FINAL TRANSCRIPT

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EXR - Q1 2011 Extra Space Storage Inc Earnings Conference Call

Event Date/Time: Apr. 28. 2011 / 4:00PM GMT

THOMSON REUTERS

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the first quarter 2011 Extra Space Storage, Inc., earnings conference call. My name is Deeana and I will be the operator for today. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session. (Operator Instructions) As a reminder today's conference is being recorded for replay purposes. I would now like to turn the call over to your host Mr. Clint Halverson, Senior Director of Investor Relations.

Clint Halverson - *Extra Space Storage Inc - Senior Director of Investor Relations*

Thanks, Deeana. Welcome to Extra Space Storage's first quarter 2011 conference call. In addition to our press release, we've also furnished unaudited supplemental financial information on our website. Please remember that management's prepared remarks and answers to your questions may contain forward-looking statements as defined in the private securities litigation Reform Act 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 those related to Extra Space Storage's development and acquisition programs, revenues and operating income, as well as 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.

Forward-looking statements represent management's estimate as of today, Thursday, April 28, 2011. Extra Space Storage assumes no obligation to update these forward-looking statements in the future because of changing market conditions or other circumstances.

I would now like to turn the call over to Spencer Kirk, Chairman and Chief Executive Officer.

Spencer Kirk - *Extra Space Storage Inc - CEO & Chairman*

Welcome and thank you for joining us today. With me are Kent Christensen, our Chief Financial Officer; and Karl Hass, our Chief Operating Officer.

Extra Space Storage occupies a unique position in the self-storage sector, which I believe warrants some discussion to provide perspective. Our strategic and operational decisions have produced a strong multifaceted growth platform. This platform benefits our shareholders, partners and employees.

Specifically, our multi-faceted growth platform has five elements that drive robust results. They are, first, industry-leading property performance propelled by a revenue management system, multi-channel marketing, and an enterprise wide IT platform that allows for real-time innovation, cost reduction and operational efficiencies.

Two, acquisitions. The acquisitions of 2010 are now adding to our FFO growth. And the addition of 26 properties, as announced, will boost 2011's results and beyond as they are fully integrated.

Three, the legacy development pipeline will give our shareholders approximately $0.16 incremental FFO as these properties come online and stabilize over the next few years.

Fourth, our third-party management business, the industry's largest, rebrands assets and places them into the Extra Space system. The result, performance equal to our own assets and the development of a quasi proprietary acquisition pipeline when our partners seek to sell their property at some future point.

Number five, our captive tenant insurance with new customer penetration rates in excess of 90% continues to be a driver of our FFO growth. Each time we add properties, we grow the customer base.

Only Extra Space Storage has all five of these levers at its disposal. The results of all of these activities allowed Extra Space to report $0.25 of FFO, beating our estimate by $0.01. Revenues were up. Expenses were controlled and NOI grew by 5.8%.

Based on our results for the first quarter, we are increasing our prior guidance by 4.3% at the midpoint. For 2011, our belief is we will produce a solid double-digit growth in FFO. I would now like to turn the call over to Karl to discuss operations.

Karl Hass - *Extra Space Storage Inc - COO*

Occupancy continued to be strong throughout the quarter. We were at an occupancy level at the end of the first quarter that we have not seen since our high mark in late 2008. Same-store rentals were relatively flat with last year, but vacates for the quarter were down almost 3%, which resulted in overall improvement of occupancy of 3% over the same period last year.

A strong in -place customer base has allowed us to continue to pass along rate increases to approximately 40,000 customers per month at increases averaging 6% to 9%. With occupancy almost 3% ahead of last year, discounts were down 7%. The rate of growth in overall tenant insurance penetration has slowed, but continues to move in a positive direction with overall penetration above 60%. These factors all combine to produce the same-store revenue increase of 4.1% for the quarter.

We continue to effectively manage our expenses and held our year-over-year expense growth to just 1.2%. This, when combined with our 4.1% revenue improvement, resulted in same-store net operating income increase of 5.8%. As a continuation of our green and sustainability initiatives, we have begun an active role out at solar panel installations.

By the end of [2000], we will have completed the installation of these panels at over 40 of our wholly owned sites. This program should reduce our utility spend by roughly 80% at these specific properties, as well as give us a substantial tax benefit. Based on the tax credits and other incentives received, the breakeven point for these capital investments is typically less than two years.

Technological innovation continue to improve our operational efficiency. As we mentioned in our last call, in late 2010 we launched a pilot program that will eliminate the need to print and maintain paper leases and allow our customers to sign and received their lease electronically.

During the first quarter we have continued rolling out this program. And as of yesterday, all of our properties are now on the electronic lease program. We anticipate that this initiative will decrease our office expense as we reduce the cost of paper and toner. At the same time, this will improve the customer experience and reduce the time it takes a customer to rent a unit.

We have continued to see a decrease in the effectiveness Yellow Pages. On the other hand, interactive marketing continues to have increased impact on our business. As more of our customers utilize the Internet and social media at some point in the buying process, and as we become more proficient in converting these rentals, we will continue to see our cost per acquisition decline.

We are focused on driving to our sites traffic to our sites and capturing every rental. A stable flow of rentals will insure we can increase rates to incoming customers. Now I will turn it over to Kent.

Kent Christensen - *Extra Space Storage Inc - CFO*

Last night we reported FFO per share of $0.25 including $0.02 a development dilution. This is $0.01 above the high-end of our guidance. The $0.01 is attributable to better than anticipated same-store results and a reduction in federal income taxes due to the solar credits. As Karl mentioned, we have plans to place solar panels on over 40 wholly-owned properties throughout the United States. As a result, we will receive credits to offset most of our income tax in the TRS. Based on our current plans we had anticipated tax liabilities of approximately $1 million.

We are working on additional enhancements that could effectively eliminate our federal income tax for 2011. This is a change from our guidance we issued earlier this quarter. Effective management of our debt maturities and capital capacity continues to be a focus.

During the quarter, we finalized a CMBS loan for $82 million with a 10-year term and a 5.8% interest rate. This transaction helps us layer our debt maturities and lock in longer-term money at favorable rates.

We are working to finalize a fifth line of credit. Once completed, these five lines of credit combine to provide extra space with a total capacity of up to $285 million. At the end of the quarter, we had borrowed $125 million for these lines, leaving us with $160 million of available capacity. Once this fifth line is completed, we will still have 31 properties remaining unencumbered.

Subsequent to the end of the quarter, we closed on the acquisition of four properties for approximately $18 million located in California, Tennessee, Texas and Utah. We have 26 additional properties under contract for approximately $153 million. We will provide more details on those transactions once we get past some confidentiality concerns of some of the sellers. It is anticipated that these acquisitions will close by the end of the third quarter.

Of the $153 million purchase price, we will be assuming approximately $80 million of existing debt. We currently have the capacity to cover the remaining balance with debt financing.

The acquisition environment continues to be very competitive with numerous buyers evaluating every deal. This environment only underscores the value of our third-party management and joint venture relationships. Three of the four acquisitions closed since the end of the quarter, and four, currently under contract, come from our joint venture and management plus relationships.

Our third-party management business continues to grow. We have increased to a total of 167 properties under management as of the end of the quarter. We should reiterate that these properties are all branded Extra Space Storage. This is a key advantage when competing in the online environment.

During the quarter we opened 4 development properties for a total cost of $34 million. These properties are located in California, Arizona, Florida, and Maryland. The two remaining properties in our development pipeline are located in California and Florida and are scheduled to be open in May and November.

Based on our results in the first quarter, adjustments to our solar program and recent and projected acquisitions, we are revising our guidance. For the second quarter of 2011, we estimate FFO of between $0.25 and $0.26 and between $1.06 and $1.11 for the full year. For further assumptions on our guidance, please refer to our earnings release. With that, I'll turn the call back to Spencer.

Spencer Kirk - *Extra Space Storage Inc - CEO & Chairman*

Thanks, Kent. It was definitely a strong quarter. I give full credit to 2100 dedicated individuals at Extra Space for the producing the performance. Now let's take some questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). The first question will come from the line of Christy McElroy at UBS.

Christy McElroy - *UBS - Analyst*

Good morning, guys. Kent, I just wanted to follow-up on your comments about funding for acquisitions. Last quarter you talked about using $50 million of free cash flow to fund $100 million of acquisitions, so effectively funding with 50% equity.

Now that you've raised your forecast to $200 million of acquisitions, you talked about funding in the short-term with debt, but how do you plan to fund that extra $50 million equity portion longer-term to get back to current leverage levels? And you didn't change your interest expense forecast. Is there some other driver that is offsetting the additional interest expense associated with higher acquisitions?

Kent Christensen - *Extra Space Storage Inc - CFO*

Based on when the acquisitions are closing, we have the availability on our lines of credit and unencumbered properties to close on all of those acquisitions. That was the comment that I made in my prepared remarks. What we were wanting to signal to the market is that we have the availability to do everything, that we are aware of, from an acquisition's perspective.

The timing of these acquisitions are geared towards the latter end of the year; and when we revised the interest expectations we had on interest rates for this calendar year and when these properties are coming online, it did not change our interest expense for this calendar year. So many of these are scheduled to be at the latter end of this calendar year so it's not impacting our interest cost for this calendar year.

Christy McElroy - *UBS - Analyst*

The liquidity is there to do the acquisitions, but you are comfortable going to a higher leverage level?

Kent Christensen - *Extra Space Storage Inc - CFO*

In the short-term, I think where your question is going is, at some point equity or some other form of helping us to finance these projects will be on the table as it always is. So we will be constantly looking at that based on when we are closing on these assets, what is happening, other acquisition opportunities that we have, it's always on the table. But what we wanted to let everybody know is we have the availability to do what we're doing right now.

Christy McElroy - *UBS - Analyst*

Karl, looking at the stabilized pool, what do you think drove the year-over-year decline in vacates in Q1? If you look at the vacates as a percentage of total units, it's about 13.5% in Q1. If I look at your data over the last five years, that's the lowest level of Q1 vacates that I have seen. Last year I think it was closer to 13.9%.

I'm just wondering, was the level of vacates this quarter sustainable or was there some other anomaly there, and should we expect to continue to see this level of net rental activity through the rest of the year in terms of rentals exceeding vacates? Sorry, long question.

Karl Hass - *Extra Space Storage Inc - COO*

Thanks for doing the analysis for me. I don't have an answer for the level of decreased vacates, other than during the recession, obviously, we had increased vacates; and we are back to probably a little bit -- maybe lower than normal, as part of our reservations and conservatism relating to the rest of the year.

Our rentals have been flat; and they have been flat through the recession; and the demand is holding, but it's not really increasing dramatically. So we are being very aggressive. We are going to hold our occupancy and do it through rates and we're going to continue to do that. And it's paid off.

Christy McElroy - *UBS - Analyst*

Lastly, Spencer, on the theme of rates and larger storage platforms being able to take market share because of brand, sophisticated revenue management and Internet presence, do you think that the competitive advantage on the Internet will diminish over time as smaller operators become more Internet savvy, realizing the cost benefit from a marketing perspective?

Spencer Kirk - *Extra Space Storage Inc - CEO & Chairman*

That is really a good question, Christy, and the answer is one of uncertainty. I would offer my personal opinion and say, the Internet is changing so quickly, it's difficult to prognosticate. Just a few years ago, it was Google. Now we've seen the rise of Facebook and Four Square and YouTube and a lot of other things, and to try and say what's going to happen, I don't know.

What I can tell you, however, is I think there will be a cost to play on the Internet; and the national platforms will have the resources to bid on search terms on whatever search engine is being used. I think that the larger operators, once again, because of their scale and ability to spread costs over a very large denominator, will, for the foreseeable future, be able to outperform, outcapture and outmaneuver the smaller operators.

Russ Nussbaum - *Dexia Credit Local - Analyst*

Hi, guys, it's Russ Nussbaum here with Christy. A really quick question, can you comment on street rents? I thought on the last quarter call there was some commentary that, while you had great success pushing rents on existing customers, street rents there wasn't as much traction there. What's going on in terms of street rates?

Karl Hass - *Extra Space Storage Inc - COO*

That continues to be the case. We are able to increase existing customers. This is Karl. But our increase, as far as street rates, they are continuing to run at levels -- now last year we were able to increase, so we're at a higher base than a couple years ago, but it's still a very, very competitive market.

On the positive side -- and this is somewhat a part of pricing -- our discounts are down because our higher occupancy results in less units qualifying for a one-month free.

Russ Nussbaum - *Dexia Credit Local - Analyst*

Thank you.

Operator

The next question will come from the line of Todd Thomas with Keybanc Capital Markets.

Todd Thomas - *Keybanc Capital Markets - Analyst*

Good afternoon, I'm on with Jordan as well. Just a first question, I was wondering if you could discuss how April has been and where occupancy is and what you are seeing today?

Karl Hass - *Extra Space Storage Inc - COO*

This is Karl. A continuation of what we've seen. It's really no stronger, but nothing to indicate that we are seeing any change in the market.

Todd Thomas - *Keybanc Capital Markets - Analyst*

So if we look back at your occupancy levels, pretty much since your IPO, I think your current occupancy level is the highest for any first quarter, and if we look at that, we would probably expect it to be an 87% or 88% pretty soon and by the second quarter or so. And I suspect you are on track to be there, seasonally even higher above your target occupancy level. I'm just wondering if you can comment on that and what you're expecting to see there.

Karl Hass - *Extra Space Storage Inc - COO*

You are correct in your assessment that we will see occupancy continue to increase. We will keep our [delta to last year] probably at that same 3%, 2.8% to 3%. That's what's driving our -- that's our driving strategy right now.

Todd Thomas - *Keybanc Capital Markets - Analyst*

So with the lower move outs and with your occupancy there, do you expect to be able to increase rates even more to existing customers than you previously anticipated or maybe dial back on concessions to a greater extent?

Karl Hass - *Extra Space Storage Inc - COO*

On existing customers, it won't have any impact. On new customers coming in, we do hope -- we are going to be at a level where we should still continue to have reduced discounts because of higher occupancy and thresholds, taking units off one-month free and moving them to one-half-month or maybe no-month free. We hope to be able to get a little bit of traction on rates, but quite frankly, we are not seeing anything dramatic in that area.

Todd Thomas - *Keybanc Capital Markets - Analyst*

So short-term, you expect your occupancy to go above your target occupancy level, which implies though that you would be leaving some revenue on the table to some extent; is that fair or is that just a short-term phenomenon?

Karl Hass - *Extra Space Storage Inc - COO*

I don't think it's a short-term phenomenon. We are aiming for an annualized occupancy in the range between 85% and 90%. So our occupancy will fluctuate. In the high period we'll probably be above that 87%, 88%. And in the low period we will be down to 86% to 85%. And that's what's really driving things.

We have no intent to leave any revenue on the table other than making sure that we hold our occupancy.

Todd Thomas - *Keybanc Capital Markets - Analyst*

Okay. Just switching gears, lastly, on to the acquisitions. I was just wondering if you can give us a sense of what the average initial yields look like on the properties that are under contract and what the occupancy levels are, if they're comparable to your existing portfolio.

Kent Christensen - *Extra Space Storage Inc - CFO*

Overall the occupancies than our existing portfolio. We have been pretty conservative in our underwriting of these assets and are only expecting a 3% to 4% growth; on the revenue side, on the properties that we are acquiring, obviously we're loading in our expenses on to the pro forma of these assets; and we're in the mid-7s range, is what we are expecting these properties to produce.

Todd Thomas - *Keybanc Capital Markets - Analyst*

Okay. Thank you.

Operator

And the next question will come from the line of Michael Billerman with Citi.

Mark Montana - *Citi - Analyst*

Hi, this is Mark Montana here with Michael and Eric. I just had a question on the solar investment. You mentioned that you can recover your cost in a little under two years. I'm wondering if there's potential or why it wouldn't make sense to expand that initiative beyond the 40 properties that you have slated.

Kent Christensen - *Extra Space Storage Inc - CFO*

This is Kent. It's a new programs so we are rolling it out slowly. We want to make sure that it's going to work effectively and in the manner that we are projecting. These projects take a little bit of effort and work to get done, so focusing our management time on this is, what we think for this calendar year, is the appropriate amount.

You are correct, as we go down the path, if we find it to be as successful as we are talking about, we could expand it, but we think that for the numbers that Karl and I have talked about for this calendar year, we think is the right amount of level of effort for this year. And then on a yearly basis, we will be evaluating what to do in the future.

Mark Montana - *Citi - Analyst*

And that total cost on that, that you're expecting for this year?

Kent Christensen - *Extra Space Storage Inc - CFO*

$18 million.

Mark Montana - *Citi - Analyst*

Moving to the balance sheet, you mentioned you have about 35 or 37 assets that are unencumbered at the moment, that would give you addition proceeds, if needed.

First of all, are you comfortable encumbering your entire portfolio? And secondly, I just had a question on the exchangeable notes when would you start looking at those?

Kent Christensen - *Extra Space Storage Inc - CFO*

What's been very interesting in the last 18 months is that we have found a number of banks that are willing to do lines of credit; and as I stated in my prepared remarks, we're finding banks that will put encumbrances on assets, but then allow us to have the capacity. So if we find other banks that will do lines of credit, then, yes, we would encumber those assets to make sure that we have the availability against those assets. Those are continuing discussions that we're having with banks.

The second part of your question was exchangeable -- clearly, if you would have asked me 18 months ago, I would've said that those exchangeable notes would never have been able to get back in the money, but we're now approaching the point where that's possible.

We have looked at that. I'm assuming that's what your question is related to, is whether or not they are going to convert.

Mark Montana - *Citi - Analyst*

Right.

Kent Christensen - *Extra Space Storage Inc - CFO*

But the current document doesn't allow us or the owners of those notes to put or to call those notes until 2012. So until then, we're all locked out; neither one of us can do anything until that time.

Michael Billerman - *Citi - Analyst*

This is Michael speaking. Just thinking about the balance sheet, maybe I'm reading too much into this, but you were just quick to reinforce the point that you wanted to make sure that The Street understood that you have enough liquidity on hand just by levering up and using the capital resources that you have to be able to close on the acquisitions.

But is that effectively saying, look, we don't need to raise equity today to do anything or sell assets or do a new joint venture, but if we want to go further than this, without pushing debt to EBITDA to much more significant levels, we would need to raise equity, whether it be asset sales, joint ventures, common or even doing another convert, the balance sheet needs to be replenished somehow before we go off and buy another $200 million of assets.

Spencer Kirk - *Extra Space Storage Inc - CEO & Chairman*

Michael, it's Spencer. The answer is this, Extra Space has tried to be very disciplined and be very careful on dilution. Historically there was a lot of pressure to sell at $6, and then we're told you ought to be selling at $12; it would be a good thing. And we were told to sell at $18.

What Extra Space has realized is that to fund a growth vehicle and a growth company -- I talked about five levers of growth -- to continue to propel growth, obviously we want to do some in a balanced way, plus or minus a leverage neutral approach.

What we've wanted to signal to The Street is, look, we have the capacity today. We've got almost five lines of credit with $160 million available. We have got 31 unencumbered assets. We have a lot of work to do to get these acquisition properties across the finish line. And at some future, today I'm determined, when it's appropriate, we will look at all of the available options in the market and choose the one that best suits our need at the time.

I think Extra Space is in a good position to transact what it needs to transact today and in the near future, meaning over the next six months, without pressure being put on us, exogenous pressure. And with that, at the appropriate time, we will look to all available options and make the best choice in the interest of the shareholders.

Michael Billerman - *Citi - Analyst*

But Spencer, why wait? I do agree that you played the cycle well and you've gotten the benefit and you haven't had to issue dilute of equity. But why bring in and lever up more by bringing $200 billion of assets on the balance sheet, which will be all levered, right? Whether you have lines of credit or you encumber other assets, that's $200 million of assets fully funded with debt.

I just don't understand why you wouldn't -- why wait, and put an ATM in place and start to match fund deals on an equity and debt basis, your desired ratio.

Spencer Kirk - *Extra Space Storage Inc - CEO & Chairman*

We have looked at ATMs. We've looked at all available options, Michael. As we said earlier, these acquisitions right now are forecast to close in the third quarter. We don't feel right now that we have to just act and do this.

I might remind everybody that right now, if you look at our debt-to-equity ratio, whether you use debt to EBITDA or looked at debt-to-gross asset value or some other metric, but generally it's in the range of the low 40s. It's down from where it was. Our dividend is still low. We are still delevering naturally by the retention of earnings that aren't being paid out in the form of higher dividends.

I think we have been prudent. And I could just simply say, if I've looked back historically, I think we have acted appropriately. And at some future point, we will do so with regards to additional capital.

Michael Billerman - *Citi - Analyst*

I was just more -- just so I'm understanding. The [re-market] is up 10% year-to-date. You're up almost 30%. We don't know what the outlook is going to be like 6 to 12 months down the road. You don't ever want to be in a position where you've taken on a lot of liabilities and the cost of that equity rises. It would appear with your stock trading at a 6 cap and 21 times FFO, that that's not a bad equity cost to replenish the balance sheet.

Spencer Kirk - *Extra Space Storage Inc - CEO & Chairman*

That's correct. Once again, Michael, all options are on the table; and the management team and the Board is reviewing them frequently and as needed.

Operator

The next question will come from the line of Michael Knott, Green Street Advisors.

Michael Knott - *Green Street Advisors - Analyst*

Just a question on the portfolio acquisition that you have under contract. I have a couple of questions, one, can you just give us some comments on the overall sales environment in which you secured this deal; is there more product on the market, et cetera? And also, can you just help us understand the quality of that portfolio relative to yours and more specifically how does the mid-7s cap rate, what does that imply for the value of the existing Extra Space portfolio. Is it a 50-bit gap or any comments or color that you can provide on that would be helpful?

Spencer Kirk - *Extra Space Storage Inc - CEO & Chairman*

This is Spencer. I'll take the first two questions. I'll let Kent talk about the third one. The portfolio for us is a nice addition -- or these properties that we've announced, the 26 properties, because they are largely in markets where we are already doing business. And bringing them in should be seamless for us.

With regards to the asset quality, I would say its right down the middle of the fairway. It's certainly not as nice as our good stuff, but it's certainly not as bad as some of the stuff that's on the tail end. I would characterize it as neither adding to nor diluting from the middle-of-the-road score, you would get to the Extra Space portfolio.

As we look at the overall acquisition environment, I would comment, Michael, going to your first inquiry, there are some transactions out there that are not -- there are not as many as we had hoped would be at this point, so it's a very competitive environment for each and every opportunity with lots of buyers. We are still actively out there looking at virtually every deal that would make sense. The metric for us is, is it going to add value to this Company operationally and will it be accretive to our shareholders?

If you look at a mid-7s range, we think that given where we are today, we are doing a good job of putting properties into our system that add operational efficiencies and add incremental FFO that will benefit us for years to come.

Michael Knott - *Green Street Advisors - Analyst*

Thank you.

Operator

The next question will come from the line of Paul Morgan, Morgan Stanley.

Sarao Pilla - *Morgan Stanley - Analyst*

This is Sarao Pilla for Paul Morgan. You mentioned about $80 million of debt, which I assume was part of the acquisition. I was just wondering, what is the interest rate on that debt that you're assuming, or if you could share that?

Kent Christensen - *Extra Space Storage Inc - CFO*

It's in the high fives.

Sarao Pilla - *Morgan Stanley - Analyst*

Great. And then can you comment a little bit about the lowered development dilution which you mentioned? Can you quantify that? Is that because of better-than-expected lease up on some of these development deals? What is the $0.16 of incremental FFO, which you mentioned, if you can just give us some more color on which years do you see that spread out to?

Kent Christensen - *Extra Space Storage Inc - CFO*

It's from the calendar year from 2011, this calendar year through 2014. I'm making the assumption based on what you said about the lower number. The number is lower from what we've previously talked about, and that's just because time is going -- we are going down the path on that continuum of when that becomes very accretive.

As we move down that line, we are getting closer and closer to these properties being accretive. The number hasn't changed. Our projections on those properties are very much in line with what we anticipated; it's just that we're further down the path.

Sarao Pilla - *Morgan Stanley - Analyst*

Got it. Just lastly, wondering how your discounting on the Internet pricing, currently trending in April.

Karl Hass - *Extra Space Storage Inc - COO*

This is Karl. We are more aggressive on our Internet pricing than if a customer walks into a store. But it really hasn't changed any from same time last year.

Operator

The next question will come from the line of David Toti with FBR Capital Markets.

David Toti - *FBR Capital Markets - Analyst*

Good afternoon, guys. I just want to follow up on Michael's question. Did you mention, in context of expanding equity, expanding your JV relationships or delevering via JV given that you have a couple of conduits open already?

Kent Christensen - *Extra Space Storage Inc - CFO*

As Spencer has talked about, when we look at alternatives that Extra Space has been growing our business, joint venture relationships is always one of those that we continue to look at. We don't have anything that we've announced or anything that we have talked about with any of our partners, but that is always an option for us.

David Toti - *FBR Capital Markets - Analyst*

Great. Can you just update us on your recent discussions with your larger joint venture partners, have any change in tone or expectation around her relationships?

Kent Christensen - *Extra Space Storage Inc - CFO*

Unanimously, with all of our partners, they are very happy with how our product has performed. I think you have seen in our public numbers how the joint venture properties have performed compared to ours. All of our partners are very happy. Many of them are in the same boat we are, which is, they have cash and they would be very interested in buying additional assets.

Actually, in some cases we do compete with a couple of our partners when we do go out and bid on things. We might be bidding and some of our partners might be bidding; and they will then come tell us, if they win the bid, that they would want us to manage the assets. But obviously we're not having any conversations with them as we're doing the bidding. It's only after the fact that we become aware that someone has been on something. They are very happy and many of them would like more self-storage products.

David Toti - *FBR Capital Markets - Analyst*

Great, very helpful. Lastly, along the thoughts of some of the questions Christy was asking, and maybe I missed this, is it your sense that if your rental volume was flat but your vacates dropped, that perhaps you didn't push on rents as much as you could have and that we might see you be a little bit more aggressive on rent increases going forward?

Kent Christensen - *Extra Space Storage Inc - CFO*

I'll take that, Dave. I think that the assumption that you've made that there is some correlation between move-out activity and rental increases. That's what we have discovered is that there is very little correlation between rental increases that you give and the rate of move out.

We have found through our surveys and the studies that we have completed that if you increase a tenant's rent by, say, 20%, you can cause them to move out. But at a rate that is appropriate, you can get a rental increase and not create a move out. So, yes, to answer your question, if we were to raise our rents 20%, we probably could increase our move-out activity, but that's at a level we don't think is appropriate.

David Toti - *FBR Capital Markets - Analyst*

I know you guys ran a couple of specials; you ran a couple of tests. Have you actually done that in any of your markets where you push rates to absurd levels to see what the impact is?

Karl Hass - *Extra Space Storage Inc - COO*

We do all variations and that's how we arrive at the percentages that we've gotten to. I will tell you that the last thing we want to do is try to turn around the change in the vacates, increased vacates, because in most cases after customer's been with us for a while, they are paying more than the customer that is coming in new. So it's not a win-win proposition for us.

What would happen is if we did increase vacates and we want to keep our occupancy gap, we'd end up having to get even more aggressive on our street rates, so it would have even more of an impact.

David Toti - *FBR Capital Markets - Analyst*

That's helpful, thank you.

Operator

The next question comes from the line of Smedes Rose, KBW.

Smedes Rose - *KBW - Analyst*

I was just wondering on the deals that you expect to close on the assets; is that one or two largest portfolios or is it a number of one-off opportunities. And also, did you source any of them through your third-party management platform or are these coming to you from other areas?

Karl Hass - *Extra Space Storage Inc - COO*

There is a portfolio and there's also some one-off properties included in that 26 number. And 4 of the properties of the 26 are coming from our third-party or joint venture relationships.

Smedes Rose - *KBW - Analyst*

Thank you.

Operator

And the next question will come from the line of Paula Poskon, Robert W. Baird.

Paula Poskon - *Robert W. Baird - Analyst*

Just to stay on the new acquisitions and the quality, do you have any plans for repositioning CapEx?

Kent Christensen - *Extra Space Storage Inc - CFO*

This is Kent. Including in our underwriting for these assets will be the appropriate amount of dollars that we need on each and every one of the assets for us to bring the asset up to what we would classify as the Extra Space standard.

So as we are announcing and given more details about the acquisitions of these properties, we will communicate to you what it is, the amount of CapEx. But what we can tell you is that in some of the assets we acquired, there's very little; and others, there's quite a bit, based on what we believe we need to do to get that asset up to an appropriate level.

Paula Poskon - *Robert W. Baird - Analyst*

Thanks, Kent. Based on the lease of trends that you are seeing in the development properties and overall in your portfolios, what are your expectation for time to stabilization for the last projects that are delivering out of the pipeline?

Kent Christensen - *Extra Space Storage Inc - CFO*

The historical average of all of our properties, as we've said before, two to three years depending on which area in the country that they are in. Our expectation right now is that what we would pro forma on these assets. Clearly we are headed into an environment with very little new development coming into our space that these properties could lease up faster than the properties that opened essentially three years ago. But we are not projecting that. We are projecting that they're going to be the normal lease-up time as the other properties.

Paula Poskon - *Robert W. Baird - Analyst*

Question for Karl, the Florida occupancies were vastly improved year over year. Can you just give some color on what's happening in the Florida markets and on the flipside what happened in Seattle?

Karl Hass - *Extra Space Storage Inc - COO*

Florida, if you go far enough down, you eventually come back. I think we do have a great team down there and they are doing a good job, but it's also been through five years or four years of just really tough periods; and we're coming back and we feel good about it.

Seattle is an aberration -- it's hate to taint. It's really Tacoma. We bought three properties in Tacoma, Washington, that are tied to the military. When we bought them, they were 99% occupied. And there is a certain phenomenon for properties that are near military bases. They have big ups and big downs, unrelated to anything we do. It's certainly much bigger than us. Those three properties just saw a big drop in US military activity. I'm not sure I can tell you right now whether it's deployments or people coming back or people going out, but they come and go. Overall Seattle is a good market.

Paula Poskon - *Robert W. Baird - Analyst*

Thanks, Karl. One final question for Kent. What are the primary drivers for your lower assumption on expense growth?

Kent Christensen - *Extra Space Storage Inc - CFO*

So far this calendar year, our property taxes have come a little lower than what we had expected. That still could change between now and the end of the year. We have not been notified of any substantial jurisdiction of any substantial increases in taxes. We budgeted a higher amount and it has come in slightly lower. Our utilities costs have come in slightly lower than what we expected.

In total -- and we expected our repairs and maintenance with the snow and other things that occurred in January, February, March to be a little higher and it came in a little lower. So it's the combination of those three items along with, overall, our costs are coming in a little less than we expected.

Paula Poskon - *Robert W. Baird - Analyst*

Thanks very much.

Operator

The next question will come from the line of Todd Stender, Wells Fargo Securities.

Todd Stender - *Wells Fargo Securities - Analyst*

One quick one. When you are looking at occupancies in markets like Phoenix, Tampa, Orlando, when they're up in that 500 basis point range, would you say that markets like those, that still remain in recovery mode, may be more sensitive to rent increases, even though their occupancies are in the mid- to high-80% range?

Karl Hass - *Extra Space Storage Inc - COO*

This is Karl. Are you talking about existing customer rate increases?

Todd Stender - *Wells Fargo Securities - Analyst*

Yes.

Spencer Kirk - *Extra Space Storage Inc - CEO & Chairman*

No, we really haven't seen that. And I would go back to Kent's point, as long as we stay within our band, the band that we think is reasonable, we pretty much do pretty similar increases in all markets.

Todd Stender - *Wells Fargo Securities - Analyst*

Thank you.

Operator

And the next question will come from Tayo Okusanya, Jefferies & Company.

Tayo Okusanya - *Jefferies & Company - Analyst*

In regards to street rates, I know you mentioned things have remained a little bit tough out there and somewhat competitive, but when you guys do your market surveys, in general do you feel that that situation is going to remain over the next six to nine months or do you believe that the market is starting to firm up a little bit and at some point, the ability to raise street rates becomes easier to do and that competition will follow if you do do that?

Karl Hass - *Extra Space Storage Inc - COO*

I don't know about competition following. I think we and Public Storage both -- basically, everything related to our street rates is tied to keeping our occupancy at the level we want to keep it. So we will adjust rates based on the demand. Right now we have had the benefit of the vacates going down and that is helping us.

We expect things -- we hope things, will get better because there's really almost no new competition coming out of the pipeline, and so that has to help in the long run. But we haven't seen that spike in rentals that we'd like to see that would really make us comfortable that we can really go at it aggressively. We will go at it aggressively when we start to see rentals start to come on stronger.

Tayo Okusanya - *Jefferies & Company - Analyst*

Great. I have one other question, in regards to your re-insurance program, you had some pretty good growth this quarter. Could you talk a little bit about what's going on in that program and what your penetration rates currently are?

Spencer Kirk - *Extra Space Storage Inc - CEO & Chairman*

Tayo, it's Spencer. Our penetration rates for new customers walking in the door is north of 90%. Existing customer is north of 60%. We've worked diligently to make sure this is something where we are maximizing the result. The tenant insurance program, it is but a component of what we are doing in this. We look at how to think what is going to come next, I would say we are getting in the range of diminishing returns of what additional growth that we can drive in that because not 100% of your customers are going to take it; and you also have legacy customers that have been there for a long time that you're not going to convert over. So we think that we've done pretty well. There might be a little bit more, but not a lot.

Tayo Okusanya - *Jefferies & Company - Analyst*

Congratulations on a great quarter.

Operator

The next question will come from the line of Ki Bin Kim, Macquarie.

Ki Bin Kim - *Macquarie - Analyst*

Thank you, and congratulations on a good quarter. This year looks pretty strong for same-store [NY], and perhaps next year. But further out longer term, what does same-store NY look like for your portfolio?

Spencer Kirk - *Extra Space Storage Inc - CEO & Chairman*

Ki Bin, it's Spencer. Once again, my opening remarks pointed to a multifaceted platform for growth. As we look at that platform over the next several years, I don't see the platform changing a lot. And even into 2013, 2014, I think the same drivers of growth today will still exist and I still believe that we will be able to produce decent FFO growth sequentially quarter-over-quarter and year-over-year; and this is not just a one-time phenomenon.

Now with that being said, there could be highly disruptive macro events in our economy or the world that could derail anything that's going on. But all things being equal, I would say my opening comments were pointed at talking about strategic and tactical decisions that this Company has made over the last several years that have put us in a unique position to help drive growth in 2011, 2012, and beyond.

Ki Bin Kim - *Macquarie - Analyst*

Any range or numbers that you could put behind that?

Karl Hass - *Extra Space Storage Inc - COO*

I would say, look at the historical numbers; and hopefully Extra Space will do a bit better than that in terms of what this type of asset does, because we have five levers that we're pulling or pushing depending on what's going on. And to bracket it into specific numbers, Ki Bin, I would not be comfortable doing that right now.

Ki Bin Kim - *Macquarie - Analyst*

That's fair enough. In the past couple months, I noticed that you guys significantly decreased the usage of free rent, maybe by half-month increments. From what I saw, at least more than half of your properties.

I was wondering if you have an update on how that's taking with the customers and what kind of feedback are you getting from that?

Karl Hass - *Extra Space Storage Inc - COO*

This is Karl. It's not really -- it's tied totally to occupancy. We have certain thresholds above which -- and it's by unit type -- that if the occupancy gets above that level, we don't feel like we need to offer a full month free, because we know if that first person doesn't rent that comes, there's going to be somebody behind them; and we don't have that many units ready, left to rent. That's what we see is the continued upside of the higher occupancy. We hope that this spring that will continue to come into play.

Ki Bin Kim - *Macquarie - Analyst*

Any update on April trends, in terms of whether it be traffic or street rates or year-over-year occupancy?

Spencer Kirk - *Extra Space Storage Inc - CEO & Chairman*

No significant, really, change from what we've seen so far this year.

Ki Bin Kim - *Macquarie - Analyst*

Last question, what allowed you to win on the bid for that $170 million acquisition? Was it just purely on price or speed to market?

Karl Hass - *Extra Space Storage Inc - COO*

The dollar amount you just said -- there's not one property that we are acquiring, one group of properties that we're acquiring, for that. It's made up of a number of different individual and one portfolio, but a whole bunch of individual properties. What I can tell you was that on most of the acquisitions that we are bidding on, we are not the highest bidder. We have been able to be successful bidder because we are a company that has become very well-known for executing on our agreements that we have. When we put something under contract, we end up executing on those contracts and we've become very well-known for that.

And so in a number of instances, we have been selected as the successful bidder because of our reputation, and the company that we are, we have the cash. There's no question about our ability to close, those kinds of things. So that's been one of the reasons, at least -- what I'm telling you is what brokers are telling me, so hopefully that information I'm getting is accurate, but that's why we are told that we are selected.

Ki Bin Kim - *Macquarie - Analyst*

Do you have any sense for what the highest bid was? On average, are you 5% below the highest bid, but because you have the cash into it quickly, you're getting it done or is it 10%. Do you have a sense of what that is?

Karl Hass - *Extra Space Storage Inc - COO*

It wouldn't be more than 5%. It would be less than that, but in each deal it would be a different percentage.

Ki Bin Kim - *Macquarie - Analyst*

Okay, thank you.

Karl Hass - *Extra Space Storage Inc - COO*

The bids that are coming in, from what the brokers are telling us, is that the people who are bidding right now are being pretty disciplined in how they are doing their underwriting; and all of the people who are bidding are coming in on their bids in a very tight band. So it doesn't appear to us that someone's after outbidding everyone else. All of us are pretty close on the bids, and small little differences are making the difference as to why one person is selected compared to someone else.

Ki Bin Kim - *Macquarie - Analyst*

Thank you.

Operator

And the next question comes from the line of Chris Pike, Makinson.

Chris Pike - *Makinson - Analyst*

I just wanted to tie together some of the commentary regarding future growth and the rental rate topic. Based on industry data that I have here, if you look back at, say, the post-2000 year, the industry in general saw some pretty rampant rent growth. Since that time, it's oscillated up and down, but really pretty much flat.

So I'm just wondering, as you guys look forward to the next recovery here as the economy mends, is there any evolution in various demand drivers that you believe can get the industry back to similar type rent growth that we saw, let's say, in the 2003 to 2007 time period?

Kent Christensen - *Extra Space Storage Inc - CFO*

Chris, this is Kent. I think you've hit on a point that we have been debating here internally, which is that, as you've stated as we've come out of the previous downturns, the self-storage product type generally did quite well in the two and three years following a downturn. What drove a lot of that however was that we saw an increase in rentals and we were able to then push our asking rents.

Our reason for being a little more cautious on this downturn is that we have not seen that. This really does feel different to us as far as, and coming out of this downturn, how it's going to play out. We are headed in the right direction. It's positive. We are going up, but we have not yet seen our ability, as Karl said earlier, to push our asking rents because the number of people renting is just not there. Now, you could say that that's because there is less of a demand overall in the United States for self-storage or it could just be that this recession was so substantial that it's caused a little bit of weakness in our product type. We don't know which of those it is, but what will turn that around will be the economy turning around. Once the United States economy gets better, then I think you're going to see a return to the self-storage product type being able to grow at a faster pace.

Spencer Kirk - *Extra Space Storage Inc - CEO & Chairman*

This is Spencer. Just one comment on top of what Kent has said, because this recovery has very different characteristics. With that being said, I would say there's one element that gives me some personal optimism; and that is, unlike 2003 to 2007, when massive amounts of new supply came into the market, with this recovery going forward there is virtually no new supply coming into the market. And for the existing operators that have assets, I think it bodes well for whatever economic on a macro basis might take hold.

So, yes, the economic recovery has a different shape. The comparison is not perfect. We're hoping for some things, but there is one fundamental characteristic; and that is, there is very little to no new supply coming on board; and that is going to bode well for a lot of operators.

Chris Pike - *Makinson - Analyst*

I guess inherent there in your answer, and if you overlay your views -- Spencer, I believe you said a couple of moments ago that you should really look at historical growth rates in earnings to give a good understanding of where you guys may be in 2012, 2013 But inherent in that, it's really going to be an external road story, because from what you are telling me, at this point in the recovery as we continue to mend, you guys haven't really seen any upside in those traditional levers that have driven internal growth. With that, it sounds to me like you are just left to -- it's an allocation issue. Are we buying accretively?

Spencer Kirk - *Extra Space Storage Inc - CEO & Chairman*

Chris, this is Spencer. The answer is we will continue to buy accretively, we believe that we've modeled accurately. In the interest of time, I would simply say there are external and internal opportunities for growth; and I would just look at our expense control and some of our innovations and things that we are doing that have given us best in class performance.

I think it's an amalgamation of internal and external efforts that hopefully will propel us going forward. I'm very confident about Extra Space and where it is positioned, not only today but for the future.

With that, it is at the top of the hour. We appreciate your interest in Extra Space. We need to bring this call to a close. We look forward to the next conference call. Thank you very much.

Operator

Ladies and gentlemen, this concludes today's presentation.
