

Science of Pricing

Airlines, hotels, and car rental companies use highly advanced mathematical models to help set their prices. For every \$1 billion in revenue earned by these companies, state-of-the-art pricing tools typically generate \$50 - \$75 million of additional revenue above what they would otherwise have earned.

What might be surprising is that companies in other industries, including self-storage, are also able to benefit from the *Science of Pricing*. After carefully researching its options, Devon began working with Veritec Solutions about one year ago. Recognized for its expertise in Pricing and Revenue Management, Veritec has designed advanced pricing and rent increase methods specifically for the self-storage industry.

One of the unique aspects of Veritec's approach, which is consistent with Devon's philosophy, is that the best pricing decisions require continuous input from both team members and the software. For example, one of capabilities of the Veritec system is a proprietary dynamic method that enables Devon to implement *Value Pricing*. We have found that regardless of which units are vacant in a unit group, the units that are the most convenient can be rented for a higher price. In December 2018, Devon earned an additional \$29,000 just from this module. Then, working with Veritec, Devon's SVP – Operations, Raheem Amer, developed a new approach for implementing this capability. As a result of the changes introduced by Amer, the incremental revenue from Value Pricing exceeded \$37,000 in March 2019. Devon has generated 9% more revenue from new customers than without using this module.

Approximately 20 self-storage companies are now generating incremental revenues from dynamic Value Pricing capabilities. Most companies receive an additional 4 – 6 % revenue from new move-ins, but two self-storage companies are receiving more than 9 % in incremental revenue. Devon is one of the two. Devon's exceptional performance in this area is due to a combination of its internal training efforts and innovative business processes.

The following chart displays Devon's month-over-month incremental revenue generated from Veritec's Value Pricing module (also known as Convenience Pricing). As more customers upgrade into a more convenient unit for a marginally higher rent, Devon expects continued growth in the monthly revenue attributed to this module.



In addition to Veritec's Value Pricing module, Devon also uses the Veritec modules that provide guidance for setting the internet rates as well as for rent increases with great results.

Like Devon, Veritec is *customer centric* in it's DNA. Veritec has provided Devon with a range of customer related reports that are enabling Devon to implement pricing programs more successfully and generate greater financial returns. Devon can easily see which stores and staffs are the most successful at implementing Veritec's programs and where additional training and support might be required.

Devon and Veritec are both delighted to have founded a partnership successful in obtaining financial results that outperform the industry.

It's Leasing Time! By Ken Nitzberg, Chairmen & CEO



Ken Nitzberg
Chairman & CEO

The self storage industry, in most markets, tends to be a seasonal business with the traditional leasing season starting in April and extending through early September. Historically, people rent storage when there is a change in their life circumstances such as a move, a job change, building a new home, downsizing, the kids moving out or back in, or a death in the family. To the extent they can control when those activities take place, they normally choose a time

other than Thanksgiving, the Christmas holidays and the depth of winter with the normal difficult weather. With the start of

the second quarter of the year we are moving into the leasing season.

We believe that at Devon we are prepared and ready to meet the challenges of the new leasing season head on. We have a new operations team in place led by Raheem Amer, Devon's new SVP – Operations. We have upgraded our technology platform with the use of our revenue management and value pricing software. We continue to improve and polish our web site. Our call center, run by OpenTech Alliance, based in Phoenix, Arizona, has recently been staffed with employees solely dedicated to servicing the Devon stores. We are also in the process of moving our auction program to an online

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Operations Update by Raheem Amer, Senior Vice President—Operations

Do you play racquetball? Before I answer, “*Raheem why are you asking me this question?*” ...Let’s look at Devon’s Quarter 1 in review.

Quarter 1 ended with a big BANG for Devon Self Storage; in fact, it was one of the best quarters on record based on overall performance. I am very pleased with the activity and conversion rates that we experienced through the customer acquisition funnel which resulted in very favorable rentals. We ended the quarter up **+3.3% in YOY** revenue growth on a same store basis. This was propelled by several factors, Let me give you some details:

- We decreased our Accounts Receivables by over 25.5% by adding operational processes.
- We increased our Merchandise sales by over 34.8%.
- We increased our Auto Pay customers by over 30.3% which resulted in fewer AR calls, less time spent taking payments, and more time spent with new customers.
- We increased conversions by over 13.6% which equals more time with customers and more customers renting.
- By building better rapport with customers we were also able to get a better value from our them, as 46.6% of new tenants paid us a higher price for their units (see the cover article on Value Pricing).
- In Q4 2018 9% of the customers were leaving a Google review, but in Q1 2019 we ended the month with over 38% of the customers leaving us a Google review telling other potential customers about their GREAT Devon customer experience.

So what do these results have to do with racquetball? Well after many years of hiatus, I recently resumed playing racquetball. This weekend I thought I was doing everything right and yet I still wasn’t hitting the ball well. “***What am I doing wrong***”, I asked myself in frustration? I thought of all the advice...

- *Keep the racket low.*
- *Move the feet.*
- *Bend the knees.*
- *Rotate the hips.*
- *Low to high.*
- *Follow through.*
- *Don’t pass out.*



and started to laugh as I realized I had overlooked the obvious. I was doing everything but keeping my eye on the ball. I was so caught up in trying to do everything else that I forgot the most important part of the game. I know I’m not alone. I see it happen all the time in businesses, schools, sports, life and work. Distractions cause us to lose our focus. We allow the trivial to get in the way of the meaningful. Busyness and stress keep us from developing the relationships and rapport that are crucial.

We fret about the past (*no one ever rents at this site*);
We worry about the future (*these customers can’t afford our prices*);
 and,

We take our focus off of the present (*follow the Customer Centric CX sales process*).

Bombarded by information and distractions we forget what is truly important – ***taking care of our customers***. We focus on the outcome instead of the process and wonder why we miss our targets. We focus on everything else except the ball.

This quarter I want to encourage you to keep your eye on the ball. Let’s move forward with the basics. Focus on the fundamentals. Remember what really matters. Identify the simple principles and actions that are crucial to your success at work and at home. **Simplify, Focus and Execute.** I played racquetball yesterday for a few hours. My body was tired and my muscles were sore. But I kept telling myself ***keep your eye on the ball***. I played the best I’ve ever played. Keeping my eye on the ball helped me take my game to a new level.

In Quarter 2 if we at Devon along with our great partners OpenTech, Veritec, Go Local & SiteLink stay focused on the CX customer sales process...I know it will help us elevate our team to a whole new level.



*Raheem Amer
Senior VP of Operations*



5 years

David Howie
Urbana, IL



•The GM of the month will enjoy fame and fortune Amazon style!
\$50 Gift Card

•The GM of the quarter will be wined and dined on us!
\$150 Value

•The GM of the year is going places! Trip for two anywhere you like!
\$1000 Value



Once a quarter Devon Self Storage has a “State of The Union” meeting where all of the Devon team members participate in a video conference. Amongst operational & performance news and discussions, a highly anticipated section is dedicated to celebrate the excellence of Devon’s best of the best.

These are team members who have excelled against their company set goals. These General & Assistant Managers earned their awards and the appreciation of all of Devon for their dedication, creativity & for taking the extra step for our costumers & the company. These team members have fully adopted the new sales process, and live by the three C’s; *Close, Clean & Collect* with remarkable results. Feel free to pick up the phone or shoot an email to congratulate them, and don’t forget to ask for ideas on how to achieve your own goals (no one at Devon bites, we think).

Congratulations!!!

GM Of the Quarter

Suzanne Feole - Felch St. (DFS)

Chuck Gamm, Vice President , Operations, had this to say : “Suzanne treats her store just like an owner would. By embracing the new sales process, she has made a great store even better!

Zach Baldwin , Regional Director, reached out to Suzanne to congratulate her and to ask what we all wanted to know: “How did you do it?”

“I just followed the ‘plan’. I assume the sale and move on. You won’t make many sales if you don’t ask for them. I also always remember to SMILE and be confident, it goes a long way. YOU are the best thing on your property.” Said Suzanne with her signature smile.



Top Performers: March - Special mention to our double category winners!



Category	GM	Store	Result
Net amount of rentals	Rocky A Pavon	Wabash	34
% of accounts recievable over 31 day	Jessica Kimball	Wesley	0%
	Dwayne Allen	Milwaukee	0%
New tenant insurance \$	Deborah England	Sherman	\$14.43
New tenat insurance %	Darleen Pulley	American Way	163.60%
Merchandise sales	Kimberly Solomon	Spring	\$61.36
% of new tenants on auto pay	Alex Basquez	Ramon Rd.	97.5%

Category	GM	Store	Result
Conversion of leads to new tenants	Aberto Saldivar	Radio Rd.	100%
	Jessica Kimball	Wesley	100%
	Karen Guiles	Seabrook	100%
Walk-in new tenant upgrade to higher value & cost unit	Debbie Derryberry s.	Germantown	100%
	Jessica Ewing	Georgetown	100%
	Erin Barton	Lakewood	100%
	Deborah England	Sherman	100%
	Dwayne Allen	Milwaukee	100%
	Brittany Briggs	4705 Winchester	100%
	Van Carreon	Canal st.	100%
# of Google reviews	Alex Basquez	Ramon Rd.	24

... platform, which will not only be more efficient but will open up the bidding to a wider audience. Our facilities have undergone their annual “spring cleaning” with a refreshed front office reconfiguration, making them as user friendly as possible. We are polished, primed and eager to begin the leasing season.

In March I traveled to Washington DC along with several members of Devon’s senior management team to attend the annual Self Storage Association Spring Conference & Trade Show. The Devon contingent was joined by 1,500+ self storage owners, operators, employees and vendors for three days of meetings, classes and informal networking. The Self Storage Association puts on two of these major events each year – the spring conference in March, which is normally in different cities every year, and the fall conference which is always held in Las Vegas every September. The conferences have proven to be a tremendous source of information and education for all of the Devon employees that attend, as well as a great networking platform.

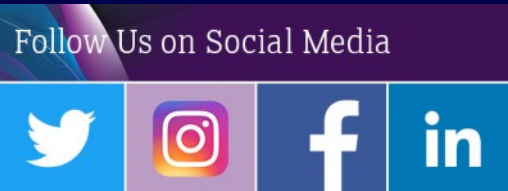
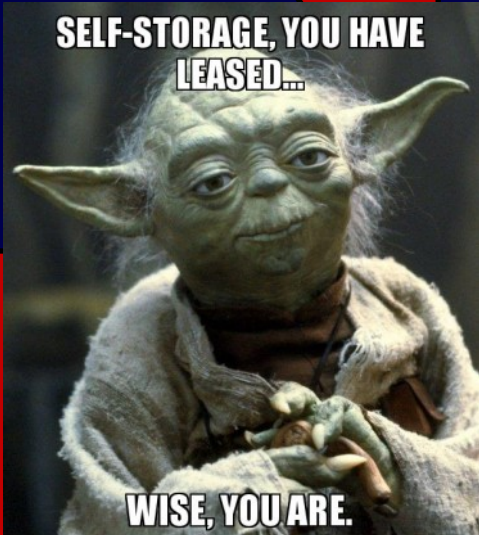
In the final weeks of the first quarter of 2019, Devon closed a major transaction in which we sold 21 of our managed assets generating a significant return for our capital partners. The portfolio was acquired by a relatively new investor that retained Devon to continue to manage the assets. This fortunate series of events provided all parties involved with the proverbial win/win/win situation as the selling entity generated a significant return, the new ownership group acquired an immediate foothold in markets previously untapped by them, and Devon continued uninterrupted as the manager of the assets.

However, the acquisition of existing self storage assets for our current capital partners continues to provide significant challenges, especially in light of the scarcity of deals that came to market in the first quarter of 2019. The beginning of the year is traditionally the slowest quarter for acquisitions, as those owners that wish to sell normally attempt to get the transactions closed by the year end and not push them into the next year. When factoring in the seasonal nature of the industry with the spring and summer quarters being the strongest, normally an

owner will try to “dress up” an asset over the leasing season and then put it on the market after Labor Day. Thus there were a minimal number of assets that hit the market in the first quarter, and unfortunately none of those opportunities provided our clients with the value add component needed to make the deals attractive. That said, as we transition into April, we are already feeling the tide turn and in the coming weeks we will be presenting a number of viable acquisition opportunities to our capital partners.

During the quarter the company made an important and conscious decision to return to our roots by moving actively back into the “conversion” marketplace, whereby we acquire vacant properties – usually failing or failed, retail big boxes – for literally pennies on the dollar and convert them to state-of-the-art self storage facilities. We have hit the ground running and just after the close of the first quarter we finalized an agreement with a new joint venture capital partner to acquire and convert a long vacant big box furniture store in Orlando, FL. Our construction division is excited about the prospect of getting back into the conversion/development business and we are confident that this conversation project will be one of many with this new capital partner, thus expanding and diversifying our current portfolio of self-storage facilities and partnerships.

Additionally, the location of this specific asset will allow the ownership group to take advantage of the new federal tax incentives available to corporations or individuals that invest in certain undercapitalized communities recently designated as Opportunity Zones. This program, as made available through the 2017 Tax Cuts and Jobs Act, offers three basic tax benefits for investing unrealized capital gains in an Opportunity Zone: (i) temporary deferral of tax on previously earned capital gains; (ii) basis step-up on previously earned capital gains invested; and (iii) permanent exclusion of taxable income on new gains. Devon is in the process of better understanding some of the compliance challenges that may arise in the application of this federal tax incentive to the ownership, conversion and operation of a self storage facility. We will be sure to share our lessons learned as we navigate these new waters in 2019.



Devon Self Storage continually seeks new development, acquisition, and property management opportunities.

Kenneth E. Nitzberg
Chairman & CEO
knitzberg@devonselfstorage.com
Devon Self Storage Holdings (US) LLC
2000 Powell Street
Suite 1240
Emeryville, CA 94608
(510) 450-1300 Tel (510) 450-1325 Fax

For Acquisitions contact:
Greg Mackay, Senior Vice President - Acquisitions
gmackay@devonselfstorage.com
(404) 353-0843

For Property Management contact:
Raheem Amer, Senior Vice President
raheem@devonselfstorage.com
(630) 660-2637