CFA Institute Research Challenge

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Canisius College

Canisius College – Student Research

Financial Sector, Real Estate Industry
New York Stock Exchange

Sovran Self Storage

Date: 1/11/2015
Ticker - NYSE: SSS

Current Price: $90.90 (1/06/15)
Headquarters: Williamsville, NY

Recommendation: HOLD
Target Price: $95.00 USD

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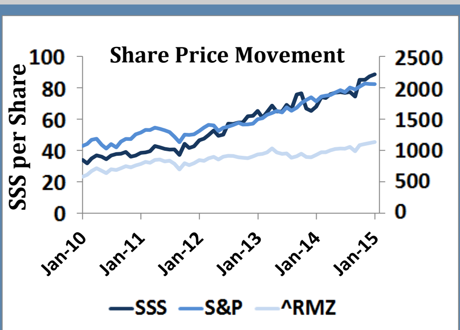
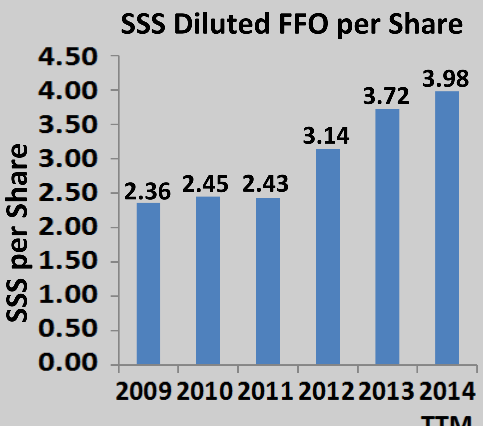


Note: ^RMZ - MSCI US REIT Index

Market Profile	
Closing Price	$90.90
52-Week High / Low	$90.90 / $62.66
Average Volume (3M)	195,935
Diluted Shares Out.	33,867,243
Market Cap	$3.08B
Dividend Yield	3.30%
Beta	0.87
EV / Revenue	13.2x
EV / EBITDA	23.1x
FFO / Share	22.8x
Institutional Holdings	94.15%
Insider Holdings	2.55%

Valuation	DCF	Multiples
Estimated Price	$95.02	$94.96
Weights	50.0%	50.0%
Target Price	$95.00	

Target Price is rounded from $94.99 to $95.00



*FFO – Funds from Operations

Highlights

We initiate coverage on Sovran Self Storage (SSS) with a **Hold** recommendation based on a one-year target price of **$95**, offering 4.5% upside from its closing price of $90.90 on January 6, 2015. Our recommendation is primarily driven by:

- **Management Platform -** Sovran has been able to adapt to a changing environment in the self-storage industry through leveraging their economies of scale, utilizing an efficient web-based marketing strategy and integrating their revenue management system. Through these business practices, Sovran has maintained stable profitability and growth
- **Growth Drivers -** Sovran has been able to grow their revenues by improving occupancy rates, increasing pricing power and maintaining a strong acquisition pipeline. As occupancy rates reach mature levels, growth will primarily be driven through acquisitions, for which the Company is well positioned
- **Valuation -** Valuation methods indicate a current intrinsic value of $95 per share. SSS offers slight long-term upside through strategic expansion into the Midwest, as well as continued exposure to current geographic locations. We evaluated Sovran's intrinsic value primarily though a discounted cash flow analysis and a relative multiples valuation
- **Main Risks to Sovran Include –** Adverse changes in Macroeconomic conditions that drive the self-storage industry, a reduction in the liquidity of certain undesired assets, a lowering of Sovran's credit rating to junk bond status, and a lack of board independence

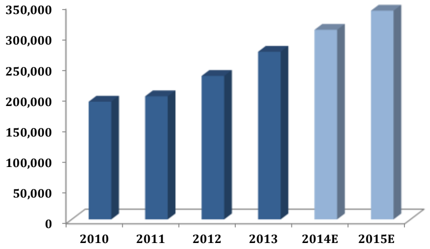
Recent News

- **Sovran Self Storage Raises Quarterly Dividend 10% -** 01/05/2015: Sovran has announced an increase in quarterly dividends from $0.68 to $0.75 a share
- **Sovran Self Storage, Inc. Announces Financing of $625 Million in Senior Unsecured Credit Facilities, Expands Credit Line –** 12/15/2014: As part of this arrangement, Sovran's revolving credit limit has increased from $175M to $300M, while floating interest rates on this debt have decreased from LIBOR + 1.5% to LIBOR + 1.3%
- **Sovran Self Storage Reports Third Quarter Results, Adjusted FFO per Share Increases 15.8%, Acquires Eight Properties for $87 Million –** 10/29/2014: Total revenues increased 21.0% Q3 YoY, while operating costs increased 16.4%, resulting in an NOI increase of 23.1%.

Key Financials and Ratios	2012	2013	2014E	2015E	2016E	2017E	2018E	2019E
Total Revenue (1)	$234,082	$273,507	$309,366	$340,589	$370,238	$401,151	$429,798	$456,687
Net Operating Income (1)	120,202	146,296	164,274	180,853	197,707	214,415	230,372	245,241
Net Profit Margin	23.8%	27.1%	26.2%	26.2%	26.6%	26.6%	27.1%	27.1%
Operating Margin	34.0%	37.0%	35.6%	35.6%	35.8%	35.9%	36.2%	36.3%
NOI Margin	51.4%	53.5%	53.1%	53.1%	53.4%	53.5%	53.6%	53.7%
Interest Coverage	2.40x	3.16x	3.56x	3.56x	3.57x	3.56x	3.56x	3.54x
LT Debt to Assets	0.40x	0.40x	0.42x	0.41x	0.40x	0.39x	0.38x	0.38x
FFO / Share	$3.14	$3.72	$3.94	$4.18	$4.41	$4.61	$4.77	$4.89
Return on Equity	7.5%	8.4%	8.2%	8.1%	8.1%	8.0%	8.1%	8.0%

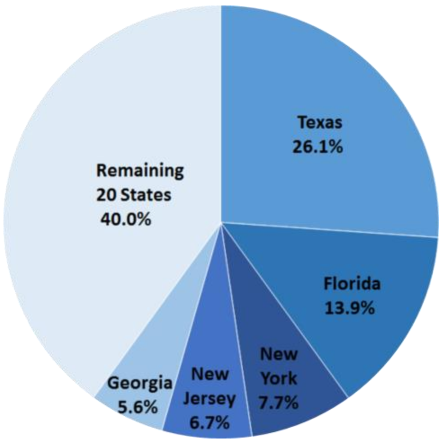
(1) In USD 000s

Figure 1: Total Revenue *($ in 000s)*



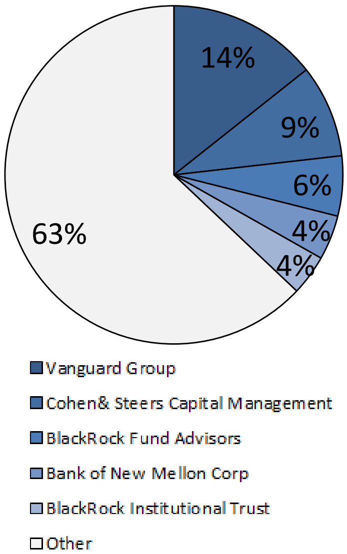
Source: *Company Data, Team Estimates*

Figure 2: 2013 Revenue by State



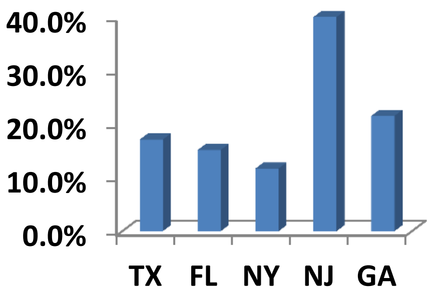
Source: *Company Data*

Figure 3: Shareholder Structure



Source: *Bloomberg*

Figure 4: 2 Year Revenue CAGRs by State



Source: *Company Data*

Business Description

Sovran Self Storage (SSS) was founded in 1982 and is currently headquartered in Williamsville, New York. SSS operated as a private company for 13 years until its IPO on June 21st, 1995. Together with its direct and indirect subsidiaries, SSS is a self-administered and self-managed real estate investment trust (REIT) that acquires, owns, and manages self-storage properties. As of Q3 2014, SSS holds ownership interest in, leases, and or manages 502 properties throughout 25 states - consisting of approximately 32.4 million net rentable square feet. Of these properties, 77 are managed as Joint Venture and or Third Party Management Operations. The trust is structured as an Umbrella Partnership REIT (UPREIT), under which they own an indirect interest in all properties through an operating partnership (Appendix B). In total, Sovran owns approximately 98.4% interest in the operating partnership while Sovran Holding and an unaffiliated third party own 1% and 0.6%, respectively.

One of Sovran's competitive advantages is their expertise in managing self-storage facilities. SSS offers storage space to both residential and commercial users, as well as outside storage for automobiles, recreational vehicles, and boats. SSS targets customers of all social classes and demographics. 92.6% of 2013 Revenue was derived from Rental Income, while 7.4% came from Ancillary Income. As a REIT, over 75% of total revenue must come from real estate operations.

Properties

Sovran Self Storage properties conduct business under the name Uncle Bob's Self-Storage. These properties are strategically located mostly throughout the eastern coast of the United States. Uncle Bob's storage spaces come in a variety of sizes - from small 5x5 ft. storage to vehicle/boat parking sizes. In addition, they lease facilities that offer climate, humidity, solar powered and heating controlled options. Sovran equips each of its facilities with an advanced security system that monitors on site activity 24/7. Alongside this security system, the Company provides its customers with a greater sense of security through keypad controlled access to the entire facility along with providing only the customer with a key to their storage site. This technology allows customers easy access to their belongings 24 hours a day. SSS has diverse geographic locations with each property being strategically positioned to create maximum occupancy rates while not cannibalizing the sales of similar stores around them. As shown in Figure 2, the majority of the Company's properties are located in Texas, Florida, and New York.

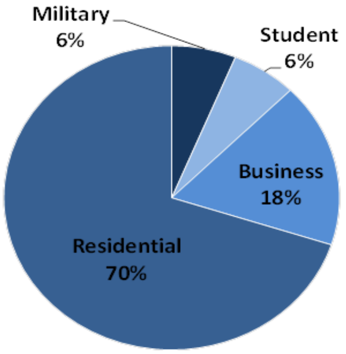
Demand for self-storage units in these areas is at an apex, which is largely attributed to the fact that many homes in these states are built on concrete slabs (Appendix G). The majority of homes in Texas and Florida are built on slabs due to their low relative cost and the cooler feel it creates for a home. As a result of building on slabs, homeowners in Texas and Florida are left without a basement to provide extra storage.

Strategy

The company's main strategy is to expand and acquire interest in self-storage facilities. Sovran's operations are designed to generate growth and increase value through:

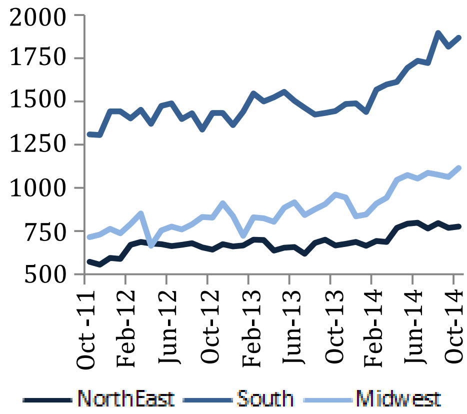
- **Increasing operating performance and cash flow through aggressive management of acquired/owned stores** – Sovran differentiates themselves from competition and other self-storage facilities through their centralized customer call center that is available 24/7, 360 days a year. In addition, they offer customer care, which allows customers to access their storage lockers at any time. The Uncle Bob's truck move-in program assists customers moving in or out from their facilities. These value-added services aim to increase customer satisfaction and increase occupancy rates.
- **Expanding market share through third party management and joint ventures** – Sovran's views these management partnerships as a pipeline for future acquisitions. This strategy allows the company to test potential markets in which Sovran does not currently have exposure, as well as to strengthen their presence in their current markets. In the event that these managed properties become available for sale, Sovran has the right to agree or disagree to the terms. The strategy in acquiring these propertied is driven by Sovran's ability to maximize occupancy rate per facility through leveraging their economies of scale.
- **Cost and Price efficiency** – Sovran's web based advertisements and computer applications provide the company consistent real-time flow of information. The application enhances customer account management, which automatically provides

Figure 5: Customer Base



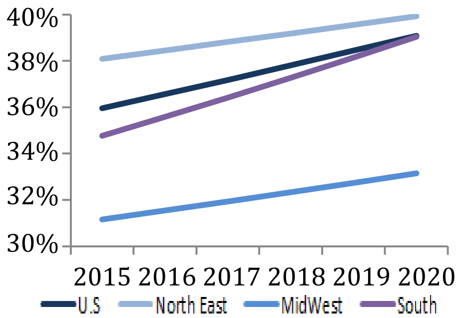
Source: *Company Presentation*

Figure 6: Job Openings by Region



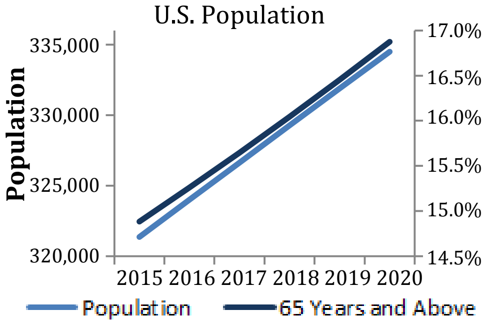
Source: *U.S. Bureau of Labor Statistics*

Figure 7: Rental Rates



Source: *Team Estimates*

Figure 8: Aging and Growing U.S. Population



Source: *U.S Census Bureau*

move-in and move-out analysis, impositions of late fees, and marketing reports to improve regional marketing efforts. The revenue management system accesses multiple market characteristics to determine optimal pricing (Appendix F). Sovran's information system is linked with each of the primary sales channels, which essentially provides managers with real time access to space and inventory availability, pricing, promotions, and other useful marketing information.

Management & Governance

Sovran's executive management team has been a key driving force behind the Company's overall success. All four co-founders of Sovran: Robert Attea, David Rodgers, Kenneth Myszka and Charles Lannon, maintain active roles with the Company executing the overall strategy and shaping its direction. The entire executive management team (Appendix K) averages more than 25 years of experience with Sovran and in the self-storage industry. Management has effectively navigated through multiple economic cycles, most notably in 2008 when they reacted appropriately to market conditions by deferring expansion plans, reducing dividends and improving efficiencies and core operations.

In terms of Corporate Governance, Sovran is highly rated (Appendix N). Like most REITs, Sovran is incorporated within the state of Maryland. The state offers specific REIT protection laws in terms of broader liability protection, better protection against hostile takeovers and easier bylaw amendment provisions. The strengths of Sovran's corporate governance can be seen in the following areas:

- **Committees -** Established Audit, Compensation, and Governance Committees to oversee and direct company operations (Appendix M).
- **Shareholder Rights –** One vote per share voting policy; minority shareholder interests protected through rights to call special meetings, right to dividends and REIT stipulation that five or fewer investors cannot own more than 50% of SSS share.
- **Company Code of Ethics-** Created code of ethics for entire company as well as one charter for senior financial officers to follow.

Industry Overview and Competitive Positioning

Demand Drivers

The demand for Sovran's self-storage facilities comes primarily from four types of customers: Residential, Commercial, Students, and Military. Residential areas account for the largest portion of customers in the Self-Storage Industry. Multiple economic factors were examined in order to understand the impact of Sovran's reliance on residential areas (Figure 5). These factors play a role in both consumption and residential investment:

Strong U.S. Economic growth

Overall, the U.S. economy has witnessed a relatively strong recovery since the 2008 recession. The wealth effect from the QE program has lifted consumer spending and reduced unemployment rates to their current value of 5.6%. U.S. GDP is trending upwards and is forecasted to increase to 3% through the end of 2015 (Appendix H). Strengths in both the current and projected macroeconomic factors have encouraging implications for the Self-Storage Industry.

Job Growth

Job openings and labor turnover (JOLTS) indirectly impact the Self-Storage Industry. An increase or decrease in job openings affects moving rates which is a primary driver of sales in the industry. There has been an upward trend in job openings (13% 3-year CAGR) and separations (6% 3-year CAGR) over the past three years in Sovran's three major geographic regions (NE, S, MW) (Figure 6). The increase in job openings implies increased moving rates; this is projected to continue through 2020. The increase in separations, which suggests an increased level of comfort, will lead to greater job turnover.

Demographics

The density of population in metropolitan areas, the expected population growth, average household size, and the age of the population directly affects the self-storage sector. According to the U.S. Census Bureau, homeownership rates have been decreasing and rental rates have been increasing at a 5-year CAGR of roughly 1.5% in Sovran's three main geographic regions. This upward trend in rental rates is projected to continue through 2020 (Figure 7). The U.S. population is both aging and growing; nearly 17% of the population is projected to be age 65 or above by 2020 according to U.S. Census projections (Figure 8). An increase in the average age, which is propelled by the

Baby Boomers, is a positive indicator for Sovran, as an increase in retirement leads to an increase in moving rates, which directly impacts self-storage.

Table 1: Self Storage Facility Growth

Year	Facilities	Annual Growth	Annual %
2015E	52,754	678	1.30%
2014E	52,076	668	1.30%
2013E	51,408	684	1.35%
2012	50,724	676	1.35%
2011	50,048	692	1.40%
2010	49,356	635	1.30%
2009	48,721	1,207	2.54%
2008	47,514	2,540	5.65%
2007	44,974	2,007	4.67%
2006	42,967	1,845	4.49%
2005	41,122	2,305	5.94%

Source: *Self Storage Association, Team Estimates*

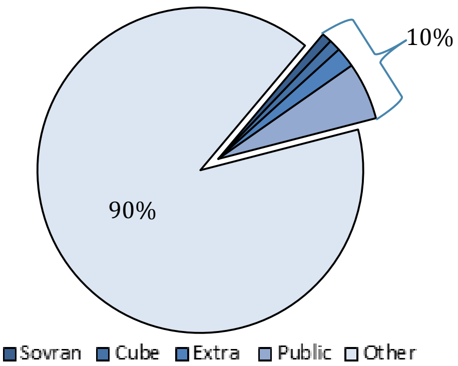
Industry Supply

Over the past fifteen years the total supply of self-storage space has more than doubled from 3.31 to 7.30 square feet of space per person. This significant industry growth can be attributed to greater public awareness of the economic and personal advantages of self-storage. Increased awareness and desire for self-storage is demonstrated by the considerable growth in occupancy rates throughout the industry. These rates have been reported as high as 87.4% in Q3 of 2013, outpacing supply growth. The industry supply is projected to grow at 1.30% from 2014 to 2015 (Table 1). Increased demand for self-storage, coupled with the high costs associated with building new facilities, explains why many areas in the country are currently undersupplied. New York, Sovran's third biggest market, is one of the many states projected to see growth in self-storage saturation levels, measured in terms of square footage per person (Appendix J). While there is demand for self-storage in many areas, whether or not there will be the necessary supply is unclear, as the cost is higher for creating storage facilities than developing acquired storage facilities.

Self-Storage Industry

The Self-Storage Industry has been one of the fastest growing sectors in the U.S. commercial real estate industry over the last 38 years. According to the Self-Storage Association, the U.S. had over 48,500 "primary" self-storage facilities last year. Combined, they amounted to 2.3 billion square feet of space for lease and generated $24B in revenue.

Figure 9: Industry Revenue Breakdown



Source: Self Storage Association

Sovran, and their main competitors (Public Storage, Extra Storage Space, and CubeSmart), own, operate, and manage approximately 4,332 facilities, about 9% of all self-storage facilities in the United States. This accounts for roughly 10% or $2.4B of the Industry's revenue (Figure 9).

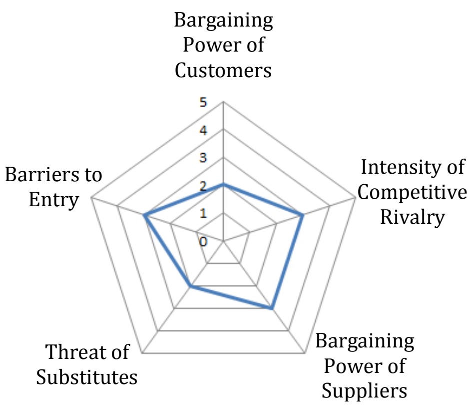
In addition to the public companies in this industry, there are more than 110 privately-held firms that own and operate 10 or more self-storage facilities each; about 2,450 firms that own and operate 2-9 self-storage facilities; and approximately 30,800 firms that own and operate just one facility.

Recent Trends and The Advancements of Storage facilities

Most of the self-storage facilities in operation today would be classified as second generation facilities. They characteristically have rows of storage buildings with a limited amount of multi-story facilities. In recent years large public self-storage operators have been able to differentiate themselves, implementing solutions which allow them to simultaneously improve customer satisfaction and cut costs. This is reflected in their new third generation facilities that effectively create a stable and upscale image that cultures a strong perception of trust among local consumers. This is also done through: location and convenience, web integration, call centers, and on-site automation.

The smaller competitors struggle to compete due to their inability to finance the necessary capital expenditures on information systems. With increased familiarity of self-storage and third generation facilities, the industry's demand expanded with the need for extra business space as well as residential space.

Figure 10: Porter's Five Forces



Source: *Team Calculations*

Competitive Positioning

The small and fragmented nature of the overall self-storage market presents a number of opportunities for growing players such as Sovran. However, in a rising real estate cost environment – paralleled by increasing demand and limited supply - Sovran is forced to pay larger upfront prices for their acquired properties than ever before.

The strengthening trends in internet marketing and local competition are making it difficult to maintain pricing power as knowledgeable customers have begun to exercise their negotiating power (Appendix O: Porter's Five Forces). As companies such as Sovran reach peak occupancy levels, pricing power becomes critical for future revenue growth. It is therefore important to have top-tier internet marketing and data integration architectures in place. Sovran's competitive advantage lies in their impressive call center, revenue management system, and web marketing feedback loops (Appendix F). Their brand awareness, experienced management team, and third-generation storage facilities provide additional depth to their relative competitive position.

In addition to their storage practices, Sovran engages in third party management

Figure 11: Integration of Management Platform

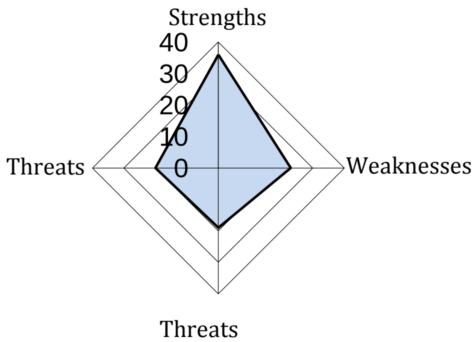
Source: *Company Website*

systems and joint ventures as a way to generate additional revenue, exercise their industry expertise, and provide a pipeline for future acquisition targets with tried and tested market data. These practices, namely the third party management systems, are not performed on the same scale as competitors EXR and CUBE, mostly because it is not the strategic direction of the company to enhance said practices. A detailed competitive analysis can also be found in Appendix I.

Competiting Positioning	SSS	EXR	CUBE	PSA
Market Capitalization	$3.08B	$7.35B	$3.86B	$34.29B
Number of Properties	478	779	366	2,200
Number of Square Feet	32,355,667	73,142,740	24,662,105	141,019,000
Occupancy Rates	88.10%	88.00%	88.30%	91.80%
Number of Acquisitions	11	78	20	121
Third Party Management Parnerships	22	250	-	42
Number of Joint Ventures	55	273	35	187
Revenue	$255.3M	$532.3M	$317.2M	$2,039.3M

As of December 31, 2013

Figure 12: SWOT Analysis (Appendix P)



Source: *Team Calculations*

Investment Summary

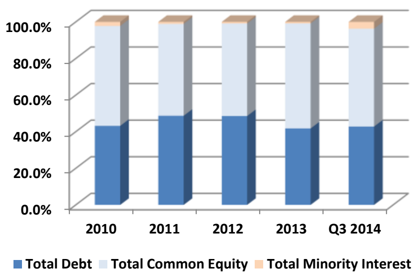
We issue a **Hold** Recommendation on Sovran Self Storage (SSS) with a target price of **$95** using a Discounted Cash Flow Analysis, a Relative Multiples Valuation, and a Dividend Discount Model. This valuation is supported by numerous merits, as outlined below, as well as concerns taken into consideration:

Merits

Strong Management Use of Technology Platforms

SSS has been able to take advantage of their economies of scale by heavily investing in innovative technology platforms through their partnership with VeriTec Solutions. These platforms allow the company to quickly revamp business functions of newly acquired storage facilities and optimize their revenues more efficiently. The integration of the revenue management system, call center, and web based marketing allows SSS to take advantage of the industry shift to mobile, improve occupancy rates, and continue to drive top line growth into the future.

Figure 13: Historical Cap Structure: Book Value



Source: *Team Calculations*

Improving Financial Position and Increasing Dividend Yield

SSS is currently the least leveraged self-storage company among its peers. The DCF model projects that this will remain the case over the next five years as Sovran's debt to assets steadily decrease as a result of their 70% equity and 30% debt financing. Current management has stressed the need to maintain their BBB- investment grade rating in order to keep debt service costs low. This will enable the Company to expand its current 3.3% dividend yield, which they have done each year for the past three years.

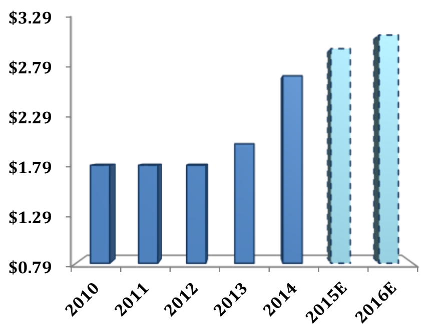
Sovran Stands to Benefit from U.S. Economic Recovery

The self-storage industry will benefit from multiple economic tail winds over the foreseeable future, including:

- The unemployment rate has declined from 9.9% in December 2009 to 5.6% in December of 2014. This is the lowest the unemployment rate since June of 2008.
- Over the past 3 years, especially in regions where Sovran is located, there has been an increase in the number of job openings and labor turnover.
- Americans aged 65 and above, as a percent of the total population, is projected to grow from 14.9% in 2015 to 16.9% in 2020.
- The homeowner rate has declined from 67.4% in 2009 to 64.6% in 2014 in the United States.

We expect that this momentum will be sustainable for the U.S. Economy and accretive to the self-storage industry.

Figure 14: Annual Dividends



Source: *Team Calculations*

Transparent Acquisition Pipeline

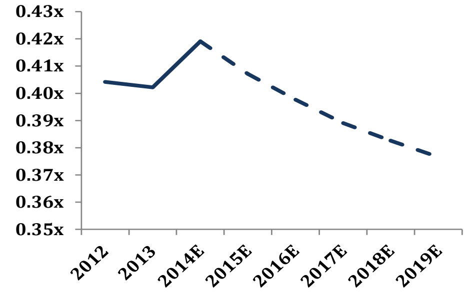
In a fragmented industry that is facing consolidation, Sovran has proven their continued ability to execute on their acquisition pipeline. Their third party management relationships and joint ventures have and will continue to provide test market scenarios through which Sovran can increase their strategic market presence. The predictability of their acquisition pipeline, through these external operations, breeds confidence in the DCF's assumptions.

Concerns

Future Growth Constrained by Maturing Occupancy Rates

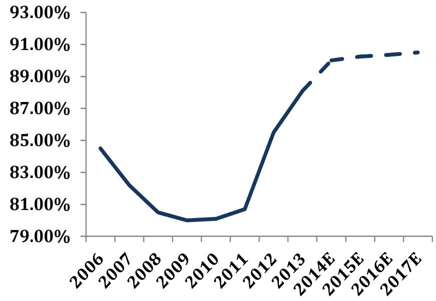
Over the past two years, revenue growth has been primarily driven by improving occupancy rates. According to our assumption that Sovran's peak occupancy levels of 90.5% are near fruition (2017), Sovran will no longer be able to grow significantly

Figure 15: Long Term Debt to Assets



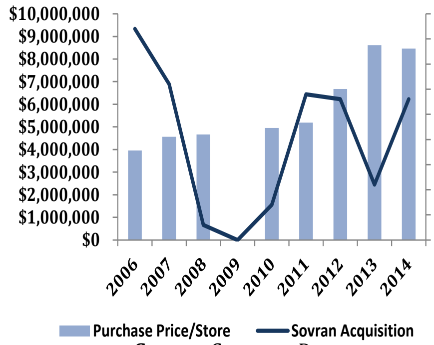
Source: *Company Data, Team Calculations*

Figure 16: Occupancy Rates



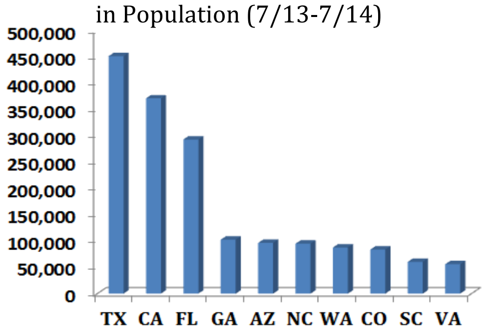
Source: *Company Data, Team Estimates*

Figure 17: Historical Acquisitions



Source: *Company Data*

Figure 18: States with Greatest Increases in Population (7/13-7/14)



Source: *U.S. Census Bureau*

through this medium. Therefore, revenue growth is dependent on Sovran's ability to implement pricing power, which is currently being diluted by a more educated consumer base.

Increasing Price of Future Acquisition Targets

Sovran's price per acquired store has increased 71% since 2010 and 114% since 2006. If this trend continues, in order to grow at a constant rate, Sovran will be forced to issue larger sums of equity, diluting outstanding equity offerings. In addition, the premium paid for these facilities will drive up acquisition costs, hindering margins and tying up valuable capital which could be used in alternative business operations.

Potential for Increase in Supply Growth

The likelihood that banks loosen their credit policies, as discussed in the Investment Risk section, will further decrease the barriers to entry in the self-storage industry. In addition this will further fragment the self-storage market, reducing Sovran's market share, pricing power, and potential revenue growth

Highly Competitive Market

As Sovran continues to compete for market share against large self-storage companies – both public and private – they face the risk of limited pricing power and acquisition bidding wars. Increased web search optimization efforts among competitors will not only drive up SG&A Expenses, it will also drive down rental prices. As both of these factors limit profitability and growth, Sovran will no longer see margin expansion at the same rate they have seen in the past.

Financial Analysis

Financial Condition	2012	2013	2014E	2015E	2016E	2017E	2018E	2019E
Profitability								
NOI / EBITDA Margin	51.4%	53.5%	53.1%	53.1%	53.4%	53.5%	53.6%	53.7%
Operating Profit Margin	34.0%	37.0%	35.6%	35.6%	35.8%	35.9%	36.2%	36.3%
Net Profit Margin	23.8%	27.1%	26.2%	26.2%	26.6%	26.6%	27.1%	27.1%
Return on Assets	3.7%	4.7%	4.5%	4.5%	4.6%	4.6%	4.7%	4.7%
Return on Equity	7.5%	8.4%	8.2%	8.1%	8.1%	8.0%	8.1%	8.0%
Liquidity								
Current Ratio	0.08x	0.36x	0.25x	0.17x	0.13x	0.10x	0.09x	0.08x
Cash Ratio	0.05x	0.22x	0.14x	0.11x	0.08x	0.06x	0.06x	0.05x
Activity								
Accounts Receivable Turnover	68.11	53.43	54.63	50.00	49.81	49.58	49.20	48.76
Total Asset Turnover	0.16x	0.18x	0.17x	0.17x	0.17x	0.17x	0.17x	0.17x
Fixed Asset Turnover	0.17x	0.18x	0.18x	0.18x	0.18x	0.18x	0.18x	0.18x
Financial Leverage								
Long-term Debt to Assets	0.40x	0.40x	0.42x	0.41x	0.40x	0.39x	0.38x	0.38x
Long-term Debt to Equity	0.81x	0.71x	0.77x	0.73x	0.70x	0.68x	0.66x	0.64x
Debt to Equity	0.94x	0.72x	0.78x	0.79x	0.79x	0.80x	0.80x	0.81x
Financial Leverage	2.00x	1.77x	1.83x	1.80x	1.77x	1.75x	1.73x	1.71x
Interest Coverage	2.40x	3.16x	3.56x	3.56x	3.57x	3.56x	3.56x	3.54x
Debt Service Coverage	3.62x	4.57x	5.31x	5.31x	5.32x	5.30x	5.27x	5.24x
Shareholder Ratios								
FFO per Share	$3.14	$3.72	$3.94	$4.18	$4.41	$4.61	$4.77	$4.89
Dividend Payout Ratio (2)	55.4%	52.3%	67.4%	67.4%	67.0%	67.0%	66.9%	66.9%

(1) Days Inventory Outstanding as Sovran has no Inventory

(2) Payout Ratio against Funds From Operations

Overview

The financial condition chart above reveals Sovran's prospects moving forward, highlighting our assumptions (See Appendix D for full financial projections). Based on our vertical analysis of historical financials, 2013 is not an ideal starting point for projections given the abnormal number of acquisitions (See Figure 17).

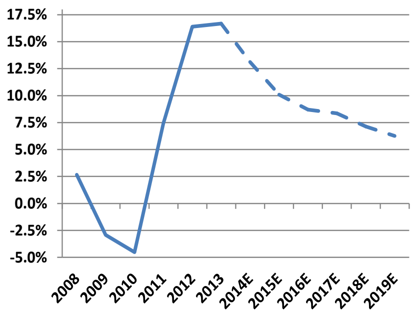
Favorable Demographic Trends Strengthen Growth Prospects

Texas and Florida, both retirement friendly states, account for 40% of Sovran's 2013 Revenue. The increasing population density over the age of 65 in the United States, alongside numeric growth in state specific populations (Figure 18), presents an attractive opportunity for Sovran. We forecast that these trends will continue into the near future and that Sovran will look to expand in these states through acquisitions. These macroeconomic movements give Sovran the ability to improve occupancy rates (Figure 16) and raise asking rate per square foot, ultimately driving top line growth.

Transition in Business Strategy Constrains Margins

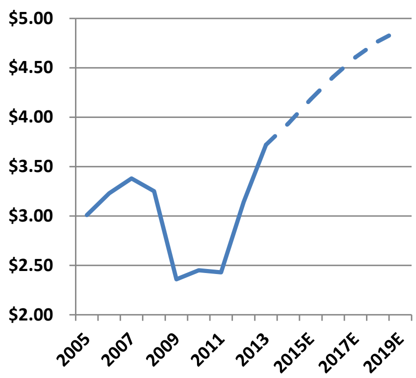
Average price per property acquired by Sovran has grown at a 4-year CAGR of 11.3%.

Figure 19: YoY Revenue Growth



Source: *Company Data, Team Estimates*

Figure 20: FFO / Share



Source: *Company Data, Team Estimates*

Due to these rising real estate costs, forward looking acquisition rates for Sovran are projected to lead to margin constraints. Higher acquisitions costs lead to an increase in property expenses as a percentage of total revenue which directly affects the bottom line.

Flexibility in Financing Future Ventures

Management has stated that future acquisitions and projects will be funded through a 70% Equity and 30% Debt structure. Sovran has the ability to benefit from future Equity issuance as a result of recent share price appreciation. The combination of Sovran's target capital structure and their appreciated share price will allow them to acquire a more diversified portfolio of facilities. The revenue generated from these increased acquisitions will lead to FFO growth.

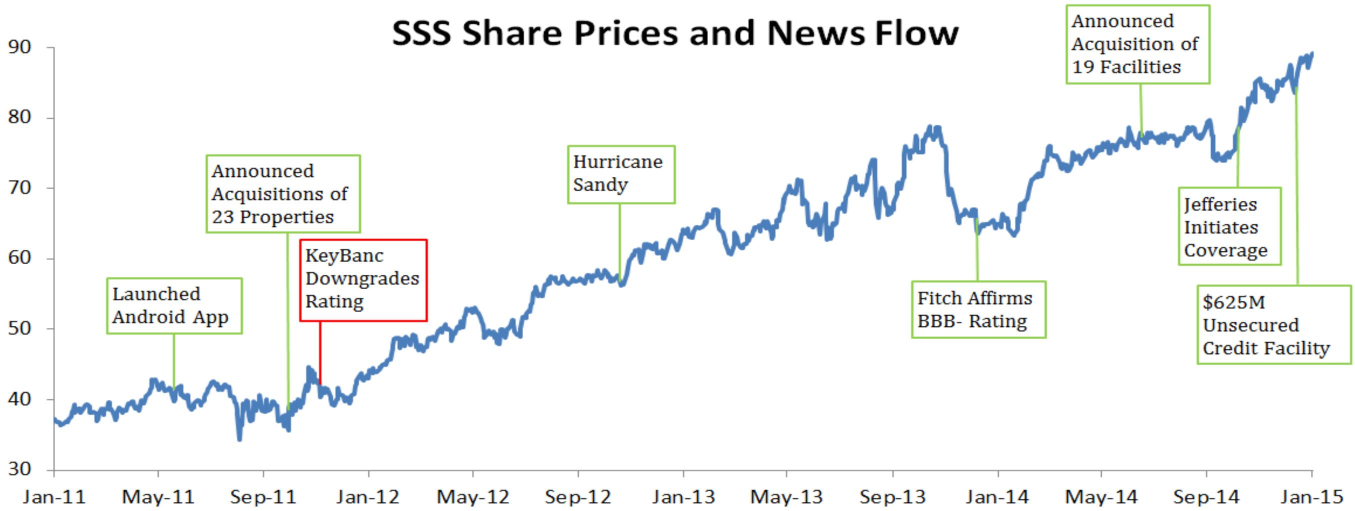
ROE Decomposition

Sovran boasts a 2013 ROE of ~8.4%, which we have projected to decline in 2014 to ~8.21% and then further to 7.97% in 2019. The main drivers of this decline include the stagnant, if not declining, profit margins in our build, as well as the decreased financial leverage over time. ROE is negatively skewed because of the issuance of Equity for acquisition targets. See Appendix T.

ROE Decomposition	2013	2014E	2015E	2016E	2017E	2018E	2019E
Net Profit Margin	27.1%	26.2%	26.2%	26.6%	26.6%	27.1%	27.1%
Asset Turnover	17.5%	17.1%	17.2%	17.2%	17.2%	17.3%	17.2%
Financial Leverage	1.768	1.833	1.800	1.772	1.746	1.728	1.711
ROE	**8.39%**	**8.21%**	**8.10%**	**8.11%**	**7.98%**	**8.07%**	**7.97%**

Optimistic Outlook for Self-Storage Business

The attractive economic outlook, combined with a strong consolidation strategy and economies of scale, leads to a projected 5-year revenue CAGR of 8.1%. NOI is forecasted at a 5 year CAGR of 8.3%, which alludes to Sovran's strength in operating leverage despite increasing property expenses. Strong managerial strategy in profitable geographic regions affords Sovran the opportunity to return value to shareholders (Appendix V) through increase funds from operations. FFO per share is forecasted to grow at a 5 year CAGR of 3.9% (Figure 20).



Valuation

Valuation Price Target: **$95** Recommendation: **Hold**

A number of valuation methodologies were utilized in deriving a target price for SSS. Including a 5 and 10 year DCF, a Relative Multiples Valuation, a Dividend Discount Model, and a Net Asset Value Comparison.

DCF Model

A discounted cash flow analysis was used to estimate the intrinsic value of SSS's share price due to the predictability of cash flows in relation to growth and profitability. The primary model is forecasted five years, mainly because of Sovran's acquisition program, which is heavily dependent on real estate price changes. This model is driven by Net Operating Income (NOI) as a proxy for free cash flow (Appendix Y). NOI represents Rental Income less Op. Ex. and SG&A and is the equivalent to EBITDA for a REIT. The DCF was expanded into a 10-year time frame to understand potential limitations within our model; the finding was consistent in supporting our 5-year DCF model which generated a price target of $95.02.

The base case for this model was formulated using guidance from historical performance, industry outlook, an assessment of SSS's competitive positioning, and company guidance on acquisitions, revenue, and earnings growth. The DCF is most sensitive to the following factors, the derivations of which are explained below:

Weighted Average Cost of Capital (WACC)

To better estimate an appropriate discount rate, the WACC was split into two tiers. The first tier spans 2015-2016 and is structured to more accurately reflect the projection of the 10 year treasury rates following the expected rate hike in 2015. The second tier is adjusted for the normalization of interest rates from 2017-2019. To calculate Beta, linear regressions of SSS's stock price were run against the S&P 500 for two time periods (5-year monthly and 3-year Weekly) and then averaged and adjusted (Appendix S and Table 3). CAPM was used to estimate Cost of Equity, while a risk free rate plus a BBB- bond spread (I-Spread) was used to calculate Cost of Debt. Because Sovran does not pay income tax, there is no after tax figure in this calculation. The target capital structure of 70% equity and 30% debt is utilized from 2017-2019 (Table 2).

Table 2: WACC Analysis

WACC Analysis	Years 1 -2	Years 3-5
Risk Free Rate	2.75%	3.50%
S&P 500 Adjusted Beta	0.913	0.913
Market Risk Premium	7.25%	6.50%
Cost of Equity	**6.86%**	**6.24%**
Risk Free Yield	2.75%	3.50%
BBB- I Spread	3.17%	3.17%
Cost of Debt	**5.92%**	**6.67%**
Market Value of SE	80.09%	70.00%
Interest Bearing Debt	19.91%	30.00%
WACC	**6.67%**	**6.37%**

Source: *Team Calculations*

Capitalization Rate (Cap Rate)

Cap rates are an efficient way to analyze the expected rate of return on a particular property based on the amount of income said property is expected to generate. Utilizing a company-wide cap rate (which is determined in part by industry outlook and in part by company specific properties and operations) and then applying it across all of Sovran's properties, permits the estimation of the market value of Sovran's portfolio. The cap rate was also used to derive a terminal value for the DCF, making the model very sensitive to changes in the rate.

Table 3: Beta Calculations

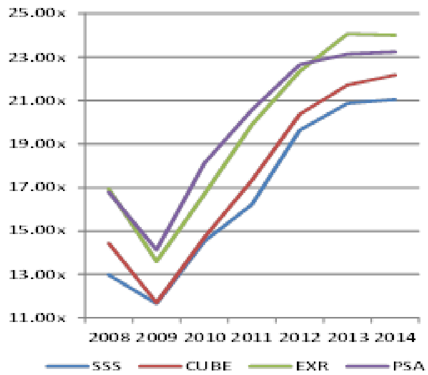
Beta Analysis	SSS	CUBE	EXR	PSA
5Y Monthly Beta S&P	0.84	1.07	0.95	0.77
R-Squared	0.24	0.31	0.32	0.32
Standard Error	0.194	0.211	0.182	0.148
5Y Monthly Beta RMZ	0.98	1.19	1.03	0.92
R-Squared	0.57	0.64	0.63	0.77
Standard Error	0.113	0.117	0.104	0.067
3Y Weekly Beta S&P	0.90	0.87	0.88	0.75
R-Squared	0.25	0.25	0.27	0.27
Standard Error	0.125	0.124	0.117	0.099
3Y Weekly Beta RMZ	1.00	0.89	1.00	0.89
R-Squared	0.53	0.43	0.59	0.65
Standard Error	0.076	0.082	0.067	0.053
Average of S&P 500 5Y & 3Y Betas	**0.87**	**0.97**	**0.92**	**0.76**
Average of RMZ 5Y & 3Y Betas	**0.99**	**1.04**	**1.01**	**0.91**

Source: *Team Calculations*

Revenue Growth

Revenue growth for Sovran is based primarily on improving occupancy rates, successful implementation of more expensive asking prices per square foot, and a positive net acquisition growth rate. SSS has shown significant growth in occupancy rates over the past several years (Figure 16). However, moving forward Sovran will encroach upon their peak occupancy level of 90.5%, limiting future growth in this manner. Future revenue growth will be driven by pricing power and a 5-year acquisition CAGR of 5.25% from 2015-2019. Favorable future industry supply and demand characteristics, along with strong competitive positioning in numerous undersupplied areas throughout the eastern coast, leads to a 5-year average asking rate per square foot CAGR of 2.25%, according to the model. The combination of changes in occupancy rates, pricing power, and acquisitions resulted in a 5-year revenue CAGR of 8.1%.

Figure 21: Historical EV / EBITDA



Source: *Team Calculations*

Terminal Growth

As industry characteristics continue to improve and real estate prices become inflated, SSS's acquisition growth rate will slow. This rate will reach a terminal growth rate equal to expected inflation of 2.5%, which was accounted for in the 10 year DCF model.

DDM Model

SSS has a strong history of returning cash to shareholders through dividends. As a REIT, they are required to pay out 90% of taxable income as dividends, and Sovran has been able increase dividend payments since 2010 at a 3-year CAGR of 7.2%. In addition, on 01/05/2015 Sovran raised quarterly dividends from $0.68 to $0.75, resulting in a dividend yield of 3.30% - the most impressive amongst Sovran's peers. The forecasted 5-year dividend CAGR of 3.1% is driven by a historically derived payout ratio. The DDM calculates an intrinsic value of ~$96, which reaffirms our Hold recommendation (Appendix AA and Table 4).

Relative Valuation

Relative valuation was primarily focused on an EV/EBITDA multiple. This is due to:

1) The compact spread from the 1st to the 3rd quartile of the peer group EBITDA
2) The similar trends in historical multiple movements (Figure 21).
3) The importance of EBITDA as a comparable pre-interest, pre-depreciation and amortization cash flow figure.

This analysis leads to an intrinsic value of $94.96 for SSS, a ~4.5% premium to the current trading price. Due to the small premium we remain confident that this valuation reaffirms our Hold recommendation and validates our target price $95 (See Appendix Q for complete valuation).

Table 4: EV / EBITDA

Median EV from EBITDA Multiple	$3,978,561,373
Less: Debt	$762,620,000
Less: Minority Interest	$14,800
Plus: Cash and Cash Equivalents	$0
Equity Value	**$3,215,926,573**
Fully Diluted Shares Outstanding	33,867,243
Intrinsic Value per Share	**$94.96**

Current Trading Price (01-06-2015)	$90.90
Discount to Valuation	4.5%

Source: *Team Calculations*

Net Asset Value (NAV)

The market value of a property is calculated by dividing a property's expected generated income by its assumed cap rate. By taking SSS's NOI, dividing it by our assumed cap rate,

Table 5: NAV Calculation

NAV Build	SSS
	2015E
NOI [1]	$179,588,710
Cap Rate	5.25%
Market Value of Current Portfolio	**3,420,737,329**
Assets	
Cash	11,920,000
Other Current Assets	68,907,245
Total Assets	**80,827,245**
Gross Net Asset Value	**3,501,564,574**
Total Liabilities	**881,870,000**
Preffered Stock	**0**
Net Asset Value	**2,619,694,574**
Fully Diluted Shares Outstanding	33,867,243
NAV per Share	**$77.35**
Current Share Price (01/06/2015)	$90.90
Premium (Discount) to NAV	**17.51%**

(1) Average of 10,000 Simulations for SSS

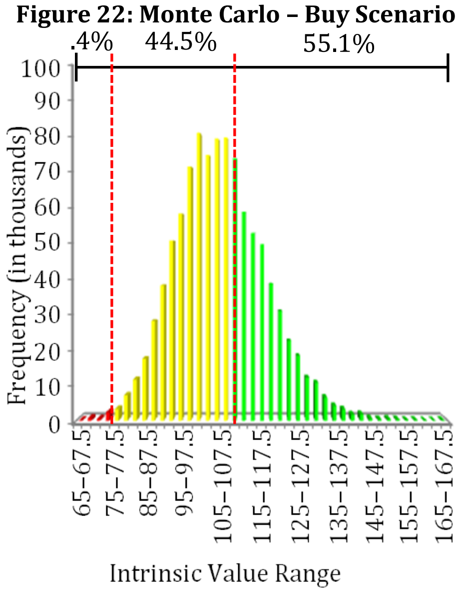
Source: *Team Calculations*

Table 6: 5-year Base Case Statistics

Simulation Statistics 5Yr	
Mean	94.8
SD	11.3
25th Percentile	86.9
Median	94.2
75th Percentile	102.0

Source: *Team Calculations*

Figure 22: Monte Carlo – Buy Scenario



Source: *Team Calculations*

Table 7: Buy Scenario Statistics

Simulation Statistics	
Mean	104.7
SD	12.4
25th Percentile	96.1
Median	104.0
75th Percentile	112.8

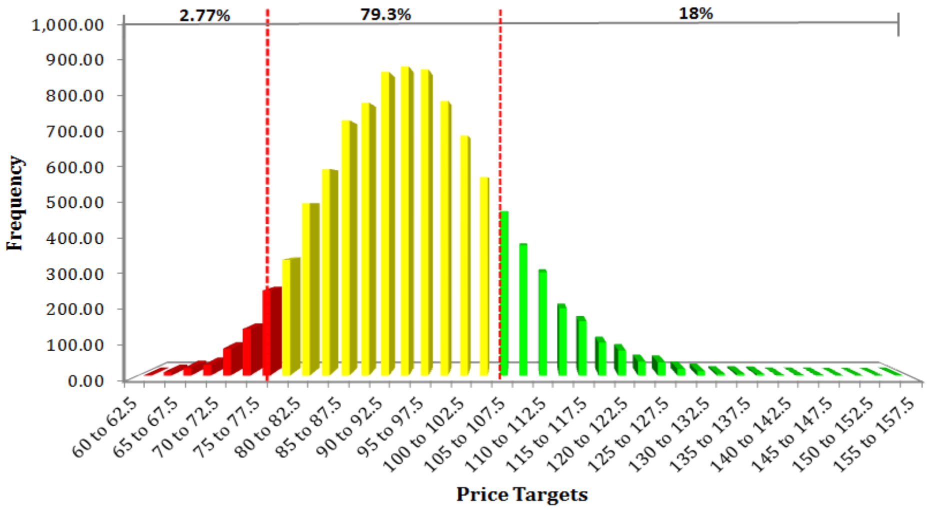
Source: *Team Calculations*

and then adjusting for certain assets and liabilities, a NAV was calculated. Comparing the premium or discount at which SSS trades, shows how the market has priced these self-storage stocks in relation to one another (See Appendix R and Table 5). What this analysis reveals is that Sovran trades at ~17.7% premium to NAV, in comparison to ~15.6% for PSA, ~14.8% for CUBE, and ~2.2% for EXR. This suggests that SSS is being valued at a slight premium to its peers; however, the premium is not significant enough to justify a Buy or Sell.

Monte Carlo Simulation

A Monte Carlo Simulation was utilized in analyzing the potential outcomes of Sovran's growth prospects. This methodology simulates a range of possible outcomes for the multiple variables determining the intrinsic value of SSS's stock price. Key factors for this model include SSS's asking rate per square foot, average occupancy rates, net acquisition rates, the 10 year treasury yield, and the assumed cap rate. These inputs are vital to the DCF given its sensitivity to each input, primarily the cap rate. 10,000 simulations were run which accounted for each possibility of a feasible change in important company specific, industry macroeconomic factors. These inputs (Appendix Z) lead to a Price Target of $94.96, and a 79% confidence level in our Hold recommendation.

Monte Carlo – 5-year Base Case



Price Target and Range

The $95 Target Price is derived primarily using the 5-year DCF with a Monte Carlo simulation. This target price was supported by the 10-year DCF, DDM and relative valuation model. All of these models were designed to account for market conditions, historical financial information, industry trends, and other macroeconomic factors. The $95 Target Price results in a Hold recommendation. Appreciation towards this price target combined with SSS's current dividend yield would result in a yield of ~7.8%.

Impact and Application

The Hold recommendation is based on our analysis that the market has adequately priced Sovran's current and future growth expectations. The potential for margin contraction as a result of rising acquisition costs has not been fully realized by the market. The limitations affect bottom-line growth, preventing us from forecasting double digit NOI growth. This recommendation would only shift to a Buy in the event that Sovran were able to grow at a 5-year CAGR of 11% (See Table 7 for Price Target).

To grow at this rate. Sovran must be able to successfully penetrate the Chicago market. This would establish another footprint in a large metropolitan area, giving Sovran management the confidence to considerably expand into the Midwest. These growth expectations also take into consideration very limited industry supply growth, as well as the preservation of margin levels similar to those enjoyed in 2013. However, these assumptions are unlikely due to the probability of banks easing loan requirements, bidding wars from increased competition, and the expected increase in real estate prices. The "buy" scenario is discussed in further detail in Appendix AB.

Based on expectations built into the base DCF model, Sovran would need to trade at an EV/EBITDA multiple of 19x and a premium to their NAV of ~11%. Put another way, Sovran's would be a Buy if the current trading price dropped below $81. This shift would mean an entry point that provided a 15% upside, which includes Sovran's 3.3% dividend yield, based on Price Target of $95.00.

Investment Risks

Regulatory Risk:

REIT Classification Restrictions (RR1)

In order for Sovran to maintain their classification as a REIT, 75% of the revenue must come from rental operations and they must distribute 90% of their taxable income to shareholders. In the future, this may restrain the growth in their ancillary business segment, which has been growing at a 3-year CAGR of 17%.

Market Risks:

Sudden Rise in Interest Rates (MR 1)

The Company's revolving line of credit is floating rate (1-Month LIBOR + 1.3%); a steady or dramatic rise in interest rates could affect Sovran's ability to pay the outstanding balance on their revolving line of credit. This would negatively impact their acquisition strategy if access to capital is being constrained. This does not suggest that high interest rate environments are detrimental to REIT performance (Table 8), however, sudden spikes in interest rates are, as investors are quick to search for yield elsewhere.

Illiquid Real Estate Market (MR 2)

Illiquidity of Sovran's real estate investments may limit its value. Due to the large size and cost of many of the storage facilities, SSS may be unable to dispose of a property that is ineffective or not part of the company's business strategy - forcing SSS to possibly sell a facility at a discount. Mitigation of this risk is dependent on the management's ability to swiftly respond to changes in economic conditions.

Economics Risks:

Banks ease internal loan requirements; Hoard less cash (ER 1)

Storage facility supply has been growing at a slow rate of 1.74% per annum since the financial crisis of 2008. The tightened restrictions outlined in the newly implemented Basel III requirements have made it more difficult for small business to receive funding from banks. In the likely event that these requirements loosen and or banks begin releasing more cash (Appendix C), the self-storage industry supply growth will likely trend upwards. The formation of a significant amount of new supply would weaken SSS's pricing power and likely drive down occupancy rates.

Slowdown of US Job Market (ER 2)

Job turnover and wage growth are major macroeconomic factors affecting the demand for storage facilities. In this stage of the economic recovery wage growth, job openings and job separations are slowly increasing. A decline in the rate of either of these factors would constrain the demand for SSS's storage facilities.

Operational Risks:

Acquisition Risk (OR 1)

Sovran faces a significant amount of acquisition risk due to their aggressive growth strategy. There is a probability that investments will fail to perform in accordance with managerial expectations. The potential performance of acquisitions is subject to judgments by management with respect to the prices they pay to acquire facilities and the costs of any improvements required to bring an acquired property up to SSS's standard.

Loss of BBB- Credit Rating (OR 2)

A lowering of Sovran's credit rating would push SSS into junk bond status, forcing them to pay penalties in the form of higher interest rates on their privately placed debt (Appendix X).

Liquidity Risk (OR 3)

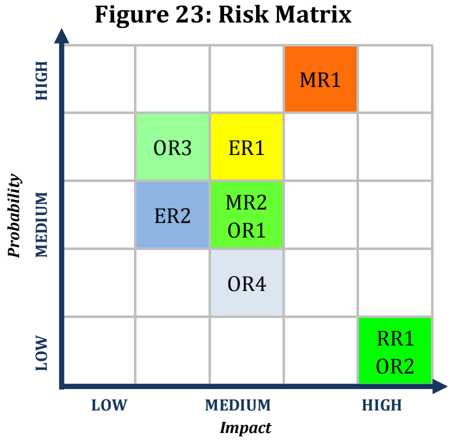
Sovran's liquidity has been historically low in recent years, and will likely continue to be so as the Company is unable to keep large amounts of cash on hand. Sovran consistently distributes large amounts of cash to shareholders because of their requirements as a REIT. This lack of cash on hand can hinder Sovran's debt and equity structure, as well as daily operations. Despite access to a large line of credit, Sovran's acquisitive strategy is the major use of these funds.

Other Risks:

Lack of Independence among Board of Directors (OR 4)

Sovran meets the SEC's requirement and definition of independent board directors. However, the long term tenures of two independent directors, Anthony Gammie and Charles Lannon, present potential conflicts of interest between management and shareholder alignment (Appendix L and Table 10).

Figure 23: Risk Matrix



Source: *Team Calculations*

Table 8: REIT Performance

REIT Performance in a Rising Rate Environment		
Period	**Performance**	**10 Year Tresuries**
1979-81	133.8%	9.1% to 15.3%
1987	-6.6%	7.1% to 9.0%
1994	2.7%	5.7% to 7.8%
1996	37.1%	5.6% to 6.3%
1999	-2.6%	4.7% to 6.7%
2003-07	131.4%	3.3% to 5.0%

Source: *Barclays*

Table 9: Risk Mitigation

Risk	Mitigating Factors
Rise in Interest Rates	Usage of interest rate swaps
Illiquid Real Estate Market	Managements ability to swiftly respond to economic conditions
Easing of Loan Requirements	Increasing market share in-line with supply growth
Slowdown of US Job Market	Economies of scale relative to competitors
Acquisition	Test drives markets through joint ventures
Decreased Credit Rating	Maintaining capital structure target
Liquidity Risk	Manageable debt structure and equity offering program
Lack of Board Independence	Compliance with SEC requirements

Source: *Team Analysis*

Table 10: Board Independence

Board Member	Independent	Tenure (Yrs)
Robert J. Atta	No	20
Kenneth F Myszka	No	20
Anthony P. Gammie (1)	Yes	20
Charles E. Lannon (1)	Yes	20
Stephen R. Rusmisel	Yes	3

(1) Limited Independence

Source: *Team Research*

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Appendix A: REIT Structure and Glossary of Terms

Shareholder Structure

In order to operate as a REIT, Sovran must have at least 100 different shareholders. Also, five or fewer shareholders cannot hold more than 50% of the Company's stock. As of Jan. 7, 2015, 344 individuals or institutions owned shares of SSS stock and the top five shareholders made up 37.05% of the shares outstanding. ***(Figure x)***

Adjusted Funds From Operations (AFFO) — Also referred to as cash available for distribution (CAD),or funds available for distribution (FAD), AFFO is calculated by adjusting FFO for the straight lining of rents, and after establishing a reserve for costs that, though necessary and routine, aren't recoverable from tenants. These include certain maintenance costs and leasing costs.

Adjusted Funds From Operations (AFFO) Multiple — A company's AFFO yield and its AFFO multiple are reciprocals of each other. For a variety of reasons—including that P/AFFO multiples are roughly equivalent to P/E ratios—AFFO multiples are more often cited as a valuation measure than AFFO yields.

Adjusted Funds From Operations (AFFO) Payout Ratio — This is the single best measure of a company's dividend paying ability. It is calculated by dividing a company's per-share annual dividend by the current year's per share AFFO estimate.

Adjusted Funds From Operations (AFFO) Yield — In addition to being one measure of valuation, AFFO yield is often used as a proxy for a company's nominal cost of capital. It is calculated by dividing a company's per share AFFO estimate by its stock price.

Capitalization Rate — A "cap rate" is determined by dividing the property's net operating income (NOI) by its purchase price (assuming an all cash purchase).

Cost of Capital — Variously defined as the weighted average of the cost of equity and debt capital employed by a REIT. A company's "true" cost of equity capital is the investor's expected rate of return on his/her investment.

DOWNREIT— A side benefit of the UPREIT structure is that operating partnership units can be used as currency to acquire properties from owners who would like to defer taxes that would come due if the property(ies) were sold or swapped for stock. In response to this advantage of the UPREIT structure, a number of non- UPREITs have created so-called DOWNREITs. This makes it possible for them to buy properties using DOWNREIT partnership units. The effect is the same; however, the DOWNREIT is subordinate to the REIT itself, hence the name.

Fixed Charge Coverage Ratio — This ratio is calculated by adding funds from operations, interest expense, and preferred dividends, and subtracting from that total net income. The result is then divided by the company's interest expense plus preferred dividends. A company's fixed charge coverage ratio is generally regarded as the best easily available means of assessing a company's financial leverage.

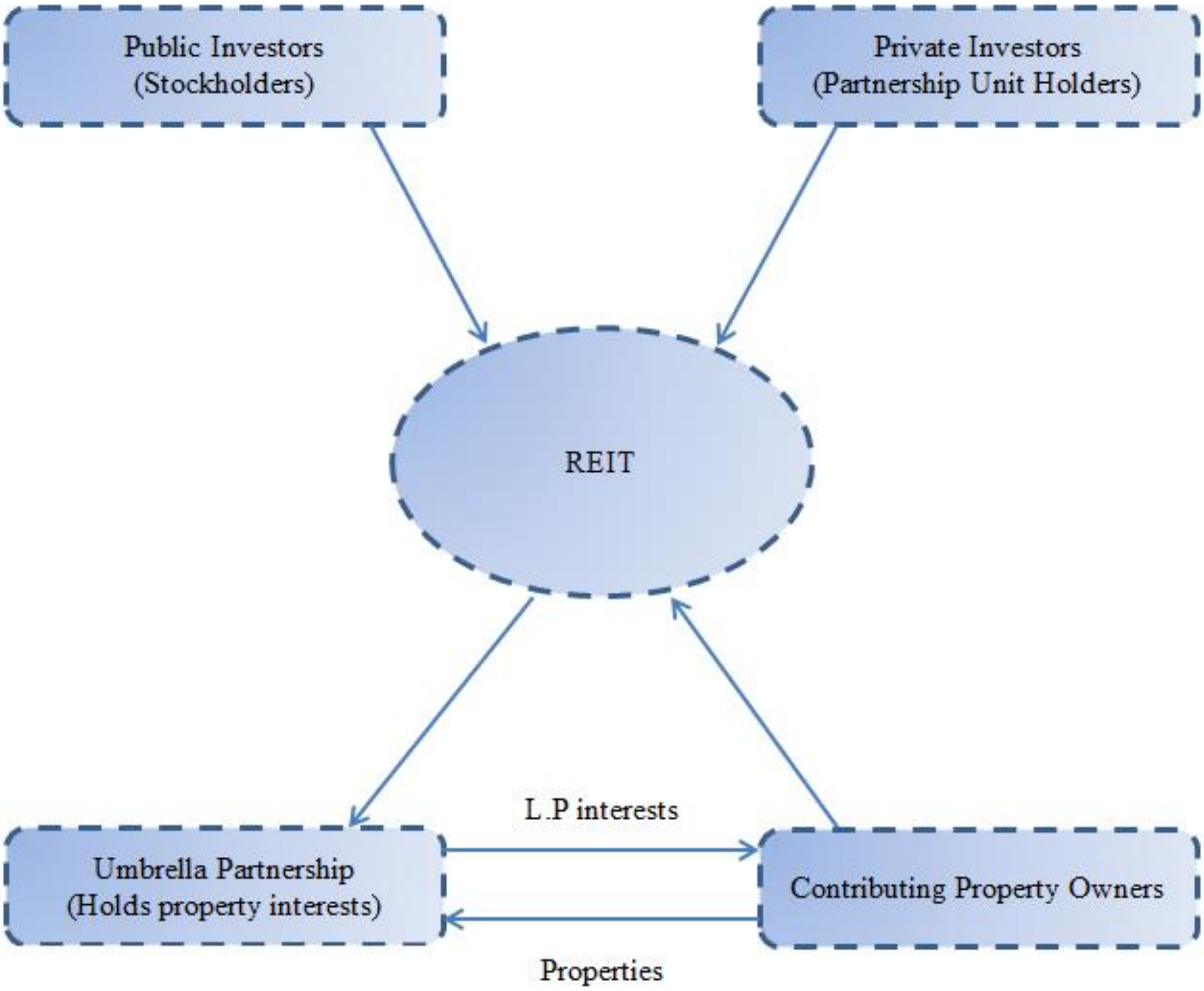
Funds From Operations (FFO) — Equal to a REIT's net income after the add back of real estate depreciation. This is the measure of REIT operating performance most commonly accepted and reported by REITs, conceptually analogous to net income of non-real estate companies.

Implied Cap Rate — Net operating income (NOI) divided by a REIT's total market capitalization (the sum of its equity market capitalization and its total outstanding debt).

Multiple-to-Growth Ratio — This measure is calculated by dividing a company's price-to-FFO multiple by its FFO growth rate. Investors use this measure to determine how much the market is willing to pay per unit of growth. Companies with P/FFO multiples less than their growth rates are often considered to be undervalued.
This measure is frequently associated with the investment strategy referred to as GARP (growth at a reasonable price).

Net Asset Value (NAV)—Equals the estimated market value of an investment company's total assets minus the value of all assets. REIT analysts often use net asset value per share as a guideline for determining the appropriate share price.

Source: REIT.com

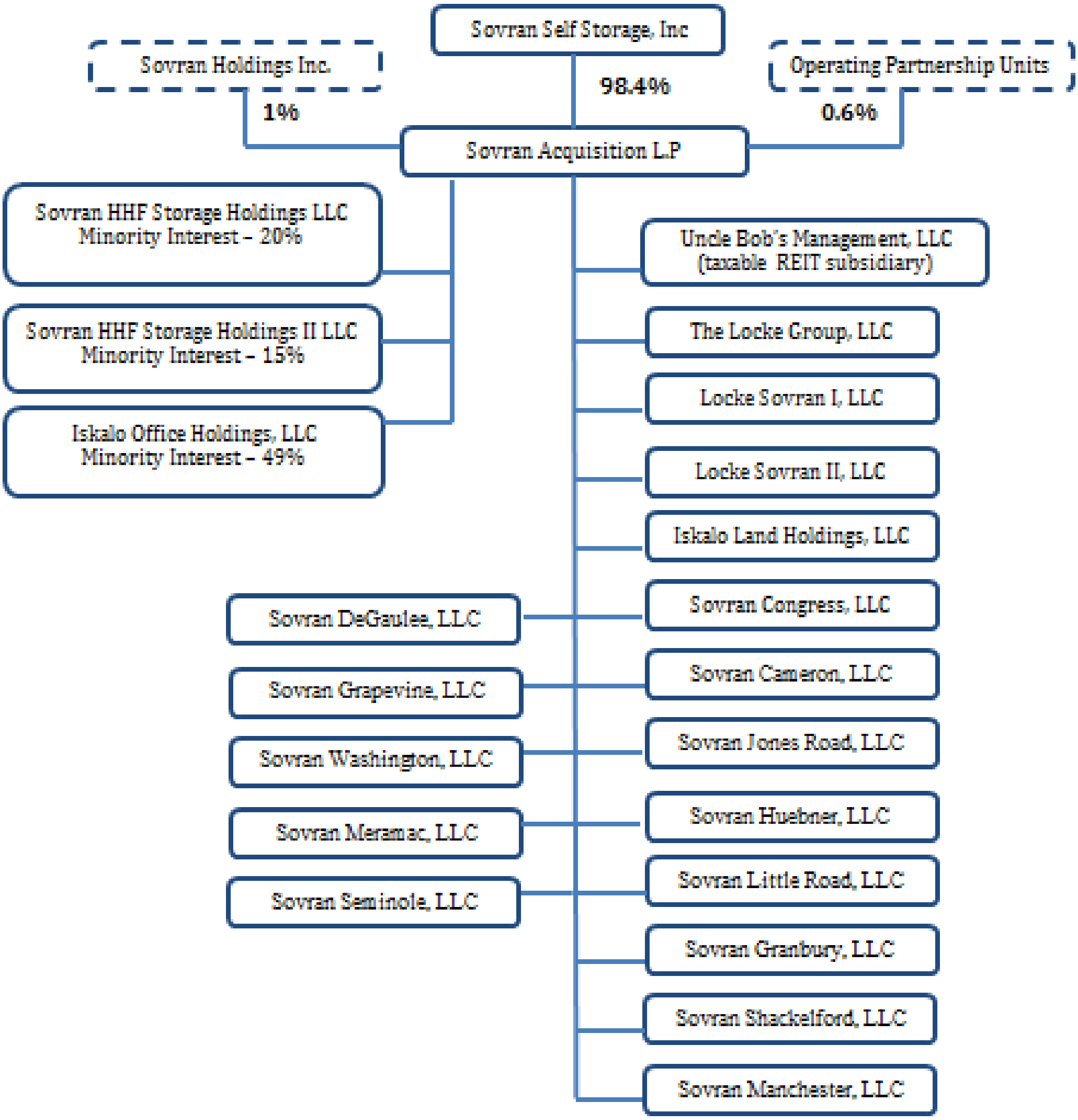


The term UPREIT is known as an Umbrella Partnership Real Estate Investment Trust. In the UPREIT structure, all properties are acquired and owned by its umbrella partnership. This structure allows property owners to convert their ownership of their real estate in exchange for ownership units in an operating partnership (OP Units). These partnership interests are generally convertible into shares of the REIT, offering voting rights and dividend payments matching those of the REIT shares. The UPREIT transactions provide lucrative benefits for both parties:

- Provides a viable tax deferral/avoidance exit strategy to property owners facing significant
- Capital gain tax liabilities on the sale of appreciated property with a low tax basis
- Diversification of real estate holdings (i.e., OP Unit Holders have an interest in a portfolio of properties instead of just one)
- Potential to convert liquid, long-term assets (i.e., real estate) into more saleable securities (i.e., OP Units → REIT Share → Cash)
- No property management responsibilities or concerns
- Quarterly income distributions
- Potential to recognize unrealized gains as earnings
- Professional management and expertise in capital markets
- Avoids risk of negative cash flow
- Estate simplification
- Allows the owner to dispose of its property in a way that maximizes its value
- Improved cash position through potential leveraging of OP Units

Source: Broadstone.com

Appendix B: SSS Organizational Chart



Appendix C: Bank Lending Policy

Banks have tightened their lending requirements to small business owners, specifically self-storage business owners, preventing them from receiving loans and expanding their number of locations. However, because of the economic recovery, the Federal Housing Finance Agency, Fannie Mae and Freddie Mac are planning to guarantee home loans with down payments as low as 3% (down from 5%). These agencies already back 60% of all mortgages originated in the private market and guarantee 90% of all new mortgages. In addition, the federal agencies approved a loosened set of mortgage-lending rules, which will remove the current requirement of a 20% down payment for higher-quality loans, known as "qualified residential mortgages." As banks continue to ease lending requirements, the industry supply growth may trend towards the long run historical average of 5.05%.

Appendix D: Base Case, Pre-Simulation Historical and Projected Financial Statements

($ in Millions)	Historical Balance Sheet					Projected Balance Sheet					
As of December 31,	**2009**	**2010**	**2011**	**2012**	**2013**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**
ASSETS											
Gross Property, Plant & Equipment	$1,364.45	$1,419.96	$1,538.60	$1,742.35	$1,864.64	$2,147.76	$2,359.68	$2,567.35	$2,796.84	$2,990.04	$3,198.70
Accumulated Depreciation	(239.00)	(271.80)	(292.70)	(325.00)	(366.50)	(406.17)	(454.91)	(502.68)	(555.46)	(599.90)	(647.89)
Total Real Estate Assets	**1,125.48**	**1,148.16**	**1,245.87**	**1,417.39**	**1,498.17**	**1,741.59**	**1,904.76**	**2,064.68**	**2,241.38**	**2,390.14**	**2,550.81**
% Growth		*2.0%*	*8.5%*	*13.8%*	*5.7%*	*16.2%*	*9.4%*	*8.4%*	*8.6%*	*6.6%*	*6.7%*
Cash And Equivalents	10.71	5.77	7.32	7.26	9.52	7.48	11.92	13.01	14.16	15.29	16.39
Accounts Receivable	2.35	2.38	2.94	3.44	5.12	5.66	6.81	7.43	8.09	8.74	9.37
Other Receivables	0.17	0.25	0.59	0.86	0.88	-	-	-	-	-	-
Other Intangibles	-	0.55	2.52	2.89	1.09	-	-	-	-	-	-
Loans Receivable Current	-	2.80	-	-	-	-	-	-	-	-	-
Other Current Assets	21.13	4.41	47.64	14.44	5.98	-	-	-	-	-	-
Trading Asset Securities	-	-	-	-	0.79	-	-	-	-	-	-
Deferred Charges, LT	2.50	1.50	4.40	3.60	4.30	7.30	7.83	8.55	9.30	10.05	10.77
Other Long-Term Assets	22.76	19.73	32.39	34.44	36.02	9.10	9.82	11.15	11.94	12.60	13.35
Investments in Joint Ventures	-	-	-	-	-	38.91	42.57	46.46	50.57	54.59	58.53
Total Assets	**1,185.10**	**1,185.54**	**1,343.67**	**1,484.31**	**1,561.88**	**1,810.04**	**1,983.72**	**2,151.28**	**2,335.44**	**2,491.41**	**2,659.22**
% Growth		*0.0%*	*13.3%*	*10.5%*	*5.2%*	*15.9%*	*9.6%*	*8.4%*	*8.6%*	*6.7%*	*6.7%*
LIABILITIES											
Curr. Port. of LT Debt	-	36.69	-	100.00	5.59	8.63	57.58	105.55	158.57	203.20	251.40
Long-Term Debt	492.74	462.79	636.17	599.96	628.18	758.63	807.58	855.55	908.57	953.20	1,001.40
Accounts Payable	21.82	23.39	30.61	35.06	36.34	43.81	50.24	54.82	59.67	64.42	69.07
Curr. Income Taxes Payable	-	-	0.20	-	-	-	-	-	-	-	-
Def. Tax Liability, Curr.	-	-	0.10	1.00	0.90	-	-	-	-	-	-
Other Current Liabilities	0.50	0.60	0.50	0.50	0.50	-	-	-	-	-	-
Unearned Revenue, Non-Current	4.98	4.93	6.08	6.39	6.71	7.27	10.56	11.52	12.54	13.54	14.52
Other Non-Current Liabilities	-	-	-	-	-	12.62	13.40	15.49	17.09	18.54	20.06
Total Liabilities	**520.04**	**528.40**	**673.67**	**742.91**	**678.23**	**822.32**	**881.87**	**937.48**	**997.95**	**1,049.76**	**1,105.11**
% Growth		*1.6%*	*27.5%*	*10.3%*	*-8.7%*	*21.2%*	*7.2%*	*6.3%*	*6.5%*	*5.2%*	*5.3%*
Common Stock	0.29	0.29	0.30	0.32	0.34	-	-	-	-	-	-
Additional Paid In Capital	814.99	816.99	862.47	943.60	1,066.40	-	-	-	-	-	-
Retained Earnings	-	-	-	-	-	-	-	-	-	-	-
Distributions In Excess Of Earnings	(139.90)	(148.30)	(169.80)	(172.80)	(162.50)	-	-	-	-	-	-
Treasury Stock	(27.20)	(27.20)	(27.20)	(27.20)	(27.20)	-	-	-	-	-	-
Comprehensive Inc. and Other	(11.30)	(10.30)	(10.30)	(15.20)	(6.40)	-	-	-	-	-	-
Total Common Equity	**636.97**	**631.58**	**655.54**	**728.73**	**870.71**	-	-	-	-	-	-
% Growth		*-0.8%*	*3.8%*	*11.2%*	*19.5%*						
Minority Interest	28.09	25.56	14.47	12.67	12.94	-	-	-	-	-	-
Total Equity	**665.06**	**657.14**	**670.01**	**741.40**	**883.65**	**987.72**	**1,101.95**	**1,213.88**	**1,337.58**	**1,441.71**	**1,554.18**
% Growth		*-1.2%*	*2.0%*	*10.7%*	*19.2%*	*11.8%*	*11.6%*	*10.2%*	*10.2%*	*7.8%*	*7.8%*
Total Liabilities And Equity	**1,185.10**	**1,185.54**	**1,343.67**	**1,484.31**	**1,561.88**	**1,810.04**	**1,983.82**	**2,151.36**	**2,335.53**	**2,491.48**	**2,659.29**
% Growth		*0.0%*	*13.3%*	*10.5%*	*5.2%*	*15.9%*	*9.6%*	*8.4%*	*8.6%*	*6.7%*	*6.7%*

($ in Millions)	Historical Balance Sheet Common Size Analysis					Projected Balance Sheet Common Size Analysis					
As of December 31,	**2009**	**2010**	**2011**	**2012**	**2013**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**2019E**
ASSETS											
Gross Property, Plant & Equipment	115.1%	119.8%	114.5%	117.4%	119.4%	118.7%	119.0%	119.3%	119.8%	120.0%	120.3%
Accumulated Depreciation	-20.2%	-22.9%	-21.8%	-21.9%	-23.5%	-22.4%	-22.9%	-23.4%	-23.8%	-24.1%	-24.4%
Total Real Estate Assets	**95.0%**	**96.8%**	**92.7%**	**95.5%**	**95.9%**	**96.2%**	**96.0%**	**96.0%**	**96.0%**	**95.9%**	**95.9%**
Cash And Equivalents	0.9%	0.5%	0.5%	0.5%	0.6%	0.4%	0.6%	0.6%	0.6%	0.6%	0.6%
Accounts Receivable	0.2%	0.2%	0.2%	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%	0.4%	0.4%
Other Receivables	0.0%	0.0%	0.0%	0.1%	0.1%	-	-	-	-	-	-
Other Intangibles	-	-	-	-	-	-	-	-	-	-	-
Loans Receivable Current	-	0.0%	0.2%	0.2%	0.1%	-	-	-	-	-	-
Other Current Assets	-	0.2%	-	-	-	-	-	-	-	-	-
Trading Asset Securities	1.8%	0.4%	3.5%	1.0%	0.4%	-	-	-	-	-	-
Deferred Charges, LT	-	-	-	-	0.1%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%
Other Long-Term Assets	0.2%	0.1%	0.3%	0.2%	0.3%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Investments in Joint Ventures	1.9%	1.7%	2.4%	2.3%	2.3%	2.1%	2.1%	2.2%	2.2%	2.2%	2.2%
Total Assets	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
LIABILITIES											
Curr. Port. of LT Debt	-	3.1%	-	6.7%	0.4%	0.5%	2.9%	4.9%	6.8%	8.2%	9.5%
Long-Term Debt	41.6%	39.0%	47.3%	40.4%	40.2%	41.4%	37.8%	34.9%	32.1%	30.1%	28.2%
Accounts Payable	1.8%	2.0%	2.3%	2.4%	2.3%	2.4%	2.5%	2.5%	2.6%	2.6%	2.6%
Curr. Income Taxes Payable	-	-	0.0%	-	-	-	-	-	-	-	-
Def. Tax Liability, Curr.	-	-	0.0%	0.1%	0.1%	-	-	-	-	-	-
Other Current Liabilities	0.0%	0.1%	0.0%	0.0%	0.0%	-	-	-	-	-	-
Unearned Revenue, Non-Current	0.4%	0.4%	0.5%	0.4%	0.4%	0.4%	0.5%	0.5%	0.5%	0.5%	0.5%
Other Non-Current Liabilities	-	-	-	-	-	0.7%	0.7%	0.7%	0.7%	0.7%	0.8%
Total Liabilities	**43.9%**	**44.6%**	**50.1%**	**50.1%**	**43.4%**	**45.4%**	**44.5%**	**43.6%**	**42.7%**	**42.1%**	**41.6%**
Common Stock	0.0%	0.0%	0.0%	0.0%	0.0%	-	-	-	-	-	-
Additional Paid In Capital	*68.8%*	*68.9%*	*64.2%*	*63.6%*	*68.3%*	-	-	-	-	-	-
Retained Earnings	-	-	-	-	-	-	-	-	-	-	-
Distributions In Excess Of Earnings	-11.8%	-12.5%	-12.6%	-11.6%	-10.4%	-	-	-	-	-	-
Treasury Stock	-2.3%	-2.3%	-2.0%	-1.8%	-1.7%	-	-	-	-	-	-
Comprehensive Inc. and Other	-1.0%	-0.9%	-0.8%	-1.0%	-0.4%	-	-	-	-	-	-
Total Common Equity	**53.7%**	**53.3%**	**48.8%**	**49.1%**	**55.7%**	**-**	**-**	**-**	**-**	**-**	**-**
Minority Interest	2.4%	2.2%	1.1%	0.9%	0.8%	-	-	-	-	-	-
Total Equity	**56.1%**	**55.4%**	**49.9%**	**49.9%**	**56.6%**	**54.6%**	**55.5%**	**56.4%**	**57.3%**	**57.9%**	**58.4%**
Total Liabilities And Equity	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

	Historical Income Statement					Projected Income Statement					
($ in Thousands)	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E	2018E	2019E
Revenue											
Rental Income	$183,074	$182,865	$188,371	$217,906	$253,384	$285,219	$311,612	$336,915	$362,829	$386,685	$408,185
Ancilliary Income	7,966	9,207	12,489	16,176	20,123	$24,148	$28,977	$33,324	$38,322	$43,113	$48,502
Total Revenue	**191,040**	**192,072**	**200,860**	**234,082**	**273,507**	**309,366**	**340,589**	**370,238**	**401,151**	**429,798**	**456,687**
% Growth		*0.5%*	*4.6%*	*16.5%*	*16.8%*	*13.1%*	*10.1%*	*8.7%*	*8.3%*	*7.1%*	*6.3%*
Expenses											
Property Expenses	70,081	70,910	75,303	81,567	92,272	105,185	115,800	124,955	135,188	144,412	152,990
SGA	18,649	21,857	25,986	32,313	34,939	39,908	43,936	47,576	51,548	55,014	58,456
Depr & Amort	32,736	32,939	34,836	40,542	45,233	54,139	59,603	65,045	70,393	74,785	79,463
Operating Expenses	**121,466**	**125,706**	**136,125**	**154,422**	**172,444**	**199,232**	**219,339**	**237,576**	**257,129**	**274,211**	**290,909**
% Growth		*3.5%*	*8.3%*	*13.4%*	*11.7%*	*15.5%*	*10.1%*	*8.3%*	*8.2%*	*6.6%*	*6.1%*
Operating Income	**69,574**	**66,366**	**64,735**	**79,660**	**101,063**	**110,135**	**121,250**	**132,662**	**144,023**	**155,587**	**165,777**
% Growth		*-4.6%*	*-2.5%*	*23.1%*	*26.9%*	*9.0%*	*10.1%*	*9.4%*	*8.6%*	*8.0%*	*6.5%*
Interest Income (Expense)	(49,965)	(31,627)	(38,549)	(33,166)	(32,000)	(30,937)	(34,059)	(37,169)	(40,456)	(43,676)	(46,827)
Income from JV	235	235	(340)	936	1,948	1,856	2,044	2,974	3,236	4,368	4,917
Income from Continuing Ops	19,844	34,974	25,846	47,430	71,011	-	-	-	-	-	-
Income from Disc Ops	1,073	7,562	5,716	8,207	3,123	-	-	-	-	-	-
NI	**20,917**	**42,536**	**31,562**	**55,637**	**74,134**	**81,054**	**89,234**	**98,467**	**106,803**	**116,279**	**123,867**
% Growth		*103.4%*	*-25.8%*	*76.3%*	*33.2%*	*9.3%*	*10.1%*	*10.3%*	*8.5%*	*8.9%*	*6.5%*
Noncontrolling Interest	(1,738)	(1,899)	(937)	(513)	(469)	(469)	(469)	(469)	(469)	(469)	(469)
NI to common shareholders	**19,179**	**40,637**	**30,625**	**55,124**	**73,665**	**80,585**	**81,613**	**89,331**	**95,849**	**105,924**	**113,351**
% Growth		*111.9%*	*-24.6%*	*80.0%*	*33.6%*	*9.4%*	*1.3%*	*9.5%*	*7.3%*	*10.5%*	*7.0%*
NOI	**102,310**	**99,305**	**99,571**	**120,202**	**146,296**	**164,274**	**180,853**	**197,707**	**214,415**	**230,372**	**245,241**
% Growth		*-2.9%*	*0.3%*	*20.7%*	*21.7%*	*12.3%*	*10.1%*	*9.3%*	*8.5%*	*7.4%*	*6.5%*
FFO	**54,458**	**67,296**	**67,407**	**92,460**	**117,179**	**133,337**	**146,794**	**160,539**	**173,960**	**186,696**	**198,413**

	Historical Income Statement				
($ in Millions)	2009	2010	2011	2012	2013
Revenue					
Rental Income	95.8%	95.2%	93.8%	93.1%	92.6%
Ancilliary Income	4.2%	4.8%	6.2%	6.9%	7.4%
Total Revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Expenses					
Property Expenses	36.7%	36.9%	37.5%	34.8%	33.7%
SGA	9.8%	11.4%	12.9%	13.8%	12.8%
Depr & Amort	17.1%	17.1%	17.3%	17.3%	16.5%
Operating Expenses	**63.6%**	**65.4%**	**67.8%**	**66.0%**	**63.0%**
Operating Income	**36.4%**	**34.6%**	**32.2%**	**34.0%**	**37.0%**
Interest Income (Expense)	-26.2%	-16.5%	-19.2%	-14.2%	-11.7%
Income from JV	0.1%	0.1%	-0.2%	0.4%	0.7%
Income from Continuing Ops	10.4%	18.2%	12.9%	20.3%	26.0%
Income from Disc Ops	0.6%	3.9%	2.8%	3.5%	1.1%
NI	**10.9%**	**22.1%**	**15.7%**	**23.8%**	**27.1%**
Noncontrolling Interest	-0.9%	-1.0%	-0.5%	-0.2%	-0.2%
NI to common shareholders	**10.0%**	**21.2%**	**15.2%**	**23.5%**	**26.9%**
NOI	**53.6%**	**51.7%**	**49.6%**	**51.4%**	**53.5%**
FFO	**27.4%**	**35.2%**	**30.4%**	**37.2%**	**41.8%**

Forecasted Income Statement Common Size Analysis						
	2014E	2015E	2016E	2017E	2018E	2019E
Revenue						
Rental Income	92.2%	91.5%	91.0%	90.4%	90.0%	89.4%
Ancilliary Income	7.8%	8.5%	9.0%	9.6%	10.0%	10.6%
Total Revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Expenses						
Property Expenses	34.0%	34.0%	33.8%	33.7%	33.6%	33.4%
SGA	12.9%	12.9%	12.9%	12.9%	12.8%	12.8%
Depr & Amort	17.5%	17.5%	17.6%	17.5%	17.4%	17.4%
Operating Expenses	**64.4%**	**64.4%**	**64.2%**	**64.1%**	**63.8%**	**63.6%**
Operating Income	**35.6%**	**35.6%**	**35.8%**	**36.0%**	**36.2%**	**36.4%**
Interest Income (Expense)	-10.0%	-10.0%	-10.0%	-10.0%	-10.2%	-10.3%
Income from JV	0.6%	0.6%	0.8%	0.8%	1.0%	1.1%
NI	**25.7%**	**25.7%**	**26.1%**	**26.2%**	**26.6%**	**26.6%**
Noncontrolling Interest	-0.9%	-1.0%	-0.5%	-0.2%	-0.2%	-0.2%
NI to common shareholders	**10.0%**	**21.2%**	**15.2%**	**23.5%**	**26.9%**	**26.9%**
NOI	**52.6%**	**52.6%**	**52.9%**	**53.0%**	**53.1%**	**53.2%**
FFO	**42.6%**	**42.6%**	**42.9%**	**43.0%**	**42.9%**	**42.9%**

Appendix E: Insider Holdings

Name	Position	Market Value (01/06/15)	% of Shares
Robert J. Attea	231,029	$ 21,000,536	0.68%
Kenneth F. Myszka	223,476	$ 20,313,968	0.66%
David L. Rogers	156,996	$ 14,270,936	0.46%
Charles E. Lannon	114,739	$ 10,429,775	0.34%
Andrew J. Gregoire	42,501	$ 3,863,341	0.12%
Paul T. Powell	40,984	$ 3,725,446	0.12%
Edward F. Killeen	34,632	$ 3,148,049	0.10%
Anthony P. Gammie	18,953	$ 1,722,828	0.06%
Stephen R. Rusmisel	2,027	$ 184,254	0.01%
Total	**865,337**	**$ 78,659,133**	**2.55%**

Appendix F: Location, Web Marketing, Call Center Operations, and Revenue Management Systems

Location & Convenience: Sovran's storage facilities offer climate, humidity, and heating controlled options. In addition, Sovran equips each of its facilities with an advanced security system that monitors on site activity 24/7. Alongside this security system, the Company provides its customers with a greater sense of security through keypad controlled access to the entire facility, along with only providing customers with a key to their storage site. SSS has diverse geographic locations with each property being strategically positioned to create maximum occupancy rates while not cannibalizing the sales of similar stores around them.

Web Marketing: Sovran Self Storage is focusing on driving demand primarily through its web based marketing. SSS is making a big effort to conduct business online by promoting special offers through social media and self-storage directory websites. Currently, 70% of their sales are driven by internet contact with customers. Sovran currently spends about $6M - ~2.1% of LTM sales - on its web based marketing annually. Of that $6M, $4.5M is spent on search engine optimization or "paid per click advertising." Sovran's increasing marketing expenses directly relate to demand in markets where occupancy rates are low, and are flexible during off-season times when marketing is crucial to drive revenue and occupancy.

Call Center: Sovran benefits significantly from their call center operations with a large number of representatives standing by phones over 360 days a year. The advanced proprietary software allows for GPS location servicing to identify the Sovran Self Storage site and then generate a page with information on specials and comp rates simultaneous to the call. These sales reps play a vital role in matching customer demand with available units and service over 31,000 rental inquiries a month, on average. On storage systems where they have a limited ownership, they receive a 7% management and call center fee.

Revenue Management System: According to SSS in their Q3 '14 earnings call, "Our Revenue management system has been driving exceptional top line growth. The system made pricing adjustments during the third quarter in anticipation of the off peak season, and we are well positioned for strong year end performance." This system helps Sovran to control and predict (using algorithms) what specials and rates to give in order to optimize revenue, as well as how to determine pricing, which is why Sovran continues to invest in its infrastructure. This system is able to determine if SSS should raise prices on current tenants by assessing the push out rate and the amount of customers that will replace them. It uses 10 years of historical info by collecting call center data, operating numbers at store levels, and past incentive offers in order to change pricing instantaneously for any one type of unit at any location based on occupancy, competition, and or forecasted changes in demand.

Background Info

- Developed the system through a contract with Veritec Solutions, a Southern California company regarded as pricing experts and providers of top class revenue management solutions to the self-storage, airline, hotel and cruise line industries
- A series of algorithms were created based on 10 years of historical info and 7 key indicators including:
  - Number of calls through the call center
  - Number of successes they had on closing those calls
  - Competitors within a 5-10 mile radius's rates
  - Their anticipatory occupancy rate
  - Total move in activity
  - Specials used
  - Fully operational since 2012

Broad Capabilities

- Determines target occupancy rate
- Shows which markets or hot, neutral or cold

- Shows which customers are from the call center, the web marketing or walk ins
- Forecasts future demand, both weekly and seasonally
- Analyzes current customer rent tenures, after which SSS is able to implement rental rate increases at optimal times
- Allows for pricing analytics, which enables SSS to reduce the amount of concessions. This attracts a better, longer term customer base

Management Decisions Affected by System

- They are able to change pricing instantaneously for any one type of unit at any location, this is based on occupation, competitors rates and forecasted demand
- They are able to determine how many discounts or concessions to offer, as well as whether or not to raise prices on current tenants
- Upgrades in the system changes the way that management assess new assets to buy as they now know that by using this system they will be able achieve higher occupancy rates

Combination of Revenue Management System, Web Based Marketing & Call Center

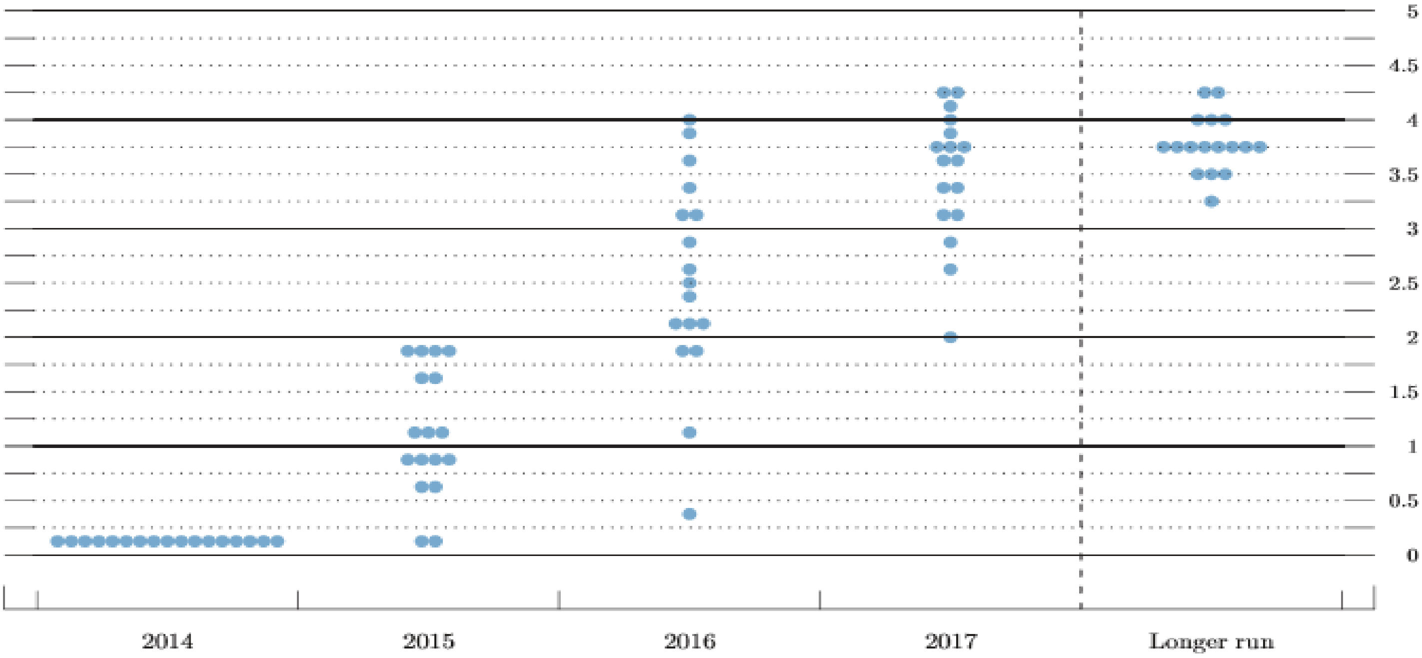
All three platforms work together in an interactive loop and are available to Sovran because of their economies of scale. For example, the call frequency or infrequency will be a sign to either spend more of the marketing budget in a specific location or adjust the price in that location. The successful interaction of these three platforms is crucial to future top line revenue growth.

Appendix G: Slab Foundation Overview

In 2013, Sovran generated 40% of its Revenue from two states: Texas and Florida - 26.1% & 13.9%, respectively. These states in particular are attractive geographic markets for Sovran because of the nature of the residential foundations, more specifically, the fact that many homes in these states are built on "slabs." A slab foundation is created by digging roughly 6-8 inches into the soil, pouring concrete over the soil, and then building a structure directly on top of the slab. The majority of homes in Texas and Florida are built on slabs due to their low relative cost when compared to a crawlspace or basement style foundation. Slab foundation can also be built quickly, usually in a day or two, with no need for foundation support because the depth of the cut (6-8 inches) is insignificant. In addition, slab foundations are preferred in these hot climate areas because of their added benefit: a cooler home. With a concrete slab, less heat is generated than would be generated in a basement or crawlspace, ultimately leading to a cooler home. As a direct result of building their homes on slabs, homeowners in Texas and Florida are left without a basement to provide extra storage. With less room for home-storage, demand for self-storage units in these areas can be much more significant than in other, usually cooler, climates.

Appendix H: Macroeconomic Factors

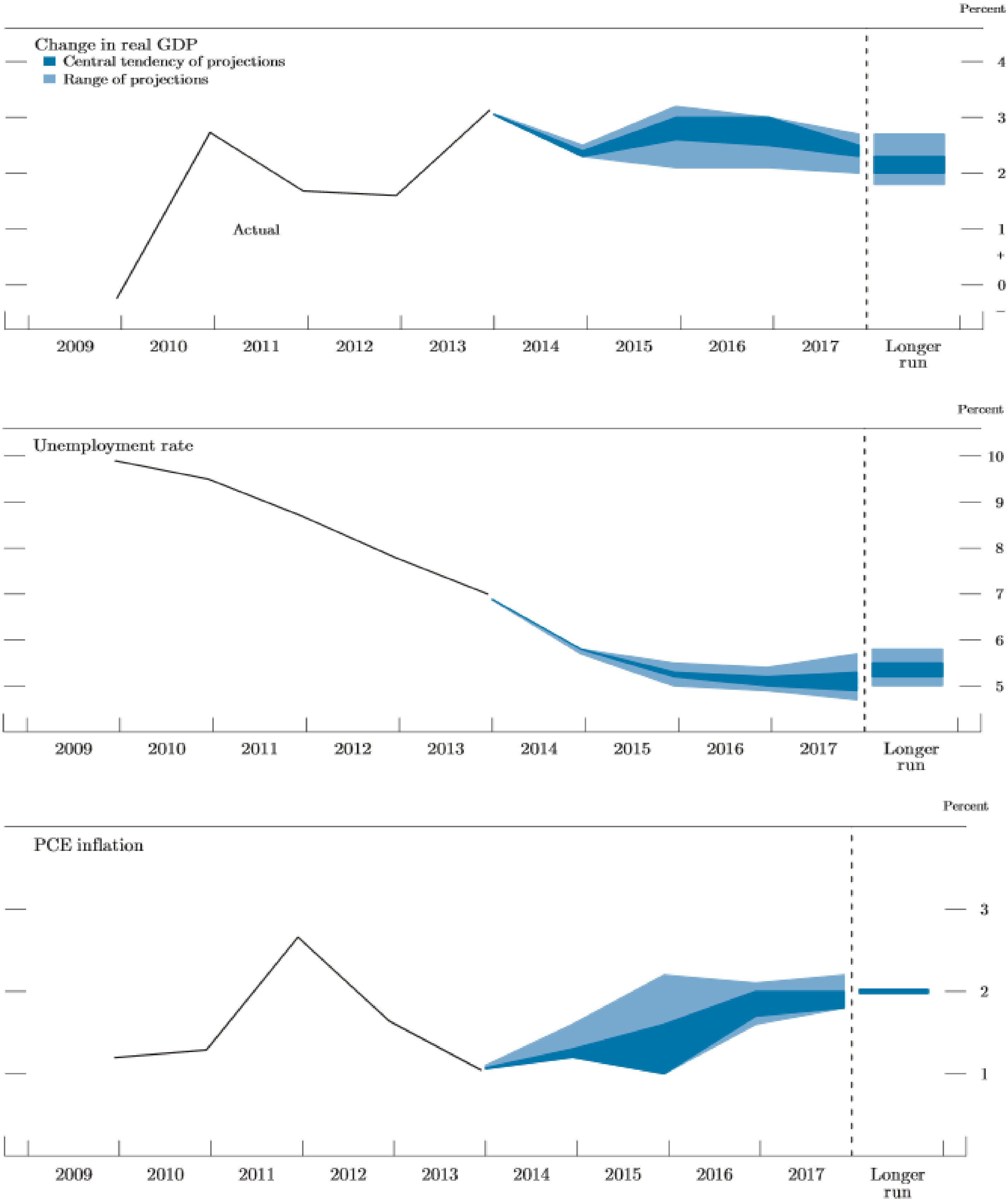
Fed Funds Rate Projections (Dec 17 2014)



Source: Federal Reserve

Each dot represents a prediction of the federal funds rate by a member of the Federal Open Market Committee (FOMC). The Fed's dot plot causes movements in the market and is the best predictor of the future path of short-term interest rates. All else equal, lower interest rates tend to raise equity prices. In December of 2008 the FOMC stated a target range between 0-0.25

percent for the federal funds rate in hopes of stimulating the weakened economy. While the federal funds rate is still below 0.25 percent, the Fed has taken a more hawkish stance in their predictions on the federal funds rate in the most recent meetings of the FOMC.



Composite Projections of 100 Companies

	2009	2010	2011	2012	2013	2014	2015	2016
Economic Activity								
Real GDP (YoY%)	-2.8	2.5	1.6	2.3	2.2	2.3	3	2.8
CPI (YoY%)	-0.35	1.63	3.17	2.08	1.48	1.7	1.5	2.2
Core PCE (YoY%)	1.19	1.29	1.49	1.83	1.34	1.4	1.7	1.9
Unemployment (%)	9.28	9.63	8.93	8.08	7.35	6.2	5.5	5.2
Interest Rates								
Central Bank Rate (%)	0.25	0.25	0.25	0.25	0.25	0.25	0.95	-
3-Month Rate (%)	0.25	0.3	0.58	0.31	0.25	0.26	0.99	-
2-Year Note (%)	1.14	0.6	0.24	0.25	0.38	0.67	1.54	-
10-Year Note (%)	3.84	3.3	1.88	1.76	3.03	2.17	3.06	-

Source: Bloomberg (Black – Actual; Blue – Projections)

The improving economy, coupled with the low interest rate environment, presents favorable conditions for equities, particularly REITs. While interest rates are projected to rise next year based on both the Fed's projections and the composite projections of 100 other companies, interest rate predictions are still low based on historical norms. In addition to this, the predicted GDP growth of 3% through the end of 2015 and the unemployment rate which is predicted to steadily decline to 5.5% by 2015 has positive implications for the self-storage industry in 2015.

Appendix I: Competitor Comparison

	SSS	CUBE	EXR	PSA
Market Cap	3.08B	3.86B	7.35B	34.29B
Third-Party Management				
Store Locator on Homepage				
Interactive Facility Location Map				
List of Alternative Storage Locations and Prices				
Van or Truck Rental Options				
Climate-controlled Units				
Vehicle Storage				
Packing Supplies				
Discounts or Promotions for New Customers				
24 Hour Call Center				

Sovran (SSS) and their three major competitors, CubeSmart (CUBE), Extra Space Storage (EXR) and Public Storage Association (PSA), operate very similarly. Each shaded box represents a service that the company offers and the information was acquired from each respective company's website. SSS is the only company to have a call center which is open 24-7.

Appendix J: Saturation Levels by State

State	Number of Facilities	Area in Square Feet	2012 Population	Rentable Square Footage Per
Alabama	1,042	49,807,600	4,842,196	10.29
Alaska	135	6,453,000	732,814	8.81
Arizona	883	42,207,400	6,523,478	6.47
Arkansas	821	39,243,800	2,960,196	13.26
California	4,013	191,821,400	37,707,477	5.09
Colorado	986	47,130,800	5,160,251	9.13
Connecticut	333	15,917,400	3,583,388	4.44
Delaware	128	6,118,400	910,061	6.72
District of Columbia	18	860,400	617,405	1.39
Florida	2,721	130,063,800	19,016,069	6.84
Georgia	1,633	78,057,400	9,858,142	7.92
Hawaii	101	4,827,800	1,376,600	3.51
Idaho	454	21,701,200	1,605,314	13.52
Illinois	1,592	76,097,600	12,931,174	5.88
Indiana	1,178	56,308,400	6,539,197	8.61
Iowa	548	26,194,400	3,085,316	8.49
Kansas	653	31,213,400	2,889,867	10.8
Kentucky	632	30,209,600	4,390,111	6.88
Louisiana	954	45,601,200	4,628,363	9.85
Maine	309	14,770,200	1,339,870	11.02
Maryland	528	25,238,400	5,838,730	4.32
Massachusetts	554	26,481,200	6,606,895	4.01
Michigan	1611	77,005,800	9,887,588	7.79
Minnesota	861	41,155,800	5,371,280	7.66
Mississippi	648	30,974,400	3,002,948	10.31
Missouri	1,311	62,665,800	6,054,543	10.35
Montana	443	21,175,400	1,009,397	20.98
Nebraska	368	17,590,400	1,856,412	9.48
Nevada	450	21,510,000	2,757,217	7.8
New Hampshire	257	12,284,600	1,326,680	9.26
New Jersey	714	34,129,200	8,830,455	3.86
New Mexico	509	24,330,200	2,104,755	11.56
New York	1,403	67,063,400	19,532,811	3.43
North Carolina	1,890	90,342,000	9,759,332	9.26
North Dakota	138	6,596,400	692,887	9.52
Ohio	1,853	88,573,400	11,590,198	7.64
Oklahoma	971	46,413,800	3,811,191	12.18
Oregon	777	37,140,600	3,899,159	9.53
Pennsylvania	1,629	77,866,200	12,807,296	6.08
Rhode Island	102	4,875,600	1,049,634	4.65
South Carolina	852	40,725,600	4,739,840	8.59
South Dakota	204	9,751,200	834,517	11.68
Tennessee	1,295	61,901,000	6,451,693	9.59
Texas	4,735	226,333,000	25,906,038	8.74
Utah	560	26,768,000	2,855,070	9.38
Vermont	165	7,887,000	632,877	12.46
Virginia	1,086	51,910,800	8,142,122	6.38
Washington	1,339	64,004,200	6,878,781	9.3
West Virginia	335	16,013,000	1,875,033	8.54
Wisconsin	1,220	58,316,000	5,745,625	10.15
Wyoming	209	9,990,200	580,724	17.2
Total:	**48,151**	**2,301,617,800**	**313,129,017**	**7.35**

Source: Self Storage Association

Appendix K: SSS Key Executives

Executive	*Title*	*Sovran Career History*	*Description*
Robert J. Attea, 72	Director, Chairman and Co-Founder	Chairman since 1995 Chairman and CEO from 1997-2012 President and CEO 1988-1995 Director of Acquisitions 1985-1998 Board member since 1995 **Tenure with Sovran: 33 years**	Chairman of the Board and Director of Sovran since 1995 and Chief Executive Officer from 1997-2012. Mr. Attea is a founder of the Company with nearly 30 years of experience in the self-storage and real estate industries. He ccurrently serves as the Chairmand and Director of Sovran Holdings Inc., a subsidary of the Company. Having served as the Director of Acquisitions for 13 years, Mr. Attea is a key contributor in the development and execution of the Company's acquisition strategy.
David L. Rodgers, 58	Chief Executive Officer and Co-Founder	CEO since 2012 CFO and Secretary 1995-2012 VP Finance 1988-1995 Executive within in SSS since 1985 **Tenure with Sovran: 33 years**	Currently the Chief Executive Officer of Sovran, Mr. Rogers has served as CFO, Secretary and VP of Finance throughout his 30 years with the Company. Mr. Rogers has served as CFO of Same Mini Storage since Sovran acquired this company in June 2007. He has served as CFO, Secretary and Principal Accounting Officer and Secretary of Sovran Holdings since 1995. Prior to joining Sovran, Mr. Rodgers spent seven years as an accountant in both the public and private sectors.
Kenneth F. Myszka, 65	President, Chief Operating Officer and Co-Founder	President and COO since 1997 CEO 1995-1997 Senior VP 1985-1995 Board member since 1995 **Tenure with Sovran: 33 years**	In addition to being President and COO of SSS since 1997, Mr. Myszka serves as the President and COO of Sovran Holdings Inc. He is a CPA and brings extensive experience to the board in regards to system development, marketing and product innovations. A graduate of the University of Buffalo Law School, Mr. Myszka's law background provides the board with valuable perspectives in the development and execution of business strategies. Being a Co-Founder of the Company, Mr. Myszka has a vast understanding of Sovran's business strategy and operations.
Andrew J. Gregoire, 46	Chief Financial Officer and Secretary	CFO and Secretary since 2012 VP Finance 1998-2012 **Tenure with Sovran: 17 Years**	Having 17 years of experience with Sovran, Mr. Gregoire currently serves as the Chief Financial Officer of the Company. Prior to Joining Sovran, Mr. Gregoire was a Senior Manager at Ernst and Young LP from 1988 to 1998. He was introduced to Sovran during the Company's IPO in 1995. Mr. Gregoire holds a CPA designation, is a member of the American Institute of CPAs as well as the New York State Society of CPAs.
Edward F. Killeen, 50	Executive Vice President: Real Estate Management	Exec. VP Real Estate Mgmt since 2012 VP Sales and Operations 2005-2012 VP Sales and Marketing 1998-2005 Southeast Region VP 1997-1998 **Tenure with Sovran: 18 Years**	Currently the Executive VP of Real Estate Management, Mr. Killen has been with Sovran since 1997. Initially, Mr. Killeen was a Regional VP for the Company's Southeast Region and served to oversee the marketing and operations of its storage facilities nationwide. Before Sovran, Mr. Killeen spent 16 years in retail sales with the Advantage Company, a regional retailer of electronics, clothing and footwear. His retail background has had a great influence in the Sales and Marketing of Company storage facilities.
Paul T. Powell, 58	Executive Vice President: Real Estate Investment	Exec. VP Real Estate Investment since 2012 Senior VP Real Estate 1997-2012 **Tenure with Sovran: 18 Years**	Mr. Powell has been an Executive VP or Real Estate Investment with the Company since March 1, 2012. Joining the Company in 1997, Mr. Powell served as VP of Real Estate providing an intregual part to the management and operations of Company facilities. Prior to joining Sovran, he worked in real estate management including 13 years in the self-storage industry.

*Note Company founded in 1982 and became a public REIT in 1995

Sources: Company Website, Capital IQ, Bloomberg

Appendix L: SSS Board Members

Member	*Independent*	*Career Background*	*Tenure*
*Robert J. Atta, 72	No	See Key Executives Appendix	20 Years
Kenneth F Myszka, 65	No	See Key Executives Appendix	20 Years
**Anthony P. Gammie, 79	Yes	Mr. Gammie has been a Director of Sovran since 1995. He served as the CEO and Chairman of the board of Bowater Inc., a newsprint manufacturer, from 1985 to 1996. In addition, Mr. Gammie serves as a Lead Independent Director of Sovran Holdings Inc., a General Partner of Sovran Acquisition L.P. He served as Director of the Bank of New York from 1988-1996 and Alumax (formerly Amax) from 1989 to 1996.	20 Years
Charles E. Lannon, 66	Yes	Mr. Lannon has been a Director of Sovran since 1995. Currently, he serves as the president of Strategic Advisory, Inc., and a co-founder of Sovran Self Storage. He served as VP of Marketing and Finance from 1982-1995. He has been a Vice Chairman of Kinex Pharmaceuticals, LLC since 2012. With over 30 years of self-storage experience, Mr. Lannon has a variety of industry expertise that he brings to the board.	20 Years
Stephen R. Rusmisel, 67	Yes	Mr. Rusmisel has been a Director of Sovran since 2012. He is a partner of Pillsbury, Winthrop, Shaw, Pittman LLC Law Firm and has been since 1980. Spending more than 40 years as an attorney, Mr. Rusmisel has represented clients across a variety of industries. He lectures frequently and has published numerous articles on Corporate Governance and transactional issues such as representing special committees in going private.	3 Years

* Chairman of the Board

** Lead Independent Director

It should be noted that Sovran does meet the SEC's requirement of having a majority of Independent Board of Directors, given that 60% of its board (3 of 5) are independent. However, the rather small board and 20 year tenures of independent members Anthony Gammie and Charles Lannon are signs of a lack of independence. However, the longer tenures and more rigid terms of these independent directors protects the company from potential takeover. This also leads to greater stability and continuity on the Board because the Directors are more knowledgeable and "in-tune" with the strategy of Management and the Company.

Appendix M: SSS Committee Assignments

Audit Committee	*Title*
Anthony Gammie	Member
Charles Lannon	Member
Stephen Rusmisel	Member
Compensation Committee	*Title*
Stephen Rusmisel	Chairman
Anthony Gammie	Member
Governance Committee	*Title*
Charles Lannon	Chairman
Anthony Gammie	Member
Stephen Rusmisel	Member

Source: Capital IQ and Uncle Bob's Website

Appendix N: Corporate Governance

To analyze the strength of Sovran's corporate governance, the U.S. Securities and Exchange Commission and the Institutional Shareholder Service (ISS) Rating Methodology on Corporate Governance were utilized. The rating on corporate governances is as follows:

KEY	
1	Insignificant threat to Shareholders
2	Low threat to Shareholders
3	Moderate threat to Shareholders
4	Significant threat to Shareholders
5	High Threat to Shareholders

Disclosure and Transparency - 1
Management provides quarterly earnings calls discussing a variety of key metrics including occupancy levels, earnings data, acquisition targets and potential expansions of facilities. Sovran has a strong investor relations site, allowing investors to view information as far back as 2007.

Executive Management - 1
Very experienced management team with a clear growth strategy. Management has successfully navigated Sovran through a variety of economic cycles over the last 30 years. This history in the self-storage industry will be critical to future growth and value creation for shareholders.

Board of Directors - 4
The current structure of the Board of Directors is the most significant threat to Sovran shareholders. While the board is very experienced, there is significant risk in terms of board independence and whether or not independent board members are acting in the interest of shareholders or management.

Rights and Obligations of Shareholders - 2
Sovran currently requires a 50% shareholder vote to amend company bylaws and a 67% vote to remove a board director. These approval percentages promote the voting power of shareholders.

Takeover Defense - 2
The threat of a hostile takeover is low. Sovran incorporated in Maryland because of the REIT friendly statutes the state offers corporations against hostile takeovers. SSS also benefits from having supermajority defenses requiring 80% shareholder approval for any acquisition. This high voting requirement greatly mitigates takeover risk.

SCORE: 2/5

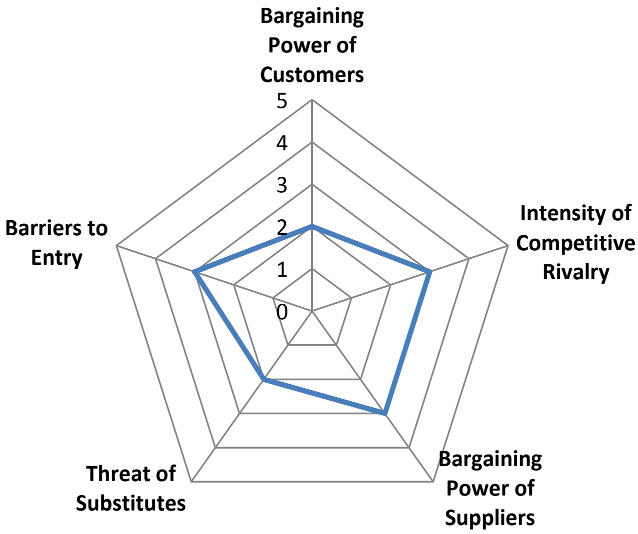
Our rating is in line with the Low Institutional Shareholder Service (ISS) Rating Methodology.

Criteria	Risk
Board Structure	High
Shareholder Rights	Low
Compensation	Low
Audit & Risk Oversight	Medium
SSS Rating	**Low**

Appendix O: Porter's Five Forces Analysis

LEGEND

0	No threat to Sovran
1	Insignificant threat to Sovran
2	Low threat to Sovran
3	Moderate threat to Sovran
4	Significant threat to Sovran
5	High Threat to Sovran



Bargaining Power of Customers - LOW: There are high switching costs, which are relatively significant compared to the purchase of self-storage space as a % of total spending. In addition, there are lots of small, fragmented customers, i.e. no one group that carries a significant weight. Moving forward, however, customers will see an increase in their bargaining power as internet marketing creates a more level playing field for awareness, knowledge, and negotiating power. Internet marketing also increases the range of comparisons as customers will be able to analyze pricing outside of their normal geographic range and make storage decisions accordingly. In addition, excess supply can and will lead to increased negotiating power of customers with regard to pricing.

Intensity of Competitive Rivalry - MODERATE: Competition is limited by geography and high switching costs. Smaller dollar contracts create little incentive for price wars. Moving forward, we see an increase in competitive rivalry as customer and supplier power increases. Internet marketing innovations will continue to make it tougher to secure customers as access to pricing information across geographic regions will lead customers to possess greater knowledge and or negotiating ability with self-storage players. Ultimately, slowing demand growth and excess industry capacity, combined with low variable costs and high fixed costs, will intensify rivalry.

Bargaining Power of Suppliers - MODERATE: In recent years the self-storage industry has seen demand growth in excess of supply growth. This has led to pricing power for the major players. However, with innovations in the way of advertisement – namely, internet marketing – this pricing power has been diluted. Consumers will actively seek out the lowest pricing for self-storage, and with the advent of social media and mass-search engines, they will be able to find it in their area. Moving forward, if supply continues to remain constrained, there will be further opportunities for pricing power, and the economies of scale afforded by companies like Sovran will elevate their business model over smaller players.

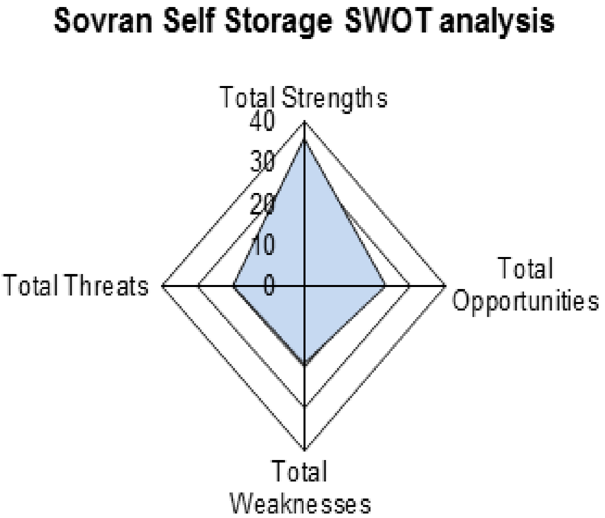
Threat of Substitutes - LOW: The closest substitutes to a storage locker can be impractical and costly. Substitutes such as a home shed or space at home have many limiting factors, while PODS are not allowed by many neighborhoods and or are neither cost nor space effective. Threat of substitutes from competitors are location and pricing driven, however, no true competitor offers a more impressive storage environment in terms of customer care, climate control, security, and overall visual and emotional appeal than Sovran.

Barriers to Entry - MODERATE: Historically, this is Industry's weak point. In comparison to other real estate sectors, Storage requires relatively low investment, low technology, low operating/maintenance costs, and creates limited differentiation between competitors. That being said Sovran has done well to differentiate and create a product and service offering that is higher in operating and maintenance costs, investment, and technology. Their 3rd generation self-storage facilities cannot be readily or cheaply re-created, nor can their internet marketing and call center offerings be easily duplicated by a new player. Moving forward, these barriers to entry are increasing as new self-storage projects become increasing costly and as larger players continue to utilize their economies of scale and advanced infrastructures. Limited supply of new facilities and decreasing access to capital (banks are becoming over-exposed to the real estate sector) will also continue to pose a threat against smaller players.

Future Outlook as a Whole - In order to remain a competitor in the self-storage industry long-term, a firm must use strategic positioning and capitalize on competitive advantages. The use of 3rd party management systems and strategic acquisitions will be crucial to the short and long term performance of a company.

Sources: Team Analysis

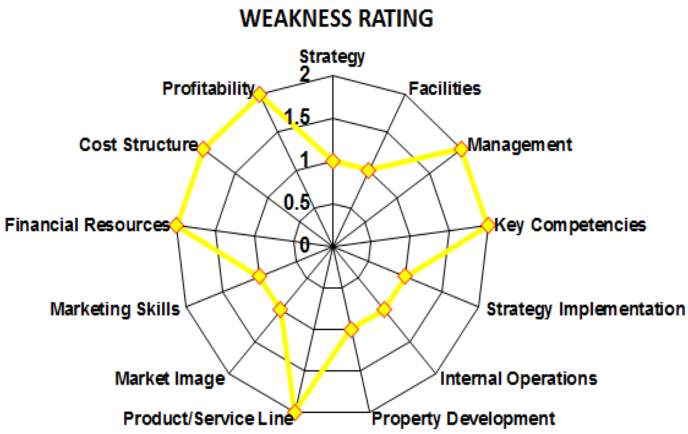
Appendix P: SWOT Analysis

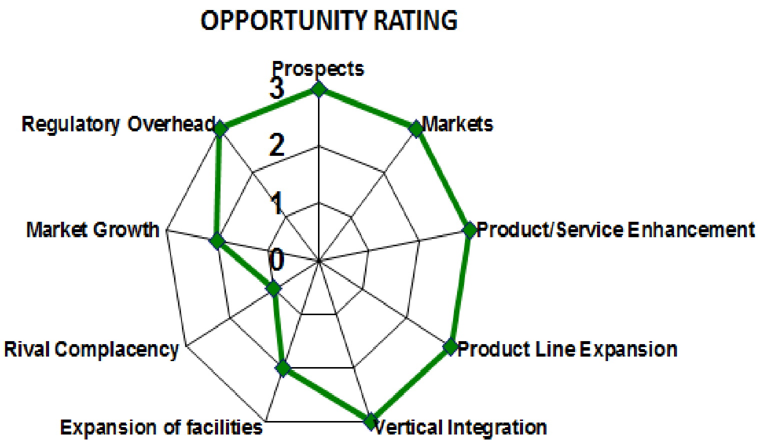


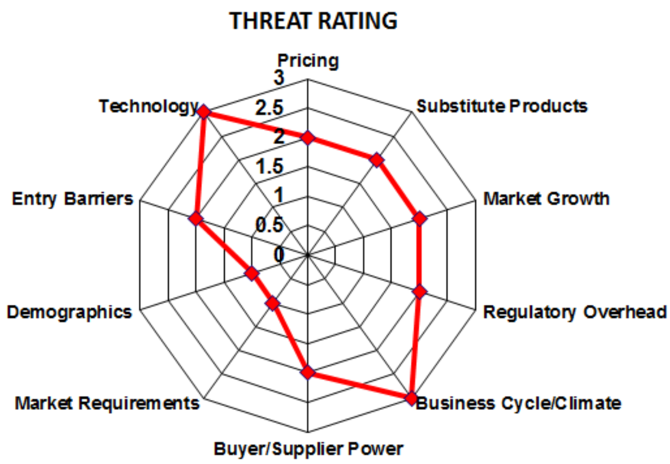
SWOT ANALYSIS
Primary factors

S **Strengths**	W **Weaknesses**
•Competence •Competitive skill •Experience •Economies of Scale •Marketing Effectiveness •Brand Awareness •Management	•Relatively limited geograph presence •40% of earnings derives from two states (Texas and Florida) •Fewer properties under third party management and joint ventures compared to competitors
O Opportunities	**T Threats**
•Fragmented market •Customer Prospects •New markets •Facility Expansion •Market growth	•Competitors using a similar strategy in terms of web-based advertising, call centers and third generation facilities •Threat to pricing power through aggregation

The SWOT Analysis was created to establish a better understanding of Sovran's relative market position. It is built around a series of categories within in each section, which are ranked according to their likelihood, threat level, or strength, etc. This point system was used in summation to analyze the overall position of Sovran (see below), and culminates to the SWOT Matrix in the upper left.







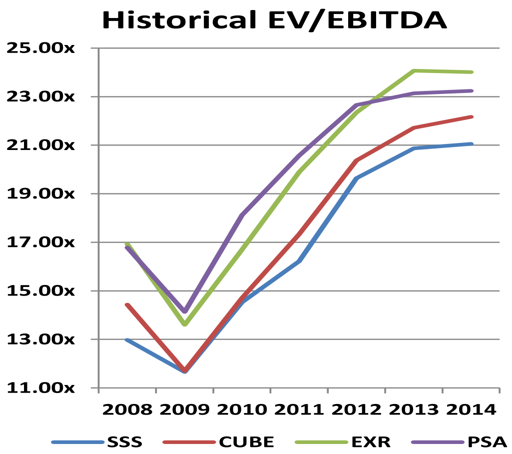
Appendix Q: Comparable Companies and Multiples Analysis

Company	Mkt. Cap (B)	Ent. Val. (B)	EV / Rev	EV / EBITDA	Debt / EBITDA	Total Debt / Assets	P / FFO	P / AFFO	P / BV	Profit Margin	Current Ratio	Dividend Yield
SSS	$3,078.5	$3,855.9	13.2x	23.1x	4.6x	42.8%	22.8x	21.5x	3.1x	29.2%	0.4x	3.3%
CUBE	$3,720.6	$4,886.9	13.8x	25.3x	5.8x	44.2%	23.5x	22.0x	2.7x	12.4%	0.5x	2.7%
EXR	$7,158.3	$9,533.3	15.1x	24.5x	5.6x	51.6%	25.4x	24.6x	4.0x	33.2%	0.3x	3.0%
PSA	$33,039.2	$37,271.7	16.9x	24.3x	2.7x	43.7%	24.1x	24.1x	6.4x	49.6%	0.4x	2.8%
3rd Quartile			15.5x	24.7x	5.7x	46.0%	24.4x	24.2x	4.6x	37.3%	0.4x	3.1%
Mean			**14.7x**	**24.3x**	**4.7x**	**45.6%**	**24.0x**	**23.1x**	**4.0x**	**31.1%**	**0.4x**	**3.0%**
Median			**14.4x**	**24.4x**	**5.1x**	**43.9%**	**23.8x**	**23.0x**	**3.6x**	**31.2%**	**0.4x**	**2.9%**
1st Quartile			13.7x	24.0x	4.1x	43.5%	23.4x	21.9x	3.0x	25.0%	0.4x	2.8%

Company	LTM Profit Margin	YoY Revenue Growth
SSS	29.2%	19.0%
CUBE	12.4%	14.8%
EXR	33.2%	25.6%
PSA	49.6%	10.7%
3rd Quartile	37.3%	20.7%
Mean	**31.1%**	**17.5%**
Median	**31.2%**	**16.9%**
1st Quartile	25.0%	13.8%

In analyzing the fundamentals of profitability, growth, and risk for Sovran and direct competitors, our hold recommendation is supported for a number of reasons. First and foremost, Sovran generates a profit margin that is nearly in line with the mean and median figures, and a comparable liquidity (via Current Ratio), Debt to EBITDA, and Total Debt to Assets ratio.

In terms of risk, Sovran's 5Y S&P 500 and 5Y RMZ (US MSCI REIT Index) Betas are below the mean and median Betas of the peer group, which suggests lower systematic risk levels. Despite similar debt levels and only slightly lower LTM profit margins, SSS trades at a noticeably lower Enterprise Value to Revenue and Enterprise Value to EBITDA multiple. These price discrepancies were expanded upon in our valuation are main drivers of the price target and our Hold Recommendation.



Median EV from EBITDA Multiple	$3,978,561,373
Less: Debt	$762,620,000
Less: Minority Interest	$14,800
Plus: Cash and Cash Equivalents	$0
Equity Value	**$3,215,926,573**
Fully Diluted Shares Outstanding	33,867,243
Intrinsic Value per Share	**$94.96**

Current Trading Price (01-06-2015)	$90.90
Discount to Valuation	**4.5%**

In addition to EV / EBITDA, we also calculated an intrinsic value per share for Sovran through four other relative valuation metrics (see below), namely: EV/Revenue, Book Value per Share, FFO per Share, and AFFO per share. Sovran's profitability is slightly lagging behind the mean and median FFO and AFFO figures for the peer group, which can also be seen in the multiples chart at the beginning of this section. While FFO and AFFO per Share are common metrics used for valuing and understanding REITs, the discrepancies in the ways these figures can be calculated by each company make comparisons uncertain. Book value per share is a sound metric that is both comparable and simple, and there are no issues with distortions from share repurchasing due to the nature of Sovran's financing and cash flow structures.

EV to Revenue Valuation

Median EV from Revenue Multiple	$4,214,133,034
Less: Debt	$762,620,000
Less: Minority Interest	$14,800
Plus: Cash and Cash Equivalents	$0
Equity Value	**$3,451,498,234**
Fully Diluted Shares Outstanding	33,867,243
Intrinsic Value per Share	**$101.91**

Current Trading Price (01-06-2015)	$90.90
Discount to Valuation	**12.1%**

EV to EBITDA Valuation

Median EV from EBITDA Multiple	$3,978,561,373
Less: Debt	$762,620,000
Less: Minority Interest	$14,800
Plus: Cash and Cash Equivalents	$0
Equity Value	**$3,215,926,573**
Fully Diluted Shares Outstanding	33,867,243
Intrinsic Value per Share	**$94.96**

Current Trading Price (01-06-2015)	$90.90
Discount to Valuation	**4.5%**

Book Value per Share Valuation

SSS Book Value per Share (MRQ)	$28.67
Median Price to Book Value	3.6x
Intrinsic Value per Share	**$102.35**

Current Trading Price (01-06-2015)	$90.90
Discount to Valuation	**12.6%**

FFO / Share Valuation

SSS FFO / Share (LTM)	$3.85
Median P / FFO	23.8x
Intrinsic Value per Share	**$91.72**

Current Trading Price (01-06-2015)	$90.90
Discount to Valuation	**0.9%**

AFFO / Share Valuation

SSS A/FFO / Share (LTM)	$ 4.22
Median P / AFFO	23.0x
Per Share Price	**$97.18**

Current Trading Price (01-06-2015)	$90.90
Discount to Valuation	**6.9%**

A competitor comparison based on multiples does not suggest that Sovran is significantly undervalued in any way. Therefore, in tangent with our other valuation methodologies, we remain confident in our Hold recommendation on Sovran.

Appendix R: Net Asset Value

NAV Build	SSS	EXR	CUBE	PSA
	2015E	2015E	2015E	2015E
NOI [1]	$179,588,710	$566,073,900	$252,240,000	$1,813,230,000
Cap Rate	5.25%	5.75%	5.50%	5.50%
Market Value of Current Portfolio	**3,420,737,329**	**9,844,763,478**	**4,586,181,818**	**32,967,818,182**
Assets				
Cash	11,920,000	62,105,890	34,634,880	108,130,000
Other Current Assets	68,907,245	15,647,458	0	0
Total Assets	**80,827,245**	**77,753,348**	**34,634,880**	**108,130,000**
Gross Net Asset Value	**3,501,564,574**	**9,922,516,826**	**4,620,816,698**	**33,075,948,182**
Total Liabilities	**881,870,000**	**2,919,138,144**	**1,378,736,232**	**365,266,000**
Preffered Stock	**0**	**31,000**	**0**	**4,135,000,000**
Net Asset Value	**2,619,694,574**	**7,003,347,682**	**3,242,080,466**	**28,575,682,182**
Fully Diluted Shares Outstanding	33,867,243	116,300,000	162,900,000	172,700,000
NAV per Share	**$77.35**	**$60.22**	**$19.90**	**$165.46**
Current Share Price (01/06/2015)	$90.90	$61.55	$22.84	$191.32
Premium (Discount) to NAV	**17.51%**	**2.21%**	**14.76%**	**15.63%**

(1) Average of 10,000 Simulations for SSS

Sovran's relative Net Asset Value position reveals a market premium being paid over and above the intrinsic NAV per share. This valuation also reveals that other self-storage stocks are being valued at different levels of premiums, each at their own assumed cap rate. Making these cap rate assumptions is difficult for companies other than Sovran, for whom we has extensive historical and projected financial information. These cap rates are therefore more prone to estimation error and suggest a wide band in actual NAV per share and premium being paid relative to current share price. That being said, this calculation indicates that Sovran is priced at the highest premium to NAV. After accounting for potential error in any of these calculations, we do not feel SSS, CUBE, or PSA are over-valued, but rather that it is more likely EXR is under-valued. Because this report is built around prospects for SSS, and not EXR, we do not understand the entirety of the underlying factors driving this potential under-valuation. Ultimately, what this build suggests to us is that there are no extraordinary factors indicating Sovran is a Buy or a Sell, reaffirming our prior analysis and Hold recommendation.

Appendix S: Beta Analysis

Beta Analysis	SSS	CUBE	EXR	PSA
5Y Monthly Beta S&P	0.84	1.07	0.95	0.77
R-Squared	0.24	0.31	0.32	0.32
Standard Error	0.194	0.211	0.182	0.148
5Y Monthly Beta RMZ	0.98	1.19	1.03	0.92
R-Squared	0.57	0.64	0.63	0.77
Standard Error	0.113	0.117	0.104	0.067
3Y Weekly Beta S&P	0.90	0.87	0.88	0.75
R-Squared	0.25	0.25	0.27	0.27
Standard Error	0.125	0.124	0.117	0.099
3Y Weekly Beta RMZ	1.00	0.89	1.00	0.89
R-Squared	0.53	0.43	0.59	0.65
Standard Error	0.076	0.082	0.067	0.053
Average of S&P 500 5Y & 3Y Betas	**0.87**	**0.97**	**0.92**	**0.76**
Average of RMZ 5Y & 3Y Betas	**0.99**	**1.04**	**1.01**	**0.91**

In analyzing the level of systematic risk of Sovran, a five year monthly Beta against the S&P is calculated, as well as the MSCI US REIT index "RMZ." Our calculations revealed that in terms of "riskiness" the S&P 500 Beta was not a good measure for risk comparison as the low R-squared numbers do not generate confidence in the correlation between self-storage REITs and the market as a whole. R-Squared is a statistical measure that indicates the percentage of variation in Sovran's holding period returns that is explained by the variation in the market return. An R-squared close to 1 reveals that much of the variation in a stock price's returns can be explained by market movements, and so the Beta is much more reliable. In addition, when comparing the standard error of the Beta coefficient, it is evident that the RMZ beta's standard error of the Beta is much lower than that of the S&P 500 Beta.

The five year monthly RMZ Beta is relied upon in order to compare relative risk of these four competitors as the R-squared calculations reveal that a much greater percentage of the variation in stock price can be explain by REIT market movements. These calculations reveal that PSA is the least risky (market wise) self-storage player as a whole, followed by SSS, EXR, and lastly, CUBE. It is important to note that for our valuation, despite the lower R-squared, we used the S&P 500 Beta because we forecasted an expected US Market Return as a cost of equity driver, which can then be reflected in CAPM using an average of the S&P 500 Betas (five year monthly and three year weekly) that has been adjusted for long-run regression towards 1.

Appendix T: ROE Decomposition

Roe Decomposition - LTM Basis			
SSS		**CUBE**	
Net Profit Margin	29.2%	Net Profit Margin	12.4%
Asset Turnover	17.7%	Asset Turnover	14.9%
Financial Leverage	1.853	Financial Leverage	2.047
ROE	**9.54%**	**ROE**	**3.8%**
EXR		**PSA**	
Net Profit Margin	33.2%	Net Profit Margin	49.6%
Asset Turnover	16.4%	Asset Turnover	23.5%
Financial Leverage	2.380	Financial Leverage	1.049
ROE	**12.9%**	**ROE**	**12.2%**

As is evident from the above matrix, SSS boasts a strong ROE, but does not stack up entirely with larger players EXR and PSA. EXR possesses a slightly higher Net Profit Margin than SSS, while PSA eclipses both EXR and SSS at a margin around 50%. While SSS utilizes higher financial leverage than PSA, the disparities in profit margins drive PSA to a much higher ROE. CUBE possesses a very low ROE, driven by low relative profit margins and asset turnover.

Appendix U: Treasury Stock Method – Diluted Shares Outstanding

Diluted Shares Outstanding - Treasury Stock Method	
Assumptions	
Current Share Price (01/06/2015)	$90.90
Share Price as of 3/31/2014	$71.50
Share Price as of 6/30/2014	$75.90
Share Price as of 9/30/2014	$73.71
Basic Shares Outstanding (As of 10/31/2014 via Q3 2014 10-Q)	33,757,474
In-the-Money Options (As of 12/31/2013)	
2005 Award and Option Plan	103,568
2009 Outside Directors' Stock Option and Award Plan	23,000
1995 Outside Directors' Stock Option Plan	4,000
Stock Based Compensation Stock Options Oustanding	130,568
Weighted Average Exercise Price	
2005 Award and Option Plan	$43.35
2009 Outside Directors' Stock Option and Award Plan	$50.62
1995 Outside Directors' Stock Option Plan	$49.65
Stock Based Compensation Stock Options Oustanding	$44.82
Options Proceeds	
2005 Award and Option Plan	$4,489,673
2009 Outside Directors' Stock Option and Award Plan	$1,164,260
1995 Outside Directors' Stock Option Plan	$198,600
Stock Based Compensation Stock Options Oustanding	$5,852,058
Total Options Proceeds	**$11,704,591**
Shares Repurchased from Options Proceeds (1)	**151,367**
Shares from In-the-Money Options	261,136
Less: Shares Repurchased from Options Proceeds	(151,367)
Net New shares from Options	**109,769**
Plus: Basic Shares Outstanding	33,757,474
Fully Diluted Shares Outstanding	**33,867,243**

(1) Assuming 25% of options exercized at each 3 month interval outlined above

In calculating fully diluted shares outstanding for Sovran Self Storage, we employed a detailed Treasury Stock Method build. Using the information from SSS's 2013 10-K, we broke down all four tranches of outstanding in-the-money options. Alongside the Weighted Average Exercise Price, we determined the proceeds from the outstanding options. However, because we are so late in fiscal year 2014, and because the stock price of Sovran has appreciated significantly since January of 2014, we accounted for these options being exercised at different points throughout the year. For this reason, it is assumed that at the end of each quarter, 25% of the options proceeds would have been exercised at current market prices, with the final 25% being exercised on January 6, 2015. Ultimately, a fully diluted shares outstanding figure of 33,867,243 was calculated beginning with an initial basic shares outstanding count of 33,757,474 (via SSS's 2014 Q3 10-Q).

Appendix V: Economic Value Added

Economic Value Added EVA=NOI-Opportunity Cost; Opportunity Cost=WACC*Capital; ROI=NOI/Capital					
FYE	**2009**	**2010**	**2011**	**2012**	**2013**
NOI	$121.20	$115.77	$126.28	$153.48	$183.16
WACC (1)	8.42%	8.42%	8.42%	8.42%	8.42%
Total Capital	1,129.70	1,131.06	1,291.71	1,428.69	1,504.49
Opportunity Cost	$95.12	$95.24	$108.76	$120.30	$126.68
EVA	$26.08	$20.53	$17.51	$33.18	$56.48
ROI	10.73%	10.24%	9.78%	10.74%	12.17%
Total Capital					
Total IBD	492.70	499.48	636.17	699.96	633.78
Total SE	637.00	631.58	655.54	728.73	870.71
Total	**$1,129.7**	**$1,131.1**	**$1,291.7**	**$1,428.7**	**$1,504.5**

(1) Derived from first two years of SSS's two-tired WACC calculation

By utilizing NOI as a substitute for EBIT, we were able to calculate an appropriate Economic Value Added and Return on Investment figure for Sovran. What this calculation reveals is that Sovran has been able to create value in excess of the opportunity cost of their capital / resources.

Appendix W: PVGO (Present Value of Growth Opportunities) Analysis

PVGO Build	SSS	EXR	CUBE	PSA
Current Price (01/06/2015)	$90.90	$61.55	$22.84	$191.32
Forward AFFO	$4.34	$1.02	$2.47	$8.38
Cost of Equity	**9.84%**	**10.35%**	**10.08%**	**9.26%**
10 Year Treasury	2.75%	2.75%	2.75%	2.75%
Adj Beta (1)	0.914	0.980	0.946	0.840
Market Risk Premium	7.75%	7.75%	7.75%	7.75%
PVGO	**$46.78**	**$51.69**	**($1.66)**	**$100.81**
PVGO as a % of Current Price	**51.5%**	**84.0%**	**-7.3%**	**52.7%**
Inflation Adjusted Re	7.84%	8.35%	8.08%	7.26%
PVGO	**$35.52**	**$49.33**	**($7.73)**	**$75.88**
PVGO as a % of Current Price	**39.1%**	**80.1%**	**-33.8%**	**39.7%**

(1) Average between adjusted 5Y Monthly S&P 500 Beta and adjusted 3Y Weekly S&P 500 Beta

(2) Less 2.0% for inflation

In an attempt to analyze the present value of growth opportunities for Sovran Self-Storage and their direct competitors, we calculated PVGO as a percentage of the current trading price, as well as an inflation adjusted PVGO as a percentage of the current trading price. This was calculated by discounting the forward Adjusted Funds from Operations of Sovran and peer companies by their respective Costs of Equity, and then subtracting that figure from the current trading price. For the inflation adjusted Cost of Equity, we deducted the current inflation rate of 2% from Cost of Equity and then repeated the calculation. This calculation tells us that Sovran's PVGO of 51.5% is non-comparable to its direct peers given the range of PVGO values. There is too great a deviation within the peer group to make a conclusion with a significant level confidence.

Appendix X: Debt Structure and Schedule

Description	Principal Due (USD)	Coupon/Base Rate	Floating Rate	Maturity	Secured	Other
2016 Term Note	$ 150,000,000	6.38%	-	Apr -13-2016	No	Interest Rate Increases to 8.13% if Credit Rating Downgraded.
***2020 Term Note**	**$ 325,000,000**	**-**	**LIBOR + 1.4**	**Jun - 4 - 2020**	**No**	**Facility Fee of 0.20**
2021 Term Note	$ 100,000,000	5.54%	-	Aug - 5- 2021	No	Interest Rate Increases to 7.29% if Credit Rating Downgraded
2024 Term Note	$ 175,000,000	4.53%	-	Apr - 8 - 2014	No	Interest Rate Increases to 6.268% if Credit Rating Downgraded
Mortgage Notes	$ 2,160,000	5.99%	-	May - 1 - 2026	Yes	
***Revolving Line of Credit**	**$0 Outstanding as of Q3 $300,000,000 Available on Line**	**-**	**LIBOR + 1.3**	**Dec - 10 - 2019**	**No**	**Facility Fee of 0.20**

*2020 Term Note and Revolving Line of Credit reflective of Dec 14,2014 New Financing Announcement

Sovran's debt consists of term notes at floating and fixed rates, a mortgage note, and a revolving line of credit. The 2016, 2021, and 2024 term notes for the Company are private placements with higher coupon rates of 6.38%, 5.54% and 4.53%, respectively. The 2020 term note and the revolving line of credit were issued in a 9 bank syndication deal headed by Wells Fargo Securities and M&T Bank.

While the 2020 term note is priced at a floating rate of LIBOR (1 month) + 1.4% Sovran has the following interest rate SWAPS in place:

Amount	Effective Date	Expiration Date	Fixed Rate
$ 125,000,000	Sept. - 1 - 2011	Aug. - 1 -2018	2.3700%
$ 100,000,000	Dec - 30 - 2011	Dec. 29 - 2017	1.6125%
$ 100,000,000	Sept. - 4 - 13	Sept. - 4 - 2018	1.3710%
$ 125,000,000	Dec. 29 - 2017	Nov. - 29 - 2019	3.9680%
$ 100,000,000	Aug. - 1 -2018	Jun. - 1 - 2020	4.1930%

Appendix Y: Discounted Cash Flow Analysis

Forecasted Revenue	2015E	2016E	2017E	2018E	2019E
Rental Revenue	$311,611,820	$336,914,700	$362,829,210	$386,685,230	$408,184,930
Ancilliary Revenue	$28,977,120	$33,323,688	$38,322,241	$43,112,524	$48,501,587
Total Revenue	**$340,588,940**	**$370,238,388**	**$401,151,451**	**$429,797,754**	**$456,686,517**
Revenue Growth Rate	*10.1%*	*8.7%*	*8.3%*	*7.1%*	*6.3%*

Business Segments

Rental Revenue

In 2013 Rental income accounted for 92.6% of total revenue. This business segment has been expanding considerably; it has grown at a 5-year CAGR of 10.1%. This segment is driven by three categories:

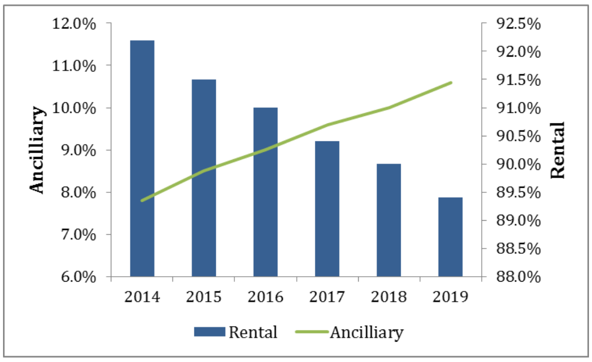
- Occupancy Rates
- Rate Received per square foot
- Total Square Feet

These categories have all been positive over the past several years leading to double digit revenue growth. Moving forward, we have projected that average annual occupancy rates will peak at 90.5%, this is due to the seasonality involved in the self-storage industry. Despite the fact that SSS will be able to expand occupancy to levels of up to 92%, the lack of demand during December and January drives the annual average down to consistent levels of around 90-90.5%. SSS will benefit from a positive industry outlook primarily driven by a positive US jobs market, an aging population and a lack of new self-storage facilities. All of these factors will contribute towards SSS being able to receiving a higher average rate per square foot. Through joint ventures and their third party management system, SSS has a pipeline of potential acquisition targets, which allows SSS to expand into new markets and increase their total square feet significantly. Further details on rental revenue assumptions are mentioned in the section on the Monte Carlo Simulation.

Revenue Growth Breakdown	2015E	2016E	2017E	2018E	2019E
Growth driven by increases Occupancy Rates	0.75%	0.00%	0.69%	0.00%	0.00%
Growth driven by increases Rent Received Per Sq Ft	2.50%	2.12%	2%	1.58%	1.50%
Growth driven by increases in total square Feet	6.00%	6.00%	5.00%	5.00%	4.06%
Total Rental Revenue Growth	**9.25%**	**8.12%**	**7.69%**	**6.58%**	**5.56%**
Ancilliary Revnue Growth	20.00%	15.00%	15.00%	12.50%	12.50%
Total Revenue Growth	***10.10%***	***8.70%***	***8.30%***	***7.10%***	***6.30%***

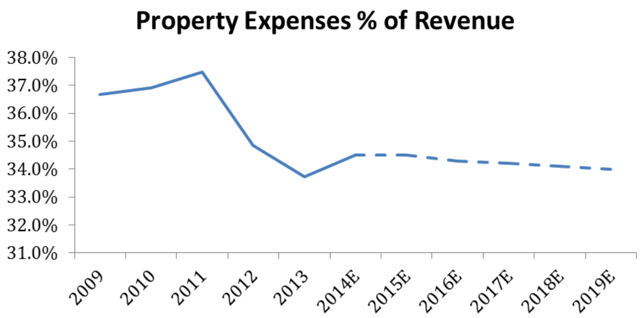
Ancillary Revenue

Ancillary revenue accounts for a wide range of products including trucks, dollies, blankets and package supplies, and customer services. For customers who do not carry storage insurance, Sovran offers renters insurance through a third party carrier for a commission. The ancillary revenue business segment is rapidly expanding at a 5-year CAGR of 20.4%. Sovran is looking to continuously offer additional services to customers, which will continue to expand the ancillary revenue stream. This led to the projection of a slight shift in the weights of SSS's business segment as shown below.



Property Expenses

SSS's property expenses account for property operations and maintenance, real estate taxes, acquisition costs and operating leases. Historically, property expenses as a percentage of revenue has been trending down from 36.7% of revenue in 2009 to 33.7% in 2013. As SSS continues to grow year over year, they will continue to benefit from economies of scale, causing property expenses to decrease further as a total percentage of revenue. However, the forecasted property expenses will not improve from 2013 numbers. In 2013, SSS acquired a relatively low number of properties compared to both their historical average and our 5-year forecast, which led to a decrease in property expenses.



Selling General & Administrative Expenses (SG&A)

Based on common size analysis of SSS's historical financial statements, we have determined that in a normal year SG&A accounts for approximately 12.9% of total revenue. As Sovran continues to saturate more markets, they will be able to drive occupancy rates without a substantial amount of advertising expenses. This trend, combined with benefits due to economies of scales, leads to a projection of SG&A gradually decreasing as a percentage of total revenue.

Depreciation & Amortization

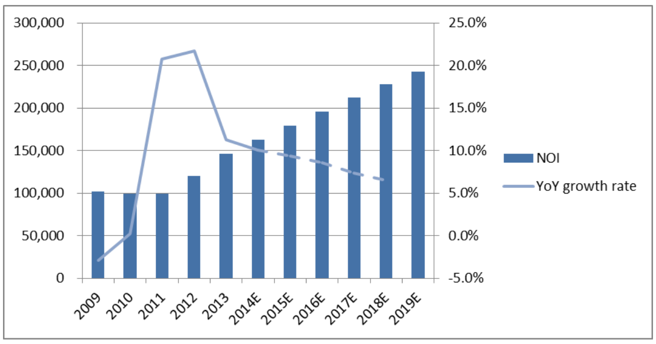
As the majority of SSS's growth is fueled by the acquisition of new properties, they will be forced to account for a larger amount of depreciation in proportion to total revenue.

Interest Expense

Due to their floating rate line of credit, SSS will be forced to pay a larger dollar amount of interest expense as interest rate increase. The model forecasts a normalized interest rate environment starting in 2017, however, over time as SSS continues to approach their 70/30 target capital structure, the company will be able to keep their total interest expense as a percentage of revenue level.

Net Operating Income (NOI)

From 2009 to 2013 SSS has a NOI CAGR of 7.4%. NOI growth drivers are very similar to Revenue growth drivers, for this reason, and because the increased depreciation and amortization is not included in NOI, NOI is forecasted to grow at a 5-year CAGR of 8.34% as shown below.



Terminal Growth

Due to our belief that SSS is not a likely acquisition target, a terminal growth value calculation is necessary. The growth rate is not accounted for in the 5-year DCF, however it is determined in the 10-year DCF calculation. The terminal growth rate is forecasted to be equal to the long run average inflation rate of 2.5%.

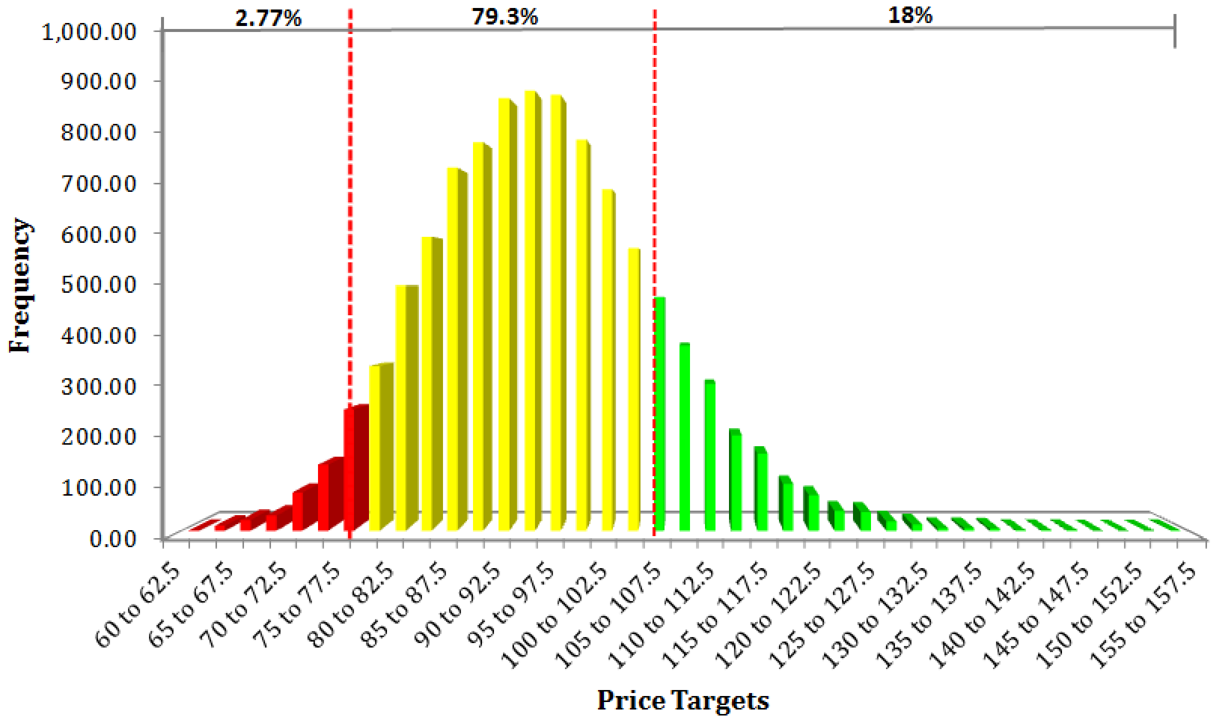
Appendix Z: Monte Carlo Simulation

The Monte Carlo simulation accounted for nine different variables. These variables led to different intrinsic values which were equally weighted simulating the final intrinsic value. See table below for a detailed description of each variable in the 5-year DCF model.

Factor	The Factor Effects	Parameters	Explanation
2015 and 2016 Average Occupancy Rate Level	Total Revenue	2015:2016 x : 90.00% s: 2.26% 2017:2019 x : 90.50% s: 2.10%	This accounts for sensitivity of shifts in industry characteristics, the largest average occupancy rate considered is 93%
2015 Average Rate Received per square foot	Total Revenue	x : \$9.34 s: \$0.62	This allows for sensitivity in changes of industry supply and demand characteristics affecting SSS's pricing
Annual Growth of average rate received per square foot	Total Revenue	x : 2.25% s: 0.81%	This allows for sensitivity in year-over-year changes in SSS's ability to raise rental prices
Net Acquisition Rate per square foot	Total Revenue	2015:2016 x : 6.00% s: 2.00% 2017:2019 x : 4.75% s: 2.00%	This increases the sensitivity of the model by allowing year-over-year expected total square foot changes
1st Tier WACC	Cost of Capital	x : 8.68% s: 1.15%	This increases sensitivity to short term changes in interest rates
2nd Tier WACC	Cost of Capital	x : 9.17% s: 1.15%	This increases sensitivity to the forecasted long-term normalized value of interest rates
Assumed Capitalization Rate	Terminal Value	x : 5.25% s: 0.46%	We are 95% confident that the future assumed cap rate will be between 4.33% and 6.17%

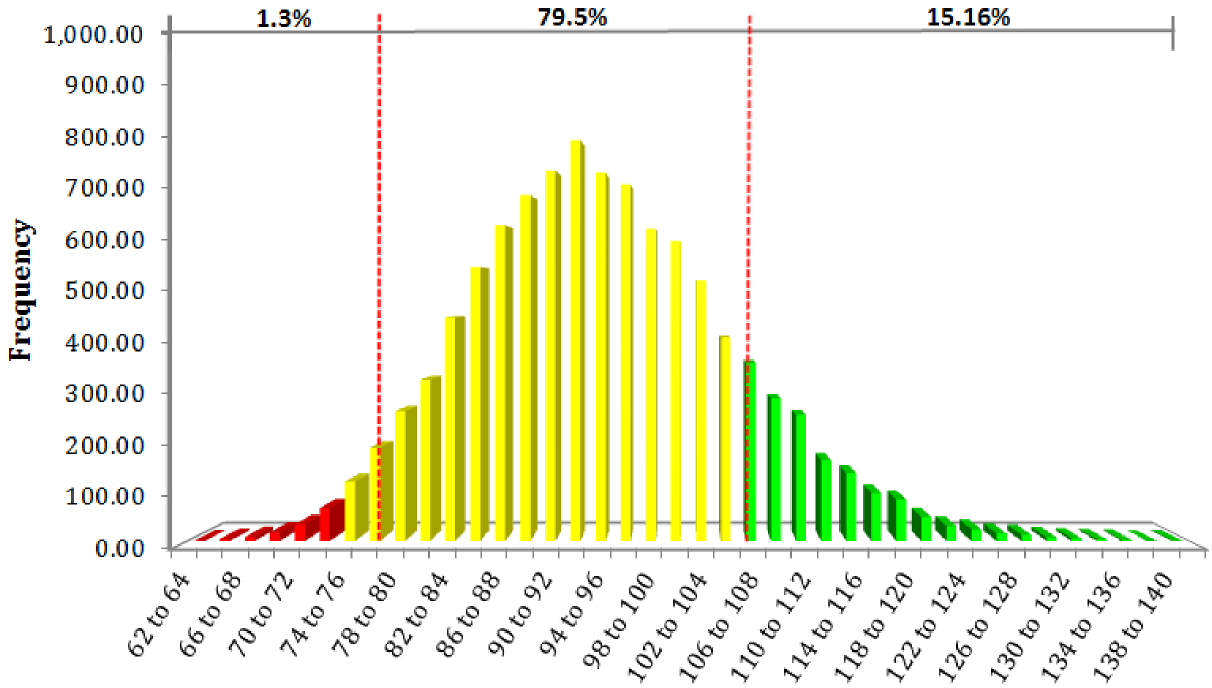
Our analysis simulated 100,000 outcomes for both the 5-year and 10-year DCF models. The main difference in the 10-year is that it accounts for the maturation of Sovran, after which Sovran will grow at a terminal value of 2.5%, consistent with long-term inflation rates. The 5-year DCF model produced an average intrinsic value of \$94.96 with a standard deviation of \$11.55, providing 95% confidence that the intrinsic value is between \$76.78 and \$114.79.

5 Year DCF



Simulation Statistics 5Yr	
Mean	94.8
SD	11.3
25th Percentile	86.9
Median	94.2
75th Percentile	102.0

10 Year DCF



Simulation Statistics 10Yr	
Mean	95.0
SD	10.6
25th Percentile	87.5
Median	94.3
75th Percentile	101.8

Sensitivity Analysis

The sensitivity analysis focused on key inputs affecting the projected NOI and terminal value. Simulations determining how these inputs independently affect the intrinsic value are shown below.

Assumed Cap Rate	Percentage change in rate	Weighted Average Intrinsic	Precentage change in value	Recommendation	Return from Stock
4.75%	-9.52%	$ 102.52	-7.96%	Buy	12.78%
5.00%	-4.76%	$ 98.95	-4.20%	Hold	8.86%
5.25%	0.00%	$ 94.96	0.00%	Hold	4.47%
5.50%	4.76%	$ 90.94	4.23%	Hold	0.04%
5.75%	9.52%	$ 87.09	8.29%	Hold	-4.19%

Capitalization Rate Sensitivity Analysis

The assumed cap rate and intrinsic value are negatively correlated. A .25% change in cap rate corresponds to roughly a 4.2% change in intrinsic value. Although this demonstrates sensitivity, our recommendation remains constant for the majority of possible changes.

UST 10 Year normalized	Percentage change in rate	Weighted Average Intrinsic	Precentage change in value	Recommendation	Return from Stock
2.50%	28.57%	$ 99.92	-5.22%	Hold	9.92%
3.00%	14.29%	$ 97.41	-2.58%	Hold	7.16%
3.50%	0.00%	$ 94.96	0.00%	Hold	4.47%
4.00%	-14.29%	$ 92.57	2.52%	Hold	1.84%
4.50%	-28.57%	$ 90.29	4.92%	Hold	-0.67%

Risk Free Rate Sensitivity Analysis
As shown above, the risk free rate and intrinsic value are negatively correlated. As a main factor in both cost of equity and cost of debt, the model is somewhat sensitive to changes in the long run risk free rate. The model forecasts that the interest rate environment will normalize in 2017.

Appendix AA: Dividend Discount Model

The DDM was built assuming forward dividend payments are driven off a payout ratio against Net Operating Income (NOI). These historical payout ratios are more consistent than payout ratios against Net Income, and thus are more reliable moving forward. Sovran recently announced an increase in their quarterly dividend from $0.68 to $0.75, which has been accounted for in the model as well.

Payout ratios were held constant with the ten year arithmetic average of 53.6% and NOI was driven forward at a 5-year CAGR of 5.2% from 2015-2019. To account for the dilution of outstanding shares that will be caused by Sovran's financing structure, shares outstanding was ramped up at a 5-year CAGR of 2.5% from 2015-2019.

The DDM calculated a per share price of just over $96, which takes into account Sovran's cost of Equity at 9.37% and a terminal value calculated as terminal year dividend (2019) multiplied by an expanded NOI / price multiple. This multiple is currently 20.2x, which we assume will drive upwards towards 22x by 2019. Dividends per share grow at a 5-year CAGR of 2.7% from 2015-2019.

Year	NOI per share	DPS	Payout Ratio	DDM PV
2005	$4.39	$2.46	56.1%	
2006	$4.51	$2.47	54.7%	
2007	$4.85	$2.52	52.0%	
2008	$4.74	$2.52	53.2%	
2009	$3.71	$2.54	68.4%	
2010	$3.59	$1.80	50.1%	
2011	$3.29	$1.80	54.7%	
2012	$3.95	$1.80	45.6%	
2013	$4.50	$2.02	44.9%	
2014	$4.85	$2.72	56.1%	
	Ten Year Average		**53.6%**	
2015E	$5.15	$2.76	53.6%	$ 2.76
2016E	$5.43	$2.91	53.6%	$ 2.91
2017E	$5.68	$3.04	53.6%	$ 3.04
2018E	$5.88	$3.15	53.6%	$ 3.15
2019E	$6.04	$3.24	53.6%	$ 136.08

Cost of Equity	**9.37%**
NOI/P Multiple	**22.0**
2019 NOI	$6.04
Terminal Value	**$132.84**
Implied Intrinsic Value	**$96.44**

Appendix AB: "Buy" Scenario

Due to the target price of our base case being above the current trading price, it is appropriate to display a different scenario that has an intrinsic value which would lead to a Buy recommendation. This scenario does not reflect all of our base case assumptions as we do not believe that this growth rate is realistic due to industry specific limitations. This scenario takes into consideration overly optimistic assumptions including:

Factor	The Factor Effects	Parameters
2015 and 2016 Average Occupancy Rate Level	Total Revenue	2015:2017 $\boldsymbol{x}$: 91.00% s : 2.26% 2018:2019 $\boldsymbol{x}$: 92.00% s : 2.10%
2015 Average Rate Received per square foot	Total Revenue	$\boldsymbol{x}$: \$9.34 s : \$0.62
Annual Growth of average rate received per square foot	Total Revenue	$\boldsymbol{x}$: 2.62% s : 0.81%
Net Acquisition Rate per square foot	Total Revenue	2015:2019 $\boldsymbol{x}$: 6.85% s : 2.00%

Industry supply growth will be driven upward by the easing of bank loan requirements, as previously mentioned in Appendix C. This economic tailwind may drive the industry supply growth may trend towards the long run historical average of 5.05%, preventing this scenario from occurring.

This supply growth will also limit Sovran's ability to continuously increase occupancy rates, making it unlikely that they will be able to reach a peak level of 92%. Also, due to the continuous rise in real estate prices Sovran will be unable to grow at its historical average while preserving 2013 margins. This is another factor that makes this scenario very unlikely. Due to the belief that the assumptions listed above a small chance of occurrence this analysis reaffirms our Hold recommendation.