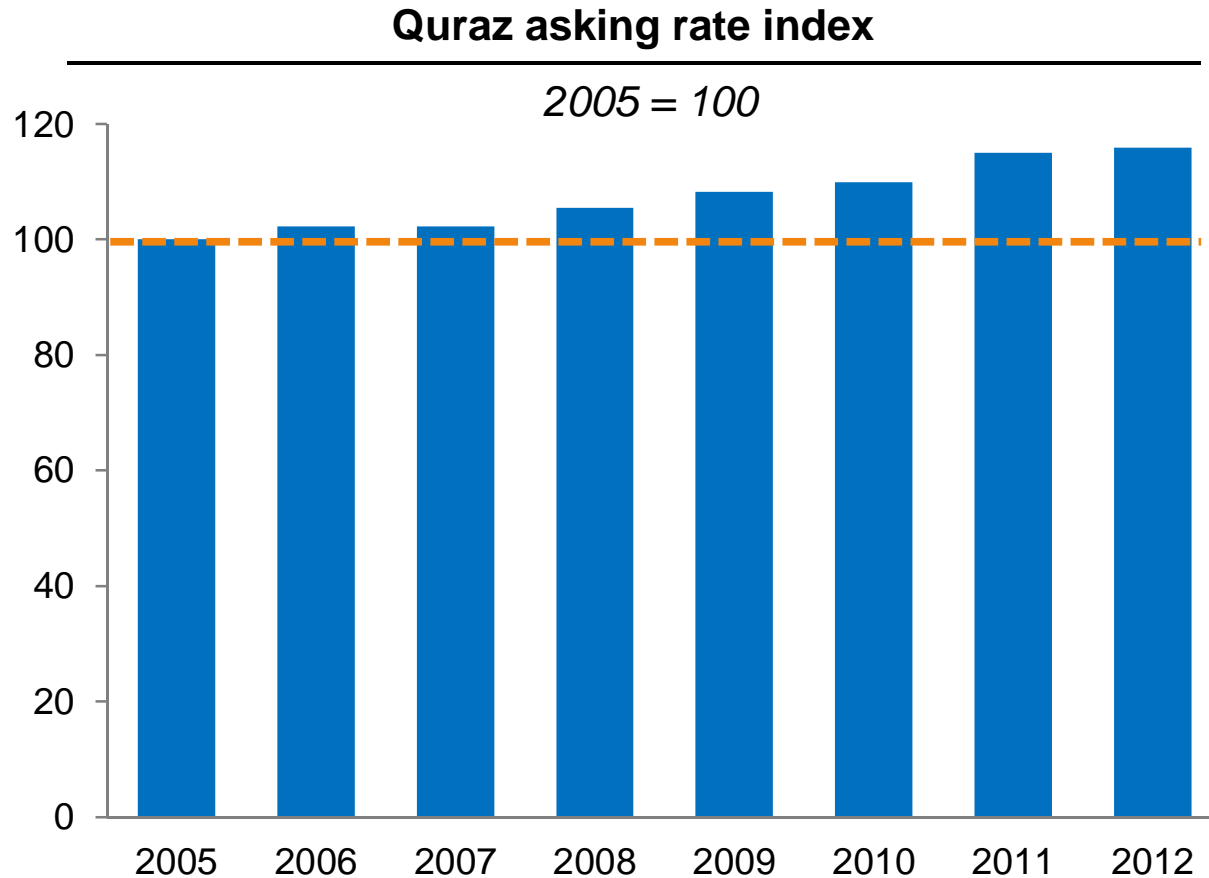
Source: Public Storage data from FactSet.

Quraz data represents 5 representative shops that had stabilized by 2006.



Product class attributes Pricing power – new customers

Quraz has exhibited ability to consistently raise new customer asking rates, even during recession – on average +2.3% per year



Note: Above chart shows historical asking rate for the same property.

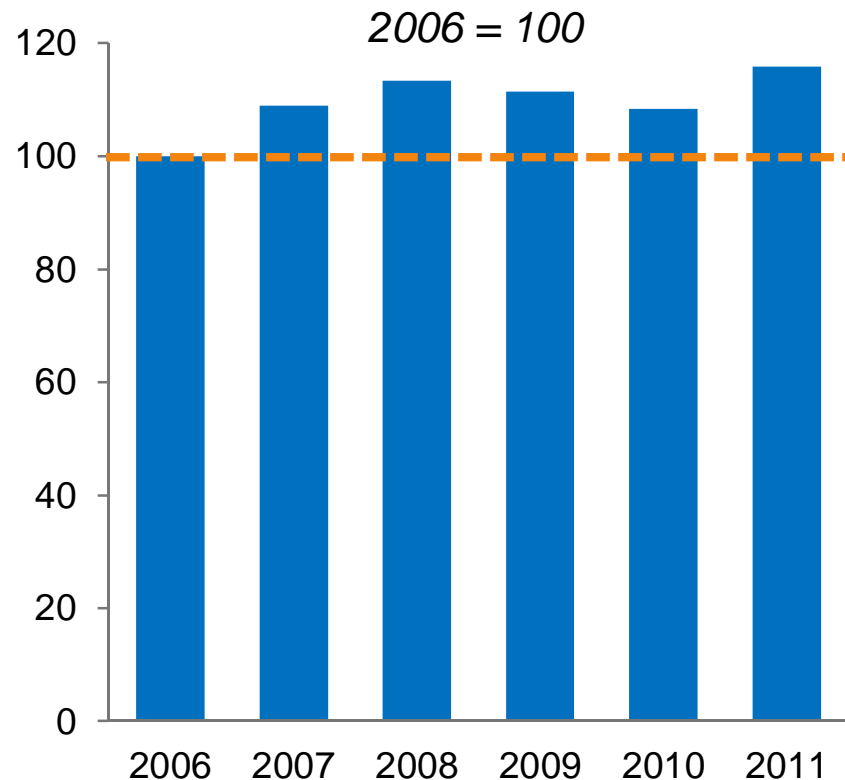
Source: Company data



Product class attributes Pricing power – existing customers

Rental storage operators have exhibited the ability to raise even existing customer rates

US rental storage rental rate index



- Operators in United States have proven that they can consistently increase existing customer rates
- Multiple tests over several years conducted by Quraz indicate existing customers will absorb periodic price increases of up to 10%
- Nearly 100% of customer rate increases fall to the bottom-line

Source: US industry data from Bloomberg, including and averaging Public Storage, Extra Space and Cube Smart

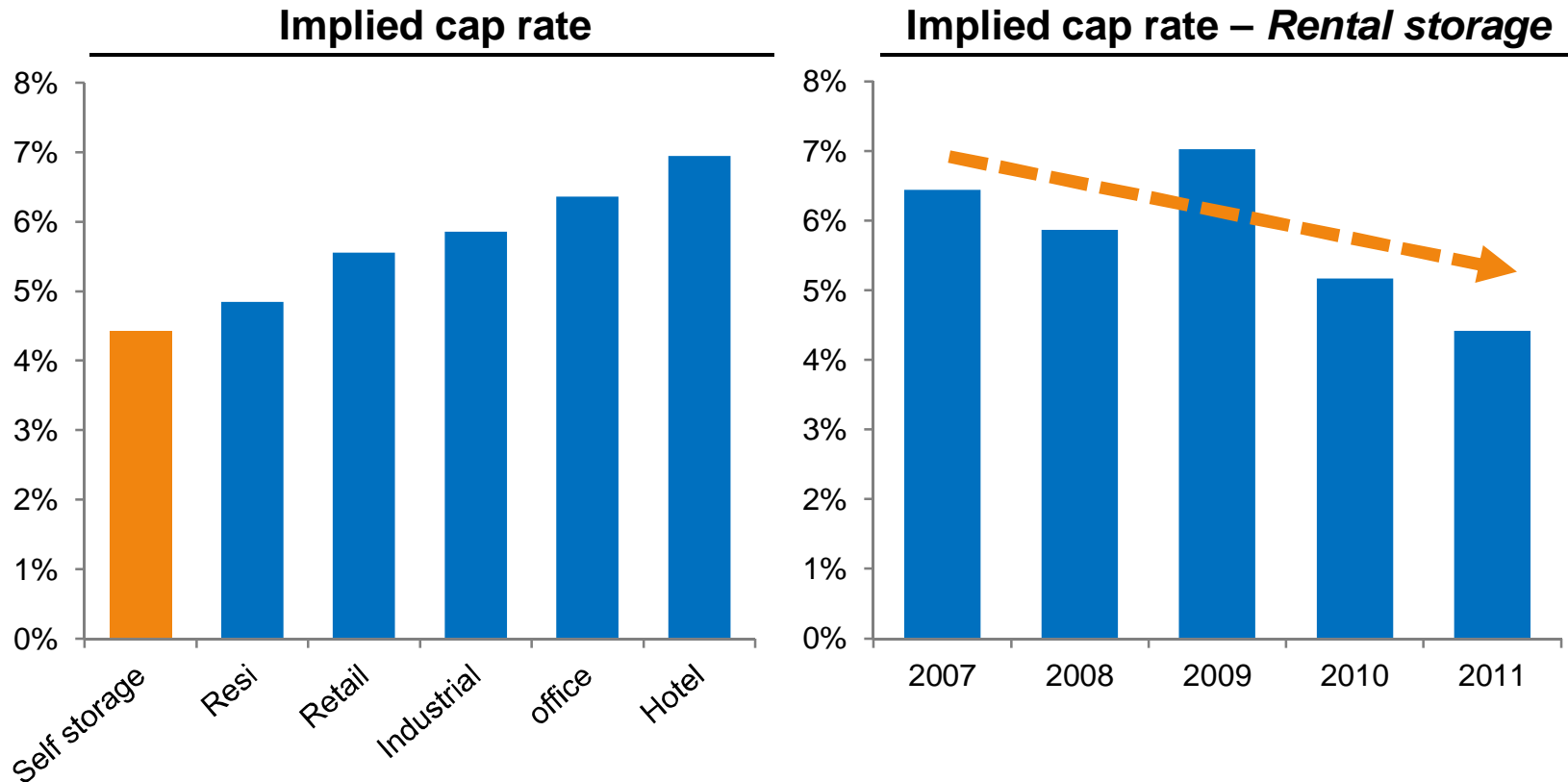
Note: Rental rate = rent per rentable square foot



Product class attributes

High performing public asset class

Storage REITs are among the best performing REIT classes in the US



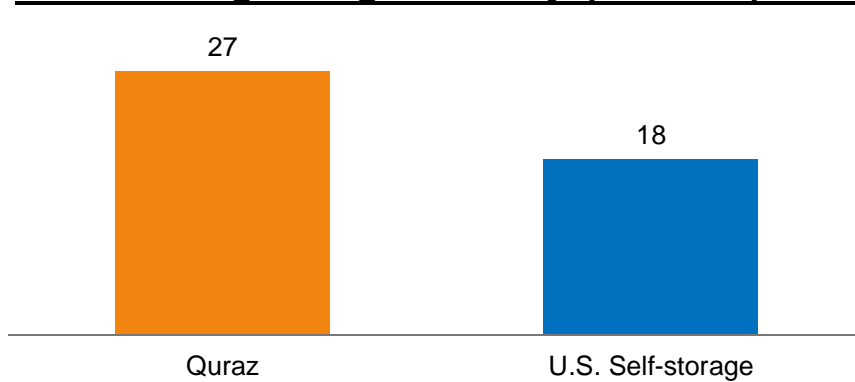
Source: Bloomberg
Note: Each data from FTSE NAREIT sub sector Index
Note: As of 2010 fiscal



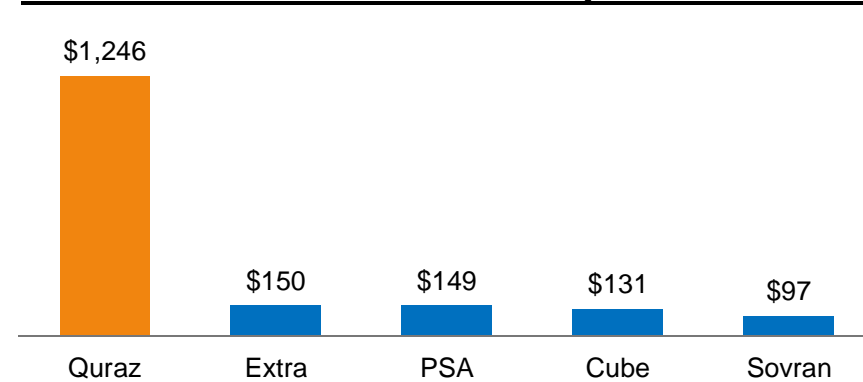
Benchmarking Quraz vs. US Industry

Japanese operators compare favorably to US operators for key profitability metrics

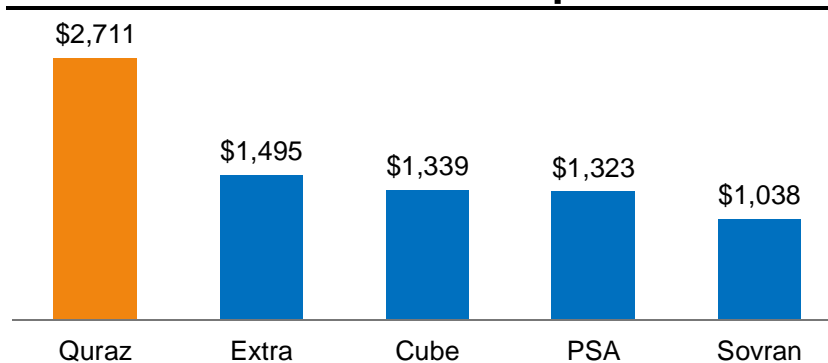
Average length of stay (months)



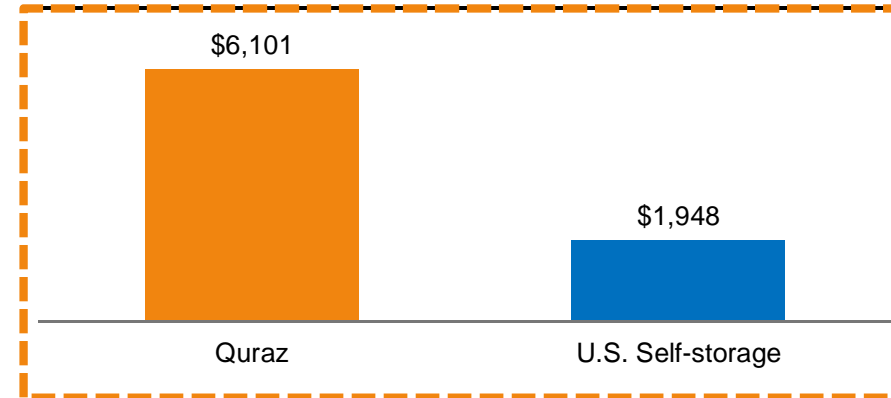
Annual revenue / occupied unit



Annual revenue / occupied NSM



Customer life-time value



Source: Company filings

Note: Exchange Rate: 1 USD = 80 JPY



IV. Economics



Yield expectations

Case-study – Fee-simple ownership

Expectations for newly purchased assets

	Rental storage	Office
Land area (tsubo)	----- 136 -----	-----
Gross floor area (tsubo)	----- 499 -----	-----
Rentable area (tsubo)	272	349
Rental rate per tsubo	¥40,000	¥13,500
Purchase price – <i>including taxes & fees</i>	649	649
Conversion, renovation	195	45
Total cost	844	694
<i>Stabilized P&L – year five</i>		
Revenue	128	58
Expenses	26	17
NOI	102	41
<i>Yield on total cost</i>	12%	6%

Source: Company information, based on a representative property purchased in 2011