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# EDITED TRANSCRIPT

## EXR - Q4 2016 Extra Space Storage Inc Earnings Call

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**Joe Margolis** *Extra Space Storage Inc. - CEO*

**Scott Stubbs** *Extra Space Storage Inc. - CFO & EVP*

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**Juan Sanabria** *BofA Merrill Lynch - Analyst*

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## PRESENTATION

**Operator**

Good day, ladies and gentlemen, welcome to the Extra Space Storage Inc. Q4 2016 earnings conference call. (Operator Instructions). As a reminder, today's conference is being recorded. I would now like to introduce your host for today's conference call, Mr. Jeff Norman, you may begin.

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**Jeff Norman** - *Extra Space Storage Inc. - IR*

Thank you, Kevin. Welcome to Extra Space Storage's fourth-quarter and yearend 2016 earnings call. In addition to our press release we have furnished unaudited supplemental financial information on our website.

Please remember that management's prepared remarks and answers to your questions may contain forward-looking statements as defined in the Private Securities Litigation Reform Act. Actual results could differ materially from those stated or implied by our forward-looking statements due to risks and uncertainties associated with the Company's business. These forward-looking statements are qualified by the cautionary statements contained in the Company's latest filings with the SEC, which we encourage our listeners to review.

Forward-looking statements represent management's estimates as of today Wednesday, February 22, 2017. The Company assumes no obligation to revise or update any forward-looking statements because of changing market conditions or other circumstances after the date of this conference call. I would now like to turn the call over to Joe Margolis, Chief Executive Officer.

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**Joe Margolis** - *Extra Space Storage Inc. - CEO*

Hello, everyone. It was another strong year for Extra Space. We executed at a high level and produced great results coming off 2015, the best year for storage. 2016 same-store revenue increased 6.9% and NOI grew 9.2%. FFO per share as adjusted increased by 23%.

For the fourth quarter same-store revenue growth was 5.2% and we were able to decrease year-over-year expenses by 2.1%, resulting in NOI growth of 7.9%. FFO per share adjusted increased by 18%. Our FFO growth was driven by property performance, accretive acquisitions, joint ventures, third-party management and an optimized balance sheet. We are focused on using all of these tools to continue to grow shareholder value.

As we expected, revenue growth moderated throughout 2016 as the benefit from growing occupancy went away and Street rate growth trended from peak levels to more historically normal levels by year end. Despite the moderation the fundamentals of the storage sector remain positive.

While we saw de-acceleration of revenue growth in certain markets, we are also encouraged to observe re-acceleration in other MSAs, demonstrating the cyclical nature of markets. We continue to enjoy the benefits of a well-balanced diversified portfolio and operational scale.

In the fourth quarter we acquired 27 wholly owned stores for a total purchase price of $316 million. This includes the buyout of a joint venture partner's interest in 11 stores which we announced on our last call. For the year we invested $1.1 billion in acquisitions. The large majority of these transactions were not broadly marketed and came from joint ventures, our third-party managed portfolio or through other relationships.

I would now like to turn the time over to Scott Stubbs.

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**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

Thanks, Joe. Last night we reported FFO as adjusted of $1.03 per share, exceeding the high end of our guidance by $0.05. The beat was the result of three factors: first, outperformance by our 2015 acquisitions including SmartStop and our [CofO] deal; second, timing of our Q4 2016 acquisitions that closed earlier than anticipated; and third, lower property and G&A expenses.

For the year FFO as adjusted was $3.85 per share, also exceeding the high end of our guidance by $0.05. Occupancy for the same-store pool ended the year at 92%, an 80 basis point decrease from the end of 2015. This includes the impact of six expansion projects which were completed during the quarter. Excluding the additional vacancy created in these six stores our ending occupancy would have finished 20 basis points higher at 92.2%.

During the quarter we completed a $1.2 billion unsecured credit facility. To date we have drawn $662 million, the five- and seven-year tranches have delayed draw features and we will access the remaining available term balances as needed to finance future acquisition and to pay off debt.

The unsecured facility further diversifies our capital structure and reduces our average interest rate. Our goals include having access to multiple types of capital, laddering our maturities and maintaining financial flexibility. This credit facility helps accomplish these goals.

Last night we provided guidance and annual assumptions for 2017. Our new same-store pool will increase by 168 stores for a new total of 732. We expect the change in the same-store pool to positively impact our revenue growth by an average of 50 basis points over the year.

For 2017 our acquisition guidance includes $325 million in wholly-owned stores. We also project $225 million in joint venture acquisitions with approximately $75 million in capital to be contributed by Extra Space. This results in total investment in 2017 of $400 million, approximately half of which is currently identified.

Our guidance assumes the remaining balance will be weighted to the back half of the year. Seller pricing -- [accelerant] pricing expectations are still high and we are committed to being disciplined in only transacting at prices that are accretive for shareholders.

Our full year FFO as adjusted is estimated to be $4.15 to $4.24 per share. Our guidance includes $0.08 of dilution from our CofO stores and additional $0.08 from value add acquisitions for a total of $0.16. I will now turn the time back to Joe.

**Joe Margolis** - *Extra Space Storage Inc. - CEO*

Thank you, Scott. During 2016 there was significant focus on new supply and de-acceleration of revenue growth. The effect these issues have on same-store NOI is an appropriate topic to focus on, but not to the exclusion of FFO growth and the overall health of the industry. But I will make a few comments on these areas of concern.

First, we are seeing new supply. This supply is generally concentrated in certain markets, but there are many other markets that have minimal new supply. We benefit from our highly diversified portfolio, which reduces volatility of cyclical markets. Much of the new supply delivered early in the development cycle has had minimal or only temporary impact on our stores due to pent up demand. And not one of our MSAs experienced negative revenue growth for the year.

But our heads are not in the sand. We recognize that new supply may have greater impact as we get further into the development cycle. And we have factored that into our guidance.

Also, the development cycle has presented opportunities. We are adding new purpose built assets in key markets. These stores are performing well and adding value to our portfolio. We are also managing many newly constructed assets on a third-party basis which provide fee income, strengthen our brand and increase our scale.

Second, demand is steady. Traffic to our stores, website and call center remains consistent. And our ability to capture customers is greater than that of the smaller operators. We expect 2017 same-store revenue growth and NOI growth in the 4% to 5% range, which we believe will be better than nearly all real estate sectors.

Third, we have other tools that contribute to our FFO growth. We acquired almost $3 billion of assets in the last two years. And our CO deals will add to our growth in the future. We will continue to acquire assets, but only if we can do so accretively given current capital and market conditions.

We will expand our third-party management platform and we will utilize the most advantageous forms of capital to grow the Company and maintain a flexible balance sheet. This is the formula we have used to become the best returning REIT in the US over the past 10 years and we will continue to execute on this strategy in a disciplined and focused manner.

Let's now turn the time over to Jeff to start our question-and-answer session.

**Jeff Norman** - *Extra Space Storage Inc. - IR*

Thank you, Joe. In order to ensure we have adequate time to address everyone's questions I would ask that everyone keep your initial questions brief. If time allows we will address follow-on questions once everyone has had the opportunity to ask their initial questions. With that, we will turn it over to Kevin to start Q&A.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions). George Hoglund, Jefferies.

**George Hoglund** - *Jefferies LLC - Analyst*

What is the current level of Street rates on a year-over-year basis?

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**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

George, this is Scott. Our Street rates year to [day] for January and February have been between 3% and 4%, which I would tell you is a fair about different than some of the reports that are out there. But we've seen solid Street rates year to date.

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**George Hoglund** - *Jefferies LLC - Analyst*

Okay. And what level of existing customer increases are you able to push through in January and February?

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**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

We continue to push at the same rates, high-single-digits.

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**George Hoglund** - *Jefferies LLC - Analyst*

Okay. And then just, can you comment on a couple of the markets that had negative same-store NOI performance for the quarter is Houston, St. Louis and Sarasota?

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**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

It is partly just the cyclical nature of the markets. Houston has seen some new supply; it is also a market condition in Houston in particular. And I would also tell you that those markets are immaterial. Some of those have experienced taxes, but when I am talking there I am talking more in terms of revenue. But all of those markets I would tell you are immaterial in terms of our overall revenue.

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**George Hoglund** - *Jefferies LLC - Analyst*

Okay, thanks.

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**Operator**

Smedes Rose, Citigroup.

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**Smedes Rose** - *Citigroup - Analyst*

I wanted to ask you, your revenue increases that you are projecting same-store of 4% to 5%, is that primarily driven by revenue increases -- rate increases? And where do you sort of see occupancy going by yearend 2017 -- from the (multiple speakers) that you ended this year?

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**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

Yes, I would tell you our occupancy assumptions for the year are that in our core pool it is essentially flat, plus or minus a small amount in the new same-store pool, which includes SmartStop, it is up slightly but not a material amount. So the majority of that growth is coming from Street rate growth and a small amount from occupancy from SmartStop.

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**Smedes Rose** - *Citigroup - Analyst*

Okay, thank you. And then the other thing is just could you update us on what you are seeing of total new supply across your portfolio? And I guess maybe specifically just as you looked at the top five markets, which I think are comprised of over 50% of your NOI, maybe if you could just drill down a little bit there, so, LA, New York, DC, Boston and San Francisco.

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**Joe Margolis** - *Extra Space Storage Inc. - CEO*

Sure, thank you, Smedes. So overall CoStar is reporting about 900 stores to be delivered in 2017 -- I am sorry, CBRE, my mistake. And that is as good a number we can come to.

We have looked at eight of our top markets in depth and tried to aggregate as many different data sources as well as our people on the ground and brokers and our partners. And that accounts to a little over 40% of our NOI. And we found 360 stores in those markets that were either newly completed, under construction or in some stage of the planning process. About half of those stores competed with our stores in that market.

So we are certainly seeing new deliveries competing with some of our stores and we are seeing other markets where we don't have the same level of competition. The most difficult thing is of those 360 stores, 135 of them are somewhere in the planning process. We see a significant level of those stores fall out due to inability to get permits or financing or some other reason.

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**Smedes Rose** - *Citigroup - Analyst*

Okay, thank you.

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**Operator**

Juan Sanabria, Bank of America.

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**Juan Sanabria** - *BofA Merrill Lynch - Analyst*

Just following up on that supply question from Smedes. Can you help us benchmark that 360? I mean do you have a sense of what that was at this point last year? And as part of that question, any views on how supply looks at this point for 2018 relative to 2017? Do you expect it to be flat, higher, lower?

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**Joe Margolis** - *Extra Space Storage Inc. - CEO*

It is a really good question and it varies significantly by market. So for example, if you look at Chicago where we would identify 41 new stores, 23 of those have already been delivered. So you are already deeper into the cycle with more stores delivered than being planned.

Dallas is maybe on the other end where we have identified 83 stores and only 39 of them have been delivered. So it really varies widely by market. Our sense is that there will be fewer deliveries in 2018 than 2017. Certainly CBRE believes that as well. I think their number was 400. But time will tell.

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**Juan Sanabria** - *BofA Merrill Lynch - Analyst*

Okay, great. And then just back on the same-store revenue guidance. What are the Street rate growth expectations I guess as we go through 2017? And is there a skew in how -- in the same-store revenue growth over the course of the year? Is it accelerating or decelerating as the year progresses?

**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

Our guidance assumes that it decelerates a little bit more. So you are going to start the year slightly higher than we end the year. And the SmartStop pool will actually start a fair amount higher with coming up against tougher comps at the end of the year. So it will show more deceleration in that particular pool of properties. But overall slight deceleration.

**Juan Sanabria** - *BofA Merrill Lynch - Analyst*

And then any color on the Street rate growth that you are kind of assuming as the year goes, particularly into peak leasing?

**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

I would tell you it is going to be [3 to 5]. It is going to depend a little bit on strength of the market and your occupancy.

**Juan Sanabria** - *BofA Merrill Lynch - Analyst*

Thank you.

**Operator**

Gaurav Mehta, Cantor Fitzgerald.

**Gaurav Mehta** - *Cantor Fitzgerald - Analyst*

So following up on that deceleration comment about same-store revenue growth 2017. Would you expect it to stabilize in second half of 2017 or would you expect it to continue to decelerate?

**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

We would expect it to stabilize in 2017 in the second half.

**Gaurav Mehta** - *Cantor Fitzgerald - Analyst*

Okay.

**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

And again, the rate of deceleration has slowed. You are not seeing it drop a significant amount quarter over quarter. But we are estimating it will continue to decline slightly throughout the year.

**Gaurav Mehta** - *Cantor Fitzgerald - Analyst*

Okay. And I think in your prepared remarks you mentioned that you are seeing re-acceleration in some MSAs. Can you talk about which MSAs those are and do you expect that to be sustainable?

**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

Yes. The examples I would point you to in particular are Chicago, Denver and Philadelphia. All three markets have seen re-acceleration. Denver in our same-store pool was slightly negative, but in the bigger pool it was positive, and it has come back from being negative.

**Gaurav Mehta** - *Cantor Fitzgerald - Analyst*

Okay, thank you.

**Operator**

Todd Thomas, KeyBanc Capital Markets.

**Todd Thomas** - *KeyBanc Capital Markets - Analyst*

Just following up on the revenue growth guidance. What is in the model for effective move in rates? How are discounts and pre-rent trending and then what is in the model?

**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

Discounts are up slightly year-over-year, but it is probably a little bit more in line with your rate growth. So if your rates are up 3% to 5% your discounts are automatically going to be up 3% to 5%. But they are up slightly above that. And no -- not a significant effect. So it is mainly coming from rate this year.

**Todd Thomas** - *KeyBanc Capital Markets - Analyst*

Okay. And then can -- in terms of new supply, I mean can you talk about your appetite for CofO deals and lease up properties here? Maybe just give us a sense for how large the 2017, 2018 and 2019 pipelines might be for Extra Space?

**Joe Margolis** - *Extra Space Storage Inc. - CEO*

Yes, we've become -- as we get deeper into the development cycle we become increasingly more selective for CO deals. As I said earlier, there are some markets that if we can find deals where there is barriers to entry and no or limited new supply and we are getting compensated we would certainly look at that deal.

I would think the pace of our investment CO deals will moderate probably significantly. But we are very comfortable with the deals we have had. We have done very full due diligence, we have underwritten them conservatively and performance to date has proven that out if you look at how our stores perform.

We also have a target cap of 3% on the amount of dilution. CofO stores will in aggregate contribute or detract from our performance. So we went to keep within that cap. And then the last thing I would point out with respect to our appetite for COs is we executed a number of these deals in joint venture format, which both reduces and reduces the risk to us and increases our returns.

**Todd Thomas** - *KeyBanc Capital Markets - Analyst*

Okay. And just lastly, looking at a couple other markets and just thinking about the occupancy, year-over-year decrease that you have seen portfolio wide. But looking at some of the other markets like Boston, LA, San Francisco, some of your top markets, occupancy is lower year-over-year. And that year-over-year negative spread actually grew larger in the quarter, it worsened a little bit.

Are you thinking about occupancy differently than you have in the past as you think about maximizing revenue? Or is occupancy coming down as a result of new supply in these markets? What is sort of happening here?

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**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

I think it is market-by-market. California had a really tough comp the prior year. I would tell you we are not necessarily thinking any differently in terms of occupancy. It's obviously important in our model to drive revenue. But I would tell you we lost a little bit of occupancy but we kept some rate.

So, the fact that our Street rates are up 3% to 4% is a good thing. Our bottom line is to grow revenue and occupancy is a big part of that. It is possible that going forward into the new year, budgets and our guidance assumes that we spend a little bit more on marketing also.

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**Todd Thomas** - *KeyBanc Capital Markets - Analyst*

Great, thank you.

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**Operator**

Jeremy Metz, UBS.

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**Jeremy Metz** - *UBS - Analyst*

As you think about that sort of slowing towards the long-term average from here and stabilizing starting in the back half of the year, in terms of some of your markets revenues and NOI have moved negative or even just below the larger portfolio average.

Have you seen anything in particular from revenue management to give you confidence in your ability to react faster and therefore recover quicker back to that long-term average? Or even just stabilize at that average versus moving below the long-term average which is something I think a lot of people wonder about and worry about.

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**Joe Margolis** - *Extra Space Storage Inc. - CEO*

We are consistently trying to improve the inputs to our revenue management system and its ability to both react and predict market conditions and how to optimize revenue in that. So, I think we would be the first to say that last year in Denver our reaction was not optimal and we have learned from that and we continue to try to improve.

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**Jeremy Metz** - *UBS - Analyst*

Okay, so some of what you have learned from Denver is actually already playing out and helping overall in terms of what is going on in the current portfolio, that's fair?

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**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

Absolutely.

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**Joe Margolis** - *Extra Space Storage Inc. - CEO*

I believe so. I don't want to ever say that our learning is done and we will continue to try to make the machine better and make sure that when it doesn't work there is human input. But, yes, we are better than we were last year.

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**Jeremy Metz** - *UBS - Analyst*

Okay, great. And then, Scott, in terms of longer-term funding plans, you have the $400 million of investment activity in guidance, plus call it another $200 million to $300 million of debt maturing. You obviously have room on the line, some capacity from the unsecured notes you issued in October that you talked about in your opening remarks. I think you still have a couple hundred million on the ATMs. So I am just wondering what is baked in the guidance in terms of further capital raises if anything. And then just longer-term funding plans for some of that activity.

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**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

Yes, our guidance assumes $100 million of OP or some type of equity. We have just included it in there is OP. And then from there it assumes that the rest is with debt. And if you look at the growth in NOI I would tell you our ratios remain the same. So we are not looking to lever up and we'll look to remain -- to keep our leverage ratios similar to where they are today.

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**Jeremy Metz** - *UBS - Analyst*

Thanks, guys.

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**Operator**

Gwen Clark, Evercore.

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**Gwen Clark** - *Evercore ISI - Analyst*

Going back to rate growth. I think you said it should be up 3% to 5% for the total pool. Can you talk about what your expectation would be for the 2015 acquisitions such as SmartStop?

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**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

Yes, they will be higher than that. But you are going to grow your revenue in that portfolio from a combination of rate as well as occupancy. So if you think of Street rates in a portfolio where you are trying to push occupancy, you will get more from occupancy than you will from Street rates and you will also get more from moving your existing customers up to the current market rates.

So it is going to be a little bit different in terms of mix, but I would say overall that is why I am saying 3% to 5%. And that's obviously a range depending on market conditions. But SmartStop will get more through occupancy and more from existing customers than the other pool.

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**Gwen Clark** - *Evercore ISI - Analyst*

Okay, all right, that is helpful. I guess moving on to a bigger picture question. One of the questions that I feel like everyone has been asking is the trajectory for NOI growth and that was touched on earlier. But can you talk about the scenario which could actually drive overall same-store NOI growth negative in say 2018 or 2019?

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**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

It is tough to even fathom that. I think from our perspective the only time we have ever been negative was in the Great Recession. It is a recession that was bigger than I think most people are going to see in their lives, and we were call it 3% negative in 2009. And then we were positive first quarter the next year.

Now today is not the exact same market as that, but I would tell you I think it is going to take a pretty big event for everything to be negative for the year.

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**Gwen Clark** - *Evercore ISI - Analyst*

Okay. So it seems like it would be fair to say that the new supply, which is probably going to hit in 2018, isn't really enough in your mind to drive it to a hard landing of negative growth?

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**Joe Margolis** - *Extra Space Storage Inc. - CEO*

It is really hard to say what the level of new supply that is going to hit in 2018 and 2019 is. I would tell you that if there is continued delivery of new supply it probably means the industry remains pretty healthy.

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**Gwen Clark** - *Evercore ISI - Analyst*

Okay, that is helpful. Thanks very much.

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**Operator**

Jonathan Hughes, Raymond James.

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**Jonathan Hughes** - *Raymond James - Analyst*

Could you just talk about the level of demand you are seeing in January? One of your peers mentioned they had a really strong start to the year and a homebuilder this morning mentioned they have seen a release of pent up demand for housing. I am just curious if you are seeing a similar trend of increased demand so far this year?

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**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

Yes, it is -- I can't really comment on what our peers have seen, but I can say that we have seen demand to be relatively flat; it is stable.

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**Jonathan Hughes** - *Raymond James - Analyst*

Okay, so no outsized growth in the first six weeks of the year?

**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

Nothing significant.

**Jonathan Hughes** - *Raymond James - Analyst*

Okay, and then just one more for me. One of your competitors quantified the impact of new store openings on projected revenue growth at about 200 to 250 basis points below the portfolio average. Does your guidance include a similar impact at stores exposed to new supply?

**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

Our guidance includes the impact of stores that are being added, so I can't comment on what they are seeing. But we have taken into account where we have a new store coming online near one of our existing stores.

**Jonathan Hughes** - *Raymond James - Analyst*

Okay, that is it for me. Thanks, guys.

**Operator**

Ryan Burke, Green Street Advisors.

**Ryan Burke** - *Green Street Advisors - Analyst*

Just a couple questions on the development pipeline. Joe, your comments earlier about slowing development probably as we move forward do contrast a little bit with the fact that the development pipeline increased in size pretty meaningfully this quarter. Can you reconcile those two dynamics?

And then second question is just scanning the 2018 projected opening. It does seem like there is a greater percentage of properties that are located -- I don't want to call them in secondary markets perhaps, but maybe non-major metro areas.

**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

Yes, I -- sorry, finish your question, sorry.

**Ryan Burke** - *Green Street Advisors - Analyst*

Well, just curious if the strategy there, if it is a strategy or it just happens to be the outcome of what was available?

**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

Yes, I would tell you the jump in the pipeline comes from us putting certain properties now under contract that we are doing with a joint venture partner in a couple of areas of the country. One is in the Northwest and the other one is in the New Jersey kind of New York City down to Philadelphia markets.

And those are all joint ventures that we have been discussing and looking at for a year to two years and they actually just went under contract this quarter. And so, we have had the policy or the standing that we don't want to talk about them unless they are under contract. So this was just kind of an odd quarter where many of those went under contract even though we have been talking about those for a long time.

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**Ryan Burke** - *Green Street Advisors - Analyst*

Okay. So pipeline is kind of in place, but if things play out the way that you think they might in terms of operating fundamentals, etc., we should expect the pipeline to not grow significantly for the out years beyond 2018?

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**Joe Margolis** - *Extra Space Storage Inc. - CEO*

I think that is correct. That is my comments about increasing selectivity for future years is -- that is what I was trying to drive at.

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**Ryan Burke** - *Green Street Advisors - Analyst*

Okay. That's all I have. Thank you.

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**Operator**

Wes Golladay, RBC.

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**Wes Golladay** - *RBC Capital Markets - Analyst*

Looking at the expansion projects, where are those located? And do you have much more of those planned for this year?

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**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

So, we have a few of those, one is on Long Island, we have one in Chicago, one in Salt Lake City are kind of the bigger ones. And we have ongoing expansions all the time. This was an odd one. Typically you would pull them out of your same-store group, but they completed quicker than we expected and so part of that was just timing. And we felt like rather than changing the same-store group in the fourth quarter we would just leave them in and talk to it. But we always have expansions going on.

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**Wes Golladay** - *RBC Capital Markets - Analyst*

Okay, and then trying to look at supply, I mean how should we view it? We always talk about the nominal store count. But is there -- what do you see as a manageable supply level on a percentage of facilities? Is it like a 4% to 5%? You mentioned the pent up demand. Are there any markers with there is large clusters that you are concerned about and the other markets you are like it is not a big deal? How should we view it from a -- I guess from the cluster point of view?

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**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

Yes, so overall I would tell you on a national level I think that equal to population growth is healthy. And you have got to look at square footage versus store count because stores today are being built bigger than they were before.

I think that there are certain markets we are clearly concerned about and watching closely and there is other markets where you just have not seen supply come. On the West Coast, California has seen very little new supply compared to the population. Texas has seen a fair amount, Atlanta, anywhere where it is easy to entitle things you have seen supply.

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**Wes Golladay** - *RBC Capital Markets - Analyst*

Okay. And would it be fair to say you are going to try and expand more in the supply constrained markets, is that where you guys will target those?

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**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

Absolutely.

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**Wes Golladay** - *RBC Capital Markets - Analyst*

Okay, thank you.

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**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

I mean, from our perspective you are always going to look for low saturation, population per square foot -- or square foot per population.

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**Wes Golladay** - *RBC Capital Markets - Analyst*

Thanks a lot.

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**Operator**

(Operator Instructions). Todd Stender, Wells Fargo.

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**Todd Stender** - *Wells Fargo Securities - Analyst*

Scott, I think you gave some color on SmartStop, but I just wanted to see -- or if you've talked about how it is performing relative to plan. And just as a reminder, when does that begin to show up in the same-store pool?

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**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

So, it goes in January 1 of 2017. It is in there and that is what is causing the outsized growth. And compared to plan it is performing a fair amount ahead of our underwriting.

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**Todd Stender** - *Wells Fargo Securities - Analyst*

Is that on the occupancy? I think you guys were bifurcating it at one point, maybe in a presentation.

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**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

In a presentation we've bifurcated it. Going forward it goes into our same-store pool this year, so 2017. And like I said, it continues to outperform our underwriting.

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**Todd Stender** - *Wells Fargo Securities - Analyst*

Okay, thank you. And just get an update maybe on paid search costs, as much detail as you can on how much you are budgeting for Google search this year and maybe any changes in strategy as you head into the spring leasing season.

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**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

Yes, our budgets assume a 6% increase in marketing, which last year we were actually down slightly. So it is a tough it is up against. But costs -- we continue to try to be more effective and more efficient, but reality is more people are bidding so costs are going up. So we need to try to keep the cost per acquisition down.

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**Todd Stender** - *Wells Fargo Securities - Analyst*

Is that a reflection of the Google -- their rates are up and maybe utilization is down? How do you look at that?

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**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

So, Google rates going up are just -- there is more people bidding which drives the rates up. Utilization -- people use paid search consistently, so we found it is a good way to drive traffic. We will continue to spend money on paid search.

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**Todd Stender** - *Wells Fargo Securities - Analyst*

Okay, thank you.

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**Operator**

Vikram Malhotra, Morgan Stanley.

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**Vikram Malhotra** - *Morgan Stanley - Analyst*

I wanted to just get a sense of as new supply is coming online in the markets where you are seeing new supply, what are competitors doing in terms of maybe discounts or offering? How are they driving tenants into their properties versus the existing -- your existing properties or even peers' properties?

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**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

I can tell you how we react and I would tell you that that depends on a little bit of the velocity. So, if the store comes in and -- for instance, we opened a store in Venice, California, the store filled up in six months. I would tell you a store that competes with that store shouldn't have done anything, they should have just weathered the storm.

So, typically when we open a new store, a CO store, we will open it with rates 10% to 20% below market and we will discount every single rental. So, it really depends on velocity and lease up velocity when you make a decision on what you are going to do with a store.

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**Vikram Malhotra** - *Morgan Stanley - Analyst*

Okay, that makes sense. And then just your comment on supply having sort of minimal impact I guess so far. What -- either tactically or from the revenue management system, what factors could drive street rate of growth materially lower from here and vice versa? Could you see re-acceleration post 2017?

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**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

So, street rate changes I would tell you are just one of the factors in the model. If you want to drive occupancy the way you drive occupancy is you lower rates, you increase paid search spend and you increase discount. So it is just one of the levers. So it is going to depend obviously on your occupancy and your revenue growth, it is just one of the factors in that.

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**Vikram Malhotra** - *Morgan Stanley - Analyst*

Okay, great. Thank you.

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**Operator**

Neil Malkin, RBC Capital Markets.

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**Neil Malkin** - *RBC Capital Markets - Analyst*

First, what is the premium to move outs above move ins in the fourth quarter? And then what are you seeing in January?

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**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

So, if you look at our -- when we talk about premium on move outs we don't talk about the rent roll down. What we are talking about is our average in place rents compared to our average street rate. And I would tell you that on average for the year it is mid- to high-single-digits depending on the time of the year.

So in other words when we are raising rates in the summer that roll down or that negative mark is lower. But everybody does not move out in equal -- what I am saying is you have more churn -- our medium length of stay is six to seven months, but our average length of stay is 14 months. So you have a group of units that are constantly churning that have a very short length of stay.

So, many of those customers never received a rate increase or received one rate increase. And some of those moved in below street rates. So when they move out it is actually very little impact, and also you have a large number of those that churn all the time. So our negative mark-to-market is different than our in place rents compared to our street rates.

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**Neil Malkin** - *RBC Capital Markets - Analyst*

Okay, and then do you have a sense of what your portfolio gain to lease is? So just kind of putting into terms the in place versus market? Would you say it is mid-single-digit or --?

**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

I am not sure I understand the question, Neil.

**Neil Malkin** - *RBC Capital Markets - Analyst*

So, like if everyone were to move out and replace with marketing your portfolio what would the roll down look like?

**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

I would tell you -- our average leases are fairly close to market and it is property by property.

**Neil Malkin** - *RBC Capital Markets - Analyst*

Okay, and then last one for me is -- go ahead, sorry.

**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

No, go ahead.

**Neil Malkin** - *RBC Capital Markets - Analyst*

You guys have commented for probably about 24 months now that the pace of lease up on development in your CofO deals are well ahead of long-term trends. Are you seeing that abate at all? Or is lease up still very -- the pace pretty aggressive, I mean just given the supply, new supply coming on are you seeing those timelines elongate?

**Joe Margolis** - *Extra Space Storage Inc. - CEO*

Yes, that is a good question. So the earliest CofOs we delivered we stopped within a year most of them -- just way ahead of historical norms and underwriting. The more recent deals are leasing up between one and two years on average.

So certainly the pace of lease up has slowed down, but we have underwritten all of these deals at 36 to 42 months. So they are not leasing up as fast as they were but they are still leasing up generally ahead of projections.

**Neil Malkin** - *RBC Capital Markets - Analyst*

Thank you.

**Operator**

Gwen Clark, Evercore.

**Gwen Clark** - *Evercore ISI - Analyst*

Sorry, I just have two hopefully quick follow-ups. On G&A can you remind us how much I guess it costs when you put a managed asset into the pool?

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**Scott Stubbs** - *Extra Space Storage Inc. - CFO & EVP*

So we actually have not put that out in the public. It is something we will consider looking at, but we put a management fee into our properties that is what we consider a cost to manage when we underwrite.

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**Gwen Clark** - *Evercore ISI - Analyst*

Okay, that is helpful. And then just next, can you just walk us through the performance of the New York City boroughs?

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**Joe Margolis** - *Extra Space Storage Inc. - CEO*

Sure. The five boroughs as opposed to our New York MSA, which includes northern New Jersey and Long Island, had revenue growth in the fourth quarter under 2%. And for the year under 5%, about 4.7%.

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**Gwen Clark** - *Evercore ISI - Analyst*

Okay, that is helpful. Thank you.

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**Operator**

And I am not showing any further questions at this time. I would like to turn the call back over to our host.

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**Jeff Norman** - *Extra Space Storage Inc. - IR*

Thank you, everybody, for joining our call, we appreciate your questions and look forward to speaking next quarter. Thanks.

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**Operator**

Ladies and gentlemen, this does conclude today's presentation. You may now disconnect and have a wonderful day.

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