HANDS FREE INVESTMENT OPPORTUNITY #219916012

SELF-STORAGE PROPERTY – NORTHERN ONTARIO

Revision History

Date	Version	Revised by	Comments
June 23 2010	1.0	AM	First draft
June 28 2010	1.1	AM	Revised layout & contents
July 07, 2010	1.2	AM	Updated content, added appendix
July 14, 2010	1.3	AM	Revised layout, updated offer, appendix.

Wednesday, July 14, 2010
Toronto, ON Canada

From:

Anand Murthy

MBA, CSSM® - Certified Self-Storage Manager

Deal Architect, Director of Client Relations | Statue Storage Inc.

A member of the Statue RE Investment Group of Companies

Subject: Hands-Free Investment Opportunity (#219916012)

About Us:

We are Statue RE Investments; we are a professional Real Estate investment business.

As a professional Real Estate investment business, we create **income for today and wealth for the future** by working with investment partners who **want their money to work harder** for them; but do not have the time, energy or expertise to do so themselves.

(Please see "Acquisition Criteria")

We do so by identifying and acquiring under-managed properties, and working with a team of highly-experienced Real Estate professionals to establish systems and procedures to turn such properties into **well managed, sustainable and profitable RE investments** that deliver **predictable, risk-mitigated returns for a long period of time.**

We work to provide our tenants & clients with **ethical and feasible solutions** to financial problems, and create better places for them to live and work; while **giving back to society and the less fortunate** as we go along.

In doing so, we create an income stream for our investors that makes their money work harder and more effectively for them, now

The property:

The opportunity comes from within one of the largest cities in Ontario in the form of a very viable Self-Storage Unit; approx. 35,000 sft. in size, with very good rents and excellent upside on four (4) counts, which will become apparent when we get to "Financing"

The property contains 295 units covering approx. 35,300 sft. with an average rent of $1.09 per sft. per month, broken down as follows:

- 93 climate-controlled units covering approx. 6,400 sft., with an average rent of $1.62 per sft. per month;
- 67 unheated units covering approx. 8,400 sft. with an average rent of $1.07 per sft. per month; and
- 135 container units covering approx. 20,500 sft. with an average rent of $0.94 per sft. per month.

The property has excellent upside on four counts:

- ↗ Increase in occupancy (from the current 75-80% to 90%)
- ↗ Increase in revenue with additional container storage units,
- ↘ Reduction in operating expenses
- ↗ Improvement in marketing, promotion and on-site management.

Our Advisory Panel, which consists of highly qualified professional Real Estate investors who specialise in various aspects of commercial real estate and particularly in self-storage (for over 25 years) were very excited about potential of this opportunity.

(See panel left "About Us" for more information on our Advisors) harder and more effectively for them, now and in the future.

We are Statue RE Investments; we are a professional Real Estate investment business

(Please see "Acquisition Criteria")

Advisory Panel:

Mike Parham

Mike has been in the self-storage industry for over 25 years.

He is the founder & president of Noah's Ark Development, a Parham Group company; that provides consulting, joint ventures, third party development, site analysis, feasibility analysis and market feasibility.

Mr. Parham is the developer and general partner of the Noah's Ark Self Storage chain.

Under his stewardship, Noah's Ark Development has developed over *3.2 million square feet* of self-storage to date.

He has seen the same information that you're looking at now, and was very (very) positive about the deal.

Laurent Gauthier

Mr. Gauthier has deep roots in Real Estate investment, and focuses on commercial properties and property management.

His company currently manages approx. 1,100 residential units (incl. a mix of townhouses, high-rise, mixed-use and non-profit projects) and a mixture of strip retail/centres, office buildings, medical centres and light industrial properties.

The location & environs:

The City where this deal is located serves as the service hub for northeastern Ontario and is a major centre of mining, financial and business services, tourism, health care and research, education and government.

The subject property has been in existence since the early '90s and has grown to its current size in the early 2000s. It is located within one of the City's fastest growing suburbs, which has a population of approx 26,000 and consists mostly of single-family homes with small retail/ community malls.

Approximately 15,000 people live within 5 km (3 miles) of the subject property; and a local developer has started work on new sub-division with 600 homes within 5 km radius.

The subject property is surrounded by other business clients/ industries, which makes for a healthy business clientele in addition to the residential clientele

There are no other similar properties within a 8 km of the subject property, and there are 4 other properties approx. 9-12 km from the subject property

The strategy:

The exit strategy:

The property will be improved, operated and held for a period of between 3-7 years depending on the market cycle and liquidated to obtain greatest return on investment.

Other possible options include long-term hold or lease-to-own sale, which will be determined at the appropriate juncture taking the market cycle into consideration.

The operational & improvement strategy:

Today, there is NO concerted promotional marketing effort (advertising is restricted to the Yellow Pages, and incidental word-of-mouth), resulting in about 23-25% vacancy.

In the first year, we will increase occupancy from 77% to 90% via community focussed promotional marketing which is NOT being undertaken today (e.g. billboards at local events, flyers to homes & businesses, posters/ flyers at supermarkets and community 'gathering spots', sponsoring Little League team jersey, offering unit to Chamber of Commerce in exchange for publicity, sponsoring float in Town Parade etc.)

Operating expenses will be trimmed by 5% with more effective spending; and this will take the Net Operating Income to 267K at the end of Year 1.

The finances:

The property generates a NOI of $197.5K p.a., and will be acquired for approximately $1.9M including repairs, at a cap rate of approx. 10.4%.

Key Numbers

Gross Potential Income	$475,273
Gross Effective Income	$364,825
Total Operating Expenses	$167,298
Net Operating Income	$197,527

This property is a very viable deal with excellent upside on four counts:

- ➚ Increase in occupancy (from the current 75-80% to 90%)
- ➚ Increase in revenue with additional container storage units,
- ➘ Reduction in operating expenses
- ➚ Improvement in marketing, promotion and on-site management.

For the purpose of ROI analysis, the following numbers have been arrived at using *ultra-conservative* estimates & assumptions as follows:

We have assumed that that the property will be operated for a period of 5 years (average of time-frame between 3-7 years as indicated previously)

We have assumed (ultra-conservatively) that financing is accomplished as follows:

▪ 65% LTV at 7% p.a. P+I over 15 years for 1st mortgage ▪ 15% LTV at 16% p.a. P+I over 15 years for 1st mortgage	More likely scenario: Currently, our financing partners tell us that lenders are keen to finance Self-Storage Units at somewhere between 4.75-5.25% p.a. over a 25 year amortisation period upto 80% LTV
We have assumed (very conservatively) that NOI improves by a very marginal 3% p.a. keeping up with inflation ▪ We have NOT considered the positive impact of reductions in vacancy, reduction in operating expenses; or improvements in marketing, promotion or on-site management	More likely scenario: During the first year, 13% improvement in occupancy, & 5% reduction in operating expenses will result in *improvement of NOI by 30%* in the first year itself (!!) from 197K to 257K This is improvement is anticipated without taking into account the effects of better promotion & on-site management; or addition of new units. *Assuming increase corresponding to the rate of inflation thereafter, the annualised rate of improvement of NOI is closer to 8.5% (We will assume 6% to be conservative)*
Again, in the spirit of *fiscal ultra-conservatism*, we have assumed that the cap rate at sale will be 10.5% (slightly worse than the purchase cap rate of 10.4%)	More likely scenario: Cap rates usually tend to go down with urbanisation and progress; and the property is located in the fastest growing suburb, where commercial properties are being sold at 8-9 Cap. *Selling at 9 cap in 5 years is very realistic*
Conclusion: With these *ultra-conservative* assumptions in place, the investor's ROI is 14 % p.a. over the 5-year term as follows (see Appendix 1) for an investment of $558,000	More likely scenario: *The investor's ROI will be closer to 25% per year* over the 5-year term (With financing for 1st charge at 6.5% interest for 70% LTV for 20 year amortisation; 2nd charge at 16% interest for of 10% LTV for 15-year amortization; reduction in vacancy, and sale at 10.4 Cap in 5 years)

The Offer:

This opportunity is being presented for participation to suitably qualified investors. The investment being raised is approx $600,000 (approx. 31.5% of the deal size of $1.9M) and investors will reap their reward in one of two ways:

- If you participate as a debt partner, you will receive 9% interest on your participation paid annually during the holding period, followed by return of the original capital, OR

- If you participate as an equity partner to the maximum allowed extent, you will receive 50% of the annual cash flow, and 50% principal pay-down and profit from sale as shown in the appendices.

In order allow you, the investor to better align this opportunity with your unique investment objectives, we've decided to open up this opportunity for the investor to participate both as a debt partner and equity partner in any amount in units of $50,000.

Now …

Would you want to let your money to stay in a bank and earn you whatever it is (or is not) earning you at the moment …

OR,

Would you like to **make your money work harder** for you in an investment secured by real estate while giving you the time and peace of mind to do the things you REALLY want to do?

Appendix

Scenario #1 - Ultra-conservative scenario (equity partnership)

You receive 50% Equity Partnership & bring approx. 600000 (approx. 31.5%) as Down Payment				
		Your 600000	**Your share 50%**	Ours 50%
NOI (worst case, in 5 years)		228,988		
CAP Rate		10.40%		
Sales Price (less 6% commission)		2,069,698		
Less Purchase Price		(1,900,000)		
Sales Profit		**169,698**	**84,849**	84,849
Cash Flow	1	53,744	26,872	26,872
	2	55,356	27,678	27,678
	3	57,017	28,508	28,508
	4	58,727	29,364	29,364
	5	60,489	30,245	30,245
Cash Flow 5 Years		**285,334**	**142,667**	142,667
Principal Paydown/ Recapture	1	55,918	27,959	27,959
	2	60,233	30,116	30,116
	3	64,910	32,455	32,455
	4	69,985	34,993	34,993
	5	75,497	37,748	37,748
Total Principal Recapture		**326,543**	**163,272**	163,272
Total Profit		**781,575**	**390,788**	390,788
TO GET ROI		781,575	390,788	390,788
Divided by Down Payment		600,000	600,000	-
ROI 5 YEARS		**130.26%**	**65.13%**	
Divided by 5 YEARS		**5**	**5**	
ANNUAL ROI		**26.05%**	13.02%	

Scenario #2 – A slightly more realistic scenario (still fairly conservative)

Strategic Approach:

Today, there is NO promotional marketing effort, resulting in about 23-25% vacancy; whereas the market supports 90-95% occupancy for well run properties

In the first year, occupancy will be increased from 77% to 90% via community focussed promotional marketing which is NOT being undertaken today (e.g. billboards at local events, flyers to homes & businesses, posters/ flyers at supermarkets and community 'gathering spots', sponsoring Little League team jersey, offering unit to Chamber of Commerce in exchange for publicity, sponsoring float in Town Parade etc)

Operating expenses will be trimmed by 5% with more effective spending; and this will take the Net Operating Income to 267K at the end of Year 1.

Thereafter, it is assumed (for this discussion) that revenues and expenses go up by 3% each year (in line with inflation)

End of -->

		Today	Year 1	Year 2	Year 3	Year 4	Year 5	Total
A	Gross Potential Income	$475,273	$475,273	$489,531	$504,217	$519,344	$534,924	
B	Vacancy Losses ($)	($110,448)	($48,597)	($48,953)	($50,422)	($51,934)	($53,492)	
C	Vacancy Losses (%)	23%	10%	10%	10%	10%	10%	
D	Gross Effective Income	$364,825	$426,676	$440,578	$453,795	$467,409	$481,432	
E	Total Operating Expenses	$167,298	$158,933	$163,701	$168,612	$173,670	$178,880	
F	Net Operating Income	$197,527	$267,743	$276,877	$285,183	$293,739	$302,551	
G	Financing costs		$175,244	$175,244	$175,244	$175,244	$175,244	
H	Cash Flow		$92,499	$101,633	$109,939	$118,495	$127,307	$549,873
I	Principal Paydown/ Recapture		$55,918	$60,233	$64,910	$69,985	$75,497	$326,543
J	Purchase Price	**$1,900,000**						
K	Value @ 10.4 Cap		$2,570,000	$2,660,000	$2,740,000	$2,820,000	**$2,910,000**	
L	Sale Price less 6% sales commission						$2,735,400	
M	Profit from Sale							$835,400
N	Total Profit from Cash Flow, Principal Paydown, Profit fm Sale)							$1,711,817
O	Your investment $	$ 600,000						
P	Your investment	31.5% of deal						
Q	Your share of profit on deal	50%						$855,908
R	Your ROI (across 5 years)							143%
S	**ANNUAL ROI**							**28.5%**