THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

EXR - Q2 2016 Extra Space Storage Inc Earnings Call

EVENT DATE/TIME: JULY 28, 2016 / 5:00PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Jeff Norman *Extra Space Storage Inc. - Senior Director of IR & Corp. Communications*

Spencer Kirk *Extra Space Storage Inc. - CEO*

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

Joe Margolis *Extra Space Storage Inc. - Chief Investment Officer & EVP*

CONFERENCE CALL PARTICIPANTS

Ki Bin Kim *SunTrust Robinson Humphrey - Analyst*

Gwen Clark *Evercore ISI - Analyst*

Todd Thomas *KeyBanc Capital Markets - Analyst*

George Hoglund *Jefferies LLC - Analyst*

Juan Sanabria *BofA Merrill Lynch - Analyst*

Smedes Rose *Citigroup - Analyst*

Jeremy Metz *UBS - Analyst*

Vikram Malhotra *Morgan Stanley - Analyst*

Wes Golladay *RBC Capital Markets - Analyst*

Ryan Burke *Green Street - Analyst*

Todd Stender *Wells Fargo Securities - Analyst*

Paul Adornato *BMO Capital Markets - Analyst*

Jonathan Hughes *Raymond James - Analyst*

Steve Sakwa *Evercore ISI - Analyst*

PRESENTATION

Operator

Welcome to the Q2 2016 Extra Space Storage Inc. earnings conference call. (Operator Instructions). As a reminder this conference call is being recorded. I would now like to turn the conference over to Jeff Norman, Senior Director of Investor Relations for Extra Space. You may begin.

Jeff Norman *- Extra Space Storage Inc. - Senior Director of IR & Corp. Communications*

Thank you, Shane. Welcome to Extra Space Storage's second-quarter 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, Thursday, July 28, 2016. 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 Spencer Kirk, Chief Executive Officer.

Spencer Kirk - *Extra Space Storage Inc. - CEO*

Hello, everyone. It was another solid quarter for Extra Space. We produced same-store revenue growth of 7.6% primarily from rate. Expenses increased 3.1% which led to NOI growth of 9.4%. Quarter end occupancy was very strong at 94.4%.

FFO per share as adjusted grew more than 25% year over year. This is exceptional growth is the result of solid operating performance, accretive acquisitions, joint ventures, third-party management and an optimized balance sheet. These growth components have produced 23 consecutive quarters of double-digit FFO growth and enabled a second-quarter dividend increase of 32%.

Year to date we have closed over $0.5 billion in wholly-owned acquisitions, bringing the total property count to 1,412 Extra Space branded stores.

Marketed acquisitions continue to be as competitive as we have ever seen. We continue to be disciplined and only transact at levels that are beneficial for our shareholders. We've been particularly successful sourcing off-market transactions through our joint ventures, third-party and other relationships.

We believe that the 630 Extra Space branded stores, which are not wholly owned, will continue to provide outsized acquisition opportunities. I would now like to turn the time over to Scott.

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

Thank you, Spencer. Last night we reported FFO as adjusted of $0.94 per share, meeting the high end of our guidance. Including costs associated with acquisitions and non-cash interest expense, FFO was $0.91 per share for the quarter.

Our same-store revenue growth was driven by higher rates to new and existing customers. This is consistent with our guidance which assumes minimal benefit from occupancy and discounts. The change in our same-store pool from 2015 to 2016 positively impacted our revenue growth by 30 basis points for the quarter.

Our top-performing markets included Atlanta, Tampa-Saint Pete and most of the state of California, all of which experienced double-digit revenue growth. The slowest markets were Chicago, Denver, Memphis and Washington DC, each of which still had positive revenue growth.

Our 2015 acquisitions, including SmartStop, are performing in line with our estimates and lease up times on our [CofO] deals are significantly faster than underwriting and our historical norms. Year to date we have closed or have under contract to close $547 million of fully owned acquisitions.

In addition, we have $248 million in joint venture acquisitions closed or under contract. Our investment in these JVs will be $81 million this year. All of these acquisitions are expected to close in 2016.

During the quarter we restructured two of our joint ventures to realize the value of our promote. The promote was exchanged for additional ownership in the joint ventures, increasing our equity position by over $40 million.

At this time we reaffirm our full-year guidance. FFO as adjusted is estimated to be $3.71 to $3.78 per share. FFO is estimated to be $3.59 to $3.66 per share. This guidance includes $0.05 of dilution from our 2015 and 2016 CofO stores.

It also includes 2015 and 2016 acquisitions that, as anticipated, will require time to be brought up to our performance standards. As these properties move towards our portfolio average we expect outsized NOI growth. I will now turn the time back to Spencer.

Spencer Kirk - *Extra Space Storage Inc. - CEO*

Thanks, Scott. While our unprecedented revenue and NOI growth have moderated, our ability to produce the industry's best FFO growth year in and year out has not moderated. This quarter's FFO as adjusted grew 25.3%.

This is the result of our multifaceted strategy which includes the industry's leading operating platform, the industry's most successful acquisition program, the industry's largest third-party management platform, the industry's largest and most successful JV program, and a management team that clearly understands that growing FFO is our number one priority.

Closing, as we expected, our same-store performance has gone from phenomenal to excellent. And FFO growth is still phenomenal. Now let's turn the time over to Jeff to start the Q&A session.

Jeff Norman - *Extra Space Storage Inc. - Senior Director of IR & Corp. Communications*

Thank you, Spencer. For our Q&A session we are also joined by Joe Margolis, our Chief Investment Officer.

In order to ensure that 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 Shane to start our Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Ki Bin Kim, SunTrust.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

So, just wanted to ask you a couple of questions regarding the same-store revenue trends, the deceleration from about 9% to 7.5%. So, if I put it in perspective, that 7.5% growth, we get it. I mean it is still better than almost any other REIT out there.

But at the same time the decline is bigger than what we have seen from your portfolio in quite some time. And some of that growth also carries with it just good pricing momentum you have experienced over the past year. And it may not necessarily be reflective of new customer activity today.

So the question is what is really happening on the frontlines of new customer activity in terms of just price sensitivity? And what is happening with Street rates year over year, promotion usage, things like that?

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

Yes, Ki Bin, this is Scott. The deceleration from Q1 to Q2 and from last year I would tell you is largely the result of no occupancy delta and not significant discount delta. So, last year we experienced call it 200 to 300 basis points of -- we benefited 200 to 300 basis points of occupancy in discount delta. This year that has gone to minimal amounts.

Our current Street rates and our current achieved rates are still very solid. We are still getting, call it 6% to 8% I think, right. More recently it has been about 7%. So we are still seeing very good Street rates and achieved rate growth.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

And so, if I take that into consideration, it sounds like -- I mean obviously you had the occupancy benefit loss. But are promotions almost going the other way where it is higher year-over-year (multiple speakers)?

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

Yes, I would tell you promotions are moving in line with rate. So in other words, if rates are up 7%, discounts are up 7% also. So, discounts may be up slightly but not significantly at all or not materially. It is moving with rate.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

I guess what I meant was, for new customers moving in -- what is the percentage of new customers moving in that are getting a promotion this time around?

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

So it is between 60% and 65%. And that is not very much above last year. Last year was similar numbers, call it low 60%s. And you also have to look not just at the percentage of customers getting the discount, you have to look at what discount they are getting. So it may be they are getting a discount but it is first month half off or something smaller than they received last year.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

Okay, thank you, guys.

Operator

Gwen Clark, Evercore ISI.

Gwen Clark - *Evercore ISI - Analyst*

So just a quick question. On the [CO] pipeline it looks like a chunk of the assets will be wholly owned while others will be in a JV structure. Can you talk about the decision making process you go through when evaluating these?

Joe Margolis - *Extra Space Storage Inc. - Chief Investment Officer & EVP*

This is Joe Margolis. We have set up several programs with local developers where they -- in targeted markets they will source CO opportunities for us to review and will, in a programmatic basis, execute a number of those in joint venture in those markets.

Gwen Clark - *Evercore ISI - Analyst*

Okay. And do you have the right of first refusal on the event that the partner would like to exit eventually?

Joe Margolis - *Extra Space Storage Inc. - Chief Investment Officer & EVP*

Yes. In all of our ventures we have protections on exit so we have the opportunity to purchase. That is a very important tool for us to make sure that we have.

Gwen Clark - *Evercore ISI - Analyst*

Okay, that is helpful. Thank you very much.

Operator

Todd Thomas, KeyBanc Capital Markets.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

So a question on new supply, I guess two questions really. One, any changes in the number of completions you are expecting in 2016 and 2017? And then two, you have talked about -- we have heard about Chicago, Denver and Houston seeing new supply lead to some relative softness. I am just wondering if there are any other markets on your radar at this point.

Spencer Kirk - *Extra Space Storage Inc. - CEO*

Good question, Todd, it is Spencer. First of all, our best guestimate for 2016 is 700 properties likely to be delivered. 2017 maybe a little bit more. I think more importantly in the last 2.5 years, if I can just provide a little color.

45 stores came online within a 3 mile radius of one of our properties and we still delivered outstanding performance. Within that same 3 mile ring we see an additional 46 properties come online sometime 2016-2017.

So, yes, in some markets there has been a little disruption of new supply in Denver, Austin, San Antonio. We are feeling the effect. But there are other markets where it is not disruptive because there is virtually no new supply. When you think of Northern California and Southern California we are doing phenomenally well.

So, while there is supply, the effect has yet to be felt system-wide. And this is one of the beauties of geographic diversification.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay. And then I was just wondering if you are seeing any change at all in existing renters' behavior as it pertains to rent increases. Are you seeing any change in move outs associated with rent increases at all?

Spencer Kirk - *Extra Space Storage Inc. - CEO*

No. Existing customer rate increases continue to work beautifully. No change.

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

The other thing I would add to that, Todd, is customers are actually staying a little bit longer. We are seeing our length of stay increase.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Where is that at today?

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

You are up by about a month from where they were three to five years ago. So closer to 14 months. That is everyone that has moved in and moved out versus everyone that is in your property today.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay, thank you.

Operator

George Hoglund, Jefferies.

George Hoglund - *Jefferies LLC - Analyst*

Just looking at the back half of the year and same-store occupancy. I guess last year, the end of 3Q you had 93.6%. And at the end of 4Q it was 92.9%. So I was wondering as you're from today looking towards the back half of the year, do you think year-over-year occupancy would be relatively flat? Or do you think you might be able to eke out some gains on a year-over-year basis?

Spencer Kirk - *Extra Space Storage Inc. - CEO*

At this point we are assuming that it is going to be flat, zero delta from last year.

George Hoglund - *Jefferies LLC - Analyst*

Okay, thanks. And then also on some of the markets that had lower performance this quarter relative to the broader portfolio -- obviously we just touched on some of it due to new supply. But are there other factors you were seeing that could be characteristic of just certain individual markets that led to weaker performance? For example, like Memphis?

Spencer Kirk - *Extra Space Storage Inc. - CEO*

Yes, I would tell you new supply obviously affects it, but also you have got to look at prior year performance. For instance, Chicago today is not doing great for us. A couple years ago and if you look at a 10-year average Chicago has been very strong for us.

So, I think that you can't continue to raise rates 16% year after year after year. And so, I think that some of these markets just probably have a little bit of fatigue year over year and you are coming up against some very tough comps.

George Hoglund - *Jefferies LLC - Analyst*

Okay. Thanks, guys.

Operator

Juan Sanabria, Bank of America.

Juan Sanabria - *BofA Merrill Lynch - Analyst*

Just a question on what you are seeing on the West Coast markets. One of the themes from some of your other REIT non-self storage appears there's been a weakening in demand, maybe slightly weaker job growth in the Bay Area in San Francisco.

Anything you are seeing in the data you look at in terms of traffic or anything like that that gives you a picture of what you are seeing on the ground, whether it is staying still strong or any softening?

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

We have not seen the softening yet. We have seen it from some of the other property types, we have heard talk about it on their calls and whatnot. But as of today those markets are still very strong for us.

Juan Sanabria - *BofA Merrill Lynch - Analyst*

Okay, great. And just a bigger picture question in terms of competition, full service providers. Can you give us any sense of what kind of market share those players may have in some of the top markets like in New York or San Francisco? And any views on potential disruption of that technology or that business' viability at this point?

Spencer Kirk - *Extra Space Storage Inc. - CEO*

Yes, Juan, it is Spencer. Number one, for the full service valet, concierge, whatever you want to call it, we would say their market share today, to the best of our knowledge, in any market is di minimus. And for this Company we don't believe it is a viable business model.

Juan Sanabria - *BofA Merrill Lynch - Analyst*

And why is that? Is it just the cost of transportation or what makes you so confident?

Spencer Kirk - *Extra Space Storage Inc. - CEO*

Well, we have studied it extensively. We have looked at the mechanics of what it really takes to provide that full service on demand at a price point that is competitive. And I think, Juan, the fact that none of the large storage REITs made any announcement that they are getting into this ought to be a pretty good indicator that they don't see the dollars out there as well.

There have been a lot of potential disruptors that have announced themselves in the past that would cause pain to the storage industry. And for whatever reason it just has not materialized. We still think that storage offers the best value for a customer.

And any time you try to put two people in a truck and transport it across the George Washington Bridge and do so at a cost-effective price point, we can't get there mathematically or economically.

Juan Sanabria - *BofA Merrill Lynch - Analyst*

Thank you very much.

Operator

Smedes Rose, Citigroup.

Smedes Rose - *Citigroup - Analyst*

Spencer, just a couple of questions. If you go back to the beginning of the year and just remind us, has your supply outlook for the number of facilities coming on this year, has that -- I think it may be a little bit increased from what you initially thought or is that the same at around 700? It seems to me that it has gone up but maybe I am remembering it wrong.

Spencer Kirk - *Extra Space Storage Inc. - CEO*

I think I gave a range, I don't remember, I would have to look at the transcript, but [500 to 700].

Smedes Rose - *Citigroup - Analyst*

I mean I -- okay. I mean I guess my question is do you feel like facilities under construction are just opening faster or is there more -- are you guys discovering more on the margin?

It seems like overall based on commentary from private participants as well that the pace of supply is starting to increase after many years of having a lot of gating issues. I mean is that something that you would agree with or not?

Spencer Kirk - *Extra Space Storage Inc. - CEO*

Yes. I think there is more talk, there is more action and there is more supply which is why if you go to one of my prior questions, it doesn't matter if 700 properties or 800 properties or being built or 1,000 properties are being built.

What matters is if those properties are built right across the street or next-door or within 1 or 2 miles of your property that you are currently operating. And as I indicated, over a 2.5 year period we only identified 45 properties in our entire portfolio within a 3 mile ring.

And, Smedes, if you think about a 3 mile ring in one of the boroughs of New York or downtown San Francisco, your trade area isn't 3 miles. We were generous on the 45 property count. Your trade area might be a mile or less in a dense metropolitan area.

And if you think about 46 properties that we have identified that are permitted and/or in some stage of construction to come out of the ground in 2016 or 2017 also within that 3 mile ring, yes, there is competition. Properties are being built. The question is, when will we feel the impact? And today the impact has been localized to a few specific markets and there are many markets where it is not felt at all.

So, we are going to have to wait and see how it plays out. But, yes, there is supply and it is coming. The question is, when will the impact be felt system-wide?

Smedes Rose - *Citigroup - Analyst*

Okay, that is helpful. I just wanted to ask you too, as you look at acquisition opportunities, are you seeing any particular difference between kind of primary markets and smaller secondary markets in terms are pricing or maybe that relative quality of portfolios?

Joe Margolis - *Extra Space Storage Inc. - Chief Investment Officer & EVP*

This is Joe again. Yes, there is a premium for secondary tertiary markets, that I think is getting squeezed as people are unable to place their money into primary markets than all of a sudden [Raleigh] looks good. And there is probably also a premium in terms of quality.

Smedes Rose - *Citigroup - Analyst*

Okay. So I mean given that against that background would you be interested in selling -- you sold some I saw in the quarter I think. But would you be interested in selling more against that improving pricing in secondary markets?

Joe Margolis - *Extra Space Storage Inc. - Chief Investment Officer & EVP*

Our sales are driven by our view -- one of two things -- our view of future growth opportunities, if we feel that there is a market that future growth is not going to be as robust as alternative places we could put that money. And secondly, where we have management inefficiencies.

Maybe we bought a portfolio and there is a property that is in a remote area. We don't have sufficient scale to bring the full force of our management machine to -- we will put that on a sales list.

Smedes Rose - *Citigroup - Analyst*

Okay, that is helpful. Thank you.

Operator

Jeremy Metz, UBS.

Jeremy Metz - *UBS - Analyst*

Scott, you touched on this a little earlier, but I guess I kind of wanted to ask it a little differently. If I go back to the last call you talked about tweaking your model to focus more on occupancy heading into the peak leasing season.

Obviously occupancy is still very good at over 93%m especially relative to historical levels. But I think your expectations were for 75 to 100 basis points of occupancy growth this year. So I was just wondering if you could give us some color on maybe what happened here given that it doesn't really sound like it was a supply issue.

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

Yes, so I mean our models obviously are always going to focus on maximizing revenue. And when we looked at the models early in the year and the end of last year and estimated where the model would take us, we estimated that we would have more occupancy benefit than we have had.

The model has taken more rate and not pushed as much towards occupancy. There are certain markets where we have maybe tweaked the model a little bit, in markets such as Denver where we have seen some softening of occupancy.

A couple of other markets where we've seen supply we have had to do the manual inputs into the model rather than -- just because things were going on within that submarket or that overall market that the model -- it is impossible for the model to read.

Jeremy Metz - *UBS - Analyst*

Okay, and maybe just sticking with the specific markets, can you just give us a little color on what is going on in Boston and Washington DC? Particularly Boston it seemed like revenue growth decelerated quite a bit. So, I don't know if that is maybe just the tougher calms you alluded to earlier there.

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

I would tell you Boston is one that is up against tougher comps. We have seen some construction but not significant amounts of construction. Boston was a very strong market for us last year. And Washington DC is another market that has never been great. I wouldn't tell you it decelerated significantly, it has been steady.

Jeremy Metz - *UBS - Analyst*

Okay, and then just one quick one on the expense side. I am guessing it was small, but did you get a benefit this quarter from lower snow cost in the quarter?

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

We actually had snow costs slightly above where we had estimated. So we had a late storm and then it is timing of some invoices and things like that. We had made some accruals, but our snow was slightly higher than what we were estimating.

Jeremy Metz - *UBS - Analyst*

All right, thanks.

Operator

Vikram Malhotra, Morgan Stanley.

Vikram Malhotra - *Morgan Stanley - Analyst*

So, just going back to rate and particularly just Street rates, you talked obviously about this quarter rate being the primary driver, in then back half no real change in occupancy year over year.

So just mechanically and maybe strategically in the fourth and the first quarter as we move ahead, how should we think about your ability to push Street rates relative to a year ago but also just relative to the overall rate?

Really the question being, could we -- is this 7% rate growth that you are seeing, could it be tough to do that in sort of 4Q-1Q when you just naturally pull back on rate?

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

I would tell you, Vikram, over time I think it is going to be difficult. Whether that is 4Q or Q1, I don't know. I think it is going to depend a little bit on the strength of markets. But I think things will at some point revert more to the historical norm. I think that is just going to be natural.

That is the beauty of a diversified portfolio, some markets will be stronger than others. You have seen some markets revert more to that historical norm already and others are lagging.

Vikram Malhotra - *Morgan Stanley - Analyst*

Okay. And then just on payroll, I guess your costs were fine. One of your peers had slightly higher cost. I am just wondering as the supply comes on -- or you have seen at least in certain markets supply come on -- any pick up and attrition, maybe managers saying there are other opportunities and just broadly what are you seeing for wages?

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

Our payroll and our turnover is very similar to prior years and we are not seeing a lot of pressure on our wages. There's been some discussion about minimum wage and it has not become an issue for us just based on where we pay our managers today already.

Vikram Malhotra - *Morgan Stanley - Analyst*

Okay, thank you.

Operator

Wes Golladay, RBC Capital Markets.

Wes Golladay - *RBC Capital Markets - Analyst*

Looking at moderating trends, what do you think the new normal I guess 5 to 10 year growth rate is? What is a at trend growth rate that you guys will eventually get to?

Spencer Kirk - *Extra Space Storage Inc. - CEO*

So, Wes, it is Spencer. Let me give you just a little performance. You have got revenue expenses, I am going to focus on NOI, because that is really where the rubber meets the road. Over the last 10 years the simple average for NOI growth for the entire (technical difficulty) sector has been 5.3%.

For Extra Space during that same 10-year period it has been 6.7%. The fact that we just posted 9.4% ought to tell you that even with some moderation we are still way above any historical norm. And I don't see us falling off a cliff by any stretch.

Storage, if you go back to 1998 when I started with the Company, was used by about 6% of the US population. Today that number is more than 9% of the US population. One of the questions is, does that top out at 10%, 11%, 12%, 13%? I don't know, but I think that at the end of the day we are in a really good position to maximize revenue.

And as I tried to state in my closing comments, look, NOI is only one contributor to our overall FFO performance. You look at joint ventures, the most successful acquisition program in the industry and all the other elements that I enumerated which I am not going to repeat, they all contribute to what we are trying to do and that is grow FFO. And we have got multiple levers that we are pulling to [produce] the industry's best FFO growth year in and year out.

Vikram Malhotra - *Morgan Stanley - Analyst*

Okay, thank you for that. And then looking at Atlanta, that market has been doing fantastic for six quarters in a row. Anything special going on there? Is it just new I guess properties entering the comp pool or is it just a very good market?

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

It is just a good [markup] for us. I think again, it is the cyclical nature of it. I think Atlanta is doing really well today. I think next year it could slow a little.

Wes Golladay - *RBC Capital Markets - Analyst*

Okay, thank you.

Operator

Ryan Burke, Green Street Advisors.

Ryan Burke - *Green Street - Analyst*

To try and encapsulate some of the comments that you have already made from the perspective of moderating growth. Would you say that you are more concerned looking forward about potential changes in consumer demand or are you more concerned about the impact of new supply call it 12 to 24 months out.

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

I would tell you it is probably -- I think supply will have some impact but I think also it is somewhat the fatigue within a market. At some point you can't continue to push rates at 9%.

Ryan Burke - *Green Street - Analyst*

Okay. And you are still acquiring in scale, you had a big increase in additions to your CofO development pipeline this quarter. Does a trend towards moderating NOI growth change your outlook for external growth, acquisitions and/or development looking out beyond 2016?

Joe Margolis - *Extra Space Storage Inc. - Chief Investment Officer & EVP*

So we have been successful in keeping up our acquisition pace primarily through off-market transactions and transactions we are able to generate through our management plus or joint venture pipeline.

Pricing on the open market, for some of the reasons you mentioned, is difficult for us to get our minds around in general. But we still think that these other avenues of growth are going to be available to us and will continue.

Ryan Burke - *Green Street - Analyst*

Thanks, Joe. One last quick one. Are there any discernible trends in terms of why I would call it smaller owners are selling, particularly in your third-party managed asset pool?

Joe Margolis - *Extra Space Storage Inc. - Chief Investment Officer & EVP*

Prices are good particularly in the stores we manage. We have been able to take their NOI up to very attractive levels. And it is a good time to be a seller.

Ryan Burke - *Green Street - Analyst*

Thank you.

Operator

Todd Stender, Wells Fargo.

Todd Stender - *Wells Fargo Securities - Analyst*

Just looking at revenue management, can you share some of the specifics that revenue management was telling you in Q2, just as far as pushing rate, potentially the expense of occupancy?

And as you look at the second half of the year, we're right now at peak season. Anything you can share from the past and the future about what revenue management is kind of pointing to right now?

Spencer Kirk - *Extra Space Storage Inc. - CEO*

So, Todd, it is Spencer. As you look at our revenue management algorithm which has 56 different inputs, the whole philosophical underpinning is not about rate or occupancy, it is about maximizing revenue for a particular unit size code and a particular property, based on what we know about those elements that are under consideration. So it is not rate, it is not occupancy, it is revenue.

Todd Stender - *Wells Fargo Securities - Analyst*

That is helpful. Thank you, Spencer. How about -- we got an update in June at NAREIT about SmartStop. Any trends you can share, any updates? And then when does that hit the same-store pool?

Spencer Kirk - *Extra Space Storage Inc. - CEO*

I would tell you in terms of trends in the updated NAREIT I would tell you it continues to be ahead in revenues and behind on expenses. So when we said it is performing within our expectations that is in terms of NOI.

So revenues are better, expenses are higher. The majority of those expenses are timing. We probably spent more earlier on R&M and on some of the office supplies, repair and maintenance type supplies than we originally estimated. And we hope to recover some of those throughout the year. But overall revenues are strong. And then in terms of same-store pool, it will go in next year, January 2017.

THOMSON REUTERS

Todd Stender - *Wells Fargo Securities - Analyst*

Okay, thank you.

Operator

Paul Adornato, BMO Capital Markets.

Paul Adornato - *BMO Capital Markets - Analyst*

One source of confusion among analysts and investors I think is just getting consistency in terms of the number of new stores opening, the supply pipeline. And I know that you guys, I believe, have been trying to square and come up with either some sort of cooperative view or some third party sources. I was wondering if you could provide an update on those efforts.

Spencer Kirk - *Extra Space Storage Inc. - CEO*

So, Paul, it is Spencer. Just a couple of observations. Number one, we do triangulate to the best of our ability using broker data, our own external field observations, the hardware vendors' data and just what we hear from other sources to come up with an estimate.

And when we talked about the 700 properties being built in the United States at this time, you have to recognize there are 14 states we don't even do business in.

And back to my earlier comment, it really doesn't matter what the number is, it just matters what the number of properties are that are being built within your competitive trade ring, whether it is 1 mile, 2 miles, 3 miles.

And I don't know how as an industry at this point we provide something that all analysts can triangulate on, but I think each of the individual public companies have generally been guiding toward what is coming up out of the ground that is within the trade area, because if it is not in the trade area it doesn't matter.

Paul Adornato - *BMO Capital Markets - Analyst*

Got it. Thanks, thanks for that color. Appreciate it.

Operator

Jonathan Hughes, Raymond James.

Jonathan Hughes - *Raymond James - Analyst*

I know you mentioned earlier that SmartStop was I think ahead of revenues and behind on expenses. But could you give us an update on maybe where occupancy is today?

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

I actually don't have that right in front of me, but I know it has been trending in line with our estimates.

Jonathan Hughes - *Raymond James - Analyst*

Okay. And then, Scott, you mentioned occupancy is now expected to be flat for the year. As tenants are getting stickier and use of storage becomes adopted by more people, do you think occupancy could surpass maybe 95% in the next several years? And is that 95% the max or are you at max occupancy right now in terms of the same-store pool?

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

Our philosophy and our understanding is we think that we are approaching max occupancy. And the reason being is it takes time for units to turn. They typically sit vacant for a certain number of days before the new renter moves in. They don't necessarily pass each other in the hall as one is moving out and the next is moving in.

And that comes from a lot of factors whether it is demand or whether that is our reservation policy at the time, where we allow someone to reserve a unit for maybe 7 days or 14 days depending on the occupancy of that unit. And then that reservation may or may not turn into a rental.

So, at some point you are theoretically full, we have estimated that to be around 95% -- 96%. So, 95%, is it possible? Yes. Right now we are not estimating we will hit it this year.

Jonathan Hughes - *Raymond James - Analyst*

Okay, thank you for the color. Appreciate it.

Operator

Steve Sakwa, Evercore ISI.

Steve Sakwa - *Evercore ISI - Analyst*

Most of my questions have been asked and answered, but just in terms of the acquisition pipeline, I understand you guys are looking at a lot and being more disciplined about what you want to buy.

But can you kind of just maybe help frame maybe kind of what is on the market either actively or maybe quietly? And just try and help us kind of think through how much pricing I guess has changed over the last year or so on terms of cap rates?

Spencer Kirk - *Extra Space Storage Inc. - CEO*

There is a good amount of product on the market. I would say that a lot of it is of lesser quality. We think cap rates have compressed a little bit this year, maybe 25 or 50 basis points.

Clearly there is a big premium for portfolios, we saw that in the large portfolio transaction that was previously announced by one of our peers. And it is just -- it is a competitive lift. The secret of self storage is out and there is a lot of money chasing it.

Steve Sakwa - *Evercore ISI - Analyst*

Right. So I guess, Spencer, just if pricing is getting harder or more expensive on each deal, does that mean that kind of return hurdles have to come down in order for you to make these deals [tensile]?

Are you willing to just accept kind of lower IRRs today than you were say a year or two ago? Or are you just able to squeeze more out of the portfolios and get better growth in order to maintain those high unlevered IRRs?

Spencer Kirk - *Extra Space Storage Inc. - CEO*

I think I would answer yes to most of your questions [with that], Steve. The fact of the matter is the market is red-hot and for Extra Space, looking at 630 assets that are not wholly owned that are in our system to us is a meaningful acquisition pipeline that we can go after for years to come.

And I believe that every market travels in cycles. And although things might be extremely competitive today, that necessarily won't be the case in future years. So for us, we are going to continue to use a multi-pronged approach to growing this Company. And I have talked about several growth levers that we are employing to make sure that we deliver the industry's best result.

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

Steve, I would maybe at one other possibility to kind of your realm of possibilities there and that is the deal doesn't actually sell. At some point pricing will get to that point if it continues to not meet people's IRR curdles and their return hurdles. It is possible things don't transact.

Joe Margolis - *Extra Space Storage Inc. - Chief Investment Officer & EVP*

And I guess lastly, as was previously mentioned, you have seen us do a few more transactions in a JV structure because we get a premium return through that structure, which helps kind of bridge the gap between market pricing and the return that we are trying to get for our shareholders.

Steve Sakwa - *Evercore ISI - Analyst*

Okay, thanks. That is it for me.

Operator

Ki Bin Kim, SunTrust.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

Just a couple quick ones here. In regards to the properties where you do have new supply competing with you, I think you said 45 properties within a 3 mile radius.

When you look at the dynamics of what you can to with pricing And those types of markets where there is more supply coming, how do Street rates or promotions or a combination of compare to what you said earlier about achieving about a 7% Street rate with relatively flat promotions? When you look at those micro markets how much does it differ?

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

So it obviously differs by market by property. If you look at where we compete with brand-new properties that are opening, I will give you a couple of examples. We had one up in Harlem where we had a property open by one of our peers, a large property that filled up quickly. Our properties still grew at almost 10% that year.

Now, that is not to say it couldn't have growing at 15%, but we still had a very solid growth. We have had another property or two where for a year's time we had flat or slightly negative growth, but we haven't seen them fall off the map by any sense here.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

Okay and just a quick question on your balance sheet. You have about 22% floating rate debt given the interest rate environment. Any thoughts on maybe changing that?

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

So, we are pretty happy with where we are. We don't see it going up significantly. But if you look at the markets historically at least recently the bets on variable-rate debt have been right. And we feel like it is at a point that is good for our shareholders as well as prudent.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

Okay, thanks again.

Operator

George Hoglund, Jefferies.

George Hoglund - *Jefferies LLC - Analyst*

So, you had mentioned earlier that one of the biggest headwinds is the renter fatigue. And I guess when you look at -- I guess that would be for the same-store portfolio. When you look at what is in the non-same-store portfolio, I guess including SmartStop, do you view a large difference in terms of how much renter fatigue is in that non-same-store portfolio? I guess that is part one.

And then part two is I guess for new properties that come on line from the CofO deals, obviously no renter fatigue in a new property. But do you see sort of more I guess rent growth potential going forward with these newly opened properties?

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

I would tell you in terms of properties we buy that were not managed as well as CofO properties there is more runway. Typically these properties are at lower rates than our properties, so we have the ability to push them for longer.

And typically in a Co O store we open at a rate that is below market and so we have the ability to push rates longer because it takes them a little bit of time to get them up to Street rates or what are normal market rates.

Spencer Kirk - *Extra Space Storage Inc. - CEO*

George, it is Spencer. There is one other thing on this renter fatigue. I wouldn't take it too far because more than 50% of our customers walking in the door have never used self storage ever. So they don't even know what they are up against. So it is the more mature properties where you have got a lot of really long-term tenants that you might start to feel it.

George Hoglund - *Jefferies LLC - Analyst*

Okay, thanks for the color.

Operator

Thank you. And, ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program. You may all disconnect. Everyone, have a great day.
