FINAL TRANSCRIPT

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PRESENTATION

Operator

Greetings and welcome to the Extra Space Storage Third Quarter Earnings Conference Call. At this time, all participants are in a listen only mode. A brief question and answer session will follow the formal presentation. (Operator Instructions) As a reminder this conference is being recorded. It is now my pleasure to introduce your host, Mr. James Overturf, of Extra Space Storage. Thank you, sir, you may begin.

James Overturf - *EXTRA SPACE STORAGE INC - IR*

Thank you, Jan. 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 answers 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 and acquisition programs, revenues, NOI, 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, November 3, 2009. 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 Spencer Kirk.

Spencer Kirk - *EXTRA SPACE STORAGE INC - CEO, Chairman*

Hello, everyone. Thank you for joining us. With me today in Salt Lake City are Kent Christensen, our CFO, and Karl Haas, our Chief Operating Officer. In the third quarter, we earned $0.23 of FFO which was in line with our estimate. We narrowed our same-store properties occupancy variance throughout Q3, as vacates decreased materially and new rentals were flat compared to last year. Also, our asking rents have come back nicely from their lows in February and March. In October, positive rental activity and pricing trends have continued, which is a good sign for the business, and gives us a sense of guarded optimism as we finish the year and head into 2010.

Extra Space continues to be a Company committed to growth. We opened eight development properties in California, Florida, and Oregon, and we are on track to open seven more before year-end. These properties are an excellent source of future earnings growth for Extra Space.

Our Management program, marketed as Three Plus, continues to make progress attracting third party owners to the Extra Space brand and operating platform, adding 47 properties this year with many others in the pipeline. The addition of these development and management properties has helped us increase our scale by 10% since Q3 of last year.

During the quarter we also continued to strengthen our balance sheet by closing on $114 million of secured financing. In October, we closed on another $13.1 million, and we expect to close an additional $67 million by the end of the quarter, for a total of $80 million in secured financing in Q4. At this time we have current cash on hand and credit line availability to repay all debt maturities through the first quarter of 2012. I'd now like to turn the time over to Karl Haas, our COO, to discuss operations in further detail.

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

Okay, thanks, Spencer. When looking at our operational performance for the fourth quarter we see signs that our business is stabilizing. Our same-store occupancy ended the quarter at 84.2% which is only 1.4% below last year. At the end of the second quarter our same-store occupancy variance was 2.7. So we were able to improve the year-over-year delta by 130 points, and the variances continue to improve even through October.

During the quarter our same-store revenue net operating income was impacted by the low asking rates from earlier in the year. Same-store revenue decreased 4.5%, and net operating income decreased 6.2%. In the past three months our same-store revenue decrease, though, has decelerated and flattened out.

Expenses were again held in check and decreased by 1.2%. Our controllable expenses, notably payroll, have been consistently below last year. Most of this reduction is due to what we call right staffing, or becoming more efficient in how we staff our properties and limit our overtime hours.

Our average street rate or asking price has rebounded from February to March. Though we've seen improvement in street rates it will take a while for lower rates to burn through the system. How fast they do depends on a combination of the strength in ongoing street rate, the new rental activity, and the stickiness of our existing customer rate increases. We feel better where our business is now than early August, and much, much better than we felt in April.

A couple of interesting operational data points from this year I'd like to share. The first is a turnaround in move outs. From July '08 through March 2009 vacate activity was up by 5% to 10% per month when compared to the previous year.

In April, the trend reversed and has been moving lower. In Q3, move outs compared to last year were down 6.5%, or approximately nine per property, and we don't think this is a long term trend, though that would be nice, but simply a return to more normalized levels of move out activity. This move out trend, combined with rentals holding their own continues to have a positive impact on occupancy.

The second data point is our percentage delinquency and bad debts. These numbers remain at historically low levels and have decreased annually since 2007. This experience is in stark contrast to what we've heard many other real estate companies discussing during the recession.

A lot of this has to do with management of problem accounts, but mostly it's due to our customers financial and emotional attachment to the items they store. The attachment that our customers hold for their items that are stored at our properties is a key element to driving length of stay, as well as the ability to pass along rate increases.

We believe that staying on top of technology and innovation is one of Extra Space's differentiators. Our National Sales Center continues to improve both in the areas of call quality and the close rate. We believe there's still room for improvement, but we're happy we made the move to an internal call center.

We have seen similar improvement on the internet on both paid and organic search. The major search engines are constantly changing their bidding logic and search algorithms, so we have to react quickly or risk losing out on potential opportunities. We consider the call center and the internet perfect environments in which to dynamically test pricing and marketing strategies.

This testing has proved in valuable to us this year. It doesn't make this year any less painful, but the learning will greatly enhance our ability not only to weather the remainder of this and any future downturn, but to capitalize on increasing opportunities throughout the recovery. With that I'd like to turn it over to Kent Christensen, our CFO.

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

Thanks, Karl. In the third quarter we achieved $0.23 of FFO, including $0.02 per share of development dilution. Year to date we've earned $0.76 of FFO. Adjusting to exclude the charge for winding down our development pipeline of $0.22 per share, the gain from debt repurchases of $0.30 per share, and then adding back $0.02 from non-cash interest related to our exchangeable notes, we have earned $0.71 of adjusted FFO.

During the quarter, we paid back $126 million of loans and closed seven loans equaling $114 million. Our 2009 total new financing now stands at $290 million. I'd like to recognize our treasury finance and legal team for all of the hard work in getting all of these loans done.

As of today, we have $108 million of cash, $50 million of capacity on our undrawn credit line with Bank of America, for a total of $158 million. We anticipate closing an additional $67 million worth of loans by year-end and would leave us an estimated $225 million of capacity.

We continue to put new loans on our unincumbered properties to address our remaining 2012 maturities and beyond. We currently have about 53 unincumbered wholly owned properties, on which we can place loans. The total estimated loan amount we could get on these properties is $190 million, assuming the 70% loan to value and a 7.5 cap rate.

Our next large maturity is $100 million CMBS loan due in August of next year. Again it is important to note that with the exception of one covenant on our undrawn $50 million line of credit with B of A, none of our debt has any corporate level covenants. We completed eight development projects during the quarter at a total cost of $91 million.

We anticipate opening another seven properties in the fourth quarter, and then seven properties in 2010. Our development properties will yield $0.20 to $0.25 of incremental earnings. As a whole, lease up activity on these properties has been in line with our historical averages, though the rental rates are less than what we originally projected on many of the properties. We continue to work on the loan assumption for our Harrison Street joint venture and still anticipate this transaction getting completed in the fourth quarter.

Though acquisition opportunities are scarce at this time, our acquisitions team is keeping their pulse on the market. Due to our record of successful acquisitions, experience, and financial flexibility, we believe we will be able to execute when strategically attractive opportunities arrive.

At this time, we estimate earning between $0.19 and $0.22 for the fourth quarter, and between $0.89 and $0.92 for the year. We are forecasting same-store annual top line growth to be between negative three to negative four, including tenant insurance. For further assumptions on our guidance please refer to our Earnings Press Release. And with that, I'd like to turn the call back to Spencer.

Spencer Kirk - *EXTRA SPACE STORAGE INC - CEO, Chairman*

Thanks, Kent. Before we begin Q & A, I'd like to make a few closing comments. This year has been very challenging to say the least. Our guidance reflects our limited visibility into the future, but we are starting to see stabilization in the operating trends. The worst case scenario that was not out of the realm of possibilities in August failed to materialize. It appears our operating fundamentals are on the mend.

Through all that has happened in the previous 10 months we believe we have made the right decisions to maximize the performance of our properties, maintain financial flexibility and even grow the portfolio. On the operations side of the business, we have priced and marketed our properties to maintain occupancy and maximize revenues. We have implemented and brought up to speed an industry leading call center, and we have done an excellent job of controlling expenses.

On the financial front, we have strengthened our balance sheet, we have repurchased debt at a discount, and we have made the difficult move of terminating our development program. And we have continued to grow our national footprint through opening best-in-class development properties and adding properties to our Three Plus management program.

There have been many analyst notes lately discussing the bottoming and property performance fundamentals of different REIT sectors. Though we are reluctant to call a bottom in self storage, we are seeing signs of stabilization including a turnaround in move outs, improved rental activity, and strengthened pricing. These are all positive signs for the business.

The entire Extra Space team is focused on capturing every sale, being diligent on cost control, and looking for ways to intelligently grow the business. We look forward optimistically to the end of 2009 and what the future holds for Extra Space and the self storage industry. With that, we will field any questions you may have.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Our first question comes from the line of David Toti with Citigroup. Please proceed with your question.

David Toti - *Citigroup - Analyst*

Good morning guys. Michael is here with me as well. My first question relates to some of your regional concentrations and I was wondering, are you seeing trends in performance relative to stabilization as it could be connected to housing improvement or overall economic stability of the region, or is there still a pretty big disconnect between those two trends?

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

There is some correlation. Certainly, San Bernadino, LA, Florida, and Phoenix and Las Vegas, where the housing has been a real problem, we are seeing a lot of stress in those markets, and Boston and the Baltimore/D.C. area, New York continued to do well. I'm not sure it's a turnaround in housing that's driving it one way or the other though.

David Toti - *Citigroup - Analyst*

Okay, and then in terms of - -

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

This is Karl.

David Toti - *Citigroup - Analyst*

I'm sorry?

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

It was Karl talking.

David Toti - *Citigroup - Analyst*

Thanks Karl. Can you share the terms on the construction financing? I'm not sure if I missed that.

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

This is Kent, Dave. I didn't give any details about that. What we're seeing on the construction financing are terms that have floors, they're LIBOR based, but generally the floors are between 5.75 and 6.5. The terms are anywhere from three to four years, three years with a one year extension. We're getting 65% loan to value, and the appraisals are coming in, as far as establishing the cap rate, appraisals are coming in and then we're having to negotiate what each of the individual banks as to what the cap rate might be, but we're in the high sevens, low eights on cap rates on the negotiation with the banks. There's obviously no sales to be able to really tie appraisals to so it's a negotiation with the bank.

David Toti - *Citigroup - Analyst*

Okay, great, and then my last question is, again forgive me if I missed this, I jumped on late, but are there any plans to push rents in the existing customer base? I know you had held off on that for a bit.

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

Actually, we have. We have continued to increase the existing customers all through the last, through the whole recession. We did have and we still do have some governors where if the existing customers rate gets too far out of line with street rates, that we might not increase those tenants, but overall we continue to increase existing customers, and as mentioned in my narrative, this is Karl again, that we are seeing actually reduced vacates, so we haven't seen a negative reaction to existing customer rate increases.

David Toti - *Citigroup - Analyst*

Great. Thanks for the information.

Operator

Thank you. Our next question comes from Christy McElroy with UBS Financial. Please proceed with your question.

Christy McElroy - *UBS - Analyst*

Hi, good afternoon guys. Carl, just another question on the rents. You talked about existing customer rents, but I think you mentioned in your comments that you're seeing an improvement in street rates. Can you sort of quantify what happened with street asking rents in Q3 versus Q2, and what percentage of your assets would you say that you raised asking rents versus lowered them sequentially?

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

I'm not sure I have a break down of what we raised. In general, we raised almost everywhere. We felt that we have some opportunity, as we have seen the positive move in occupancy, we felt better about being able to move our street rates up. We are being flexible as far as giving some off that rate, if we need to to get the rentals, but in general, we found that we've been able to push the rates and continue to make occupancy gains.

Christy McElroy - *UBS - Analyst*

How much have you been able to push them by?

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

3% to 4%.

Christy McElroy - *UBS - Analyst*

Over Q2?

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

Yes.

Christy McElroy - *UBS - Analyst*

Okay, and then just focusing on your tenant reinsurance income, this has obviously been a growing business for you guys for a couple years now since you started pushing it more proactively, and it continues to have a pretty meaningful impact on your same-store growth numbers. What percentage of your customers now buy insurance from you, and what do you see as sort of a frictional level such that you could see a leveling off of that line.

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

It's north of 50% and certainly, the rate of growth has slowed down. We have north of 90% of our customers new tenants coming in take it, but some of those people cancel out after some period of time, possibly after the first month, and so we don't see the rate of growth to be - - I think we're starting to hit kind of the stabilized rate level.

Christy McElroy - *UBS - Analyst*

You increased your guidance for the year for that line. Why do you think it's coming in better than expected?

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

Because of the trend, we've grown it throughout the year and so we're still well above the prior year. We just don't see it; it will be above the prior year but the gap will get smaller and smaller.

Christy McElroy - *UBS - Analyst*

Okay, and then just lastly, your same-store NOI guidance for the full year is for a decline of negative 4% to negative 6%. That's a pretty wide range for an annual number given that you already have about basically 10 months under your belt. Can you frame that forecast in the context of sort of best case and worst case scenarios for Q4, and what could potentially go wrong between now and year-end that the bottom end of that range is a possibility?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

This is Kent, Christy. If you look in our press release, most of our numbers are rounded to whole numbers four to six, so the 6%, the negative 6% for the calendar year was a rounding of a worst case scenario from our perspective that got to a negative 6%, so it would be a pretty dire set of circumstances that would allow us to get to a negative 6% which is the number that we put in our thing. The more realistic probability is between a minus four and a minus five, rounding up to a minus six, and to get to a minus five, you've got to be down negative five for the quarter, have your expenses 3% increase for the quarter, which puts you at a negative nine for the quarter, and that puts you at about a little over a 5% for the year, 5.3% or 5.4%.

That's kind of what we envision today as to be our worst case scenario, and that means our expenses have to go up 3% for the quarter, which right now as you've seen for the first nine months of the year, we've been able to hold them pretty flat, so that reflects, but we don't know what's going to happen with property taxes exactly, and that's our wildcard in the fourth quarter is our property taxes. I hope that answered your question.

Christy McElroy - *UBS - Analyst*

Absolutely. So realistically, it's more like a 4% to 5% decline?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

That's correct.

Christy McElroy - *UBS - Analyst*

Okay, thank you.

Operator

Thank you. Our next question comes from the line of Todd Thomas with KeyBanc Capital Markets. Please proceed with your question.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Hi, good afternoon guys. I'm on with Jordan Sadler as well. Kent, on the expenses, you're starting to anniversary on some of the more difficult expense comps. How much room do you think you have to cut expenses further, and what areas would you focus?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

You mean starting into next year or for this quarter?

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Yes, going into, well this quarter, and then into 2010 mostly though.

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

Probably this is a question Karl and I will both answer. For this quarter, we would see the continued trends that we've seen for the year, obviously our property insurance costs are going to be down from what they were a year ago. Our utility costs are flat. Our payroll costs, we continue to see them being down this year.

So as I said in the last call with Christy, the wildcard is tenant property taxes, and we are not aware of any, we have not been given any notifications from any of our jurisdictions of any substantial changes in property taxes. That could happen, and so that's why we're unsure as to what the property tax number will be. With that I'll let Karl speak to what he sees happening next year.

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

I think we've had, especially in the last four quarters some very aggressive controlling of expenses. Nothing that would negatively, I mean I think repairs and maintenance we've held at really normal levels, so we haven't impacted the assets, but we certainly have squeezed payroll through our right staffing, which we think was the right thing to do, and we were in the process of doing it no matter what. But we really don't see a lot more opportunity to squeeze those expenses dramatically.

This year and year-over-year, we've really had a benefit. Last year we got hit hard with utilities, and this year, we've kind of gotten it back which year, which is good, but I don't see us, I think we're down in this quarter like 8% or 9% on utilities, and in the year 3% or 4%; we're probably not going to repeat that next year. So it's going to get tougher and tougher, and as I've said before our way out of this is through revenue. There's only so much we can do with expenses.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay. And then regarding your development properties, you increased the expected dilution by about $0.5 million for the year, and I was just wondering if you could talk about the lease up strategy at some of those properties to get them stabilized. I noticed that some of the projects that were completed in 2008, they've increased occupancy from 2Q and seem to be doing well, but a number of the 2006 and 2007 developments seem to be going backwards perhaps, and I was just wondering if you could talk about sort of the different vintages and what's going on?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

Todd this is Kent. Our development properties I'd have to characterize as, the ones that are opening now and leasing up are exactly the same as what has been going on for the 10 years that I've been in the self storage business. We're seeing lease ups at properties that are by far exceeding our expectations. We have a property in California that opened in Santa Clara that's rented 250 units in four months, but then we have properties that are way behind our expectations, which is as I stated, similar to what we've seen on the 10 years I've been in self storage. We have some that go fast, some that go slow, but as I said in my prepared remarks, it appears that on balance, they're all leasing up at about the same pace in total as what we've seen historically. We're not seeing substantial change in that.

The rental rates that we're getting are down from what we had anticipated so we are charging less, so the NOIs on these properties if they lease up at the current pace will be behind what we had originally anticipated, but that reflects the the current market conditions. And we think that long term, we're going to be in a really good spot on these properties, because nothing else is opening up anywhere in the United States. So once the economy does turn around, we're going to be able to get rental increases on these properties that are probably going to out pace many of our other properties because of them being, they're brand new properties that are in great locations, and long term I think they are going to do very well.

So other than that, specifically talking about the different pools, it would be a property by property discussion about what's happening, but I think that it's better on this call just to characterize everything in general in total, which is what I said is, I think we're on pace to doing on average what we've seen historically.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay fair enough. And then just lastly, can you talk about some of your markets a little bit more? You say Northern California and Texas where your properties seem to be outperforming within your portfolio, and do you attribute the performance to your specific assets in those markets or just the geographies sort of in general?

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

This is Karl. I don't think that it's the assets. I think it is markets, and there's certain markets, and I don't think that we're any different than anybody else, Phoenix, Atlanta, West Palm Beach, are certainly the worst markets and they're definitely - - Atlanta is the one that snuck up on us a little bit, and there seem to be a lot of things going wrong in Atlanta right now, but I don't really think it relates to the assets because we have managed assets that are also struggling there. LA is a big market for us and it's one that we don't know that it's hit bottom yet. Some of these other markets we feel like we've hit bottom and we're really starting to rebound.

I wouldn't bet on LA and really when you get out, and Northern California you've got a little bit of that too, especially when you get further out in the Central Valley and those areas they're still struggling. The good markets, we're really pleased with what we're seeing in the Baltimore/D.C. market. Boston is going in the right direction and kind of the whole Northeast. We're really pleased in those markets. Hopefully that tells you what you were looking for.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Yes, okay, great. Thank you.

Operator

Thank you. Our next question comes from the line of Michael Salinsky with RBC Capital Markets. Please proceed with your question.

Michael Salinsky - *RBC Capital Markets - Analyst*

Good afternoon. Karl, I apologize if I missed this. Did you mention how the portfolio performed in October?

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

I eluded to it. We don't want to overreact to it, but we've seen sort of a bottoming out in August and September, and October got better, and we're very pleased with what we saw in October.

Michael Salinsky - *RBC Capital Markets - Analyst*

Can you be maybe a little bit more descriptive? Was it rental activity picking up, was it rate stabilizing or was it a combination?

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

Rentals were actually positive, but there's a quirk in the month in that it had five Saturdays this year versus four, so we don't want to get too carried away with that, but we've been seeing rentals being flat and vacates are continuing that same trend of being well below the prior year. And really since April, I guess since May, we've had positive net rentals, and our net rentals have been improved over the prior year every single month consistently and pretty significantly, and as we've said earlier, we bottomed out in April at about minus 3.1%, a negative delta in occupancy and we're getting pretty close to being even with last year. It's getting better.

Michael Salinsky - *RBC Capital Markets - Analyst*

Okay, that's helpful. You talked a good deal about renewals. What is the mark-to-market right now on new leases signed versus that of expiring?

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

There's still a negative gap, and there probably will be for a while. We're more interested making sure that we're getting the rentals and moving occupancy, and we're going to continue to do that, and at the same time we're increasing existing customers, so there's going to be that phenomenon, but the gap is closing because we've been able to move street rates.

Michael Salinsky - *RBC Capital Markets - Analyst*

Any estimates as to the size of that right now, the numbers behind that?

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

It's below what it was at the end of the second quarter.

Michael Salinsky - *RBC Capital Markets - Analyst*

Okay, then finally, I guess more of a little bigger picture question, with the downsizing of the joint venture there, can you talk about kind of how you feel about the overall leverage of the portfolio and whether you expect to deleverage that further or if you're comfortable with the leverage at this point?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

This is Kent, Mike. The overall leverage right now is at a level that we think is sustainable, meaning that we don't think our balance sheet is a risk. We feel that way because of all of the loans we've been able to get accomplished this calendar year, in what could be characterized as one of the most difficult credit environments that we've all seen, and we've been able to roll our debt. So we think that from the perspective of our balance sheet having a problem because of the debt that's rolling, we think we've taken care of that, so now it's a discussion about what the right level of debt should be.

And when we look at the different alternatives of delevering, many of those we think have a lot of negative consequences to them, and so from a long term perspective we would like to bring our debt level as a percentage down, but we want to do that in a form and fashion that seems to make sense for the long haul and for the long term, so at appropriate times we'll be taking steps to bring the debt level down but it won't be big chunks and it won't be dramatic actions. It's going to be small little steps to help us bring our debt level to a smaller amount.

Michael Salinsky - *RBC Capital Markets - Analyst*

Great. And finally, you're still out of the acquisition markets, correct?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

We've done one acquisition this year and we've got possibly one acquisition of a joint venture or a partner that we have that we might be buying a property, but as far as third party acquisitions out on the street, we're not seeing activity of any distressed properties at all.

Michael Salinsky - *RBC Capital Markets - Analyst*

Okay, thank you.

Operator

Thank you. Our next question comes from the line of Ki Kim with Macquarie Bank Limited. Please proceed with your question.

Ki Kim - *MacQuarie Research Equities - Analyst*

Thank you. Just going back to your comments about property taxes, could you just remind us why is there some vagueness between what you expect to pay?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

Generally what happens on the property taxes is that in the second half of every calendar year is when we get most of the statements from our jurisdictions as to what the property taxes are going to be, and that's when we get the notification as to actually what the number is. Not all jurisdictions are that way, but the vast majority of them come in the second half with the majority of them being in the fourth quarter, and so that's why we always are a little hesitant to say what our fourth quarter numbers are going to be based on those estimates, based on those actual numbers we get.

So we know we're going to be getting notifications from the different jurisdictions in this quarter, and when that happens we have to adjust our actual property taxes for this calendar year based on the number that we actually get, and so that's why there are generally trueups that occur in the fourth quarter ,and then it gives us the indication of what we're going to be projecting for next year. So that's why we're a little hesitant to say exactly what it is.

Ki Kim - *MacQuarie Research Equities - Analyst*

Is there typically a lot of volatility in what you pay one year versus the next?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

There can be, yes. Historically there has been some volatility, and that's why we're a little hesitant to say that there won't be any this year. And this year with the overall economy, it would make sense that there are going to be cities and counties and jurisdictions out there trying to find ways of getting property tax increases, so we would be expecting those kinds of things to happen, but as I stated earlier we have not seen anything yet.

Ki Kim - *MacQuarie Research Equities - Analyst*

All right, second question, more broadly speaking, given your positive commentary about new rentals being flat versus last year and traffic improving versus last year, so why aren't we at a bottom in self storage fundamentals? What keeps you reluctant, I guess what's the risk in calling a bottom?

Spencer Kirk - *EXTRA SPACE STORAGE INC - CEO, Chairman*

Ki [Ban],This is Spencer. The risk in calling bottom is we have a really nice data point in October, and I would not want to prognosticate and say that that is a trend that is rock solid today. We are guarded in our optimism, and we think that what we have been doing is making a difference, and that the life changing events that drive demand for storage continue to happen. Just in Q3 of this year we've rented 75,000 spaces to 75,000 new customers, and that leads me to believe that demand for the product is there, the discretionary user has left, but to say that it has bottomed out when we've only got a solid data point from August forward is probably a little premature.

Ki Kim - *MacQuarie Research Equities - Analyst*

All right, fair enough, and one more question. On the availability of JV capital, in providing any additional color there, are you seeing more activity, and is refinancing for the JV, is that a more likely possibility going forward?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

With our current joint venture partner Harrison Street, the reason we are continuing on the process with Harrison Street is because they do have cash and they want to do more acquisitions, and so as opportunities come up, we think that they could be a partner that we could use some of their cash in doing appropriate acquisitions.

That being said, we are continually getting phone calls from people to do joint ventures, but I'd have to characterize most of those individuals who call us as very opportunistic kind of money, they're expecting very high rates of return, and anticipating a substantial amount of distress in the self storage space. And without seeing that kind of stress in the self storage space, the kind of joint venture, the people who are calling us, I don't imagine we're going to be doing many joint ventures with those kind of people, because I don't think we can generate the kind of returns that they would expect. So there is money out there but it's expecting to get a pretty high rate of return.

Ki Kim - *MacQuarie Research Equities - Analyst*

All right, thank you.

Operator

Thank you. Our next question comes from the line of Paul Adornato with BMO Capital Markets. Please proceed with your question.

Paul Adornato - *BMO Capital Markets - Analyst*

Hi, thank you. You mentioned that you were able to reign in personnel costs by right staffing the properties, and was wondering if you could talk about that, especially in the context of the increasing importance of the internet and your call center. I guess the question is what are the responsibilities now of the folks on staff, and how has that evolved over the last year or two?

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

Well, this is Karl. I'll let Spencer maybe follow-up on this, but we still believe that our local store manager is as critical as ever. The only thing that we've taken from our local store manager is the first call response. The initial call goes to the call center and the call center, because they're professional call takers, they handle 40 to 60 to 80 calls a day, every single one of them, they're great at that first initial cold call handling, and great at closing, and it's great from the standpoint of us being able to measure effectiveness of their closing and handling the call, and also us being able to better measure traffic and those are all very, very positive things. However, ultimately, everybody that rents a self storage unit eventually comes to the site, or almost everybody, and those people want to deal with somebody that's pleasant, that feels good about who they work for and that's good with dealing with the public.

And so our focus is still on having the best quality Managers, people that are motivated, we put a lot of effort into it, and you can't lose sight of the fact that somewhere around 40% to 45% of the people don't go to the internet, don't go to the call center, but first come to the site, and we can't lose sight of that. That's a big part of our business, and so we've very much involved our local people in the process and they will continue to be involved in the process and what we did with right staffing was not really in response to the call center, but rather just a rationalization of staffing to make sure that we had the right level of staffing at comparable stores.

Spencer Kirk - *EXTRA SPACE STORAGE INC - CEO, Chairman*

Can I add something? Paul, this is Spencer. The comment that I would make is there is a high degree of enthusiasm out in the field for both the call center and internet, because those are two devices we're using to drive traffic to the sites. And once the traffic arrives at the site, we have an enthusiastic, well trained, happy, motivated employee that is skilled in closing the sale and making sure that that customer doesn't have any reason to go anywhere else. And so the call center and the internet aren't supplanting the job of the site manager, rather they are augmenting and providing additional traffic so the individual at the site can do what he or she does best, and that's take care of the customer need.

Paul Adornato - *BMO Capital Markets - Analyst*

Okay, so just to review if you will, the savings that are coming at the site is coming from simply fewer hours, or perhaps turnover?

Spencer Kirk - *EXTRA SPACE STORAGE INC - CEO, Chairman*

Let me clarify that for you, Paul. The right staffing was simply this. If you have two properties that have similar demographics, equal number of units, comparable spaces, and one property is staffed at 80 hours a week and the other one clear across the country is staffed at 88 hours a week, why the difference? All we've done is rationalize what it takes to operate that site intelligently, and where we could cut hours, we have cut hours and that's the right staffing. We just need to make sure that we're consistent across the platform.

Paul Adornato - *BMO Capital Markets - Analyst*

Okay. Great. Thanks very much.

Operator

Thank you. Our next question comes from the line of Smedes Rose with Keefe, Bruyette & Woods. Please proceed with your question.

Smedes Rose - *Keefe, Bruyette & Woods - Analyst*

Hi, thanks. I just had a couple of points of clarification. You mentioned $0.20 to $0.25 of FFO from new developments. Is that from the eight facilities that are already opened, or is that including properties that are going to continue to open next year?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

That includes the properties that continue to open next year.

Smedes Rose - *Keefe, Bruyette & Woods - Analyst*

Okay, and then you said for the new properties that are leasing up at a pace that you would have anticipated but at a lower rate, what sort of gap are you seeing relative to what your initial expectations were?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

Some are very close to what we thought, 3% or 4% down, some are 10% to 12% down. I'd say the overall average is probably 7% or 8%.

Smedes Rose - *Keefe, Bruyette & Woods - Analyst*

And then I think you answered this before, but I just want to be clear. Your street rates are currently less than the in place rents, that's correct?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

That's correct.

Smedes Rose - *Keefe, Bruyette & Woods - Analyst*

Okay. And then finally, you mentioned something about the discretionary customers you think have left, but it sounds like you're getting some strength in the customer base, so what are you seeing in terms of customer mix? Who is replacing the more discretionary spend customers?

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

This is Karl. I don't think the discretionary customers have left, or lost a larger portion of discretionary customers than non-discretionary customers during that period last year and early this year when we saw higher vacates. There was a lot of stress, all consumers were feeling stress, and so obviously if you're a discretionary user, you're probably more likely to vacate than non-discretionary, but we still have lots of people that are discretionary users and we will continue to have those.

Smedes Rose - *Keefe, Bruyette & Woods - Analyst*

Great. Okay, and then the final thing, so you mentioned besides the supply that you guys are adding, you aren't seeing additional supply in your markets?

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

No. It's probably there are sporadic properties being opened here and there but in general, it's probably, this is Karl again, but this is probably, I've been doing this for 20 some years, and I would say this is probably the lowest level, maybe with the exception of 1989-1990, probably the lowest level of new properties coming online that we've had in a long time.

Smedes Rose - *Keefe, Bruyette & Woods - Analyst*

Okay. Thanks a lot.

Operator

Thank you. Our next question comes from the line of Paula Poskon with Robert W. Baird & Company. Please proceed with your question.

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

Thank you very much. Good afternoon, everyone. First question, I just want to get at the expense question in a different way. I know it's been talked about quite a bit on the call. Karl, how would you characterize, as you face tougher expense comparisons heading into next year, how would you characterize that versus the opportunity for productivity gains, whether that be as the call center stabilizes, or leveraging the fixed costs around growing the three plus platform?

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

I mean the call center, these properties pay a set amount per month for the call center. We think our call center, we did a pretty good job of estimating what the costs were going to be, and it's probably pretty comparable next year. I think that the good thing that's going on is that we don't have a lot of vendors feeling that there's strength enough to increase their prices, and in some cases we've actually been able to identify opportunities where we can squeeze the prices of some of the people providing services a little bit more.

We're also continuing to look for opportunities. There's mailings that we do, that we feel and we're seeing some opportunities to reduce our mailing costs by taking different approaches, and we're continuing to explore on utilities. There's a lot of things in utilities that where we're retrofitting properties, and not to bore you with details, but there's the T12 bulbs and T8 bulbs and the skinnier bulbs that use a lot less electricity, and so we're going to see hopefully some improvement, trying to reduce our consumption of kilowatts. And so we're working on all angles, but it's going to be to make a dramatic impact in reducing our expenses, and we're trying to run our business more intelligently, but we don't want to make cuts that are going to actually negatively impact the quality of our customer experience.

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

And can you talk a little bit about the appetite that you're seeing among the independents for the Three Plus program? Is it waning, it is increasing? Is there no real change?

Spencer Kirk - *EXTRA SPACE STORAGE INC - CEO, Chairman*

Paula, this is Spencer. I think the answer is the interest is growing. The message is getting out. We've been traveling the country talking to people, and as they've seen the performance we've been able to produce, not only in a downturn but just over the last 14 quarters, as we've been able to talk about the efficiencies of the internet and the web and call centers and national accounts, I think enthusiasm is growing, interest is growing. And the bulk of the growth that we've had over the last 12 months, the 10% increase in our national footprint, the bulk of that has come through the Three Plus program. And we've got a lot of activity in the pipeline, and we're very optimistic that it's going to continue to be a growth vehicle into the future.

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

Thanks, Spencer. Some of your peers have pointed to the rapidly rising pricing of the internet search costs. Are you seeing that as a driver among the independents to consider third party management services?

Spencer Kirk - *EXTRA SPACE STORAGE INC - CEO, Chairman*

I think it's a factor, and for us, as we look at the rising costs of being on the internet, obviously if we can grow the denominator over which we spread the cost, it gives us a greater advantage, even with rising prices.

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

And can you just give some magnitude about what those rising prices have been recently?

Spencer Kirk - *EXTRA SPACE STORAGE INC - CEO, Chairman*

I can't. I don't know. I just know that they are up significantly.

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

Okay, housekeeping question for Kent. What is your expected amount of capitalized interest for the year?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

I'm looking that up. I've got a schedule right here. I think that it's about, you know what? I've got to pull up the schedule and get that, so go on to your next question and I'll answer that.

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

Sure. On the remaining construction pipeline, is that fully funded?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

Yes, it is. Well, when you say fully funded, there's not very much more actual costs that we have to spend, and we have the cash right now to be able to fund those developments, and we're still trying to get construction loans on those properties. But irrespective of getting any construction loans, we have the money we need to fund those development projects.

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

Okay, and just to follow-up on the earlier question on development dilution, given what's happening with the early vintage properties versus the properties that are still expected to come on line next year, how long do you think we'll still be talking about development dilution? Is it 2013, 2014?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

Well, when we talk about dilution right now, it's because the properties that are opened are actually dragging down our earnings. We anticipate that by some time the end of 2010 and into early 2011 that flips, and those properties, the older properties, are generating enough net operating income to offset the negative aspect of the ones that are open, so that it's effectively at least breakeven, if not starting to be accretive. So the dilution is because it's negative; at some point we expect to be positive, but then we'll be talking about the extra amount of FFO that's not in our earnings, and that will be there once the properties can get leased up. But that's going to be another three to four years before we get the properties that are open fully stabilized.

THOMSON REUTERS

Back to your other question, Paula. The number that we have in our projections is between $3.8 million and $4 million.

Operator

Thank you. Our next question comes from the line of Mike Knott with Green Street Advisors. Please proceed with your question.

Michael Knott - *Green Street Advisors - Analyst*

Hi, guys. A question on the GAAP between street and in-place rents. Karl, you mentioned that it improved compared to 6-30-09, which I think as I recall it was around 15%. Can you just maybe give us a sense, is it 10% now, is it just a slight improvement?

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

It's 2% to 3%.

Michael Knott - *Green Street Advisors - Analyst*

So it's really narrowed a lot.

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

No, no, it's gone down 2% to 3%.

Michael Knott - *Green Street Advisors - Analyst*

Okay, so it's about 12% now? So it was 15% last quarter?

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

Yes, it's probably more like about 12%.

Michael Knott - *Green Street Advisors - Analyst*

Okay, and earlier in the Q & A, you mentioned you'd pushed street rates about 3% to 4% over 2Q. Can you just comment on what the normal seasonal pattern is on that so we can put that in context?

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

Yes, we would actually be lowering rates in this time frame.

Michael Knott - *Green Street Advisors - Analyst*

Okay. And I think earlier in the year, you'd mentioned during the phase when move outs were much heavier, you'd mentioned that tenants were very fixated on rates more so, more price sensitive than you'd ever seen before. Has that [ostensibly] changed with the improving move out statistics?

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

Yes. I guess I don't remember saying that it was - - well, we obviously really, early in 2008 got much more aggressive on rates and we have continued to be aggressive on rates, and even now, our rates are still below where they were a year ago. So we like, in a normal situation, we would expect to be having rates higher than the prior year, not less than the prior year.

So customers are still sensitive to rates; however we're finding that we might have been a little bit cheaper than, or less expensive than we needed to be, and we really worked on trying to push rates and at the same time, getting the balance to make sure that we're not hurting our goal of increasing the occupancy or improving the occupancy delta.

Michael Knott - *Green Street Advisors - Analyst*

Just to go back to my last question, can you just remind us what that street and in-place gap would have been a year ago, so at the end of third quarter 08? It was still slightly negative at that point in time, right?

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

If you're talking about the in-place versus street?

Michael Knott - *Green Street Advisors - Analyst*

Yes, that's right.

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

Yes, it would have been about $13 to $14 and now it's more like about $12 to $11.

Michael Knott - *Green Street Advisors - Analyst*

Okay, and then Spencer, I have a question on the Harrison Street deal.

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

Just to correct my percentages, it was probably dollars, not percent, what I was saying of a decrease.

Michael Knott - *Green Street Advisors - Analyst*

Got it. Okay, Spencer on the Harrison Street deal, any inferences that you drew from that whole process of essentially getting retraded in terms of what it may mean for storage values, or just appetite for institutional capital with reasonable return expectations?

Spencer Kirk - *EXTRA SPACE STORAGE INC - CEO, Chairman*

My response on that would be a lot changed in the marketplace between early 2009 and fall of 2009. For me, yes some operating fundamentals have decreased, and that obviously has some impact, but the story of storage extrapolated over a three or four year period is still very compelling. And I think that as we looked at the Harrison Street transaction, there were several reasons to continue to do this transaction, one of which as Kent eluded to is it gives us a nice joint venture partner, it validates the price point of properties in the market, and it gives us an ability to further expand our footprint in the future.

So for me, the Harrison Street take away is an awful lot changed in a very short period of time, but we need to stand back and look at the bigger picture.

Michael Knott - *Green Street Advisors - Analyst*

Okay, thanks, and then last question, just if you can tie up some comments you'd made on the sales market, I think you'd mentioned you'd seen a little bit of activity. Can you just maybe give us a little color on what you're seeing, and do you expect any opportunities to emerge that you might be able to capitalize on in say, 2010?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

This is Kent, Mike. I said earlier, there's been very limited activity on the acquisitions front. The extend and pretend comments of what's going on with CMBS loans, the same thing is taking place with banks, banks and the CMBS lenders are finding ways to extend loans. It's clear that the self storage property type is still one of the lowest default property types out there, so there are not a lot of distressed opportunities. There have been a few here and there. There have been a few banks that have called us with wanting to sell paper, which we have evaluated and made bids on, but once again, they are very hit and miss, few and far between.

So going into next year, we would expect to see a little more of that kind of activity, some distressed properties, some loans that are for sale. The majority of the stressed properties that we're seeing are lease up properties, properties that haven't reached a stabilization yet, but yet the loan's coming due and so the debt service, the NOI is not able to service the debt yet, and so we would expect to see some more of that next year. But we're not seeing or not anticipating seeing a substantial lots of self storage properties that are going to be what we think are going to be hit and miss.

Michael Knott - *Green Street Advisors - Analyst*

What would be your appetite for taking on leasing risk, given that you have some of that already in your development portfolio?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

Obviously, we're a Company that can take on leasing risk, but it's got to be at the right price that meets the objectives of what our cost of capital is, and so it would have to be at a purchase price that would make sense, but if the purchase price makes sense, then yes, that would be something we would be willing to accept, in the right markets and for the right locations.

Michael Knott - *Green Street Advisors - Analyst*

Last question. On that same topic, how would you underwrite that, what kind of return would you expect, not obviously a cap rate but sort of a total return underwriting expectation?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

Well in today's market, that number would be much higher than what it would have been a few years ago, so we would pro forma and expect to get a much higher rate of return, knowing that if the property that you're talking about is in a distressed situation then that means we should try to buy the property at as good a price as we can get. And so we would be trying to buy and try to get the best deal we could get, so that would be a very high expectation as far as rate of return.

Michael Knott - *Green Street Advisors - Analyst*

Thank you.

Operator

Thank you. Ladies and gentlemen, I'd like to turn the conference back to Management for closing comments.

Spencer Kirk - *EXTRA SPACE STORAGE INC - CEO, Chairman*

This is Spencer. We appreciate everyone's interest. Obviously, we look to the forward positive conclusion of 2009 with some guarded optimism, and we believe that the fundamentals are beginning to heal and mend, and we believe that 2010 will be a solid year for Extra Space. With that I'd like to bring the conference call to a close, and say thank you for your time today and we'll look forward to our next earnings call. Thank you.

Operator

Thank you. Ladies and gentlemen, this concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.
