DIRECT*Equity* SOURCE

Diversify your success

At Direct Equity Source, we specialize in maximizing your real estate investment returns. Discover what a team of experts with a proven track record can do for you.

95	**19-29%** IRR	**3.3x**	**6M**
TOTAL PROJECTS EXITED SINCE 1993, 28 SINCE 2021	NET OF FEES AND CARRIED INTEREST.	WEIGHTED AVERAGE PROJECT EQUITY MULTIPLE.	RENTABLE SQUARE FEET DEVELOPED.

Fund overview

Direct Equity Source is proud to offer the DES Storage Income Fund 2, a diversified investment fund that will develop self-storage and small bay office/warehouse flex developments in high-growth markets.

Key highlights of the investment opportunity include:

- The Fund offers investors the opportunity to participate in the development of an identified and diversified portfolio of self-storage and office/warehouse flex properties with an experienced and successful developer. AAA will contribute between 20-25% of the total equity capital of the Fund on their operated properties and expects to guarantee all property-level debt. The Fund's strategy is to acquire, develop, lease up, and sell properties to provide attractive returns to investors.
- AAA, our primary developer/operator, has over 32 years of experience and a history of providing an average internal rate of return to investors of 19–29%.
- An identified pool of entitled development sites in Texas, North Carolina, Washington, and Florida that will be ready to begin development when acquired by the Fund.
- A growth strategy intended to leverage the value created by the strong yield on cost in self-storage and office/warehouse, which drives above-average returns for development of these property types.
- The life-of-fund objective is 6–8 years, and the target return is a 19–29% IRR, consistent with our track record. Proceeds from the sale of each property will be distributed to investors in the year they are sold.

The Self-Storage Industry

Growing demand for storage units:

According to Grandview Research, the self-storage industry in the United States is projected to grow at an annualized rate of 5.9% over the five years from 2025 to 2030. The demand for self-storage has been growing steadily over the past decade as people accumulate more possessions and living spaces become smaller.

High occupancy rates:

The self-storage industry has consistently high occupancy rates. According to the Self-Storage Association (SSA), the national occupancy rate for self-storage facilities in the United States is approximately 90%. This indicates a strong demand for storage units.

Resilience during economic downturns:

Self-storage has proven to be resilient during economic downturns. According to the National Association of Real Estate Investment Trusts (NAREIT), the self-storage sector had an average annual total return of 17.43% from 1994 to 2019, compared to 10.18% for the S&P 500 index. During the Great Recession, self-storage REITs outperformed all other real estate sectors.

Favorable demographics:

The aging of the baby boomer generation has led to an increased demand for storage units as baby boomers downsize. In addition, millennials and Generation Z are increasingly using self-storage as they transition into adulthood and today represent approximately 27% of self-storage customers. As a result, demand for self-storage facilities has continued to exceed supply and, on average, existing storage facilities increased in value by approximately 133% during the 10-year period from 2012 to 2022.

Institutional Investment:

There has been a significant increase in the acquisition of existing facilities by institutional investors over the last 5-8 years. This influx of institutional capital has driven premium values for well-located and well-built properties.

Office/Warehouse Flex Business Parks

Office/Warehouse Overview

Office/warehouse flex space combines office and warehouse spaces in single story buildings. Its versatility supports a wide range of uses including companies in the construction, home services, manufacturing, e-commerce, logistics and medical industries. Its wide range of users provides a larger population of potential tenants, and therefore supports quick lease up, stable economics and strong cash flows.

Increased demand for e-commerce:

The COVID-19 pandemic accelerated the shift towards e-commerce, which has increased demand for office/warehouse flex space. According to CBRE, e-commerce sales are projected to reach $1.5 trillion by 2026, which will continue to drive demand for warehouse space.

Rising demand for last-mile delivery:

The growth of e-commerce has also increased the need for last-mile delivery. This has led to increased demand for office/warehouse flex space that are located in urban areas, which are closer to customers.

High occupancy rates:

The office/warehouse flex space sector has maintained historically high occupancy rates. According to JLL, the national vacancy rate for this sector was 3.9% in the first quarter of 2025, which is lower than the overall industrial vacancy rate of 6.3%. This indicates a strong demand for this type of space.

Resilience during economic downturns:

Office/warehouse flex space have proven to be resilient during economic downturns. According to NAREIT, industrial REITs had an average annual total return of 11.28% from 1994 to 2019, which is higher than the overall REIT average of 9.87%. During the COVID-19 pandemic, industrial REITs outperformed other REIT sectors.

The Fund will develop office/warehouse flex space on land adjacent to its self-storage facilities when market conditions, demand, and property size allow. Developing both property types on one site allows site and infrastructure costs to be shared and improves the overall cost efficiency of development.

Strategic Advantages

Experienced Sponsor with Successful Track Record

Our primary developer/operator, AAA Storage, has developed over 6,000,000 square feet of self-storage and office/warehouse flex space with a value in excess of $450,000,000. AAA's average internal rate of return to investors across 95 full-cycle projects is 19–29% annually. They will invest a minimum of 20-25% of the total capital raised by the Fund on terms identical to investors and expect to guarantee all property-level debt, which is anticipated to be approximately $60,000,000.

Property Acquisition

As a result of its long history and relationships, our operator has been able to consistently develop proprietary and off-market land opportunities. The Fund will acquire development sites from an affiliate of the Sponsor that are entitled and ready for development. This eliminates the substantial risks and time associated with acquiring raw/unentitled land for development.

The developer conducts detailed studies of each sub-market as part of the land acquisition process. Such studies are updated regularly prior to development to ensure that market conditions and supply dynamics are favorable.

Development/Construction

The developer utilizes a value engineering approach to reduce construction costs, maximize project density, and optimize return on cost for each property. The developer has a dedicated team of contractors and construction crews that build all projects developed by the Sponsor in the state of Texas. The Fund's NC project will be built by a third-party general contractor. This experienced team has consistently delivered projects below market costs and in shorter timeframes than third-party contractors and construction crews.

Property Leasing and Management

An affiliate of the developer will provide leasing and property management services for each of the Fund's self-storage facilities at market rates. The developer's dedicated property management team has extensive experience in new facility lease-up. The developer engages local leasing agents to market and lease the office/warehouse flex space. Local leasing agents provide market knowledge and faster, more efficient initial property lease-up.

Property Disposition

The developer has exited 95 properties and is well known by institutional and private buyers across the industry. As a result, the Fund may be able to exit properties without the cost of a third-party real estate agent.

Summary of Fund Terms

Fund Size:

- Up to $30,000,000

Distributions:

- 12% fixed annual dividend during hold period, prorated based on investment timing (1% monthly)

Management Fee:

- 3.5% of committed capital one time
- There will be no annual management fees charged to the Fund

Distribution waterfall:

- First – 12% fixed annual dividend during the entire hold period
- Second – 90% to investors and 10% to manager on additional returns above the fixed 12% dividend

Total Net Return Objective:

- 19–29% IRR or 2.5x–3x equity multiple

Distribution Targets:

- January distribution for 12% fixed dividend, and additional revenue from any property net cash flows/sale event
- Target individual project exit time: 3 to 4 years

Investment Opportunity and Strategy

The yield on costs (NOI vs. cost to construct) in self-storage and office warehouse development exceeds all other sectors in real estate, and supports significant value creation. This fact combined with the historical NOI growth in both sectors makes the development of
self-storage and office/warehouse properties an attractive investment.

The fund will develop up to 25 to 30 properties including a mix of self storage facilities and office/industrial flex business parks. The Sponsor believes that the current economic environment provides the opportunity to acquire and develop properties at attractive prices and believes that the Fund will be able to make investments that provide attractive returns to investors.

AAA Storage's cost-to-exit ratio across all completed projects is 62%, one of the best project margins in the industry.

Track Record and Experience

AAA Storage LLC and its affiliates began developing self-storage facilities in 1993 and since its inception have developed and exited 95 properties totaling approximately 6 million square feet with a value in excess of $450,000,000. The Sponsor is an integrated real estate company providing land acquisition and entitlement, site planning, development, construction management and property management services. This integrated approach utilizing dedicated contractors and construction crews allows the Sponsor to optimize a site's potential, control costs during development, and provide above-average potential returns to investors.

$450M+
Total value of projects exited.

$125M
Returned gains to investors

Portfolio & Performance

Strategy Comparison

The Operator's 32+ year history and 95 exited projects have been analyzed in four groups to show performance across various strategies and economic periods.

STRATEGY COMPARISON (PORTFOLIO HISTORY)

	Pre 2011	2008/2009	Post 2011	All Time
Strategy Mix (Income/Growth)	50/50	50/50	0/100	35/65
# of Projects	60	39	35	95
Weighted Avg. Proj. Equity Multiple*	3.5x	4.0x	3.1x	3.3x
Weighted Avg. Hold (Years)*	8.7	10.9	3.3	6.3
Investor IRR*	18.00%	13.80%	33.10%	19.00%

(Pre 2011 and Post 2011 are grouped by syndication date. The 2008/2009 group represents all projects syndicated before 2009 which were still being held during 2009 and after.)

*Averages weighted by project equity **Net of fees/promote

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An investment in the fund is suitable only for qualified investors that fully understand the risks of such an investment and have no need for liquidity in such investment.

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