



Endurance
CAPITAL

MARCH 1, 2025

Endurance Capital *Annual Letter*

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Dear Partners,

I hope this letter finds you well. Unsurprisingly, 2024 continued to bring challenges to the world and the economy. We experienced significant political and economic changes, many of which resulted in conflict and divisiveness both locally and abroad. Capital markets and fluctuations in interest rates continued to baffle even the most sophisticated investors. It was yet another year of uncertainty and anxiousness—indeed, the mantra of “survive to 2025” was a reality for many.

But fortunately, with great change and challenge comes great opportunity.

This year, we focused on the core of who we are—a long-term-hold investment firm acquiring and operating some of the best self-storage facilities and small businesses around. To ensure alignment with that thesis, in 2024, we invested deeply in the principles of endurance and our company values to continue building a solid foundation for the future. We launched a new opportunistic self-storage fund to capitalize on short-term value compression across the industry. We then successfully launched Five Star Storage's third-party self-storage management platform to continue adding scale to operations and off-market self-storage acquisition opportunities. We also reorganized Five Star Storage and Endurance Capital to create additional investment and operations flexibility in both our self-storage real estate and operating business verticals to better prepare for future growth.

Simply put, despite the fog and noise that permeates around us, our team's eyes remain locked on the challenges and opportunities that lie ahead. While we certainly celebrate successes, we continue to learn from our mistakes. There is no doubt that these times of volatility and challenge have only further forged our patient capital investment strategy. As a result, we work tirelessly to position our businesses today so they will thrive and generate value for our partners, employees and communities for years to come.

Most importantly—**thanks to all of you** for being an integral part of this most joyous ride, and for your continued trust and belief in our vision to create enduring value for all.

2024 –A Year of Change

Last year, much like everything around us, we experienced internal change. We reorganized our partnerships to create individual investment platforms to mitigate risk and offer greater flexibility. If you wish to remain solely invested in self-storage, you can do so. If you have an interest in investing beyond self-storage, we have those opportunities available as well. Simply put, we intend to create the best possible long-term investment platform to serve you, our partners, and your private investment goals.

As mentioned above, we launched a new self-storage fund to take advantage of an improving acquisitions market, increase our investor base, and create stability within the income-producing investment platform of Five Star Storage Holdings, LP (Fund I). We also restructured Five Star Storage, the property management business, in part to optimize the financial performance and value of our self-storage funds. Today, the management functions of our self-storage business are now separate from ownership of real estate and the facilities themselves. This means less risk for self-storage fund investors, fewer growth capital needs, and reduced operating expenses, all of which should result in more consistent meaningful cash flow and distributions moving forward.

And as you already have or soon will notice, even the structure of our annual investor letter has changed.

Self-Storage Operations Improve, But Capital Markets Remain Volatile

For self-storage operators, the latter part of 2023 was a time to forget. Nationally, self-storage street rates fell by nearly -4% year over year. Occupancy plummeted by as much as 10% in certain markets. Interest rates soared. Needless to say, it was an uneasy time for the self-storage industry.

In the second half of 2024, fundamentals started to turn the corner. While still negative, the decline of street rates year over year improved to around -1.2% nationally in January 2025 (as compared to -2.2% in December 2024 and -2.4% in November 2024), and occupancy in certain markets experienced modest improvement from Q1 to Q4. Notably, in January, several markets experienced positive street rate growth for the first time in nearly two years. These improving market conditions were predominately fueled by increased activity in the housing market, strong consumer spending, and less new self-storage supply due to rising construction and financing costs and declining street rates.

With history as our guide, the above data should create cautious optimism. The decrease in new supply should create modest tailwinds for the self-storage industry moving forward. From 2008 to 2013, new self-storage project deliveries slowed in a manner similar to what we are experiencing today. During that same time period, average street rates increased by well over 10%. When coupled with improving

demand, the self-storage industry should have rosier skies ahead.

Relative to our peers, the Five Star Storage team did a tremendous job with operations in 2024. One of the key numbers analyzed by self-storage pundits is “same store” revenue and net operating income growth year-over-year. The “same store” pool of assets analysis excludes new properties and those which have yet to stabilize from the data set. In doing so, we can better evaluate our ability to improve profits organically and without acquisitions—a leading indicator of the health of the marketplace and our operations performance.

In 2024, Five Star Storage’s same store pool generated an overall 4.1% increase in revenue, -1.66% decrease in expenses, and 8.89% increase in NOI. Our peers (based on data shared at an annual meeting of large private operations) saw an overall average of 3.6% increase in revenue, 1.1% increase in expenses, and 3.5% increase in NOI. Truly remarkable performance by our entire operations team.

Unlike the increasing stability in operations, capital markets remain as volatile as ever. Despite multiple rate cuts by the Fed, the 10-year treasury rate—long considered the bellwether index for long term commercial real estate interest rates—continued to rise in late-2024.

4.745% ▲ +0.064

1D 5D 1M 3M **6M** YTD 1Y 5Y ALL



Yield	4.673%	Price	96.1406
Yield Day High	4.79%	Price Change	-0.4884
Yield Day Low	4.673%	Price Change %	-0.5013%
Yield Prev Close	4.681%	Price Prev Close	96.625

Those who coined the phrase “higher for longer” are undoubtedly proving right. Thankfully, we are still securing competitive financing for new acquisitions in the low 6% range, generally fixed for 5 years, but we fully expect and are planning for continued upward pressure on interest rates in 2025. If our prediction holds true, we should continue to see attractive acquisition opportunities in self-storage this year as owners continue to grapple with loan renewals, value compression and debt service coverage concerns.

Growth Mindset

As noted above, volatility creates opportunities, and our team was successful in capturing some great investment opportunities throughout 2024.

FUND I EXPANSIONS

In 2024, Fund I expanded several existing locations. Here are the highlights:

- North Fargo—conversion of manufacturing facility added 24,385 rentable square feet and 164 units of climate-controlled storage. The expansion is already over 50% occupied.
- West Fargo—redevelopment of tired and declining office space resulted in 26,885 new rentable square feet and 154 units of both climate-controlled and boat/RV storage. The expansion is already over 50% occupied.
- Northwest Sioux Falls—redevelopment of old campground and outdoor parking resulted in 41,510 additional rentable square feet and 223 units of both climate-controlled and traditional self-storage in a hot Sioux Falls market. The expansion is already over 50% occupied.
- Southwest Sioux Falls—redevelopment of outdoor parking added 17,380 rentable square feet and 130 units of traditional drive-up self-storage. Despite opening just a few months ago, the expansion is already 21% occupied.

FUND II ACQUISITIONS

In 2024, Fund II acquired 5 new properties (4 existing and 1 constructed). Here are the highlights:

- 2,278 self-storage units and 37 outdoor parking spaces
- 356,375 rentable square feet
- Markets include St. Paul MN, St. Michael MN, Sioux Falls SD, Billings MT and Mandan ND
- Currently under contract to acquire another existing facility in Sioux Falls
- Acquired properties were all stabilized with abundant value-add opportunities which, generally, take around 2 years to fully implement and season

In 2025, we plan to continue evaluating low risk, high return expansion projects of existing facilities. Fund II also plans to raise and deploy another \$10 to \$15 million of equity into 6 to 10 additional self-storage facilities this year.

Beyond self-storage, we have been fortunate to partner with some exceptional leaders in our underground utility installation and maintenance business, Eagle River Utility Solutions. When we first invested in the business in early 2021, it was small with around 8 employees and was generally unprofitable. But we believed in the team and fortitude to build something great. At the core of patient capital is the willingness to invest time and expertise in addition to cash. Fast forward to 2024 and our once-fledgling company has experienced exponential growth and now employs around 50 exceptional team members and has seen its revenue increase by over 10x. Most importantly, we routinely hear that our employees love being a part of the Endurance and Eagle River team, a circumstance far more rewarding than an improved bottom line.

We are also currently in the process of evaluating an acquisition opportunity in the utility installation and maintenance business. If you have interest in making an investment beyond just self-storage, let us know. As mentioned above, we also anticipate meaningful self-storage deal flow in 2025, and are looking for additional equity on that front as well, so if you wish to increase your allocation to the opportunistic self-storage fund, now is the time.

Focused On The Future

Despite all the challenges we have faced, we could not be prouder of our team. We have made great strides over the last few years in creating businesses that can withstand the test of time. Nevertheless, more and more challenges remain, many of which are outside our control. We are committed to keeping a watchful eye on the horizon and what lies ahead and have committed to invest heavily in our principles of enduring equity.

Thank you for your partnership, trust and confidence, and we look forward to serving you in 2025 and beyond.

Sincerely,



Jacob C. Hendricks, CEO