



National Storage Affiliates Trust: A Different Kind of REIT

By Jay Marks

As storage business professionals, you are likely familiar with Real Estate Investment Trusts (REITs). Now, you might think that all publicly traded self-storage REITs are pretty much alike. However, you'd be mistaken.

Traditional REITs in the self-storage industry tend to operate with a “top-down” mentality. Decisions are made at corporate headquarters and communicated to regional, divisional and property managers who work for the corporation and implement these decisions. You might say that these organizations “think globally and act globally.”

National Storage Affiliates Trust (NSA) was founded in 2013 to create a different type of REIT – a win-win partnership that would “think globally and act locally,” benefiting operators and investors alike. NSA's business model is simple and unique.

According to Arlen Nordhagen, CEO, National Storage Affiliates Trust, “We depend on our Participating Regional Operators (PROs) to continue managing their self-storage properties after they join NSA, unlike traditional REITs. After all, they know the lay of the land at the local level better than we do.

They've become successful by serving their customers well in the competitive environment of their own markets.”

So why contribute their properties and join NSA in the first place?

They do so because they believe NSA provides them with better access to growth capital, as well as tools and resources (such as sophisticated data analytics, call center, digital marketing support, revenue management expertise, best practices, etc.) that might otherwise be unaffordable to a stand-alone operator. They gain economies of scale and technological innovation to add to their experience and business savvy. It's a combination intended to enhance their profitability and ROI.

How does this public investor and PRO partnership actually work?

First, to qualify as a PRO with NSA, an operator must have a proven, high-quality management team, plus own and operate at least 20 self-storage properties in the top 100 MSAs valued at \$100 million or more. (On average, NSA PROs

operate more than 40 self-storage properties worth over \$200 million.) When they join NSA, PROs contribute their properties at current market value, exchanging their property for Operating Partnership (OP) units, or equity in the REIT. In most cases, this transaction is accomplished in a tax deferred manner. While OP units are commonly used by traditional REITs, NSA has created a unique feature by adding a second class of OP units called Subordinated Performance (SP) units.

As Nordhagen explains, “SP units are issued to our PROs for part of their equity value to motivate and reward them for strong financial performance on the properties they manage within NSA. The more profitably a PRO manages its portfolio of properties, the more the PRO can earn in dividends from SP units. That's the upside incentive. By contrast, SP units will pay a lesser dividend for poor financial performance. That's the downside penalty.”

To protect the investor, common stock and OP unit dividends take priority with respect to dividends. That's why SP units are called “subordinated.” They take second place. OP units are economically equivalent to REIT common shares. Their value is based on the value of the entire REIT, which is the same as the price of the common shares, and they receive the same dividends as REIT common shares.

Because PROs are vested in the REIT by virtue of owning both OP units and SP units, they are motivated to see both the company as a whole do well, and to profitably grow their own portfolio of properties to increase the distributions and value of their SP units.

To quote Nordhagen, “This business model is unique in that it aligns the interests of REIT shareholders whose stock is equivalent to OP units with the interests of the PROs who own both OP and SP units. It's a win-win partnership benefiting everyone involved.” ▲

To learn more about National Storage Affiliates and NSA's unique REIT business model, visit www.nationalstorageaffiliates.com.