THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

EXR - Q1 2016 Extra Space Storage Inc Earnings Call

EVENT DATE/TIME: MAY 03, 2016 / 5:00PM GMT

## CORPORATE PARTICIPANTS

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

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

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

## CONFERENCE CALL PARTICIPANTS

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

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

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

**Jana Galan** *BofA Merrill Lynch - Analyst*

**Smedes Rose** *Citigroup - Analyst*

**Ki Bin Kim** *SunTrust Robinson Humphrey - Analyst*

**R.J. Milligan** *Robert W. Baird & Company - Analyst*

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

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

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

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

**Ross Nussbaum** *UBS - Analyst*

**Jeremy Metz** *UBS - Analyst*

## PRESENTATION

**Operator**

Good day, ladies and gentlemen, and welcome to the Extra Space Storage first-quarter 2016 earnings conference call. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session and instructions will follow at that time. (Operator Instructions). As a reminder, this conference is being recorded.

I would like to introduce your host for today's call, Mr. Jeff Norman, Senior Director, Investor Relations. Sir, you may begin.

---

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

Thank you, Taquia. Welcome to Extra Space Storage's first-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 Tuesday, May 3, 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. We are off to a strong start in 2016. Revenue growth exceeded expectations coming in at 9.1%. Mild winter helped moderate expenses leading to NOI growth of 12.3%. We ended the quarter at 92.8% occupancy, the highest in our Company's history at this time of year. We acquired 25 stores during the quarter, six of which were through an off-market transaction where we bought out a partner.

Pricing remains competitive and seller expectations are high but we continue to find some accretive acquisitions in the open market and through our managed asset pipeline. We ended the quarter with 1371 Extra Space branded stores.

Per-share FFO as adjusted grew 25% year-over-year. This is on top of 21% growth the previous year resulting in FFO growth of over 50% in two years.

Our multifaceted strategy to increase shareholder value has five components. First, operating performance. 12.3% NOI growth is outstanding by any measure and for any asset class. Second, accretive acquisitions. We have strategically purchased 4 billion since 2012. Third, joint ventures. They have and will continue to produce an outsized return on dollars invested.

Fourth, third-party management. Our program, the nation's largest, provide significant economies of scale and off-market acquisition opportunities. Fifth, and optimized balance sheet. These five components have enabled us to produce 22 consecutive quarters of double-digit FFO growth.

Now I would like to turn the time over to Scott.

---

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

Thank you, Spencer. Last night we reported FFO as adjusted of $0.86 per share, exceeding the high end of our guidance by a penny. The beat was the result of better than expected property level performance. Including costs associated with acquisitions, non-cash interest expense and a $4 million legal expense, FFO was $0.79 per share for the quarter.

Our same-store revenue growth was primarily driven by higher rates to new and existing customers and increased occupancy. Our 2016 same-store pool increased to 564 stores. The change in the same-store pool positively impacted our revenue growth by 30 basis points.

Our top-performing markets included Atlanta, Dallas, Los Angeles, San Francisco and Tampa-St. Pete, all of which experienced double-digit revenue growth. Our slowest markets included Chicago, Memphis and Washington DC-Baltimore, all of which is still grew revenue at 3+%.

In addition to the strong performance of our same-store pool, our 2015 acquisitions including SmartStop performed ahead of our underwriting. Our platform continues to maximize results.

Year-to-date, we have 520 million closed or under contract, all of which are wholly-owned acquisitions. In addition, we have $191 million in joint venture acquisitions where we will invest $50 million in 2016. Based on our solid first-quarter results, we have increased our full-year guidance. FFO as adjusted is estimated to be between $3.71 to $3.78 per share. FFO is estimated to be between $3.59 and $3.66 per share. Guidance includes $0.05 of dilution from our 2015 and 2016 certificate of occupancy stores. It also includes 2015 and 2016 acquisitions that as anticipated, will require time to be brought up to our performance standards.

Once they are performing at our portfolio average, these acquisitions should produce an additional $0.10 per share.

I will now turn the time back to Spencer.

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

Thank you, Scott. Demand is steady and while new supply is appearing in pockets, it is still muted across the country. We see exceptional performance in many markets and even our slower growth markets are posting steady revenue increases. As we indicated last call, we expect 2016 to be another strong year.

Lastly, the outstanding results of Q1 are the direct result of 3278 dedicated employees focused on and working hard to maximize shareholder value. To each of them, I say thank you.

Let's turn the time over to Jeff to start our Q&A.

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

Thank you, Spencer. 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 an opportunity to ask their initial questions.

With that, we will turn it over to Taquia to start our Q&A session.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions). Glenn Clark, Evercore ISI.

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

Good afternoon. This is kind of a bigger picture question. It looks like you have a number of new markets added to the same-store disclosure such as Norfolk, Columbus and Greensboro. With the exception of San Diego, they look like they are pretty low rent per square foot markets. Can you talk about the operating performance since ownership and how you guys are thinking in regard to the future for these assets?

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

Yes, this is Scott. I will go ahead and take that one. The performance of the assets in southern Virginia have probably performed a little bit below our original underwriting estimates. In terms of the other markets, they've performed fine and these markets are like most markets across the US, I think they will be cyclical in nature. There will be times they will outperform and there will be times they will perform within the portfolio average or even slightly below. I mean it is tough to comment on a specific market like that.

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

Okay, thank you. I guess as a follow-up looking five years out, how do you see your exposure within these markets?

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

We will continue to invest across the US. I think on average we want to keep our portfolio demographic similar to what we have today on average. So if we invest in one of those types of markets hopefully we are also investing in some of the very dense metropolitan areas with high rent per square foot and good population and income demographics. So on average, we are not looking to decrease the average of our property portfolio.

---

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

Okay, that is helpful. Thank you.

---

**Operator**

George Hoglund, Jefferies.

---

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

Just a couple of questions here. First, just on the $4 million settlement charge, can you just give some color on that?

---

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

George, it is Spencer. Big picture, this is a class-action in New Jersey. It has to do with consumer contracts and it cuts across many, many industries and many, many companies. So we attended a mediation where we reached an agreement on the parameters of the settlement. We are in the process of finalizing the terms of that settlement and getting court approval and we have accrued an estimated cost of settlement and that is what we have been talking about. We expect it to be a one-time expense and it is going to be tough to better estimate until all of the negotiating is concluded but we have given you our best number and given you as much color as we can.

---

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

Okay, thanks. Also just in terms of Chicago, it is a market that has underperformed the rest of the portfolio as of late. If you could just sort of address that. Then also seeing as though there is a large portfolio in the market that has about 30 odd stores in Chicago area, is that a market you would look or would be interested in increasing your exposure?

---

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

So Chicago for us over the long-term has been a good market for us. Clearly it is one of our focus markets, we like it. It's got great demographics, there's a lot of people there. Chicago if you look a few years back was one of our top-performing markets. As I commented on earlier, markets typically go in cycles. So we would look at Chicago as a long-term play. It is something that we would be interested in increasing our exposure in.

---

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

Okay, thanks, guys.

---

**Operator**

Todd Thomas, KeyBanc.

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

Thanks. Just a question on third-party management in that business. I believe historically you said that adding -- or every 20 properties added about $0.01 to $0.02 per share of FFO. Is that still the right way to think about the direct contribution from those properties or has that changed at all?

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

I think it is still pretty consistent. It is going to depend on where those properties are and the rent per square foot at those properties. If the property is in New York City, 6% of $30 rents is significantly more than 6% of $6 rents. So on average I would say that is still correct.

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

Outside of the management contracts that you have been adding or properties that you have been adding to the platform from the strategic, the two other entities of strategics deploying capital for, how is the demand like from other operators to utilize third-party management at this time?

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

We continue to see strong demand. We were at an industry trade show this past week and our booth was full the entire time. We continue to talk to people. A good source recently has been some of the new construction coming on. So while construction is coming into the market, we are bringing those on as management contracts.

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

Okay. Just one last one if I may. Spencer, you have been plugged into the technology industry over the course of your career prior to EXR and at EXR and I know you spent some time with the team researching and trying to understand the full service or valet storage operating businesses. Curious to get your read on what you think here. Is it positive for storage, just tapping into new customers, creating awareness or is it changing the way consumers think about storage on some level and how the storage business may operate in the next couple of years? Would just appreciate your thoughts and comments a bit.

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

Thank you, Todd. Just a few observations. First of all, valet or concierge or full-service however you want to characterize it is a logistics business and we are looking at it very carefully. My personal opinion is I don't think it is likely to be a disruptor for self storage. I think there is a segment of the population that will dial into it and we are going to continue to monitor it. But today we are not making any announcement that we are getting into valet because it is questionable whether it is a viable business model.

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

Okay, thank you.

**Operator**

Jana Galan, Bank of America.

**Jana Galan** - *BofA Merrill Lynch - Analyst*

I appreciate your comments on the different market performances. I was curious if you could provide a little bit more color around New York City and Houston. They did great but a little bit below the portfolio average so just curious if they are seeing any impact from some of the supply?

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

So Houston I think is probably a supply as well as an economic issue there. Our portfolio is about 2% below where it was a year ago. But even Houston has suffered from the energy downturn as well as some building. Our same-store pool is about 5% in revenues ahead of where they were last year and our bigger pool was about 7% ahead of where it was last year. So still solid performance and last year those properties did really well.

New York City as a whole I would tell you is not suffering from the over building. I think over building is going to affect a micro market more than it is on the whole. But New York City on the whole is still three feet per square foot per person. It is still very low square feet per person in New York City.

**Jana Galan** - *BofA Merrill Lynch - Analyst*

Thank you. I was just curious if you could provide an update on where occupancy is now?

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

Occupancy is slightly higher than where we ended the quarter, call it 30 basis points or so.

**Jana Galan** - *BofA Merrill Lynch - Analyst*

Thank you.

**Operator**

Smedes Rose, Citigroup.

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

Thanks, I wanted to ask you just a little bit about the quality of the product that you are seeing on the market as you look across -- when you are looking at acquisitions. It looks like you continue to be fairly active there and we have heard some sort of mixed commentary around pricing and quality and be interested in your perspective as well.

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

It is Spencer. As you look at what is happening, first of all there is a steady deal flow that is coming in. I think all of the larger companies, the RIETs are getting calls to bid. And with a steady deal flow coming in, we see asset quality spanning the spectrum. The one constant in all of this is prices are high, really high and you can have crappy assets that we think are just way out of market and you can have really nice assets that even for us or maybe even some of the REITs are getting a bit too rich to transact. So we are looking for those accretive acquisitions, the opportunities that make sense geographically and economically. When they do we are going to act but quality spans the spectrum.

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

So could you maybe sort of quantify the change in cap rates over the past year or so roughly? Is it 25 basis points or 50?

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

They are lower. Call it between 25 and 50 basis points.

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

Okay, thank you.

**Operator**

Ki Bin Kim, SunTrust.

**Ki Bin Kim** - *SunTrust Robinson Humphrey - Analyst*

Good morning, guys. So just had a couple of questions regarding how pricing trends are coming out or playing out in the spring. I guess in the winter, things were a little bit better than expected getting the bigger year-over-year increases. Was just curious if you are -- I know it is only May 3 but is this spring, are you getting the year-over-year increases so far that you have been used to in previous springs?

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

I would tell you pricing continues to be strong. January, February, we are close to 10% above where we were last year. Going into March and April, we are still 6% to 7% above where we were last year which for the spring is still pretty solid.

**Ki Bin Kim** - *SunTrust Robinson Humphrey - Analyst*

Okay. I mean obviously that 7% in April is not a small number but it is a little bit down from the January, February. Any particular reason your revenue management systems or the results are lining up that way?

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

So we pushed rate harder in January and February and we gave a little bit on occupancy and you saw our year-over-year delta come in a little bit and now we are kind of easing off that and going a little bit more with occupancy.

**Ki Bin Kim** - *SunTrust Robinson Humphrey - Analyst*

Last question. Obviously your revenue management system is trying to optimize revenue, we get that. But just curious if we did see a little bit more move outs and less move ins this quarter? Any patterns or reasons why more people left or less people moved in that you can point to that happened this quarter that might be unusual?

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

I would tell you part of it is the unusual comp from last year. Last year you had a really odd thing in the Northeast where you had some pretty severe weather which had very few move outs and very few move ins. So I think part of it is year-over-year. If you look at a bigger average, call it a five- to seven-year average, we are right in line with the five- to seven-year average in terms of move ins and move outs both.

---

**Ki Bin Kim** - *SunTrust Robinson Humphrey - Analyst*

Okay, thank you.

---

**Operator**

R.J. Milligan, Baird.

---

**R.J. Milligan** - *Robert W. Baird & Company - Analyst*

I was wondering if you could just give a little bit more detail on who those buyers are for those really low cap rates and how much appetite you think there is out there from that competition?

---

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

R.J., it is Spencer. There is a lot of appetite for self storage. I think it is no secret that it is probably the best-performing asset class year in and year out. We are seeing pronounced competition everywhere we turn from trade buyers and nontrade buyers. And the only comment I would make is as we look at this, it is great to buy this asset class but once you have purchased it, somebody has got to operate it. It is operationally intensive and we think that that creates opportunity and we will just have to see how things play out but there is a lot of money chasing these assets.

---

**R.J. Milligan** - *Robert W. Baird & Company - Analyst*

Okay. And then on the C of O deals, can you talk about the sort of underwritten development yields that you were seeing maybe a year ago versus today and sort of where that middle ground is in terms of a cap rate where you guys are willing to buy those assets?

---

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

You are still looking at cap rates. We typically underwrite them 150 to 200 basis points. I would tell you they have been more on the 150 basis point range recently. We have said no to some deals and we continue to see things come in in the 7.5 to 8 yields once they are stabilized.

---

**R.J. Milligan** - *Robert W. Baird & Company - Analyst*

Okay, thanks, guys.

---

**Operator**

Ryan Burke, Green Street Advisors.

---

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

Thank you. You disposed of a handful of assets, small dollar amount but it is relatively uncommon for you. What was the specific rationale for selling those properties? And can you give us an update on your plans for further dispositions, if any?

---

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

So from our perspective, we will continue to look at markets and whether it is markets that are difficult for us to operate in or whether they are markets that we feel maybe have reached their potential and/or they may have a need for CapEx to be put into those. So those are the markets we will look to dispose of assets. Some of these were a little bit more rural and maybe not as core as we would hope for in terms of rent per square foot and the income of population demographics.

---

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

Ryan, as you know, we are trying to build a company and dispositions have not been something that we have talked a lot about. But I think you can expect going forward that you will see us looking at the very bottom end of our portfolio and taking a really good look at the economic performance as well as the physical characteristics of that particular bottom segment and rationalizing whether it should be in the portfolio. And I think you will see some activity year in and year out at the bottom end. But it is not going to be a wholesale initiative on our part because we are trying to build, not dismantle.

---

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

Sure. Are you able to give us a feel for what percentage of the properties the bottom end defines?

---

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

1% to 2%.

---

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

Okay. Separate question just back to New York City development. I believe that all of the properties in your current pipeline in the NYC boroughs are minority stakes. Does that speak to a desire to control your exposure there or is it more just the fact that that is the opportunity that has presented itself there?

---

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

It is a combination of the opportunity that has presented itself as well as our ability to leverage our returns in the lower cap rate environment.

---

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

Okay, and you picked up one property or a JV interest in one property in the Bronx during the quarter. That was 42% occupied as of March 31. Do you happen to have what the occupancy was on that asset as of January 1?

---

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

I don't have that specifically in front of me but it is one that has opened recently. It continues to lease up really well.

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

Okay, thank you.

**Operator**

Jonathan Hughes, Raymond James.

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

Good afternoon, thanks for taking my question. I just had one, most of mine have been answered. But what renewal rate increases were you able to pass on to tenants in this first quarter? And then maybe how many left or vacated due to not wanting to pay those renewal rate bumps?

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

Let's take the second piece first, Jonathan. Our existing customer rate increase program continues to show financially that we are hitting the sweet spot. Yes, there might be a few move outs where people won't accept it but the economics are compelling in terms of the gain that we pick up from the high 90%, 95%, 98% whatever it is that accept it and don't move out because this is a very sticky product type. Existing customer rate increases, it is in the 9% to 10% range quarter in, quarter out and it works well.

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

And then are many just not leaving because they simply don't want to take the time to move their stuff out or is it just to get lack of available space?

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

Let's be realistic about this, Jonathan. If you are renting a unit and you get a rate increase letter that says your rent is going up $15, you are not likely to go get a U-Haul truck, take a Saturday morning, pack up your stuff, go down the street, unpack your stuff, return the U-Haul truck to save $15. People just won't go through the effort to do that. It is an incredibly sticky product type.

What we have found is a rate increase more often than not might finally signal to somebody, you know what, the problem that I was trying to solve has passed. Maybe I should move out and that is as I said, a very, very small percentage, single digits, low single digits of the total customer base. So existing customer rate increases, it is a great program, we think we are operating in the sweet spot.

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

That is great color. Thanks.

**Operator**

Todd Stender, Wells Fargo.





THOMSON REUTERS

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

Thanks. Just on discounts, what percentage of customers are receiving some type of promotion this quarter? And also just wanted to get a sense of what you are budgeting for discounts this spring leasing season? You are obviously coming off of a higher occupancy level having smoothed out some of the Q4 seasonal dip. Just want to get a sense of discounts.

---

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

Discounts during the first quarter, about 75% to 85% of our customers coming in first-time renters or new customers received a discount. That is higher than it was last year. When we originally looked at the year, I think we had hopes that discounts would be flat. Now we are projecting they will be up slightly but if you think of it in terms of whether discounts are up or down, our rates are up 5% to 10% so clearly if you rent to the same number of people, discounts will be up 5% to 10% over where they were last year.

We had hoped to be able to cut them and keep them flat as a percent but now we are seeing that they will be up slightly and we are projecting the same into the spring season leasing season, Todd.

---

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

Thanks for the color, Scott. And just one last question. I wanted to follow up on the question about the assets you've sold already. You are going to be managing them on a third-party basis. Can you just go over maybe what the standard agreement you have in place is? Is a cancelable by either side? The reason I ask is usually you get into the third-party management with the potential to buy the property but I wanted to see if you can get out of this since you are obviously disposing of it?

---

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

So it is pretty simple. It is a month to month contract. We do advance some money for the rebranding of the asset and if they opt out before 36 months has transpired, we can get some money back on that on a pro rata schedule.

And we do not have a right of first refusal. We make this easy and hopefully our performance is enough to keep people in that they don't want to go somewhere else and we want the flexibility to do what we need to do. So time I think we are coming up on 8.5 years of third-party management, Todd, and we have learned some things that work in terms of seller expectations and we have learned some things in terms of management expectations, both coming and going. And we are very comfortable that our property level performance and the results we deliver on a month-to-month contract speak for themselves and has worked very well.

---

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

Great. Thank you, Spencer.

---

**Operator**

George Hoglund, Jefferies.

---

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

Just a follow-up on the transaction environment. Are you seeing any change in the motivation of sellers in terms of -- is it -- are you seeing more assets because pricing is so good or are you seeing people looking to exit for other reasons as could be seeing some private equity backers look to exit their investments maybe sooner than one would think?

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

Yes, yes, yes, yes, yes. All of the above.

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

I think it is tough to comment on seller's motivation. I mean they all have a different motive.

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

Yes, it is all of the above. It is pricing, it is motivation, it is everything.

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

And as far as concerns about development, I feel like people keep talking about it but it is kind of waning now. People may be getting more concerned about an economic downturn in 2017. How do you think storage would behave differently through this time around if we head into a downturn versus the last time? Some factors are different; you don't have the oversupply issues we did last time. But how might revenue management impact things? And it seems last time basically PSA just lowered rates significantly that impacted of the industry, how do you think things would be different?

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

George, it is Spencer. So what I would tell you is we are comfortable that self storage is a great business to be in. It is recession resistant, we have already proven that, the industry has proven that. We were amongst the last to go into the recession, amongst the first to come out of the recession and the REITs are better equipped at this point than at any other time to acquire customers.

The chasm between the haves and the have-nots has widened. The rate at which the chasm is growing is accelerating. So if there is a downturn, I am highly confident the national players, the REITs, are in the best possible position to capitalize and produce the very best results.

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

Okay, thanks for the color.

**Operator**

Wes Golladay, RBC Capital Markets.

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

Hello, guys. Sticking with that last question regarding the downturn, I noticed you guys are having some pretty good success pushing rate and now you mentioned you want to build occupancy a little bit. Are you seeing anything in your predictive analytics that has given you caution or is this maybe the occupancy move specific to certain markets?

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

Typically we are just focused on overall revenue growth and our models have certain inputs and so you can tweak them slightly. I would tell you early on in the year it was focused more on revenue growth, meaning street rate growth and now we are focusing -- we've tweaked the model slightly to focus a little more just on occupancy.

---

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

Okay. And then you mentioned a lot of people active in the market. Is SmartStop actually getting a little more active? Are you running into them and can you get some meaningful management contracts later in the year?

---

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

They continue to be active. I think that we see them, we see the other REITs. We hope they continue to be successful. If we're not able to buy it, we wish them the best because we have a good relationship with them. I think it works well for both of us.

---

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

Okay, thanks.

---

**Operator**

Jeremy Metz, UBS.

---

**Ross Nussbaum** - *UBS - Analyst*

It is actually Ross Nussbaum here with Jeremy. You touched on this a little earlier but I just want to make sure I understood it. The vacates for the quarter were up 6.4% year-over-year. What exactly are you guys attributing that increase to?

---

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

It is tough to attribute it to any one thing. Part of it I would tell you is the comp year-over-year. Last year had low vacates. It could be pricing, it could be a myriad of things so we have not attributed it to any one specific thing.

---

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

Also with more customers, Ross, you are going to have more vacates. We are at the highest occupancy we have ever been.

---

**Ross Nussbaum** - *UBS - Analyst*

Yes, I think that is fair although the 6.4% number did catch my eye a bit. I was wondering, did you look at for those vacates, was there any trend in terms of average length of stay that it was more short-term people, more long-term people that you had received more than one rent increase? Was there anything in there that caught your eye?

---

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

No, in fact our average length of stay has increased so we continue to increase our length of stay but we have had some vacates but not anything concerning to us at this point.

---

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

Just two other points. If you look at an eight-year average, it is well within the bounds of being normal. Secondly, as Scott said earlier in this call, if you look at April, occupancy is going up which means obviously we are doing something right. We can't look at just short periods of time. We need to look at this thing in terms of macro trends and we think 2016 is going to be a strong year.

---

**Ross Nussbaum** - *UBS - Analyst*

Same type of question on the rental side. The number of rentals were down but again that is probably because your occupancy is higher and you've got fewer units. Can you give us some sense of what the traffic numbers looked like both at the store, on your website, on mobile, at your call center and how those numbers look year-over-year in the quarter?

---

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

Year-over-year our opportunities are within our normal range, our expected range and are close rates were also within the expected or target ranges.

---

**Ross Nussbaum** - *UBS - Analyst*

Okay. So no discernible change, there weren't a lot of numbers in that answer. So no discernible change in trend in terms of traffic?

---

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

That is correct. Our traffic on the Internet, our traffic to our call center were all within the expected range.

---

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

I think maybe one of the things you are looking for, mobile continues to be really important and the growth rate with customers coming to us through mobile devices is growing well into the double digits. It is a phenomenon and we've got a terrific mobile platform and it is part of what is helping us to deliver the kind of results we have been.

---

**Ross Nussbaum** - *UBS - Analyst*

Got it. Last one for me, can you give us a sense where in-place rents are today against street rents, what that variance is?

---

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

So it is kind of mid to high single digits but that depends on the time of year and the seasonality, Ross. In the dead of winter, it is in the high single digits, at the peak of summer, it is low single digits if it is not right on top of each other.

---

**Ross Nussbaum** - *UBS - Analyst*

I think Jeremy had a question.

---

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

Sorry, just one quick one on the dispositions. I know they were small but were those assets acquired in the SmartStop deal or were those legacy Extra Space assets? And then was keeping the management contracts a requirement of the deal?

---

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

We purchased those in June of 2011 as part of a 15 property portfolio. Keeping the management contracts was not a requirement but it obviously -- we leaned toward the seller that was willing to do that.

---

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

Thanks.

---

**Operator**

Ki Bin Kim, SunTrust.

---

**Ki Bin Kim** - *SunTrust Robinson Humphrey - Analyst*

Thanks, just a couple of quick cleanup questions here. Noticed a certificate of occupancy deal move out of the pipeline in Naperville. Anything to look at there?

---

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

Yes, this was a property that I would tell you is probably pretty typical of what you are seeing in the C of O deals and what you are seeing in the development. This was one that we thought we could get done, the developer was pretty comfortable they could get entitled. We put it under contract, we received some opposition from a neighborhood group and it fell out of contract due to the inability to get the project done.

---

**Ki Bin Kim** - *SunTrust Robinson Humphrey - Analyst*

Probably in some weird way, that is maybe a good thing for the industry.

---

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

I think it is pretty standard. I think you see that not just with this one project. I think you are seeing it across the country.

---

**Ki Bin Kim** - *SunTrust Robinson Humphrey - Analyst*

Okay. Is there any discernible trend in your New York MSA between the boroughs versus New Jersey? Performance wise?

---

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

I would tell you performance is going to be more on a micro market and depending on if new competition within that market but overall it is pretty consistent between the boroughs and New Jersey, Northern New Jersey.

---

**Ki Bin Kim** - *SunTrust Robinson Humphrey - Analyst*

And just last one, can you comment on the SmartStop deal and what kind of growth you are getting in that portfolio in NOI right now? And if it is meeting your pro forma or better than expected?

---

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

I would tell you it is slightly ahead of our projections. Our disclosure to the street was we originally projected that it would be about 5.5% cap rate in year one and I would tell you it is at or above that slightly. We are actually getting a little bit more in rate and occupancy is coming a little slower than we had expected although we saw some good occupancy growth in April.

---

**Ki Bin Kim** - *SunTrust Robinson Humphrey - Analyst*

Okay, thank you guys.

---

**Operator**

Todd Thomas, KeyBanc.

---

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

Thanks. Can you remind us what your typical rent increase pattern is for existing customers, what the thresholds are and how frequently you increase rents to existing customers? And has that changed at all over the last year or two?

---

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

It really hasn't changed much of the last decade. It is five months for the first rate increase. It is nine months thereafter and nine months thereafter, nine months thereafter. We do have governors on that so if they get too far above the existing street rate, we abate the existing customer rate increase. But if we are pushing street rates up each and every year, a customer that may have dropped out of the eligible pool finds themselves back in the pool. And so as I said, between 9% and 10%, we do this every single month and quarter to quarter, it provides meaningful revenue for this Company. We like what we are doing and statistically we have shown that the program that we have in place works in a good economy and a decelerating economy. We haven't changed it.

---

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

Okay, got it. And then Spencer, you mentioned that some of the move outs from rent increases, they tend to generally occur from customers that no longer need storage so their problem has been solved. Any sense for what percent of the portfolio might be discretionary at this time or not really need storage any longer? Is there sort of a way to gauge that based on how long people say they need storage when they move in or some way to arrive at an estimate?

---

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

I don't know the thoughts and intents, I don't know even how to quantify that but what I can tell you, Todd, is that I think it is kind of in the mid to low single digits of the customer base where there is any question mark surrounding whether they are going to stay around or go.

---

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

Okay, it seems much lower than what I think we had maybe talked about or heard back in 2006 or 2007 when I think it was closer to maybe 15% or 20%. Is that not an accurate assessment or has something changed today versus maybe that last cycle?

---

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

No, what I would tell you is over the course of a decade, a lot of things have changed including our repository of data and our understanding of our customers. Without looking at some very specific numbers, I am just having to give you an off the top of my head that this is something that has not materially changed and I don't know where the 15% to 20% number came from previously. I would have to go back and look but I personally believe it is lower than that today considerably.

---

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

To quantify this, Todd, we would be purely speculating or guessing. I mean this is really a customer need or a customer decision here.

---

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

Okay, got it. Thank you.

---

**Operator**

I'm showing no further questions at this time. I would like to turn the call back over to Spencer Kirk for closing remarks.

---

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

Thank you everybody for your interest and your time today. We look forward to next quarter's call. Thank you.

---

**Operator**

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program, you may all disconnect. Everyone have a great day.

---