FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the third quarter 2008 Extra Space Storage earnings conference call. My name is Karissa and I will be your coordinator for today. At this time all participants are in a listen-only mode. We will be facilitating a question-and-answer session towards the end of this conference. (OPERATOR INSTRUCTIONS)

I would now like to turn the presentation over to your host for today's call, Mr. James Overturf. Please proceed.

James Overturf - *Extra Space Storage, Inc. - IR*

Thank you, Karissa. Welcome to Extra Space Storage's third quarter 2008 conference call. With us today are CEO and Chairman of the board, Kenneth Woolley; President, Spencer Kirk; CFO, Kent Christensen; and COO, Karl Haas. In addition to our press release we have also furnished unaudited supplemental financial information on our website.

Please remember that management's prepared remarks and answer to your questions contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements address matters which are subject to risks and uncertainties that may cause actual results to differ from those discussed today. Examples of forward-looking statements include statements related to Extra Space Storage's development acquisition programs, revenues, net operating income, FFO and guidance. We encourage all of our listeners to review a more detailed discussion related to these forward-looking statements contained in the Company's filings with the SEC. These forward-looking statements represent management's estimates as of today, October 29, 2008. Extra Space Storage assumes no obligation to update these forward-looking statements in the future because of changing market conditions or other circumstances.

I'd now like to turn the call over to Extra Space Storage's Chairman and CEO, Kenneth Woolley.

Kenneth Woolley - *Extra Space Storage, Inc. - Chairman & CEO*

Hello, everyone. Thank you for joining us on our conference call today. As mentioned, joining me are Spencer, Kent and Karl who will all be talking on the conference call. Our stores turned in a solid performance in the third quarter. Same-store NOI increased 3.3% and revenues were up 2.1% and expenses were down 0.1%, showing that we had good expense control. Solid demand was evident each month of the quarter and our stores performed better compared with the second quarter, with slightly higher rental activity to this time last year. So far in October we're holding our own, with rental activity slightly higher and vacates also slightly higher. We generated $0.32 of FFO before approximately $0.01 in development dilution and $0.02 from our $252 million offering in mid-May and in line with our internal estimates. The $0.29 bottom-line number after these adjustments was also in line with our own internal estimates.

I don't need to tell you that these are highly volatile times in the capital markets. Right now and during the coming year our management focus is not only to concentrate on maximizing the income from our properties, but also to proactively manage the liquidity on our balance sheet. We have enough funds and undrawn lines in place to satisfy our upcoming debt maturities through early 2010. In addition, the secured property level debt markets are still open to us from a number of banks in loan amounts up to $60 million. We are currently produ -- pursuing a number of loans, which in aggregate will provide enough capital to repay all of our debt maturities through the end of 2010. We are also having discussions with a number of our joint venture partners about providing additional capital for growth.

We have continued to be active in the acquisition of quality properties during the past few months. We closed on the acquisition of one property in Maryland for approximately $5 million, as welt as our previously-announced acquisition of an additional 40% interest in an existing joint venture with Prudential Real Estate Investors in the amount of $44.1 million. Subsequent to the end of the quarter we acquired six properties located in Indiana and New York for $45.8 million. Given the need to be more conservative in our balance sheet, after the purchase of two more assets totaling $13.5 million we will be curtailing our wholly-owned acquisition activity until we have enough capital definitely committed to satisfy all loan maturities through 2010. Through September 30th our development department completed six projects located in California, Florida, Illinois, and New Jersey, for a total cost of approximately 52 -- $53.2 million. During the fourth quarter, we will complete two more projects, bringing the year total to approximately $67.9 million. We currently anticipate continuing our development efforts as planned; however, our hurdles for development yields have been increased.

I would now like to turn the call over to Karl Haas, our Chief Operating Officer and Executive Vice President over operations, to give you more detail on our performance.

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

Okay, thanks, Kent. We had positive revenue and net operating income growth in the third quarter. Including tenant insurance income revenue and net operating income for the quarter were up 2.1% and 3.3% respectively compared to last year. Excluding tenant reinsurance income revenue was up 1.7% and net operating income was up 2.7%. Year to date the same-store revenue was up 2.4%, and net operating income was up 3.2%, including tenant reinsurance, and 1.9% and 2.6% without tenant reinsurance income. Same-store rental activity for the quarter was similar to last year, with move-ins up 1.3% and move-outs up even a little bit more at 3.8%. During the third quarter our pricing was still maximizing revenue by tolerating a small reduction in occupancy for a larger increase in pricing for existing customers. Hence, the move-out to move-in gap. For the nine months same-store rental activity is essentially flat compared to 2007. Rental activity is holding up in October, with new rentals up over last year,. Move-outs are also up and slightly more than the move-ins so our net move-in activity is down slightly.

Our delinquency and bad new -- bad debt, an indicator of tenant financial stress, continued to run at historically low levels, which we consider a very good sign. We are detecting slightly softer pricing for new customers. Pricing power for them is limited, with asking rates finishing the end of the quarter down 2.4% when compared to last year. We've been proactive with rates and they move quite a bit, given our automated triggering based -- the automatic triggering based on unit occupancy and availability. We were discounting more this year than last year as a result of removing thresholds from units qualifying for discounts. As a result, discounts were up 8% compared to last year. Starting in November, we will be going back to thresholds since we did not see the impact from this more-aggressive discounting that we expected. In short we were giving more away to get similar rental volume compared to last year. We want to be competitive in our markets and be priced favorably to the competition and we'll continue to be aggressive in pricing and discounts; however, we will not be giving away as much on highly-occupied unit types.

Our top performing markets for the quarter were Chicago, Dallas, Houston, Sacramento and San Francisco/Oakland, with increases in revenues between 7.5% and 9%. Houston may become our leading market for a while, given the displacement that Hurricane Ike caused. Since the hurricane occupancy is up 93% from 88%. Ike did cause some damage to three of our eight properties there; however, the damage was minimal given the size of the storm, and repair costs are likewise minimal. Our four largest markets, Boston, Los Angeles, New York, New Jersey and the Baltimore, Virginia, DC area had revenue increases between 2% and 3% in this quarter. Florida continues to dilute the results for the overall portfolio. Though we've seen increased rental activity in West Palm Beach and improvement over the overall performance in the Tampa-St. Pete market, the state continues to struggle as a whole. If we were to remove Florida -- which they won't let us do -- from our same-store pool of properties, same-store revenue and net operating income growth with reinsurance income would have been 2.9% and 4.1% respectively and occupancy would be up 100 basis points.

Today is a milestone day for Extra Space Storage as our new internal call center is finally coming online and has begun to take calls in Salt Lake City for 22 of our properties. The roll-out will continue to 50 by next week. We expect to have all of our stores on our new internal call center by the end of the first quarter of 2009. We're very excited about the team we've assembled at the call center, as well as the technology systems we put into place. We've combined call center experts with operational and training personnel to create an outstanding team. We've trained the core group of representatives who are now becoming the trainers for future reps.

The technology portion of the call center is essentially complete, and as always with extra space it is best-in-class technology, which provides us with real time, centralized data with very little on-site hardware. In conjunction with the call center technology implementation we are implementing our CRM, or customer relationship management tool, which will enable us to track our customers and prospects from first contact to the signing of the lease to move-in, to move-out, to thereafter. In time we believe our CRM technology, when combined with our marketing experience and expertise we already have in place, will give us further competitive advantage over the majority of our competitors and allow us to close more sales opportunities.

The internet continues to be a focus area for us. It is becoming increasingly more important to our customers and we're responding in kind. Our research shows that 40% of our customers are utilizing extraspace.com at some time in their buying process. This is up from 18% in 2006. We're doing a much better job of getting people to commit, as our reservations and/or holds are up 31% year on year to nearly 25,000. Total hits this year are also up 31% to 1.5 million. We have diverted about $1 million of yellow page advertising to the web in 2008 and we'll divert another million in 2009 to enhance the efficiency and effectiveness of our web presence.

Last week Ken, Spencer and some of the other key executives of our management team and I went on a town hall tour, met with 350 of our people in ten meetings in ten cities in four days. Though the trip had been scheduled for a while the timing was good to gauge the morale of our people and I'd like to report that the morale of our team in the field is excellent. Our team is seeing firsthand that there's still demand for self storage. Despite all the negative news in the media regarding Wall Street and the economy, people are still renting self storage units, paying their rent and valuing the service we provide them. Our people are also seeing the commitment from Extra Space to provide them with the best tools in the form of technology, pricing, specials, capital expenditures and human resources to give them a leg up on the competition. Our field people left the me -- left those meetings invigorated, confident in the Company and ready to focus on what they should be focused on and can control; closing rentals and taking care of our customers.

And with that I'd like to turn the call back over to -- I'm sorry, I'd like to turn the call over to Kent, our Chief Financial Officer.

Kent Christensen - *Extra Space Storage, Inc. - CFO*

Thanks, Karl. For once this quarter someone might actually listen to this section of the call, given the state of our credit markets. Before I get to our funding I want to talk about our FFO. FFO per share for the third quarter was $0.30 before approximately $0.01 of development dilution and third quarter of last year our FFO was also $0.30 before our devel -- $0.01 of development dilution. After taking development and share dilution into account, our third quarter FFO was $0.29 compared to $0.29 last year.

I'd like to give you as much as I can some information about -- and transparency about our balance sheet and where we ended up the quarter. As of the end of the third quarter our funding requirements consist of $227 million of debt maturities in 2009 and $146 million of debt maturities in 2010. We have a loan in 2008 coming due of $23 million with GE that can be extended until 2009 and we have an additional one-year extension on that loan after that. In 2009 we have a $62 million loan due in April, which can be extended for five years. This loan has been taken out of the maturities that I will be talking about. We also have an approximately $72 million in acquisitions through the end of this year. These acquisitions represent contractual obligations we entered into prior to the credit market volatility we have seen.

As of the end of the quarter, we had $112 million in cash, approximately $100 million in undrawn term loans, and $100 million of availability on our line of credit with GE Capital, for a total of $312 million. After the acquisitions under contract, the repurchase of our bonds, the October sale of the stock we have approximately $250 million to pay the $227 million of obligations coming due in 2009. In today's lending environment, self storage is a very good product type due the small size of the individual assets and our consistent cash flow. We have contacted 62 banks and have received positive responses from eight banks that are interested in doing term loans and five banks for a total of ten of our construction projects that are interested in doing construction loans.

None of these loans -- we have not proceeded with these banks to get term sheets from them, but we have ongoing meaningful discussions with them. We currently have a pool of 50 unleveraged properties. These properties have an in place NOI of $25 million. Utilizing a 7.5% cap and a 75% loan-to-value these properties should generate $250 million in loans. The final rate and loan-to-value of these loans are yet to be determined; however, we estimate the loan-to-values of between 70% and 75% and spreads of between 250 and 350 basis points over LIBOR. We are discussing loan amounts of between $5 million and $50 million with each of these banks.

As you can see, we're being very proactive in funding our 2010 obligations. The properties that were used to create the CMBS loans coming due in 2009 and 2010 will also have significant value upon which we can place leverage at the time of repayment. The properties that will become unsecured in 2009 currently have a combined NOI of $35 million, and our 2010 properties have a combined NOI of $17 million. Using a 7.5% cap and a 75% loan-to-value on these properties would produce an additional $520 million of potential borrowing capacity. An important point regarding our current debt is that none of our debt carries REIT or corporate-level covenants. Subsequent to the end of the quarter we repurchased $40 million worth of exchangeable notes for approximately $32 million. This will impact our fourth quarter FFO by approximately $0.10 per share, due to the gain on early extinguishment of debt. Though accretive, the primary strategic reason behind the bond repurchase was to further delever our balance sheet.

Our net G&A for the quarter came in at $4.9 million. Net G&A is calculated by subtracting the $5.4 million in management fees from the gross G&A of $10.3 million. This year we've acquired nine properties for $69 million. With the exception of one portfolio that we have seen, there still does not seem to be much distress in the self storage acquisition market. This speaks to the stability of the product -- of our product type. Given our balance sheet and the current scarcity of credit we will be taking a very conservative repor -- approach to acquisitions until we can get a better sense of where the cost and the availability of various forms of capital is heading. In addition to our outreach to the debt market I mentioned, we are speaking to several large institutional investors who have the ability to be a primary financing source should we decide to make a move on acquisitions.

Our 2009 development pipeline is expected to be 17 properties for approximately $184 million in total cost. The funding requirements for our development program from this point forward will be minimal, because the equity for these properties has already been funded and we anticipate being able to place construction loans on these properties. As with our acquisitions, we are taking a conservative stance on potential new projects.

Now, let me move to our -- on to our outlook. At this time we believe our fully diluted FFO for the year to be in the range of $1.11 to $1.12 before the $0.04 in development dilution and before a $0.10 one-time gain from the repurchase of our exchangeable senior notes. After deducting the development dilution and excluding the one-time gain we expect our FFO to be in the $1.07 to $1.08 per share. Our fourth quarter has been impacted by approximately $0.01 of dilution from our direct sale of common stock, which added three million shares. We will be giving guidance for 2009 early next year; however, one thing to be aware is that we will be impacted by the new accounting standard APB 14-1 which will force us to mark-to-market our $250 million of convertible debt. Our FFO impact will be diluted by an estimated $0.04 per share for 2009. This will be a noncash adjustment. That $250 million obviously was reduced by the $40 million that we purchased early this quarter.

With that, I'd like to turn the call back over to Ken.

Kenneth Woolley - *Extra Space Storage, Inc. - Chairman & CEO*

Thank you, Kent, appreciate it. Well, as saw in the third quarter we're still renting units and our portfolio continues to perform comparatively well compared to other real estate types and I'd like to outline four reasons why. First, self storage demand is based primarily on life changes. It is not as some say completely discretionary. Most life changes that drive self storage demand are wholly separate from the ebb and flow of the economy; marriage, birth, divorce, death and even natural disasters, graduation, job changes, and normal moves, those factors don't have a lot to do. Slowing economies can increase demand for storage, however, through job loss, foreclosure, and savings being lost or greatly diminished. So there are positive things about the negative aspects of the economy that help our business.

Second, Americans have an attachment to their possessions. We are a nation of accumulators and keepers. In this time of economic uncertainty we believe that people will hold close to this trait and continue to use storage as a repository for valued personal and business items.

Third, is the internet. As Karl mentioned, the Internet has become a game changer in our industry. It gives greater advantage to companies that are able to spread advertising expenses over a large number of properties. This is increasing awareness of our properties over a larger area for a lower cost. Our research shows that the average internet customer drives 20% further than those who rent from other sources of advertising. Across the country large operators are beginning to gain market share over the smaller operators because of this factor. In their conference call last week, Self Storage Data Services reported that companies across -- occupancies across the country for self storage has a whole were down 1.9% on a year-on-year basis as of the end of the third quarter. As you can see, this is nowhere what we've experienced. We suspect our other publicly-traded peers are in the same position. That indicates to us that the quality of our systems and possibly the internet are helping keep our occupancies higher.

Lastly, I believe our industry-leading portfolio -- property portfolio and best-in-class operational and revenue management systems are providing a better product and better customer experience than that of many of our competitors, especially the smaller ones. They're helping us to take market share and I believe we'll continue to do so. Over 70% of our properties are in the best self storage markets and most of our properties are located in very good sites and our portfolio on average is the newest amongst our public peers. Condition and location of our properties gives us an advantage in most markets.

Well, there are two big positives on the going forward front for self storage. One relates to the economy. Unfortunately, there are going to be a lot more foreclosures and a lot of the foreclosures taking place are real people having to move out of their houses. Many of the early foreclosures taking place in places like Las Vegas and Phoenix and the Inland Empire of California were for vacant houses and when houses are vacant it doesn't give demand for self storage. But when a house is occupied and someone gets foreclosed on it often gives demand for self storage. Hence, we've seen increased demand and good revenue increases in Detroit, where there's been a high level of foreclosures. We believe that if there are going to be more foreclosures in the future that, in fact, most of those will be real people having to lose their houses, which is a very unfortunate thing. But on the positive side for us, it does give us some demand.

The second big positive for our self storage business is demographic. The baby boomers, of which there are 75 million, are now reaching retirement age and this is just happening. In fact, as your CEO, I'm on the front end of the baby boomers since I was born in June of 1946, nine months after the end of the war. You can all do your math on that one. And like my fellow baby boomers we're approaching retirement and retired people use self storage because they tend to move out of their larger homes into smaller places, but they don't want to give up their personal possessions and we find many of our customers are retired people who use self storage as part of their lifestyle. We believe that this is a positive demographic thing for the future.

And as a final consideration, the most important thing in my mind is that Extra Space itself is well set up for whatever economic conditions are ahead. We continue to bear down on cost and are successful in our efforts last quarter. I think that you can see that our management of costs, we're doing a good job. Our balance sheet is strong. We have some of the best systems in the industry and a track record of leading innovation. Our revenue management team has set the standard for proactive rate and promotion adjustments based on primary data research. In fact, even though Karl mentioned that we have lower asking rates today than we did back a year ago, we're actually continuing to see revenue increases because we are able to raise existing customers. We have a very experienced management team that has proven with the integration of the Storage USA operation and subsequent acquisitions that it can manage change, a And we expect to continue to be managing change in the future.

We thank you very much for listening on this conference call and we're now ready to take your questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). And your first question comes from the line of Christie McElroy of Banc of America. Please proceed.

Christi McElroy - *Banc of America - Analyst*

Hey, good afternoon or morning, on your side, guys. Ken, just following up on your comments, one of the biggest questions that people have, especially now that the outlook for consumer spending is so much in question, is the extent to which storage is needs based versus discretionary and given the dramatic shift that we've seen over the last month or so in consumer psychology, do you think there's a potential for the demand dynamic in storage to change over the next couple of months?

Kenneth Woolley - *Extra Space Storage, Inc. - Chairman & CEO*

Well, I think if you would look at our rentals through today in October, we have more rentals in our properties today in October than we did a year ago and so we have seen no impact yet. And as I mentioned on the call, so many of the self-storage demand factors are positive. Not positive, but they don't relate to the economy, so I can't predict that. I would not say that that's true.

Christi McElroy - *Banc of America - Analyst*

How did traffic trend throughout Q3? Did you guys see any change in people walking into your stores in September versus July and August as we've seen a little bit on the retail side?

Kenneth Woolley - *Extra Space Storage, Inc. - Chairman & CEO*

No, we haven't. But what I could say, the one big trend that was really up was -- Karl mentioned that our internet reservations were up 31% for the year but they were up 50% in the month of September over a year ago September, so there is definitely a stronger trend toward internet rentals.

Christi McElroy - *Banc of America - Analyst*

Okay. And then can you talk about, Kent, how your borrowing costs have changed, basically trended over the last three months, and have you seen lenders ease up on availability and pricing at all since the government has pumped more liquidity into the system, I guess as you've been pulling out there as you've been looking to secure a term loan?

Kent Christensen - *Extra Space Storage, Inc. - CFO*

The answer to your second question, we still have yet to see, from my perspective, the lenders easing up. As I stated, we've contacted many banks and essentially eight out of ten of them are saying they're not lending right now, or not lending to us. But we're still finding enough banks that are interested in lending to us that we think we're going to be able to take care of the loan obligations that we have. But there's -- in the discussions that we're having there haven't been anybody that's said to us, we now have money because of what the government is doing. And so if it's going on it's going on behind the scenes with us.

And the second part of your question is, we're -- as I stated, we just -- as far as the yields and the spreads we're seeing, we closed on a construction loan just last week on Thursday. It was 275 over LIBOR, 75% loan-to-cost, and that was a loan with a bank that we've been working on and it was not retraded, it didn't change and those are the kind of -- we actually closed on two loans that week. That was the one that's the most recent. The other one was similar to that. So we're still seeing pricing that's bringing the interest rate, obviously depending on what LIBOR is at because LIBOR's bouncing all around, but somewhere between 5.5% and 7%, obviously depending on where LIBOR is.

Christi McElroy - *Banc of America - Analyst*

And then lastly, can you just talk about your thought process behind buying the converts on the market versus using that capital to address debt that's maturing more near term. Was it to reduce the negative FFO impact, given the accounting changes next year, did it have to do with where the securities were trading in the market, or was it part of your overall delevering process?

Kenneth Woolley - *Extra Space Storage, Inc. - Chairman & CEO*

I think it was both of what you said. First of all, we feel very confident, based upon our discussions with banks, that we will be able to have enough capital to pay all our debts when they come due even -- as we are right now, we have enough capital through all of the end of 2009 and since we're very confident about that, the purchase of the bonds was something that we felt was, A, accretive, and B, deleveraging and beneficial to our shareholders, all of us as shareholders.

Christi McElroy - *Banc of America - Analyst*

Great. Thanks so much, guys.

Operator

Your next question comes from the line of Michael Salinsky of RBC Capital Markets. Please proceed.

Michael Salinsky - *RBC Capital Markets - Analyst*

Good afternoon. Ken, in your prepared remarks you talked about development pipeline raising hurdle rates. Where are those hurdle rates right now? And looking -- I mean, obviously the pipeline for 2009 is in place but as you look out to 2010 should we expect that that pipeline would be downsized just given what you're with asset pricing right now on a relative basis?.

Kenneth Woolley - *Extra Space Storage, Inc. - Chairman & CEO*

Probably, yes. We did raise our hurdle rates to between 10.5 and 11 cash on cost development. In order for those hurdle rates to be achieved two things have to happen. One is land prices have to go down and two is construction costs have gone down. We are seeing construction costs go down right now. That's happening. Land prices, however, is -- this is a very long process getting a development done and we would expect now with the capital markets how they are the land prices to start going down, but right now we haven't seen it. So our guys in the field who are looking for development opportunities have a bigger challenge right now, which I suspect will reduce what we're doing for 2010.

Michael Salinsky - *RBC Capital Markets - Analyst*

Okay. Secondly, where is asset pricing at right now? Maybe the best way to look at it, where are -- what is the spread between buyer and seller expectations and where do you expect that to play out over the next 12 months?

Kenneth Woolley - *Extra Space Storage, Inc. - Chairman & CEO*

I'm not sure I completely have the answer to that. We have not yet seen a huge surge of deal flow in terms of people selling properties. The properties that we have purchased in the last few weeks, one was a portfolio in Indianapolis that was a flat eight cap on actual numbers going in. The other was a portfolio in New York, one being in Brooklyn, which is very high quality, which was in the mid-sevens. So now what I would guess is that the reality is that the real pricing of self storage in the best markets today is between seven and 7.5, not eight. I think the eight cap was a particularly opportunistic opportunity for us. On the other hand, we're not bidding on hardly anything right now because we've decided not to. So it's not really a matter of price, we're just not in the market.

Michael Salinsky - *RBC Capital Markets - Analyst*

Okay. Third, you talked about going out to either your existing joint venture partners or new joint venture partners. Just looking at the market, where are the IRs being targeted right now? Obviously cost of capital has gone up significantly but where is the hurdle rates right now?

Kenneth Woolley - *Extra Space Storage, Inc. - Chairman & CEO*

I don't have an answer for you on that. We have had significant conversations with two of our existing partners about it, but I have not been given new hurdle rates so I don't know the answer.

Michael Salinsky - *RBC Capital Markets - Analyst*

Okay. Final question, probably for you, Karl. Just given -- you talked about traffic patterns and what you've seen on a month-to-month basis. Have you seen any people maybe downsizing their unit -- maybe downsizing to smaller units or maybe switching payment methods or anything disconcernable trends in traffic patterns specifically?

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

Actually, before I answer I calculated Ken's age it's 52 years old and he barely looks that old. (LAUGHTER) But no, we really haven't and we get a lot of feedback. This is the problem and I think you will get this from other operators, especially in self-storage magazines and things like that, because most of their information comes from ad hoc feedback from their managers. If you talk to managers you'll hear that all the time that all our big tenants are vacating and everybody's downsizing. We went -- we actually have done a couple different analyses looking at our occupancy by small, medium, large units and the mix has not changed, so we're not seeing a downsizing of customers.

Michael Salinsky - *RBC Capital Markets - Analyst*

Are you seeing a shift in maybe payment methods?

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

No, we really aren't. It's surprising, and I mentioned it. Our bad debt is not up. It's actually down year to date from the prior year. And our accounts receivable are actually down from the prior year. Some of that is active management of it, but I don't really feel, at least to date, and that doesn't mean it won't change and it doesn't mean that certain markets it isn't a little bit worse, but we really haven't seen anything that would match everything you hear in the media, so far.

Michael Salinsky - *RBC Capital Markets - Analyst*

Great. Thank you.

Operator

Your next question comes from the line of Paul Adornato of BMO Capital Markets. Please proceed.

Paul Adornato - *BMO Capital Markets - Analyst*

Hi, good afternoon. Kent, you talked a little bit about deleveraging the balance sheet. I was wondering if you could tell us what the optimal level of debt is in this environment and what are the metrics that you look at to measure that?

Kent Christensen - *Extra Space Storage, Inc. - CFO*

Well, at Extra Space we still feel like the level of debt that we're at is an appropriate level. Obviously, with the credit marks where they're -- credit markets where they are at the ability to obtain loans to pay off the loans that we have coming due is where the real stress is. And as I discussed, I think we, because of our product type and the size of the assets and the kinds of loans and the cash flow that these assets produce that there is a level of debt that should be applied to the self storage product type and that is something that we feel is appropriate and is something that we feel that the level that we are at today is an appropriate level. The metrics that we use to do that are more governed by the public markets and what the overall -- the discussions that we have with our investors and other organizations that we talk with about what they feel like we as a public company should be leveraged at, and in those discussions we've had, we feel like this is the level that's appropriate.

Paul Adornato - *BMO Capital Markets - Analyst*

Okay. So the overall leverage level we should expect to remain the same as it is today?

Kent Christensen - *Extra Space Storage, Inc. - CFO*

If we can find ways that make sense for us to delever like we did in buying the bonds back that seems like it's a very good opportunity for us, then yes, we'll be delevering slightly. But I don't think you're going to see us coming to the market at the current stock price and raising equity and paying down our debt. That doesn't make a lot of sense.

Paul Adornato - *BMO Capital Markets - Analyst*

Okay. And what net rates do you look at to measure your coverage?

Kent Christensen - *Extra Space Storage, Inc. - CFO*

Well, there's debt to asset value, which is you could put a cap rate on NOI. There's debt to what market cap based on what the market value is of our Company. Those are all items that we look at and are constantly comparing and looking at other comparables. But the one that's the most important to us is what is the debt to what the value is that's being placed on the self storage asset, loan-to-value, so to speak.

Paul Adornato - *BMO Capital Markets - Analyst*

Okay. And moving over to tenant reinsurance, you recently made a (inaudible) to further (inaudible) get customers to sign (inaudible) reinsurance?

Kent Christensen - *Extra Space Storage, Inc. - CFO*

We really couldn't hear you.

Kenneth Woolley - *Extra Space Storage, Inc. - Chairman & CEO*

Where are we in getting new tenants to sign up?

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

We continue to make good progress. Our penetration of new renters is astoundingly high. We're at about 96% -- 95%, 96% and our overall penetration is closing in at 50%. We're at about 45% to 46% right now , but our goal, and we expect to get there, is to around 50%. The rate of growth is not going to be as great as it has been over the last year-and-a-half because we really are getting to a maturity level, but we don't see any deterioration of it and actually is -- it's actually continuing to grow

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Paul Adornato - *BMO Capital Markets - Analyst*

Okay. And finally, just looking at the state of Florida, we would have expected that the effect of the hurricanes would have anniversaried out by now. Is it still the hurricanes or is it the overall economy that's dragging Florida at this point?

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

it's not the hurricanes any more. It's the economy there. It's -- the economy -- you still have a lot of stress. You have stressed consumers there, you have some real real estate issues, property taxes are a problem for a lot of people, insurance. Probably the biggest impact -- negative impact on the individuals is insurance. Homeowners' insurance has, in a lot of cases, doubled for people and that certainly is -- especially on the West Coast, you hear that a lot, that people are really strained because you have so many people on fixed incomes. Ken could probably maybe add some color to that?

Paul Adornato - *BMO Capital Markets - Analyst*

Okay. Thank you.

Operator

Your next question comes from the line of Jordan Sadler of Keybanc Capital Markets . Please

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Jordan Sadler - *KeyBanc Capital Markets - Analyst*

Thank you. I'm here with Todd Thomas, as well. My first question relates to the vacates. Ken, I think in your commentary you said they were up slightly and Karl you addressed them a little bit more, but could you give us a little bit more detail on them and what happened during the quarter? From what I'm seeing they're up pretty substantially relative to at least where you were on a year-to-date basis last quarter and I'm just curious what drives that or if it's a change in direction with your net rentals on the 570 stabilized properties now negative 3,000 versus last year's comparable period?

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

They are running higher and we are concerned about it from the standpoint of -- that we are very aggressive in our existing customer rate increases and as a matter of fact, we are doing some changes to the -- really for two reasons. One, because our managers, how they feel about it and we feel like that longer-term customers in this current environment may react more degative -- more negatively than they have in the past and so we are backing off a little bit as far as the frequency and the rate on the -- or the percentage increase on some of the longer-term staying customers and we're continuing to monitor it very closely. There is a lot of -- there's a lot of things going out there -- going on out there and we have a real hard time getting a real hard fix on what would be increasing the vacates. But the good news is, the rentals are continuing to come in at a healthy rate and we feel like we can have an impact on vacates by being a little bit less aggressive on the existing customer rate increases.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

So you think you're going to pull back the rate increases on the existing customers as well as the new customers?

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

Well, on the longer-term existing customers. The shorter term -- the customers there in their first year-and-a-half to two years we probably won't, but on the longer term -- customers we've been hitting for a good while with pretty aggressive rate increases those will be softened a little bit.

Kenneth Woolley - *Extra Space Storage, Inc. - Chairman & CEO*

If I could add some color to that, Jordan, we are probably the most aggressive company in our industry in raising existing tenants. And in the past year, we've probably been more aggressive than our other competitors and we -- based on our own statistics, we believe that partly a tick up in the vacancy rate is due to that. When you say there's been a huge tick up in vacancy rate, I think the tick up is -- what is it? It's like 3% or 4% in the quarter. It's not much. I don't have the exact percentage in front of me.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

My point is through --

Kenneth Woolley - *Extra Space Storage, Inc. - Chairman & CEO*

it's not a huge pickup in vacates because you have such an ebb and flow of these customers anyway. Also, the third quarter's always the largest vacate month -- quarter, because of students moving in in May and moving out in September, a lot of people are doing that.

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

For the quarter, it's about 3.8%.

Kenneth Woolley - *Extra Space Storage, Inc. - Chairman & CEO*

It was up 3.8% for the quarter. I do not think that's a dramatic increase in vacates.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

Okay. I guess what I was talking about was through -- on a year-to-date basis, like through June, it looked like you were actually going the other way and it seemed to have reversed course in the third quarter completely, so --?

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

I just don't see the -- I just don't see on a statistical basis that 1% or 2% up, or 1% or 2% or 3% up or 3% down is statistically meaningful because that is not what determines the overall increase in income. Also, it's important -- you can recognize that there's levers we can pull to increase rentals, too. We're not seeing like a wholesale vacation of the property. Now, our pricing policies do, in the long run, determine what our occupancy is and we have -- as you can see, our occupancy slipped just a little bit over the previous year and right now we're taking -- we don't want to increase it -- let it decrease too much, although we could increase the occupancy tomorrow if we wanted to change pricing policy. We could -- by the end of quarter we could have --

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Jordan Sadler - *KeyBanc Capital Markets - Analyst*

I understand what you're saying. Maybe I'm honing in on the wrong number here. Your net rentals on a year-to-date basis I'm seeing on page eight are down 34% this year, year to date, versus last year year to date. I guess that could be considered statistically insignificant but I'm just -- through June of this year versus June of last year you were really maybe just down 5% or so so I see that as a deterioration. Is that really just kind of -- does that ebb and flow that dramatically throughout your portfolio? I know we haven't had these statistics forever, this is kind of the first year.

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

So nobody else gives you these statistics, by the way.

Kenneth Woolley - *Extra Space Storage, Inc. - Chairman & CEO*

Let me jump in. I hate to focus on rentals only and net rentals and especially when you're talking about percentage change in net rentals because you can get it -- the percentages can get really out of line. We focus more on where we are on square footage occupancy because it's really that times rate that gives you the numbers that you really ultimately calculate revenue on. And we have had a slight deterioration in same-store occupancy percentage, but it's still only down -- it's gone from -- we've lost -- we were down to minus 0.8%. We're still no more than -- we're less than 1% less in overall occupancy than we were a year ago. And considering all the things going on in the marketplace and most of that loss relates to vacancies being up, we still have plenty of rentals coming in. It's nowhere near -- when you look at the change in net rentals of 34% that does sound like a scary number but when you look at where we are in overall occupancy delta year over year, we're really pretty -- the decrease has been pretty minor.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

Coming back to Christie's question a little bit, could you maybe walk us through what you've seen in tenant psyche through the operating performance throughout the quarter and then into October? What kind of -- I'm specifically interested in what happened in September to October to your traffic and then to your -- I guess to your rentals and vacates?

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

Well, from a traffic standpoint, September was -- the increase in September was actually -- it was actually worse -- I mean it was -- the rentals in September were actually slightly down, whereas the rentals in October are slightly up. So from -- as far as new renters we actually are doing better in October than we did in September.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

What about vacates in those same months?

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

Vacates were up in both months, really. Our increase in vacates in October is lower than our increase in vacates, at least -- well, actually, they're pretty comparable. It's actually relatively comparable to both periods. So we really haven't seen any deterioration -- any significant deterioration.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

That's helpful. I think Todd has one as well.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Yes, hi. You mentioned there was an additional portfolio that you're contractually obligated to purchase. Can you just give us some color on that?

Kenneth Woolley - *Extra Space Storage, Inc. - Chairman & CEO*

It's two properties. One is in Colorado Springs and the other one is in --

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

Washington DC area.

Kenneth Woolley - *Extra Space Storage, Inc. - Chairman & CEO*

--- Washington DC area. One is $7.9 million, the other's $5.4 million..

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay. Are they stabilized properties?

Kenneth Woolley - *Extra Space Storage, Inc. - Chairman & CEO*

Yes, they're stabilized cash flowing properties that we already manage.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay. And then also you mentioned that there was one portfolio that you saw in the market that was distressed. Can you --?

Kenneth Woolley - *Extra Space Storage, Inc. - Chairman & CEO*

Yes, there was a loan that one of the banks had that they were in the process of foreclosing on a portfolio. It was a very highly-leveraged deal that we took a look at and it was distressed in that way but we did not do anything about it.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay. How long ago was that?

Kenneth Woolley - *Extra Space Storage, Inc. - Chairman & CEO*

Six weeks ago.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay.

Kenneth Woolley - *Extra Space Storage, Inc. - Chairman & CEO*

Eight weeks ago.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay. All right, thank you.

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

Thank you.

Operator

Your next question comes from the line of Michael Knott of Green Street Advisors. Please proceed.

Michael Knott - *Green Street Advisors - Analyst*

Hey, guys. Kent, if we could just take a look, page 20, and just tie in your earlier comments on the balance sheet to your debt maturities schedule and ignoring the extensions, a sense of what the LTVs are today on these, how likely it is you can refinance these existing maturities without having to tap into much of your $300 million of availability that you mentioned?

Kent Christensen - *Extra Space Storage, Inc. - CFO*

Well, the -- as I stated, the discussions that we're having with people are -- the banks that we are talking with have a substantial interest in financing stabilized self storage properties. All of these loans, and the page that you're talking about an the loans that are on there that tie back to the numbers that I gave are all the loans that are showing on here as 2009 and 2010 for both the fixed rate and the variable rate components. These loans are all backed up, for the most part, by stabilized self storage properties. The average of all of the loans that are on here in 2009 and 2010, if you used a 7.5% cap on the last 12 months trailing NOI, puts these properties at a 60% loan-to-value today. So we believe, because of the discussions that we're having, that we would be able to refinance these loans in today's market. But what we're doing is making sure that we have the availability today, or as soon as we can, to have the cash that we need to pay these loans off and are not waiting until these loans come due but we know for sure that we can repay them. And so that's why we're going to the market, getting loans lined up so that we can have the availability on our -- of lines or cash to be able to pay the loans. But we will be going to the market to try and refinance these and today we still think that's a real possibility.

Kenneth Woolley - *Extra Space Storage, Inc. - Chairman & CEO*

Just to add more color, though, our plan is right now to put loans on properties that are unleveraged because we have properties that are completely unleveraged that we have -- that have a value of how much, Kent?

Kent Christensen - *Extra Space Storage, Inc. - CFO*

$250 million.

Kenneth Woolley - *Extra Space Storage, Inc. - Chairman & CEO*

That's how much we could borrow.

Kent Christensen - *Extra Space Storage, Inc. - CFO*

That's the val -- that's how much we could borrow.

Kenneth Woolley - *Extra Space Storage, Inc. - Chairman & CEO*

We can borrow $250 million against properties -- an additional $250 million against properties that are completely unleveraged, which would then allow us to pay these debts and then have these completely freed up if we needed further leverage.

Kent Christensen - *Extra Space Storage, Inc. - CFO*

The value's $330 million at a 75% loan to value is the $250 million.

Michael Knott - *Green Street Advisors - Analyst*

Okay.

Kenneth Woolley - *Extra Space Storage, Inc. - Chairman & CEO*

So what we're going to do is have the loans already in place and closed before these debt maturities come up so there's no question about whether we have it or don't have it.

Michael Knott - *Green Street Advisors - Analyst*

(inaudible) to retain most of the availability you talked about because you will be able to either refinance these or take proceeds from encumbering other assets and then the other --?

Kent Christensen - *Extra Space Storage, Inc. - CFO*

One point on that, Mike, is that the -- we're being very pessimistic on trying to figure out how we're going to pay these loans back. If you -- our feeling, however, is that these markets are going to turn and that by taking a -- looking at the worst case scenario here and planning for that worst case scenario, we will be very well positioned so that when the credit markets do open back up in more of a way than they are today and we know that we can go out and refinance these loans that this capacity that we're talking about will be used to take advantage of the real accretive and opportunistic acquisition opportunities that might be coming up. So on the down side we're going to be protected in that we'll know that we can pay our loans back. On the upside we'll have capacity to be able to execute on some real opportunities that could come our way. Any other questions, Mike.

Operator

Your next question comes from the line of Lou Taylor of Deutsche Bank. Please proceed.

Lou Taylor - *Deutsche Bank - Analyst*

Thanks, good morning, guys. Can you talk a little bit about Sacramento. It looks like your properties in the weak housing markets have struggled a little bit in the quarter but Sacramento seemed to do okay, was on your list of one of your better performers. Can you just talk a little bit about that market and what happened during the quarter?

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

Some of it probably relates to -- I don't have the exact details right now in front of me, but some of it relates to -- we had a management change and so it wasn't all market and that has certainly -- our rental properties have done well there, but a lot of it also has to do with -- I wouldn't over react to that particular market.

Lou Taylor - *Deutsche Bank - Analyst*

Okay. And then second question in terms of the people that have terminated their leases and left, do you track the reason for leaving and has the reason for leaving changed over the last three to six months?

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

What we do, and we do get surveys of customers vacating, but we place more reliance on a -- we have a program called Pulse where we have an automated system, we use an outside service to survey our customers on both when they're renting with us and after they vacate. And no, we have not seen any significant change in the reason that they're vacating.

Lou Taylor - *Deutsche Bank - Analyst*

Thank you.

Operator

Your next question comes from the line of Omatayo Okusanya of UBS. Please proceed.

Omatayo Okusanya - *UBS - Analyst*

Yes, good afternoon or good morning, gentlemen. Congratulations on a good quarter. Couple of follow-up questions. In regards to the development pipeline we noticed that the budgeted costs for most of those developments have all gone up. Just wondering, are you expecting, as a result of that, that the development yields will be coming down? And since you have new hurdles for development, what does that mean in regards to the pipeline? Would it be shrinking on a going-forward basis if some of those developments no longer meet that new hurdle rate?

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

The answer to your first question, we've realized in the completion of our statements that we've done this quarter that some of our previously-disclosed costs for doing development needed to be slightly amended, meaning that we put a number out and subsequent to that number being put out we've re-evaluated some construction projects and determined that it was a construction project we still wanted to build and we were still going to go forward and approved a slightly higher in construction cost, but did not amend our public filings for those decisions that management had made. If you look on all of the projects that have been opened so far this year, of about $55 million we came in within $400,000 of the -- to the estimated budget that we had on those eight projects. So our previously-disclosed numbers were low because of what I described, but in completing our projects we're coming in very close to what we had expected.

As Ken described, we are seeing -- because of the lack of development going on we're finding construction, general contractors and the cost of construction coming down. There is more competition and we're finding that we're getting better pricing on the construction cost side, and as Ken stated, we would expect to see the price of land to come down that would allow for your yields to be higher.

Omatayo Okusanya - *UBS - Analyst*

So obviously you're not -- actually expecting development yields to go up, not come down?

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

Yes, we would expect -- well, the projects that we're going to be opening next year will be what it is that we previously decided to do, which will be in the range of 8.5% to 9.5% because those projects are all under way and there's nothing that we can do today to change that. The projects that we're approving today would have higher yield expectations.

Omatayo Okusanya - *UBS - Analyst*

Okay. Great. And then just going back to the overall sources and uses of cash in 2009 and 2010, just as part of your sources of cash you're talking about drawing down the line of credit and also the undrawn -- I believe it's either a term loan or construction loan that you have. Just given everything that's going on in the credit markets right now, how confident are you that you will have access to those two sources of funding, and if you're not confident about having access to it going forward, why don't you try to draw down on those lines right now to just have the cash on hand?

Kent Christensen - *Extra Space Storage, Inc. - CFO*

We are -- first of all, we are confident, but secondarily, we have already instituted a program of doing what it is you've described. Two of the banks that are the undrawn construction loans are banks that are a little more concerning to us and so we've put in the request and drawn down on the loans on those two banks. We -- to ensure that our GE line of credit was in good condition we put in a request and drew down a pretty good chunk of the line of credit on the GE loan to do what it is you've described. We will be actively monitoring each one of those loans.

The last point is the construction loans are with major organization and major banks that have had a lot of government intervention, like Wells Fargo, Bank of America, those are the banks that we have our construction loans with. So these are -- we're monitoring that, we're watching that, and if we get a hint that anything is possibly of a concern to us we will be doing what you've suggested, we'll be drawing down the money so that we're sitting on the cash.

Omatayo Okusanya - *UBS - Analyst*

But so far you haven't -- you're in the process, you're monitoring but you actually haven't gotten any of that cash in hand sitting on the shelf?

Kent Christensen - *Extra Space Storage, Inc. - CFO*

We have. We've actually gotten the cash from two banks that we've drawn down and we've actually gotten cash from GE.

Omatayo Okusanya - *UBS - Analyst*

Got it. And this was all subsequent to the third quarter ending I'm assuming.

Kent Christensen - *Extra Space Storage, Inc. - CFO*

That is correct. It's all been done in October.

Omatayo Okusanya - *UBS - Analyst*

Oh, okay. Great. Question in regards to concessions, within my neighborhood where I live in the past one month I've U-Store-It put out promotion saying you got 50% free for the first three months, which is basically free rent for one-and-a-half months. I've seen U-Haul follow up just last week in my neighborhood with 50% off for four months. I'm wondering what you're seeing out there right now in regards to concessions and if that's the general trend in regards to trying to maintain occupancy what expectations are going forward in regards to what you think rental rates would look like -- or effective rental rates would look like?

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

Well, this is Karl. We have seen some of that, not a lot of that. U-Store-It specifically is doing -- I've seen it in Florida. However, what we've seen in the past is one month free works better than two months half price and actually three months half price. We have tried many different things and the three-month half-price special is a special we've used in the past before there was any strain and stress and we didn't see it work any better than one month half -- one month free. So we're continuing, like I said. We are -- we feel like we are as aggressive as anybody, but using the one month free. And I don't think that in general when I travel around -- and I have traveled around a lot of markets -- I haven't really seen much of a change. Most people are sticking with the one month free. We were probably the most aggressive in that we were doing that with -- since about April we were doing that with all units, one month free, and actually we are planning on backing off from that and using thresholds.

Omatayo Okusanya - *UBS - Analyst*

Got it. All right. That's it from me. Thank you very much.

Kenneth Woolley - *Extra Space Storage, Inc. - Chairman & CEO*

Thank you.

Operator

Your next question comes from the line of Chris Pike of Merrill Lynch. Please proceed.

Chris Pike - *Merrill Lynch - Analyst*

Hi. Yes, good morning, everybody. I guess I just wanted to circle back to some of the comments both Ken and Kent had regarding the encumbered assets and your abilities to term those out. I think Kent, you said it was -- you guys are thinking about a 7.5% cap at a 75% LTV?

Kent Christensen - *Extra Space Storage, Inc. - CFO*

Well, that's just to use -- that's just for everyone to be able to get a point of reference. I'm going to make arguments that we get lower cap rates and higher loan-to--values but just using a point of reference so people can have a gauge for what the availability of the amount of money that we have.

Chris Pike - *Merrill Lynch - Analyst*

Okay. Then I guess just going back and thinking about our previous conversations, I always thought cap rates, as you guys were underwriting them, had at least a seven handle on them, move them from 7.25% to 7, 5%, and now here after a couple bankruptcies of major investment banks, an economic storm that people haven't seen in quite some time, blowing out of your development yields, I guess I'm just a little curious as to why the -- why you haven't gotten a little more conservative on that number?

Kent Christensen - *Extra Space Storage, Inc. - CFO*

Well, the -- when it comes to getting a loan on these properties all of the banks have to use appraisers and the appraisers are going to be going out to the market and determining what that cap rate is going to be. Since there have been very few transactions the cap rate's going to be based on data from last year, so I would expect that the loans that are going to be done in the next six months will have -- 7.5% cap will be on the high side of what the appraisers are going to be finding in the marketplace. Now, if your question is where are cap rates going that's -- as Ken's already addressed, I'm not sure we're in a position to be able to determine right now today what we think that's going to be. What I've done is determine, based on the process that we'll follow in getting loans, what I think the appraisers are going to come up with.

Chris Pike - *Merrill Lynch - Analyst*

What's the historic spread been between your development and your acquisitions?

Kent Christensen - *Extra Space Storage, Inc. - CFO*

It's between 200 and 300 basis points.

Chris Pike - *Merrill Lynch - Analyst*

Okay. And can you remind me, where is the development yields going? They're going to ten to 11 now?

Kent Christensen - *Extra Space Storage, Inc. - CFO*

Yes.

Chris Pike - *Merrill Lynch - Analyst*

Okay. So --

Kent Christensen - *Extra Space Storage, Inc. - CFO*

So if it's at ten and it's -- sorry, go ahead, Chris.

Chris Pike - *Merrill Lynch - Analyst*

No, no. So that would imply caps, if the historical spread remains intact, somewhere between 7% and 8%?

Kent Christensen - *Extra Space Storage, Inc. - CFO*

Correct.

Chris Pike - *Merrill Lynch - Analyst*

Okay. With respect to concessions, I just wanted to be clear, so the concessions -- you're pulling off the concessions for existing customers; correct?

Kenneth Woolley - *Extra Space Storage, Inc. - Chairman & CEO*

No.

Chris Pike - *Merrill Lynch - Analyst*

You're pushing off that -- ?

Kenneth Woolley - *Extra Space Storage, Inc. - Chairman & CEO*

No, it's that our rate increases to existing customers, longer-term customers will be less -- a little bit less than what we've been doing in the past.

Chris Pike - *Merrill Lynch - Analyst*

Okay. So the effect --

Kenneth Woolley - *Extra Space Storage, Inc. - Chairman & CEO*

and frequency, slightly less.

Chris Pike - *Merrill Lynch - Analyst*

OKay. So concessions sequentially going from 2Q to 3Q, can you help me understand what the effective cost of that concession is?

Kent Christensen - *Extra Space Storage, Inc. - CFO*

I think we can get you the numbers.

Chris Pike - *Merrill Lynch - Analyst*

Maybe that's not the right way to look at it. I know our friends at SSDS pointed out, let's say, almost $0.10 per square foot and sequentially it hasn't moved that much but I think if you look at that data, year over year those numbers continually just to trend higher. So --

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

Yes, our discounts have trended higher than the prior year. And -- but part of the reason for us, at least -- and I can't speak to everybody's, but -- is that in -- starting in April we changed our policy and we offered all units at one month free. We didn't really feel like we got as much from that as we -- it was actually my idea and it was a bad one, but we thought that it would result in us being able to push rates higher on highly-occupied properties and at the same time gain occupancy. We were able to push rates higher at those higher-occupied properties but we didn't see a gain in occupancy and we felt like we gave away more than we needed to on highly-occupied properties. So that -- so we will be making that adjustment and backing off on that. But we're going to be as aggressive as we need to be on both pricing and on specials to keep rentals at a healthy level. And so far, we're seeing that that's working for us.

Chris Pike - *Merrill Lynch - Analyst*

I guess, Ken, in your 30-year history in this business have you ever seen such an aggressive use of concessions to maintain occupancy in operating self storage portfolios?

Kenneth Woolley - *Extra Space Storage, Inc. - Chairman & CEO*

Well, I'm the one that's probably more -- closer to this and I've been doing it for 20 years and I think, you know, specials are -- the one month free is something that Publix's been using forever. The rest of the industry really has been forced to follow it. I think at one point U-Store-It was trying to not do it and we can listen to their call but I think they got more aggressive and now even to the three months half price, but it really isn't that much different than what was going on. I don't think that it's changed dramatically. I think it's -- we are having -- it's difficult to push street rates and that's probably what is probably a little bit more concerning right now than specials being more aggressive than they have been in the past.

Chris Pike - *Merrill Lynch - Analyst*

So you're having trouble pushing street rates, you're not pushing renewals as high as you could and the trend in net rentals is flat to modestly down. Is that fair?

Kenneth Woolley - *Extra Space Storage, Inc. - Chairman & CEO*

Yes.

Chris Pike - *Merrill Lynch - Analyst*

Okay. I guess just one last question with respect to --

Kenneth Woolley - *Extra Space Storage, Inc. - Chairman & CEO*

Well, let me clarify. We are continuing to push existing customers, we're just not pushing them as hard as we have in the past year. So it's slightly -- because we are a little concerned with vacates and what we're looking at is what the delta in occupancy is and trying to not lose occupancy.

Chris Pike - *Merrill Lynch - Analyst*

Okay. I guess the last question is -- and congratulations on the call center, I'm sure it was a tremendous amount of work putting that together. Are there any changes from a structural perspective on how the field is staffed, or compensation associated with that? I know some of your peers may put a little more emphasis on the call center and maybe the funding of that, maybe the staffing of that. I know you guys were always very forth right in making sure that you had the best people on the ground in the field, but does higher resource utilization or capacity at the home office with the call center, does that structurally change the way you think about your field staff or the way in which the field's going to operate going forward?

Kenneth Woolley - *Extra Space Storage, Inc. - Chairman & CEO*

No, because we look at the call center as nothing more than taking that -- the first part of the sales process and we feel the call center can do a better job on the phone call with a cold call than our existing managers can. But we feel it's critical to -- and we think it's going to be our competitive advantage on a go-forward basis to have the same high-quality managers that are going to be doing that follow-up call, which is a warm call, because it's no longer the first time somebody's talked to us. It's the follow-up call. The customer's already said they have a need. Our managers are going to be following up very quickly on that. And then we have somewhere -- as I travel around I ask managers what percentage of the people come in and haven't checked on the web, haven't called us and they're just walking in the door shopping. I guess answers anywhere from 10% to 50%. So it is critical to us to keep the same high-quality people, highly-motivated people at our sites. Will we continue to challenge ourselves to make sure we've got the right staffing at properties? Yes. And so in some cases it will result in adjustments, both up and down, but we're not tying in with our call center a change in what we do at our facilities.

Chris Pike - *Merrill Lynch - Analyst*

I had one other follow-up question. I think one asked Ken before about IR hurdles with respect to some of institutional partners and I think he said he didn't have the new hurdle rates. What were the old hurdle rates.

Kent Christensen - *Extra Space Storage, Inc. - CFO*

This is Kent. Most of the joint venture partners, depending on the level of debt that they wanted and the funds that we did with them --

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Chris Pike - *Merrill Lynch - Analyst*

Let's talk unlevered.

Kent Christensen - *Extra Space Storage, Inc. - CFO*

Unlevered would have been in the low teens.

Chris Pike - *Merrill Lynch - Analyst*

Unlevered in the low teens, IRs?

Kent Christensen - *Extra Space Storage, Inc. - CFO*

Correct, ten, 11, 12.

Chris Pike - *Merrill Lynch - Analyst*

Okay. Thanks a lot.

Operator

Your next question comes from the line of Paula Poskon of Robert W. Baird. Please proceed.

Paula Poskon - *Robert W. Baird - Analyst*

Thank you. Just one question. We speak a lot, and particularly in your closing prepared remarks, about the drivers of the business that really are pertaining to the majority of the tenants that are residential customers. Can you talk a little bit about what you're seeing among your commercial tenants and particularly small business?

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

You have it going both ways. Once again, if you talk to our storage managers, ad hoc comments, you hear about a lot of businesses going out of business and closing up and moving out. But what we actually see when you really look at the data is you got that happening, but you also have a -- so we lose some tenants as a result of a guy that has a small business and may be going out of business. On the other side what we see happening is -- and in good times, what happens is a lot of companies, they grow, they get to the point where they were using self storage. They were Joe the plumber and he has a business and he's operating it out of a self storage facility. His business grows -- much to John McCain's thrill -- and he then finds a warehouse and he moves into a warehouse. Well, things slow down and things are slowing down right now and Joe the plumber decides, you know something, I can't afford a warehouse but I've still got to run my business, so he moves back into a self storage facility.

So you have both dynamics going on and it's as a result that I think why we can see some positives coming from businesses that are stressed because they do contract and they -- self storage is a very cost-effective way to operate your business. You're on a month-to-month basis. If one month you need a ten by -- 20 by 40, you can rent a 20 by 40. If two months later you need a -- you only need a ten by 30, you just come in, you change unit sizes and you've just cut your costs in half.

Paula Poskon - *Robert W. Baird - Analyst*

So are you -- how do you think about the strategy of pushing rents for those tenants who are not relative to what your strategy is around residential tenants?

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

Well, I think what we've seen is -- in the past, at least, the commercial tenants are more open and easier to push rates on than residential. There's less resistance to it. So in the past, we -- our overall rate increasing were higher to commercial than they were to residential, and so far we're continuing to operate in that same vein and we haven't seen much impact from it.

Paula Poskon - *Robert W. Baird - Analyst*

Thanks very much.

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

Okay, thank you.

Operator

Your next question comes from the line of Michael Knott of Green Street Advisors. Please proceed.

Michael Knott - *Green Street Advisors - Analyst*

Yes, I'll follow up offline, thank you.

Kenneth Woolley - *Extra Space Storage, Inc. - Chairman & CEO*

Thank you.

Operator

And there are no further questions at this time. I'd like to turn the call over to management for closing remarks.

Kenneth Woolley - *Extra Space Storage, Inc. - Chairman & CEO*

Well, this has been a long call and we had a lot of questions. I hope it wasn't too boring to too many people. I think the basic tenor is our business is doing well and we do thank you all for listening and we look forward to talking to you at NAREIT. Thank you, bye-bye.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Good day.