FINAL TRANSCRIPT

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PRESENTATION

Operator

Greetings and welcome to the Extra Space Storage first quarter 2010 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, Clint Halverson with Extra Space Storage. Thank you, Mr. Halverson. You may begin.

Clint Halverson - *EXTRA SPACE STORAGE INC - IR*

Thank you, Rob. Welcome to Extra Space Storage's first quarter 2010 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 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, 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 estimates as of today, Tuesday, May 4, 2010. 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 - Chairman & CEO*

Hello, everyone. Thank you for joining us today. With me are Kent Christensen, our Chief Financial Officer, and Karl Haas, our Chief Operating Officer. Since we spoke in late February, the economic recovery appears to be gaining more steam, as does our property performance. As I noted in both the second and third quarters of last year, we began to see some signs of bottoming out, but we were reluctant to call an inflection point. The strengths did not indicate a V-shaped rebound, and given our limited visibility, we were not ready to sound the "all clear" bell.

Several quarters later, improving operating and business fundamentals have persisted and must be acknowledged. For the first quarter, we reported $0.19 of FFO per share. (inaudible) is up, occupancy is up, tenant insurance income is up, tenant insurance income is up. We've improved our balance sheet and offset the use of cash. It is important to note that during the quarter, we completed and brought online one state of the art development project. This property, along with the remainder of the development pipeline and existing lease-up assets will combine to add an incremental $0.24 to $0.27 of FFO to our earnings over the next four to five years. We made it clear during the downturn that storage is recession-resistant, not recession-proof.

We see further evidence that this hypothesis, based on the performance of our portfolio, the storage industry is tied to the health of the economy to some extent. We are eager to see the boost in self-storage demand from improvements in job growth, the strengthening housing market, and generally rising consumer sentiment. This is likely to be a gradual recovery back to pre-recession levels. However, we are confident that our high quality portfolio, advanced operating platform, embedded development (inaudible) and lack of new self storage supply will provide a base for solid results going forward. I will now turn the call over to Karl to discuss operations.

Karl Haas - *EXTRA SPACE STORAGE INC - EVP & COO*

Thanks, Spence. Overall, we are pleased with the way our platform has performed in the first quarter. Our same-store performance was solid given the operating conditions with same-store net operating income down just 0.3% from the same time last year, compared to down 4% in the fourth quarter 2009. Revenues were down only 1% year-over-year versus minus 6.9% in the fourth quarter. Our same-store expenses were down 2% driven by lower utilities, property taxes, and insurance. Receivables continue to trend at historic lows.

We gained 1.8% in same-store occupancy delta, mostly from the impact of lower vacates, which were down 8.5% from the first quarter 2009. This compares very favorably to the 1.1% delta in December 2009. This has been the trend we have observed over the last 12 months, and we are watching carefully as we enter our busy season. New rentals were down a bit year-over-year, mostly due to a slow February which was driven by bad weather in the East Coast. In April, we have seen a welcome pickup with a 6% increase in rentals over 2009. Revenues have improved significantly from our year-over-year low of down almost 5% in September '09, and we have increased positive year-over-year revenue delta improvement. We have seen increased year-over-year revenue delta improvement each month since, and (inaudible) where asking rates are now up 7% over last year. We continue to find the tools and analytics that allow us to test pricing and optimize our yield.

We are achieving growth in rates and occupancy while offering pricing flexibility to our customers. Meaning that we are pricing based on the channel. Additionally, we've continued to implement our existing customer rate increase program. We are still seeing no material increase in move-outs due to these rate increases. At our National Sales Center, which has now been in place over a year, we continue to meet or exceed our initial performance expectations. We continue to improve our personnel and approach to handling calls, which is resulting in improved conversion rates month after month.

We don't mean to brag, but our NSC sales people do an excellent job and we'll invite any of you to call them and put them to the test. Just make sure you have a credit card ready when you call. You will find a knowledgeable and aggressive sales team in place, as good if not better than the call centers of any of our competitors. We believe that our call center is a competitive advantage that will help Extra Space drive our performance over time, and will continue to get even better. As Spencer said, the turnaround of our business is promising as the economy continues to stabilize. While we strongly believe that it is also a function of our robust operating platform, our technology, our scale, our superior locations, and our driving of the basics of the business. As you know, we emphasize a revenue-managed program, the quality and training of our people and constant focus on technological innovations to make the business even more efficient. Now I'd like to turn it over to Kent.

Kent Christensen - *EXTRA SPACE STORAGE INC - EVP & CFO*

Thanks. Last night we reported FFO, including the diluted impact of our development program of $0.19. This was $0.02 ahead of the top end of our guidance range. Property performance, tenant insurance, interest costs and G&A all contributed to our earnings coming in ahead of our estimate. During the quarter, we closed on our previously announced 19-property Harrison Street Joint Venture, which assumed $101 million of debt. We also paid off $45.5 million of secured mortgages during the quarter.

We have $100 million of debt that is maturing in August, and we'll be using our cash on hand to retire this debt. We are also analyzing the balance of our maturities to identify loans with minimal prepayment penalties to further reduce our outstanding debt. Despite the short-term dilutive nature of carrying $100 million in cash in our balance sheet, it affords us security and flexibility. We currently have term sheets for an additional $106 million in secured financing. As of today, we have $108 million of cash and $50 million of capacity on our undrawn line of credit, for a total of $158 million. We will continue to put loans on our unencumbered properties to address our remaining 2012 maturities and beyond. We currently have 61 unencumbered wholly-owned properties on which we can place loans.

Out of 70% loan-to-value and a 7.5 cap rate, we believe we could receive loans in the amount of $236 million on these properties. The acquisitions environment remains stagnant. There is very little activity. We are looking at potential deals and remain diligent in keeping our pulse on the market. We do continue to see some of the same properties over and over again being marketed. Most of our acquisition discussions involve new lease-up type assets. We're seeing good traction in our third-party management business.

We've increased our properties under management by 18 and have over 142 properties in our pipeline. Given the incremental improvement in our business, we are increasing our annual guidance range for FFO to $0.78 to $0.84 per share. The increase is driven by an improved outlook in our same-store performance, including higher tenant insurance and lower than expected interest rates. Including tenant insurance, our annual same-store range is now negative 5 to positive 1. We also adjusted our same-store expense assumption to flat to up 2%. These changes result in a change in our annual same-store NOI guidance to a negative 2 to a positive 1.5. As visibility for this calendar year continues to improve, we will adjust our forecasts accordingly. With that I'd like to turn the call back to Spencer.

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

Thanks, Kent. First, I want to thank you for your interest in Extra Space. We sincerely appreciate it. Secondly, I want to thank and compliment our excellent team on their focus and execution in the first quarter. I'm confident they will continue to perform well for the rest of the year.

Improvement in our business is evident. We believe that the pace of improvement will be steady. Going back to last year, I spoke very clearly about our lack of visibility into the future, given the unprecedented financial and economic upheaval. Up until several weeks ago, we remained reluctant to translate the improving trends into more optimistic guidance. The current economic growth from the recent deep recession is approximately one-half the growth rate compared to previous recessions. Therefore, our internal prognostications don't see the recovery as a V shape but more as a Nike swoosh, incremental improvement with a moderately positive slope. Clearly, a healthier economic environment will be good for Extra Space and the industry as a whole.

Our pricing strategy, our ability to improve occupancy and the lease-up of our development properties will provide significant opportunities for growth. We believe our balance sheet, capital market flexibility and our joint venture and third-party relationships position us to capitalize on potential external growth opportunities. Self-storage business has been a good place to be during the downturn, and we are encouraged by our future prospects. We'll now welcome your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. We will now be conducting the question-and-answer session. (Operator Instructions) Thank you. Our first question is coming from the line of Michael Bilerman with Citigroup. Please proceed with your question.

Unidentified Participant - - *Analyst*

Hey, guys. It's actually [Eric Wolfe] here with Michael. In just looking at your guidance now versus when you issued in late February, pretty much every revision seems to result in a positive impact FFO aside from the increased development dilution you're expecting. Is that simply just from you pushing back the completion dates, or are you expecting a slower lease-up as well there?

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

This is Spencer, Eric. The assumption that we've used on that is that the lease-up is continuing, but we are seeing somewhat softer pricing. And the market's healing and we hope that the pricing will return to more normal levels. But I think the basic assumption is, yes, it might be slightly slower but the primary reason is the rates are off a bit.

Unidentified Participant - - *Analyst*

Okay. Why do you think you're seeing that given some of the positive momentum you're seeing on the operations side right now? Is it just the simple fact you need to fill up the space?

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

Yes, we like to fill up the space and start covering some of the expenses so we can get to a break-even point. We believe that occupancy is a good thing in storage, and the faster we can fill up a unit and start passing along existing customer rate increases is to our betterment.

Unidentified Participant - - *Analyst*

Got you. It seems like the Northeast markets are performing better than your West Coast and Southeastern. I'm just wondering there's anything from a macro perspective that would explain this, and if you think those trends are going to continue?

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

I think there are a few things that I might offer. Number one, the Northeast, with its population density with the governmental spending with a lot of things that drive the demand for our product, it's to be expected. What's interesting for us is as you look at the challenged markets like Phoenix, Las Vegas, Los Angeles, the Inland Empire, other places, there was a lot of speculative building and not a lot of people to put things in storage. A good case in point would be Las Vegas, where a lot of homes were built. Those homes were never occupied with individuals with real possessions or belongings and when the bus came along, there was no driver for storage. So, we like where our population is and where there are real people with real assets and real life changing events, not empty homes that don't drive the demand.

Unidentified Participant - *- Analyst*

All right, thanks for the detail. And just lastly, have you seen any changes to underwriting standards from banks or life writing companies in the last quarter? Seems like the other sectors are seeing a narrowing of spreads, just given increased competition to make new loans. I'm just curious whether you're seeing this as well.

Kent Christensen - *EXTRA SPACE STORAGE INC - EVP & CFO*

This is Kent. We are still getting quotes for new loans, but I'd have to say that as a whole, those -- the spreads and things have not tightened. We're still seeing similar kinds of quotes as to what we were seeing six to nine months ago.

Unidentified Participant - *- Analyst*

Okay. Thank you.

Operator

Thank you. Our next question is coming from the line of Ki Kim with Macquarie. Please proceed with your question.

Ki Kim - *Macquarie Research Equities - Analyst*

Thank you. So, with the backdrop of further improving operations and continuing open debt markets, how does that impact your comfort with your current leverage and thoughts on possible future equity assurances?

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

Excellent question, Ki. This is Spencer. We've anticipated this question. If I could talk about equity issuance, I would simply offer a little perspective from our philosophy. First of all, as a shareholder and a fiduciary for shareholders, I'm really glad that a year ago when there was intense pressure to issue equity that we did do so at $6. I also have to say, under intense pressure, I was glad that we as a team decided not issue equity at $10 or $12. And today, the fundamental vexing question is this, where would we put that capital to work to the benefit of the shareholders? The acquisitions market, as Kent indicated, is stagnant, and we have been able to, in the most difficult economic environment in decades, in just 2009, obtain $341 million worth of new financing. And I think Kent talked about $106 million in new term sheets alone during the quarter, on top of the $158 million of capacity in cash and credit that we have today.

So for us, if there's an opportunity to put the capital to work, we're interested in issuing equity. But given that the environment is not clear for acquisitions, and it's not compelling, we consider it daily, we discuss it as a management team, it's a topic that the Board visits frequently but we have not been compelled to action, and that's kind of how we're looking at it.

Ki Kim - *Macquarie Research Equities - Analyst*

So, when you make that decision, would it be driven more by stock price, or, like you said just now, more by possible opportunities?

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

Being able to put the capital to work.

Ki Kim - *Macquarie Research Equities - Analyst*

That's the primary decision maker?

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

Yes.

Ki Kim - *Macquarie Research Equities - Analyst*

And would it be safe to assume that given your estimated loan value from unencumbered properties and cash on hand and credit availability, it looks like you guys are okay for a couple years? Is that a reasonable assumption to make, that short of acquisition markets opening again, you guys probably don't need to issue equity?

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

We never say never. What I would say, Ki, is that as we look at storage, we think that storage is a business that can't support a higher leverage ratio. We have a very diversified portfolio, so regionally we're not going to be challenged with operations in 33 states and Washington, D.C. We've got good geographic diversity. We have over 400,000 customers. In the last 12 months, 275,000 new customers have come to us. And we don't subscribe that one, debt-to-equity ratio supports all types of real estate product types.

Storage is not the same as retail, and hospitality is not the same as apartments. Every sector has its own need. And for us, we think that storage can and should support a higher leverage ratio. So, for us, today, given the fact that we're able to get financing on our stabilized assets, and we've done so to the tune of hundreds of millions of dollars, and banks are willing to lend to us, and we have cash on hand, what we'd like to do is really see an opportunity materialize where opportunities present themselves that would compel us to say, yes, now it's time to go out and issue equity.

Ki Kim - *Macquarie Research Equities - Analyst*

Okay. And two very quick questions. What was your total capex spend last year and what is it projected to go forward? And second part, what is the delta on your same-store occupancy today versus end of the quarter?

Kent Christensen - *EXTRA SPACE STORAGE INC - EVP & CFO*

I don't have the exact capex number. We can provide that to you. But, we spend in the range of $0.35 a square foot on the owned portfolio. We continue to probably spend a little bit more than many of our competitors because we continue to try to upgrade our portfolio. And as far as the square foot occupancy delta, I believe what we --

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

at the end of the month.

Kent Christensen - *EXTRA SPACE STORAGE INC - EVP & CFO*

Oh, at the end of the month, I believe it was 1.8%.

Ki Kim - *Macquarie Research Equities - Analyst*

All right, thank you, guys.

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

Thank you.

Operator

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

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Good afternoon. Jordan Sadler is with me as well. First, with regard to the same-store forecast, did last quarter's initial guidance include tenant reinsurance income? Because I just noticed this quarter in the release that the forecast for same-store revenue expenses and NOI includes tenant reinsurance operations, but could have just been a language change. Can you just clarify that?

Kent Christensen - *EXTRA SPACE STORAGE INC - EVP & CFO*

This is Kent, Todd. In our press release from the first quarter, we did not include the tenant insurance in the guidance numbers, and this quarter we are. As we are going to be reporting throughout the calendar year, our numbers, including in tenant insurance, we wanted to make sure that the guidance that we give at the beginning of the quarter matches what we're going to report at the end of the quarter, and in the first quarter we did not do that. So, you've seen a change in what we've reported in the -- as guidance for the rest of the year now.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay. So, is most of the change in revenue growth or in the core or what portion of that is related to the increase in your expectation for tenant reinsurance income?

Kent Christensen - *EXTRA SPACE STORAGE INC - EVP & CFO*

In the current numbers, the difference between the with and without is about 50 basis points on the revenue side. So, for example, our current estimate is a negative 0.5 to 1. Without our tenant insurance, it would be a negative 1 to a positive 0.5, or effectively 50 basis points on both the top and bottom end that range.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay. So, essentially on an apples to apples basis from last quarter, you brought up the bottom end of revenue growth about 50 basis points?

Kent Christensen - *EXTRA SPACE STORAGE INC - EVP & CFO*

That is correct.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay. All right, thanks. And then also, with regard to the change in guidance, storage is such a short-term business, and we spoke just about two months ago or so. And so I was just wondering what it is in this recovery that makes you feel so confident that the business is recovering? Is there anything that stands out more, any indicators, the commercial segment, is it just traffic levels in general, your ability to increase rents right now? What stands out in your mind?

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

All of the above, Todd. If I could put a little color on to that, as I said in my opening remarks, occupancy is up, rates are up, our ability to target the customer is improved. And we have, in our existing customer rate increases, in the last quarter, we passed along 126,000 rate increases and saw no material move-out of those customers. And, once again, it just points back to the fact that storage is a need-based product, and I think general consumer sentiment is improving, and people are coming back. I would also say although the business has bottomed out and is getting better, I'm not going to say that it's robust. We think that we had a great April, and we're hoping that May and June will follow suit. That remains to be seen. So, if there's further improvement when we do our Q2 call in late July, we may again revise guidance, depending on what we see. But today, I would say operating fundamentals in every sector, in every division of our company, have improved. 51 out of 53 divisions -- districts reported improved results for Q1, positive results for Q1 51 out of 53 gives me a lot of comfort that it's not isolated, it's a general improvement across all state lines, and there are just a couple of cities where we've been challenged.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay. That's helpful. And then just lastly, I think in your opening remarks, you mentioned with regard to the 3Plus Management Program, you gained, I think 18 properties in the quarter. Can you just quantify some of the different elements of the 3Plus Management Program or platform and then just talk about your expectations for growing that?

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

Yes. Let me just clarify a couple of things. Year-to-date we've added 18 new properties. We've got 142 currently in the system in a pipeline with 90 prospects. Our expectations are high for the 3Plus Program because most mom-and-pop operators in this highly fragmented business can benefit from the scale of our programs on the web. With national accounts, with a call center that's firing on all 12 cylinders and from our revenue management. And as we've gone out, one of the best things that we have sold is our own property performance.

And using simple averages for the last 16 quarters, for the last four years on average, Extra Space, amongst its peers has turned in the best revenue growth rate, and the best net operating income growth rate. And our own performance actually has become one of our best selling tools. And as we look forward to the future, interest is growing, and people are becoming more and more convinced that we offer up a solution that they need and want if they are going to optimize the value of their asset.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay. So, some of the services that you provide, though, as you add properties is there a way that you can quantify for us to think about how it can impact your bottom line?

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

It depends, Todd. If I could be honest with you, on one end of the spectrum, if we have one property into Southern California, it's a very profitable business for us because all of our fixed expenses are largely covered. If we have to add 100 properties into the system, obviously we need to add a divisional vice president, we need to add five or six district managers. You've got human resource, you've got property accounts, you've got a lot of overhead that needs to come in. Whether it's one property or 100, however, we believe that it is a profitable business for us. It's a business that we want to be in. It's a business that we had add value to the customer and its a business that increases our national footprint and helps us build a brand so that we can really be effective and efficient on the main marketing channels that drive this business.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay, thank you.

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

Thank you.

Operator

Our next question is from the line of Paula Poskon with Robert W. Baird. Please proceed with your question.

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

Thank you. Good afternoon. I have a bigger picture question for you. We've been listening to several of the apartment REITs report better than expected earnings, and part of the characterization around the improved demand fundamentals is the anecdotal thesis, anyway, that while we're not seeing job growth, per se, there is certainly an abatement of the fear of job loss, and it's causing young people, who are camping out on friends' couches or in mom and dad's basement to actually get out and create their own households. Should that be true? Is that a good thing or a bad thing for storage, or does it not matter?

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

I think it's a factor Paula, and what I would offer, I think, that as we look at our own property performance and how the vacates that were so prominent and pronounced a year ago, how that has largely abated, I would say that thesis holds some truth. But once again, it's just not the younger population. Our product, which is about 80% individuals and 20% business, and that's remained constant for the last decade here at Extra Space, anyway. Our business cuts across all age classes and across all socio-economic strata. There are life changing events for people that are young, middle-age, and even aged. It's those elements that drive our business. So, the apartment thesis from those folks, yes, it's an element, but I wouldn't say that its the primary driver. Ours is a need-based product with life changing events being the core component of why people check into storage units.

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

And what are you hearing from your small business tenants? Are they more inclined to want to stay, or are you getting more -- are you seeing more demand from new businesses coming in? What's happening on that piece of the demand?

Karl Haas - *EXTRA SPACE STORAGE INC - EVP & COO*

This is Karl. I would say it is stabilized. Early in the recession, when we would talk to our field people, we would hear constantly about small businesses closing up shop, giving up their storage units. We hear much less of that now. I don't know that we have a great influx, but the departures that happened probably early in the recession have now abated.

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

Okay, that's all I have. Thanks, guys.

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

Thanks, Paula.

Kent Christensen - *EXTRA SPACE STORAGE INC - EVP & CFO*

Thanks, Paula.

Operator

Thank you. (Operator Instructions) Our next question is from the line of Christy McElroy with UBS. Please proceed with your question.

Ross Nussbaum - *UBS - Analyst*

Hi, everyone. It's Ross Nussbaum here with Christy. A couple of clarifications first. In the first quarter, you raised renewal rents on existing customers by how much?

Kent Christensen - *EXTRA SPACE STORAGE INC - EVP & CFO*

Somewhere in the range of 5 to 8%.

Ross Nussbaum - *UBS - Analyst*

5 to 8% was what went out in terms of renewals. And street rents you're saying were up about 7%?

Kent Christensen - *EXTRA SPACE STORAGE INC - EVP & CFO*

Yes.

Ross Nussbaum - *UBS - Analyst*

Okay. And did that number accelerate throughout the quarter, or did you lead with those kinds of numbers from the get go in January?

Kent Christensen - *EXTRA SPACE STORAGE INC - EVP & CFO*

Pretty much consistent for the quarter. Remembering that in February the prior year, we had done a large rate increase. So, the percentage fluctuated a little bit in February.

Ross Nussbaum - *UBS - Analyst*

And geographically, where are you pushing rents the most and where are you getting -- where are you the most conservative right now?

Kent Christensen - *EXTRA SPACE STORAGE INC - EVP & CFO*

In general, the stronger markets get -- the way our system works, the stronger the market, the stronger the occupancy, the higher the rates are going to be pushed. So, it really follows where the market's the strongest, and Maryland, the Northeast are very strong, and are getting probably the highest street rate increases, and California, Las Vegas, Phoenix, Florida are at the other end of the spectrum.

Ross Nussbaum - *UBS - Analyst*

And what are you doing on recession activities? Is it still a dollar up front for the first month across the board?

Kent Christensen - *EXTRA SPACE STORAGE INC - EVP & CFO*

Yes. First month free.

Ross Nussbaum - *UBS - Analyst*

Right. Have you started with that --

Kent Christensen - *EXTRA SPACE STORAGE INC - EVP & CFO*

We don't collect that dollar, which probably hurts us, but --

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Ross Nussbaum - *UBS - Analyst*

Have you started pulling that away, or do you think that's just a fact of life?

Kent Christensen - *EXTRA SPACE STORAGE INC - EVP & CFO*

No, I think it's a fact of life. We really have not -- we adjusted a little bit seasonally but very little.

Ross Nussbaum - *UBS - Analyst*

Okay. And I thought I heard -- Spencer, I thought you said, "we had a great April and 51 of 53 districts had positive Q1 results." What are you referring to when you say positive? What was positive in those 51 of the 53 districts?

Karl Haas - *EXTRA SPACE STORAGE INC - EVP & COO*

Let me clarify. This is Karl. It came from me. It's 51 of the 53 districts in our company for the first quarter. Their delta in net rental income improved in the first quarter over the fourth quarter of 2009. So, we saw movement in the right direction. It does not mean that we had positive growth in 51 of the 53 districts.

Ross Nussbaum - *UBS - Analyst*

Okay. So, a lot of that was seasonality.

Kent Christensen - *EXTRA SPACE STORAGE INC - EVP & CFO*

No, that's year-over-year delta.

Ross Nussbaum - *UBS - Analyst*

Oh, that was the year-over-year. Okay. So you're saying you had positive same-store revenue growth year-over-year in 51 out of 53 districts?

Kent Christensen - *EXTRA SPACE STORAGE INC - EVP & CFO*

We probably shouldn't have gone here.

Ross Nussbaum - *UBS - Analyst*

That's why I'm asking.

Karl Haas - *EXTRA SPACE STORAGE INC - EVP & COO*

Let's pick a market. If the Delta in any markets, let's say Boston, was what, minus 1.6 in the fourth quarter of 2009, in the first quarter of 2010 it was positive 0.3. So we had an improvement from minus 1.6 to positive plus 0.3.

Ross Nussbaum - *UBS - Analyst*

All right. I'm with you now, I think.

Karl Haas - *EXTRA SPACE STORAGE INC - EVP & COO*

Okay. Sorry.

Ross Nussbaum - *UBS - Analyst*

Let me turn to the financing side real quick. I was a little surprised to hear that you're not seeing better spread quotes versus where you were six months ago, because that is certainly not the case in the major property types for us for commercial real estate, and would suggest that lenders are not as romanced with self-storage as they are the other property types. What are you seeing on the CMBS front? Now that we're seeing some new CMBS lending are you getting term streets from Wall Street?

Kent Christensen - *EXTRA SPACE STORAGE INC - EVP & CFO*

Yes, Ross this is Kent. We are. I guess I would -- in that this product type was able to get loans throughout the whole period of the last 12 to 18 months, I would think that our property type would have been a little more consistent. And so the fact that you're not seeing spreads come down is more a reflection of that they didn't go way up a year ago. And we're more in line with where the market has been over a longer term basis. So, that's my guess as to why. I was always a little -- I didn't understand how come a year ago we were not getting much higher spreads on the quotes we were getting from our banks than we were getting. So, the fact that they are still similar, where they are today is not too surprising to me.

On the CMBS side, we have had contacts with a number of banks to do a CMBS loan. We're actually working through a process of getting some properties to some CMBS lenders to find out exactly what the exact terms and conditions would be. But the quotes that we've been given from the people that we're talking to, and these are the sales people, these are not actual term sheets yet, would be that we would be in the high fives to the low sixes, based on what the length of time is that we would want to lock in the loans, if they were five, seven, or ten years. It would be some kind of a spread over the applicable treasuries. But the total all in fixed interest rate would be for that period of time, like I said, around high fives, low sixes.

Ross Nussbaum - *UBS - Analyst*

What kind of spreads are you seeing? Are we talking like 250 over? Generally speaking?

Kent Christensen - *EXTRA SPACE STORAGE INC - EVP & CFO*

Yes.

Ross Nussbaum - *UBS - Analyst*

Okay. Spencer, I was frankly a little stunned to hear some of your comments on the balance sheet in response to Ki Bin's question about equity. I think that what's caught me off-guard are a couple of things. Number one, your stock is now trading, give or take, around 20 times AFFO multiple, which is a 5% AFFO yield. You could take new equity issuance, pay down debt maturities at 5% to 6%. You've got plenty of them sitting on your balance sheet, and it would actually be neutral to accretive to FFO and de-lever the company. So, I'm a little surprised to hear you say you wouldn't put it to work unless you had opportunities, because I'm staring at your balance sheet and see a world of opportunities.

Kent Christensen - *EXTRA SPACE STORAGE INC - EVP & CFO*

This is Kent, Ross. Your question is very good. That assumes that the investment banks that we would do business with wouldn't charge us any fees for doing the transaction. So, if your bank's willing to help, go down that path. It would be an accretive transaction for us.

So, what you've described are the kind of discussions that we have here. And with the stock spiking in the last two weeks, it has added a little more interesting scenarios for what it is we might be able to do. But the discussion that Spencer had was, and what he was proposing, was over the last 18 months, most of our discussions have been about doing equity to pay down debt. Where we are today, it's a little more opportunistic for us to be able to do other things with where the stock is at. So, this is always on the table, it's always an option, things we're constantly discussing.

Ross Nussbaum - *UBS - Analyst*

Appreciate it. Thanks, guys.

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

Yes, just one other comment, Ross. One of the things we need to look at on depth and some of the things that we've got out there is the defeasance. Look at commissions, underwriting costs, defeasance, and a lot of other things. And it's just not simple black and white. I think I probably could have provided a more clear answer on that. But a spike or recent surge over the last two weeks makes things interesting. But we need to see some real stability before we pull a lever on something like that. Thank you.

Ross Nussbaum - *UBS - Analyst*

Thank you.

Operator

Thank you. Our next question is from the line of Smedes Rose with KBW. Please proceed with your question.

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

Hi. You've answered most of mine. But, I just wanted to ask you, on the tenant reinsurance, what is the penetration now of customers paying that and where do you think it can go over the next couple of years?

Karl Haas - *EXTRA SPACE STORAGE INC - EVP & COO*

It's currently in the mid to high 50s, around 57%. We're hoping that it will top out around 100%. We don't know where. Certainly the rate of growth has slowed. We're still making, though, every month, increases in our overall penetration.

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

Where was it about a year ago then?

Karl Haas - *EXTRA SPACE STORAGE INC - EVP & COO*

It was probably -- I don't remember. It was probably below 50. Because I think our goal for 2009 was to hit 50. And we exceeded it sometime in, I think in the latter half of the year.

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

Okay. Thank you.

Operator

Our next question is coming from the line of Michael Knott of Green Street Advisors. Please proceed with your question.

Michael Knott - *Green Street Advisors - Analyst*

Hey, Spencer. I heard a lot of commentary today about appraising occupancy in the storage business. You guys have also always been very focused on increasing rates to existing customers. So, I'm just curious, how you think about what's the right trade-off of those two items when it comes to an average target occupancy, say for the full year? I think you guys were maybe 85% for the full year of '08. I'm just curious if you think 85's the right number to maximize revenues, or is it higher? Curious on your thoughts on that.

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

Our thoughts are these. Number one, our goal is to maximize revenue, and there are several theories how to do that. For us here at Extra Space, I would simply suggest that we believe, and we are testing using data for the last decade, plus the data that we're generating daily here, that occupancy rates at the property, somewhere between 85% and 90%, likely will yield maximum revenue. And we've just gone through a severe upheaval economically and in the industry, and we're going to rebuild a database and compare it against older information that we've got data. And hopefully come up with a conclusion to the thesis that we've been studying here at Extra Space, but overall the goal is to figure out where we need to be to maximize revenue. It's not picking occupancy and manage to that necessarily today, or to pick some price point and manage that. What we want to do is maximize revenue. That's the bottom line for us and the top line.

Michael Knott - *Green Street Advisors - Analyst*

Okay. Thank you. And also, you said street rates were up 7%. I just want to make sure, is that a year-over-year figure?

Karl Haas - *EXTRA SPACE STORAGE INC - EVP & COO*

This is Karl. Yes, it is.

Michael Knott - *Green Street Advisors - Analyst*

And, Karl, would you happen to have the comparison of street rates versus in place rents both at March 31, 2010, and the year prior?

Karl Haas - *EXTRA SPACE STORAGE INC - EVP & COO*

We don't want to go into the details of that, but I will tell that you the gap has dramatically closed. Last year we were concerned about that gap. Right now it's more at historical levels, and we really don't -- we're not concerned about it any more.

Michael Knott - *Green Street Advisors - Analyst*

To be clear, on the rental activity, February was bad enough to drag down the entire quarter so I guess another way of saying it, was January and March similar to April?

Karl Haas - *EXTRA SPACE STORAGE INC - EVP & COO*

January was slightly down. March was flat, and April was up.

Michael Knott - *Green Street Advisors - Analyst*

Okay. So, it's really March and April is the period where rental activity has improved.

Karl Haas - *EXTRA SPACE STORAGE INC - EVP & COO*

Yes.

Michael Knott - *Green Street Advisors - Analyst*

Or is it just --

Karl Haas - *EXTRA SPACE STORAGE INC - EVP & COO*

Last year, especially in April.

Michael Knott - *Green Street Advisors - Analyst*

Okay. Is that, in fact, just an easy comps or do you expect that trend to continue as you go through the year?

Karl Haas - *EXTRA SPACE STORAGE INC - EVP & COO*

Well, April last year was a very, very bad month. So, I have to admit that April was probably an easier comp.

Michael Knott - *Green Street Advisors - Analyst*

Okay. Thank you.

Operator

Thank you. There are no further questions at this time. I would now like to turn the floor back over to Management for closing comments.

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

This is Spencer. Thank you for your participation today. We'll look forward to our next quarterly conference call with you. And again, we appreciate your support and interest in Extra Space.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.