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EXR - Q3 2013 Extra Space Storage Inc. Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Q3 2013 Extra Space Storage Inc. earnings conference call. My name is Glen and I'll be your operator for today. (Operator Instructions). As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the conference over to your host for today, Mr. Clint Halverson. Please proceed, sir.

Clint Halverson - *Extra Space Storage Inc. - VP, Corporate Communication and IR*

Thank you, Glen. Welcome to Extra Space Storage's third-quarter 2013 conference call. In addition to our press release, we 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, Tuesday, October 29, 2013. 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.

With that, I'd now like to turn the call over to Spencer Kirk, Chief Executive Officer.

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

Good afternoon. The self-storage industry finds itself in a great operating environment. New supply remains low, and customer demand remains stable. Occupancies are at historically high levels, and discounting is at record lows. While these are certainly buoyant times for storage operators, we are not complacent. And we continue to leverage our sophisticated platform and unique structure to produce double-digit FFO growth. Excluding one-time acquisition-related charges, our year-over-year FFO growth was up 21% for the quarter.

Since our IPO in 2004, we have grown our footprint by over 700%. We hit a significant milestone as we finished the quarter with over 1000 Extra Space-branded properties. We continue to be disciplined and creative in our approach to acquiring properties, both in the open market and in the off market. Year-to-date, we have purchased 30 assets for over $290 million, and we have an additional 40 assets under contract for over $240 million.

In addition, year-to-date we have also added 72 branded assets to our management program, for a total of 253 managed assets. Our growth is due in large part to a long history of building and cultivating mutually beneficial relationships. We will continue to evaluate and pursue opportunities to increase shareholder value.

I'll now turn the time over to Karl.

Karl Haas - *Extra Space Storage Inc. - EVP, COO*

Thanks, Spence. During the quarter, occupancy remained at record high levels. We ended the quarter at 90.6%, up 1.7% over last year. Street rates were up around 3% during the quarter. Discounts to new customers were down by 12%. As a result, we had same-store revenue growth of 7.8% for the quarter. We saw expenses trending towards more normalized levels. Increases were due to growth in payroll, insurance, repairs, and maintenance expenses. Net operating income for the quarter was 9.7%, and we're on track to have one of our best years ever.

With that, I'll turn it over to Scott.

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

Thanks, Karl. Last night, we reported FFO of $0.46 per share, which includes a nonrecurring expense of $0.08 from the extinguishment of debt on the All Aboard transaction. Also included in FFO is a one-time benefit of $0.02 from recent debt modifications. Adjusting for these one-time events, FFO was $0.52 per share. FFO as adjusted was $0.57 per share; when you adjust for the one-time benefit from the debt modification, we ended at $0.55 per share.

We had another good quarter for acquisitions. During the quarter, we purchased 22 assets for $215 million, located in Arizona and California. 20 of the properties acquired were from the All Aboard transaction in California. Subsequent to the end of the quarter, we closed on two additional properties for $18 million, located in Georgia and North Carolina. As of today, we have an additional 40 assets under contract for just over $241 million. It is anticipated that these acquisitions will close by year-end.

Based on our acquisition activity and our operational performance, we have increased our full-year 2013 FFO guidance to be from $1.95 to $1.97 per share. This estimate includes non-cash interest expense, acquisition-related costs, and one-time charges. When adjusted for these items, FFO is estimated to be from $2.09 to $2.11 for the full year.

I'll now turn the time back to Spencer for some closing remarks.

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

Thanks, Scott. I want to recognize the efforts of all of our hard-working employees that collectively generated this quarter's outstanding results. We are committed to keeping our focus on the operational excellence and the growth of Extra Space.

I'd now like to turn the time over to Clint to start Q&A.

Clint Halverson - *Extra Space Storage Inc. - VP, Corporate Communication and IR*

Thanks, Spence. In order to ensure we have adequate time to address everyone's questions, I'd simply ask that everyone keep your initial questions limited to two. If time allows, will address follow-on questions once everyone has had an opportunity to ask their initial questions.

With that, we'd like to turn it over to Glen to start our Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Michael Knott, Green Street Advisors.

Michael Knott - *Green Street Advisors - Analyst*

Hello, guys. Gosh, sure seems like everything is going well for you guys. Can you talk about new supply as maybe a potential chink in the armor, looking forward, in terms of the industry outlook?

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

Good afternoon, Michael. It's Spencer. It's really interesting -- I went to the SSA tradeshow in Las Vegas. And development, of course, was very hot topic. But if I could say, all right -- and this was the actual conversation -- how many of you folks have actually gone down to Home Depot and bought a shovel? Well, the audience of people saying that they're getting into the development game narrowed pretty dramatically.

And then when you asked the follow-up question -- all right, those of you that did buy a shovel, how many of you have actually stuck it in Mother Earth and turned over some dirt? And it further narrowed. So I think there's an awful lot of interest, Michael. I would say there's not so much action.

Here and there we are seeing development starts; but as we've said on many, many calls, right now to our best guesstimate, the new supply that is scheduled or has been contemplated or is actually under construction today does not even approximate the amount of supply necessary to keep up with the population increase.

Michael Knott - *Green Street Advisors - Analyst*

Okay. Thanks, Spencer. That's helpful. I'd be curious also to get your take on the transaction market. It seems like cap rates continue to go down and values continue to go up. So just curious, any thoughts you have on that, and your ability to operate within that construct and be creative and disciplined, as you said. And it looks like you tapped maybe the Harrison Street JV to buy that back in. Can you just talk a little bit about those things?

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

Yes, we are accretive. We are leveraging relationships both in the open market -- we want to be competitive -- as well is in the off market transactions. And, once again, in this quarter we did an off market transaction that was favorable. For us, there is a compression of cap rates. Our goal as a Company is to remain disciplined.

If you said where is the core transactional range for what we're doing at Extra Space, I call it between a 6 and a 7. There might be a property or two where you end up in the high 5s. Conversely, you might end up in the mid 7s. But the core transactional volume we're doing is in the 6 to 7 range. And we want to make sure that the transactions we do are accretive. And so far we have been very disciplined in making sure that that is the end result.

Michael Knott - *Green Street Advisors - Analyst*

Thanks, guys.

Operator

Shahzeb Zakaria, Macquarie.

Shahzeb Zakaria - *Macquarie Research - Analyst*

Thank you for taking my question. So it seems like you guys raised your 4Q guidance for FFO per share by about $0.015. Was that impacted at all by the increased acquisitions? And, if so, are you able to quantify that?

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

The acquisition volume increase -- so it went up -- quantifying it, it went up by $100 million at -- it's probably $0.01 to $0.02 in there. And then your property performance also went up. So I'm trying to understand how you came up with your $0.015. I would tell you the accretive acquisitions are going to be $0.01 to $0.02 in the current year.

Shahzeb Zakaria - *Macquarie Research - Analyst*

Got it. And just one follow-up. So, at the Media Day in New York, you guys disclosed that August was the best August that you have ever had in the Company's history. Did that momentum carry into September as well? How does September compare with the past Septembers? And if you could also give us an update on October, that would be great.

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

This is Scott. August was actually our best, in terms of rentals, that we've ever seen as far as the eight-year running history that we have. September was on the lower end of that. So part of it was where the weekends fell, and then October is right back into the norm. So our rentals and vacates continue at the norm, or up towards the upper end, in terms of rentals and vacates.

Shahzeb Zakaria - *Macquarie Research - Analyst*

Got it. That is helpful, guys. Thank you so much.

Operator

David Toti, Cantor.

David Toti - *Cantor Fitzgerald - Analyst*

Hello, guys. Karl, a question for you. Absolute rent growth appeared to accelerate in the quarter, obviously on improved occupancy levels and market demand. First of all, what where the dynamics in the quarter that comprised that growth? And what's your expectation, going forward, relative to where you are seeing the most pricing strength, either in in-place rentals or with street rates?

Karl Haas - *Extra Space Storage Inc. - EVP, COO*

In my view, we're basically seeing just a continuation of what we've had in the last two years. And rentals are strong. We're really -- we're seeing occupancy hold probably stronger than we expected, but our revenue management system really drives everything. And we set some general guidance for it, but it's going to adjust rates, adjust discounts; and how aggressive we are on the Web, how much money we're spending on the Web. All of it comes together to generate what we think is going to generate the best results. And we see that working.

And I know everybody likes to talk about [blanya], but let's talk about the rentals and vacates. The problem is, if rentals go up and vacates go up, you really haven't -- it really hasn't done you that much good. We focus on the occupancy delta. And as we ended the quarter, at 1.7 over last year -- I can tell you, at the beginning of the year, we did not expect to be at that level.

So the market is strong. Where we are seeing some real strength -- our rates probably aren't as strong, as far as the delta to prior year, as we probably would like. But some of that has to do with we're getting really aggressive in reducing discounting. And so discounting and -- do we really care if we're going to get 7-whatever percent -- 7.4%, 7.6%; at some point 8% -- revenue growth, do we care if it's coming from lower discounts or higher rates? Not really, as long as we're getting to our maximum number.

David Toti - *Cantor Fitzgerald - Analyst*

Okay, that's helpful. And then, Scott, I just have a question for you. There are a couple of one-time items in the quarter, which is unusual for you guys, especially related to capital structure. What are some of the near-term goals in your mind for the Company in the next couple of quarters, relative to keeping the balance sheet in check with your external growth activities?

And, secondarily, are there some goals about further reducing leverage or recasting or re-terming some of that existing debt, on top of what you've already done?

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

Yes, David. First of all, I'd tell you that I think our leverage is appropriate. I think that we are at a level that is sustainable going forward. I think our goal during this last couple of years has been to set ourselves up for future growth. We want to make sure that our capital stack is diversified. We would like to have -- in the past, we've been 100% secured. We would like to maybe add a little bit of diversity in there, have a little bit more unsecured.

So our main goal here is to reduce the interest expense as much as possible, your average interest rate; and also set us up for the ability to grow. We want to make sure that our leverage is in a position where we have the ability to grow and where we have the ability to roll our debt. The last thing we want to do is to be back in 2008 or 2009, where many companies had loans that were cross-collateralized, or they had all their debt coming due at once. So we've tried to layer our debt and make sure we're ready to grow in the future.

David Toti - *Cantor Fitzgerald - Analyst*

Okay. Thanks for the detail today.

Operator

Michael Bilerman, Citi.

Nick Joseph - *Citigroup - Analyst*

Great, thanks. It's actually Nick Joseph here with Michael. Going back to the transaction market, what was the blended cap rate on the acquisitions in the quarter, and for the additional properties under contract?

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

This is Scott. On average, we would tell you it's between 6 and 7, and then the same is true for the transactions that we're anticipating closing. Just maybe one point of clarification to Shahzeb's question earlier, on how much accretion or additional FFO is being generated by the additional acquisitions. That is without acquisition costs. Our acquisition costs we anticipate to be 1% of whatever we buy. And so we continue to buy things at an accretive price, but pricing has become more aggressive.

Nick Joseph - *Citigroup - Analyst*

Great, thanks. And I appreciate your comments on potential new supply. If that supply does come, where would you expect it to deliver first?

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

This is Spencer, Nick. I think, realistically, you are going to see new supply coming where land costs are not as challenging. I think in the Class A markets, of course everybody wants to get in there, but the barriers to entry are very high. And most of the development that has ever been done in this business has been done by the smaller operators, the mom-and-pops, not the REITs.

So you're going to get a lot of supply, I think, initially, coming in secondary and tertiary markets. I think it's going to be much more muted in the core markets.

Nick Joseph - *Citigroup - Analyst*

Great, thanks.

Operator

Todd Stender, Wells Fargo.

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

Hello. Thanks, guys. I know you won't engage in your ground-up development on your own, but what's your comfort level teaming up with a developer, whether it be a joint venture or through financing new construction?

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

Todd, good afternoon. It's Spencer. We are looking at JV development opportunities potentially. Once again, it's got to be a really good fit. It's got to be in markets that are a nice operational overlay to where we are currently doing business. And, number three, it needs to meet our criteria of what we call the three C's of a partnership. We need partners that have character, that we can trust, that have integrity.

We need partners that have capacity. We get literally dozens and dozens of inquiries of people that want to do a development and have Extra Space fund all of it; take all of the financial risk; and they participate at the end, with some advantageous split to them, having taken no risk. We are not interested in that. We need people who will stand shoulder-to-shoulder.

And number three, we need competency. We are not interested in a homebuilder saying, I'm thinking about doing some storage. We need someone that's got a proven track record. So you take character, capacity, and competency. That narrows down the field. You take the operational footprint; it further narrows it. And in a few selected cases, you may, in the future, see some JV development. But it's going to be limited.

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

Thank you for the color, Spencer. How about just a yield requirement or a premium over acquisition cap rates? Is there a set basis point number that you'd need to achieve?

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

There is, and I can tell you it's going to depend on the market. But I think somewhere between 250 and 350 basis points is probably a reasonable range for us to say, this makes sense. Once again, it's market dependent, and there could be a little variation off that.

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

Sure. Thank you very much.

Operator

Todd Thomas, KeyBanc Capital Markets.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Hello, thanks. Jordan Sadler is here with me as well. First question, I just wanted to circle back to the discounting. And I was just wondering if you can talk about maybe where we are in the spectrum of reducing discounts and concessions, and also maybe even refining your marketing and advertising spend. If we just think sort of broadly about your tenant acquisition costs overall, maybe you can help us understand or quantify how much room there still is to reduce tenant acquisition costs at this point.

Karl Haas - *Extra Space Storage Inc. - EVP, COO*

This is Karl. I don't really focus on the tenant acquisition costs, per se. I guess what we do on the Internet is driven by just driving demand; determining where we want the demand and going after it; and making sure that we're effectively spending the money that we've decided that we want to devote to it.

As far as discounting, it's really relatively simple, in that we've always operated with thresholds at which discounts go away. And we actually, in certain times of year, in the busy season, we raise those thresholds so we even give less away. And with the rise in occupancy at all of our sites, we're just giving away a lot less discount -- it's a hard thing to break.

I will tell you, our biggest problem has been just that our managers are so used to having discounts, and everywhere and everybody in the industry has banners up saying, one month free. And the nice part is, right now, we'll always have something, probably, on almost every site. We're offering the one month free, but it's getting less and less.

And then we're refining how we identify the units that are available for discounting. We used to just have it, every unit type would sit by itself, but now we actually bucketize them. And we started that in the middle of this year, and what we found is that even has had even a more positive impact on our discounting.

So we still think we have some runway on reduced discounting. And if -- and I'm not saying we will -- but if our occupancy went higher, we'd probably even see less discounts.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

So, what percent of the customers -- I guess the 43,000 rentals that you had in the same-store during the quarter -- how many of those renters received a discount, and what was the value of those discounts in the quarter?

Karl Haas - *Extra Space Storage Inc. - EVP, COO*

I don't have that right in front of me. I know it's less than in the prior quarter. We've been trending down every quarter. And discounts -- I focus more on discounts as a percentage of our rental income. And that was running anywhere up to about 6% to 6.5%. And now it's down to the low 5s, and almost in the 4s.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay, that's helpful. And if I can just -- one last one. I just noticed in the same-store expense detail that tenant insurance expenses were up about 90%. It was only $500,000 or so, but can you just talk about what that increase was?

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

Yes, it's really a couple of things, Todd. Last year, the expenses were slightly below an average run rate, so last year's number was a little bit low. And then in the current quarter, we had fires at two of our properties, so it increased the amount of payouts at those properties. So, a low quarter last year, and a higher quarter due to two specific fires.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay, thank you.

Operator

Michael Salinsky, RBC Capital Markets.

Michael Salinsky - *RBC Capital Markets - Analyst*

Good afternoon, guys. Just going back to pricing, you talked about what you're paying for assets. But can you talk about the market in general; what you've seen in the last, call it, 90 days, and how that compares in terms of just transactions in the market overall?

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

It's tough for us to give you real cap rates on what other people are paying. We know that we're not getting many of the marketed deals. When people quote cap rates, often they're backwards looking; sometimes they're forward-looking. Do they include a management fee? Do they not? Have property taxes been adjusted? So, in our mind, whenever we quote a cap rate, we want to focus on year one.

We would tell you that any deal that has been marketed, we have not been overly successful. We've been able to get one or two deals, but we definitely are not getting the majority. So we would tell you that we are off by as much as 10% on pricing.

Michael Salinsky - *RBC Capital Markets - Analyst*

Appreciate the color there. And second, for Karl, I appreciate the color on discounting and street rate growth. But as you look at the market today, is the market keeping pace with you, when you look at some of the smaller operators in terms of reducing discounts, pushing street rates? Or are you guys basically pulling the market at this point?

Karl Haas - *Extra Space Storage Inc. - EVP, COO*

No, I think others are doing the same thing. I don't know about the real smaller, local operators. The advantage that we have is we have so much information. And I think we control what goes on at the properties a little bit tighter than a lot of local operators. But I think our public peers are pretty much doing the same thing that we're doing.

Michael Salinsky - *RBC Capital Markets - Analyst*

Okay, that's helpful. Then, finally, just to touch back on the development. Just as a bridge gap for that, would you guys look at being a mezzanine partner on something like that, then buying it out when it's completed? Being kind of a financing source, so it wouldn't have to be just a pari passu joint venture?

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

C of O deals, Michael, are something we'd consider. You've taken the construction risk out of the equation. Now you're up to lease-up risk. And Extra Space has a good track record of leasing up assets. It's something we know. It's something we're comfortable with. And, yes, a C of O deal -- we'd consider it.

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

When you say mezzanine, I guess it depends a little bit on what you mean by that. Would we be lender on development? Yes, we would consider that. I think that if it didn't significantly -- if it wasn't a real risky deal, yes, we would consider it. But we would do C of O deals, for sure.

Michael Salinsky - *RBC Capital Markets - Analyst*

Okay. Appreciate the color, guys. Thank you.

Operator

Ross Nussbaum, UBS.

Ross Nussbaum - *UBS - Analyst*

Hello, thanks. Two questions, guys. First is on acquisition funding for the Q4 pending acquisitions. What's the game plan there?

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

We've announced about $535 million in acquisitions. We did a $250 million exchangeable earlier this year, as part of the All Aboard $200 million transaction. We did about $100 million in OP. So we have more than enough capacity on our lines of credit to get those acquisitions done.

Ross Nussbaum - *UBS - Analyst*

Okay. Second question is on pricing power. And we've seen, over the last couple of months, a significantly more challenging consumer environment. I'd probably used the word lousy with retailers from the low end of the spectrum to the high end of the spectrum, putting up flatter sales. We've seen the mall REITs put up flat sales. So it would seem to me that the consumer is telling us something here; that they are a little spent, for lack of a better word.

So, I guess in that kind of a context, I'm curious how you guys think about pricing power in the storage industry going forward, when it's clear that retailers are struggling on that perspective.

Karl Haas - *Extra Space Storage Inc. - EVP, COO*

This is Karl. I think the difference is a very large portion of our customer base needs it. They're not out there just shopping, going to the mall and happen to stop in, feeling flush with cash, and buying stuff just knee-jerk. So much of what we get are people that have an event in their life and they need self-storage. And a lot of them have never used it; our statistics still tell us that 50% of the people that come and rent from us have never used it before. They come in, they don't know what it costs.

And so it's really a matter of what everybody is charging. And our occupancy is high; our discounts are down; and so all of us are going to -- are pushing rates more. And I think it's -- until new supply comes in, and we have to worry about where the demand is going to come from, the pie is staying the same. And, if anything, the larger operators are taking a bigger piece of the pie.

And so I think it bodes well. Until that dynamic of new supply coming on happens, we're going to be in a pretty good position to be able to get more for what we have.

Ross Nussbaum - *UBS - Analyst*

Okay. And last question, you guys have obviously been aggressive on the acquisition front, with over $0.5 billion this year. Can you talk about your disposition strategy? Given where cap rates have fallen to, why not take the opportunity to start pruning out some of the lower performers in the portfolio here?

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

Yes, Ross, it's Spencer. That's something we look at. A lot of the properties that we have fall under a couple of considerations when you talk about dispositions. Number one, can you even dispose of them because of the financing that's on them? Think CMBS. Second question is, all right, if you dispose of this asset in a certain market, you just changed the denominator over which your fixed expenses get spread.

We are not in a huge hurry to dispose of a lot of assets. We're building a company; we're building a platform; we're building a brand. And you might see a few -- and I'm talking single digits -- cycle out of our system, but this is not something we are aggressively pursuing.

Ross Nussbaum - *UBS - Analyst*

Thank you.

Operator

R.J. Milligan, Raymond James & Associates.

R.J. Milligan - *Raymond James & Associates - Analyst*

Hello, good afternoon. Guys, we've seen a lot of activity over the past couple of quarters in terms of acquisitions. We've seen several large portfolios get snatched up. And based on what you're seeing coming to market, and I guess sellers' pricing expectations, do you think that pace of acquisitions that we've seen over the past two quarters is sustainable? Do you think we'll see an acceleration, a deceleration? What are your thoughts there?

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

No one knows, R.J., what the future is going to hold. I was out touring and looking at some properties and having a couple of discussions with brokers -- and mixed with our own internal analysis. Obviously, the higher the price, the more willing the sellers are going to become. And I personally offer my opinion that I think through 2014 you will see a pace that is at least comparable to what you've seen in 2013.

But I will also put a caveat that the larger asset pools, the larger portfolios, are becoming more and more scarce. There just aren't that many $200 million, $300 million, $400 million, $500 million portfolios hanging out there.

And I think if there would be any trend is would be towards the same acquisition volume, if not more; but perhaps smaller portfolios, not larger ones coming to the marketplace. And only time will prove whether this opinion is correct or incorrect.

R.J. Milligan - *Raymond James & Associates - Analyst*

Okay. And, Spencer, can you talk about your -- any negotiations, or what you think the opportunity set is to continue to buy out joint venture partners?

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

What we want to do is when our partners approach us, be in a position to transact. We want to work to produce the very best result. We're not going to go to them and try to break apart a perfectly functional partnership. We are inclined to meeting the needs of our JV partners and having them come to us at the appropriate time.

Which is part of the reason why it's difficult for Extra Space to prognosticate what the acquisition activity level will be in a given year, because we are not actively prospecting our JV partners. We're waiting for them to signal that it's time for them to redeploy capital. And at that point, we want to be the first and only call, because we have treated them well. And that formula seems to be working to our advantage.

R.J. Milligan - *Raymond James & Associates - Analyst*

All right. Thanks, guys.

Operator

Ki Bin Kim, SunTrust Robinson Humphrey.

Your line is now open.

Paula Poskon, Robert W. Baird.

Paula Poskon - *Robert W. Baird & Company, Inc. - Analyst*

Thank you. Good afternoon, everyone. Karl, a couple of questions for you. Can you update us on what the tenant insurance penetration rate is in the overall portfolio?

Karl Haas - *Extra Space Storage Inc. - EVP, COO*

Yes. It is right around 69%.

Paula Poskon - *Robert W. Baird & Company, Inc. - Analyst*

Thanks. And how is the average length of stay trending between your individual customer base and the commercial business customer base?

Karl Haas - *Extra Space Storage Inc. - EVP, COO*

No real change. We really just have not seen that move hardly at all through this whole -- everything we've been through, and really going back to 2008.

Paula Poskon - *Robert W. Baird & Company, Inc. - Analyst*

Karl, is this your last earnings call?

Karl Haas - *Extra Space Storage Inc. - EVP, COO*

It depends what the first quarter of 2014 has (laughter).

Paula Poskon - *Robert W. Baird & Company, Inc. - Analyst*

Fair enough. And, Spencer, just a bigger-picture question for you. Do you think the -- obviously, the self storage stocks have had a tremendous run here. Do you think the current valuations are adequately pricing in the growth potential?

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

I will say I'm very comfortable with where Extra Space is priced. The thematic idea is, Paula, that there is limited supply; that there has been an ascendancy of the Internet. We have a very sophisticated revenue management program that Karl talked about, because it's optimized pricing. And all of the results that the public companies have posted in the storage sector have been in spite of a crappy economy. If the economy continues to heal, we just see further upside. So, for me, I'm optimistic about the future. And I think that the larger publicly traded companies are going to continue to produce decent results.

Paula Poskon - *Robert W. Baird & Company, Inc. - Analyst*

Thanks, Spencer.

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

Thanks, Paula.

Operator

Todd Thomas, KeyBanc Capital Markets.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

It's Jordan Sadler with Todd. Curious about the range of street rate increases you've seen across your markets. I think the blended number you said was 3% year-over-year. But what's the high and the low point? I care more about the high point, actually.

Karl Haas - *Extra Space Storage Inc. - EVP, COO*

It's probably -- I don't think we have any markets where street rates are much above about 5% above the prior year. And the low point is probably around 2% to 2.5%. It's strange, but the DC market -- Baltimore/DC market -- is one that probably stands out as one that hits me as being where we've had a harder time pushing rates. Obviously, not surprisingly, Boston, and going up into Silicon Valley -- those are doing better.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

Okay, that's interesting. So it's, as you would describe it, it's economic conditions. But it's also -- it seems like prevailing economic conditions just having at it; that they are driving the markets that have better street rate upside. Is that fair?

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

Yes. Not surprising.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

Okay. And then could you give us a little bit more color on the assets that are under contract -- I mean, markets? I didn't catch. And then, maybe, occupancies.

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

With that many assets, it's really pretty diverse as far as the markets. They go from Hawaii to Florida. And as far as occupancy, we have 19 where we are buying out our joint venture partner that's very similar to ours. And then we have a few other managed ones that are very similar. But I believe it's 20 states -- and so it's a pretty diverse spread there.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

Okay, that's helpful. And then just lastly on the most recent third-party deals, are the terms of those deals similar to previous deals? Consistent (multiple speakers).

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

Unchanged, yes. No change. We have not had to offer different management fee structures or anything else. We have held true to the program. The integrity of the program is very important to us, and our success is because of our previous track record. And we're very excited about the upside in this program as we go forward.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

Do you see risk to that business at all, and is it getting more competitive from a pricing standpoint?

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

Yes. The competition is keenly aware, and there are pricing pressures and other factors. But as we look at what we are able to offer a mom-and-pop or an operator of a few assets, I think we have a compelling proposition that says, we are competitive; we produce an outstanding result; and we know how to work exceptionally well with partners.

Unlike any other publicly traded peer, this Company has about 50% of the assets under the Extra Space brand that are either only partially owned or non-owned. And we, for 15 years, have structured our systems and our business and our management team around an ability to work and play well in a partnership.

And I think our track record speaks for itself. So I think we're in a good position to not only continue the growth that we have experienced so far, but perhaps even to see an acceleration in the growth rate.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

That's helpful. Thank you.

Operator

Michael Knott, Green Street Advisors.

Michael Knott - *Green Street Advisors - Analyst*

Hello, guys. Curious on your comments, I think Karl made them earlier, that the year-over-year occupancy gap has been sustained at a higher level than you would had thought at the beginning of the year. And just curious, as you think about how you go about maximizing revenues, whether the high occupancy rates that you've achieved, and that Public Storage has achieved, does that make you rethink where your occupancy could end up peaking? Is there more room for this year-over-year gap to continue staying where it is, even as we head into next year?

Karl Haas - *Extra Space Storage Inc. - EVP, COO*

This is Karl. Yes. We are -- we constantly are rethinking it. And we don't know what the right answer is, perfect answer. I don't know. And I guess if anybody should know, we would have as good a chance as anybody to know what the right answer is. It's hard for us to believe that 94% or 95% is what we would be shooting for. It seems to be working for Public Storage, but they operate a little bit differently. And we see -- it's a combination of less discounts; and certainly at 95%, you'd even be giving away less discounts, so that's a plus.

But the ability to push rates as hard as maybe we'd like to push would get in the way of getting that high for us. So, we are higher than we thought. We originally were thinking we'd probably peak out at 88% -- 87%, 88%. Now we're peaking out at 91%, and averaging more like 90% instead of 89% or 87%. So, it could go higher, as I said. Our system drives it. And about the only thing we do is we give it some general guidelines to revenue management.

And we don't want to see our occupancy drop dramatically, but if they determined that where we are right now is the right level to maximize revenue -- or if our systems do -- then you will see that delta go down some. But I can't rule out that it wouldn't -- we couldn't be here a year from now and be 1 point to 1.5 point to 2 points higher.

Michael Knott - *Green Street Advisors - Analyst*

Okay, thanks for that. And then it sounds like, Spencer, if the economy were to get on a better footing, you would continue to foresee an even stronger demand picture for storage with limited supplies. So it almost seems like the sky's the limit, potentially, in terms of pricing power and rent growth. Is that a fair interpretation?

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

I'm not going to say the sky's the limit, Michael. But I will say that I, for one, would not suggest that the best days are behind Extra Space. The best days are ahead of Extra Space.

Michael Knott - *Green Street Advisors - Analyst*

Okay. Thanks a lot.

Operator

(Operator Instructions). Ki Bin Kim, SunTrust Robinson Humphrey.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

Thanks. Sorry about that earlier. Just a couple of quick follow-ups. You have several JVs that are not in the promote yet. And give me -- so, first question, are those based on just absolute levels of NOI? Or is it IRR-based, which might be linked to appraisals? And given were cap rates have gone, are we getting closer -- especially for some of the larger JVs that you manage -- to a promote?

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

Those all have preferred IRRs. So, in other words, they need to hit a preferred return. And what happened with many of those joint ventures is we bought them as part of the Storage USA acquisition. And then between that time and today, you went through a pretty major recession. So those haven't been up to the original projections, but they are doing very well nonetheless.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

Could you comment on how close we could be, or --?

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

It varies by JV. And the IRR's vary, depending on whether or not the JV -- whether or not the fund allows debt, or no debt. So it's going to vary by JV. And so I wouldn't feel comfortable with commenting today.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

Okay, that's fine. And your same-store -- sorry if this has been asked already -- your same-store expenses are still fairly low, from a year-over-year growth rate standpoint, but it has picked up a little bit. And it seems like some other REITs, especially those that are exposed to the Northeast, have basically reported higher expenses. [Potentially realty prices going forward]. Is this a -- this more, slightly more elevated levels -- at more normal rate, long-term run rate?

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

So, the same-store expenses, we would tell you, are high for the quarter, partly because you had a negative same-store comparison last year. So this year actually looks probably worse than it would if it was against a normal year. We would tell you they're getting back more to normal run rates, and they should continue to grow more at the rate of inflation.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

Okay. And just the last quick question, what is your average new tenant length of stay, and has that changed at all in the past couple of years? Because I know typically the Company will talk about the average tenant duration, but what is the average new tenant staying? How long are they saying?

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

Ki Bin, I don't have the exact number in front of me, but it's around 12.6 months, and it's ticked up just slightly year-over-year.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

Okay. Thank you, guys.

Operator

At this time, we have no further questions. I will now turn the call over to Mr. Spencer Kirk for closing remarks.

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

Thank you, everybody, for your interest in Extra Space today. We'll see you next quarter.

Operator

Ladies and gentlemen, that concludes today's conference. Thank you for your participation. You may now disconnect, and have a great day.
