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EXR - Q2 2015 Extra Space Storage Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Extra Space Storage second-quarter 2015 earnings call. (Operator Instructions) As a reminder, today's conference is being recorded.

I would now like to turn the conference over to Jeff Norman, Senior Director of investor relations. Sir, you may begin.

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

Thank you, Shannon. Welcome to Extra Space Storage's second-quarter 2015 conference call. In addition to our press release, we have furnished unaudited supplemental financial information on our website.

Please remember that management's prepared remarks and answers to your questions may contain forward-looking statements as defined in the Private Securities Litigation Reform Act. Actual results could differ materially from those stated or implied by our forward-looking statements due to risks and uncertainties associated with the Company's business. These forward-looking statements are qualified by the cautionary statements contained in the Company's latest filings with the SEC, which we encourage our listeners to review.

Forward-looking statements represent management's estimates as of today, Thursday, July 30, 2015. The Company assumes no obligation to revise or update any forward-looking statement because of changing market conditions or other circumstances after the date of this conference call.

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

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

Thanks, Jeff. Hello, everyone. For quite some time I have wondered when our business would go from being great to just really good. Through the first two quarters, it continues to be great.

We reached record high occupancy of 94.5%, while producing same-store revenue growth of 9.4%. Year-over-year, NOI grew 12.1%; FFO as adjusted grew 17.2%; and we increased our dividend by over 25%. This kind of growth is directly attributable to accretive acquisitions, muted new supply, and our ability to source higher value customers online.

We have been acquisitive. Year-to-date we have closed over $350 million in acquisitions. In addition, last month we announced a definitive merger agreement SmartStop, the seventh-largest storage company in the US, for approximately $1.3 billion.

This single transaction will add 122 owned stores, 42 managed stores, and will increase our footprint by 15%. Including this transaction, we will likely acquire $1.8 billion in 2015.

Customer acquisition on the Internet is about size and scale. With these acquisitions and the growth of our third-party management business, we will finish the year with over 1,300 stores on the Extra Space platform. The expansion of our physical and digital footprint allows us to reach more customers than ever before and increases operational efficiencies.

As I have said, it is a great time to be in storage. I will now turn the time over to Scott.

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

Thanks, Spencer. Last night we reported FFO of $0.72 per share for the quarter. Excluding costs associated with acquisitions and non-cash interest, FFO as adjusted was $0.75 per share, exceeding the high end of our guidance by $0.01. The beat was primarily the result of better-than-expected property performance.

Our same-store revenue growth was driven by increased occupancy, higher rates to new and existing customers, and lower discounts. Some of our standout markets in terms of revenue growth include Atlanta at 11%, Los Angeles and San Francisco at 12%, Orlando at 15%, Sacramento at 16%, and Denver at 17%. Our platform continues to maximize results in this favorable operating environment.

As Spencer mentioned, we have been busy deploying capital. We closed on 31 stores for $262 million in the quarter, two of which were properties that we purchased upon completion of construction. We also purchased the remaining 1% of a joint venture partner's interest in a 19-store portfolio for $1.3 million. Subsequent to the end of the quarter, we acquired a certificate of occupancy store with a JV partner for $5.4 million.

We currently have three operating stores under contract for $27 million. These acquisitions should close before the end of the year. In addition, we have another 16 certificate of occupancy stores under contract. The total purchase price of these stores is $172 million, of which $36 million is expected to close in 2015.

Additional details related to our CofO deals can be found in our supplemental package that is posted on our website.

Last month we announced the SmartStop acquisition and we completed an equity offering. The offering was well-received and we issued 6.3 million shares at $68.15 per share. This resulted in gross proceeds of $431 million.

We are well into the process of securing additional debt to fund the balance of the SmartStop acquisition. The financing will include CMBS debt, secured bank loans, and draws on our revolving lines of credit. These draws will be termed out in the three to six months following close.

The SmartStop acquisition, as well as our strong year-to-date results, require us to revise our guidance. These adjustments assume an October 1 closing of SmartStop. Our revised full-year FFO guidance is $2.89 to $2.96 per share. Our FFO as adjusted is $2.99 to $3.06 per share. Our guidance includes dilution from our certificate of occupancy deals and acquisitions that operate below our portfolio average, as well as the additional shares issued in our June offering.

I will now turn the time back to Spencer.

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

Thank you, Scott. Through acquisitions, joint ventures, and third-party management, we continue to expand our portfolio and consolidate stores under the increasingly potent Extra Space brand.

By the end of 2015, we will have closed approximately $4 billion in acquisitions over the last five years. And there is still room to grow. The fundamentals of the storage industry continue to be favorable and we are leveraging our scalable platform to maximize revenues, NOI, and FFO.

I am pleased with the outstanding performance of our team. They have driven 19 consecutive quarters of double-digit FFO growth.

I will now turn the time back to Jeff to start our Q&A.

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

Thank you, Spencer. In order to ensure we have adequate time to address everyone's questions, I would ask that everyone keep your initial questions brief, and if possible, limited to two. As time allows, we will address following questions once everyone has had an opportunity to ask their initial questions.

With that, we will start our Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ki Bin Kim, SunTrust Robinson Humphrey.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

Thank you. As you almost approach Public Storage's scale and you have been growing pretty quickly, do you think you have already fully maximized the benefits from economies of scale of being bigger and being more present on the web? Or do you think there's more to be had as you get closer to like 2,000 properties?

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

Ki Bin, it's Spencer. We think that there is upside. We are pleased with our performance. We are pleased with our potency, but the game is far from over and we need to continue to expand our footprint. The Internet is about size and scale and we are going to continue.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

Okay. Just curious, is there anything else that you guys have changed -- your pricing strategy or the way you advertise on the web -- this past couple quarters that you have found to be, without giving your trade secrets away, a little bit more useful than it has in the past?

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

Not a lot of changes in the last two quarters, Ki Bin. We continue to refine our models. We continue to refine our approach and we continue to go after the higher-value customers.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

Okay, that's it for me. Thank you.

Operator

Jeff Spector, Bank of America.

Jeff Spector - *BofA Merrill Lynch - Analyst*

Good afternoon. Just I guess talking I guess a little bit more about, Spencer, your initial comments that you have been waiting for that turn I guess from great to good. It sounds like we're still in the great phase. At the same time, we are seeing some mixed economic data.

What should we be really focused on here going forward the next six months, year as we head into the Fed hike? Is it just slow improving economy, the housing market? Consumer seems to be mixed here, so what do you think we should focus on?

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

There is no one single thing I would ask you to focus on, Jeff, the overall health of the US economy is the single-biggest determinant for how we are going to do. If you look at storage operators, they have done well in spite of what I would call a less-than-robust economy.

So for the next 12 to 18 months, I think the two things that we need to underscore again and again and again, number one, there is very little new supply today and for the foreseeable future. That bodes well.

Number two, the Internet. All of the rules changed. The Internet is not the great equalizer; it's the great divider and we continue to use it to our advantage.

Jeff Spector - *BofA Merrill Lynch - Analyst*

Okay, thank you. Then my second question is can you comment on the cap rates for the 29 assets that you are acquiring?

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

Yes, the assets that we acquired in the second quarter I would tell you are on the lower end. Typically, we are looking at year-one cap rates of 6% to 6.5% forward-looking first-year cap rates with a management, and we have acquired a portfolio in Dallas that was actually below that.

But we feel like there's a fair amount of upside and it should grow from there. There's some lease-up assets in there. In fact, one of them is just opening today.

Jeff Spector - *BofA Merrill Lynch - Analyst*

Great, thank you.

Operator

George Hoglund, Jefferies.

George Hoglund - *Jefferies - Analyst*

Can you just comment on some of the larger expense growth in certain markets, like 8.5% in New York and Atlanta had a 15% expense growth?

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

The major areas of our expense growth where you see above average (technical difficulty) things. You have seen some higher-than-expected snow removal this year and then the second one is just property taxes. It depends on when these assets get reassessed.

Your other one in Atlanta is it's a little skewed by a land lease. It was basically an increase in the timing of when the land lease expense was reassessed.

George Hoglund - *Jefferies - Analyst*

Okay. Then just one thing on the financing front. With the large SmartStop acquisition coming up, any sort of change in your thought process in terms of potentially at some point adding unsecured bond offering into the mix?

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

Right now I would tell you our balance sheet is largely investment grade. I think if you look at our ratios and things we are very close. There's a few things keeping us from being rated and right now those issues focus more on covenants, as well as across default provisions in unsecured debt. So to-date we're going to operate similar to a rated entity, but right now we do not have any imminent plans to become a rated entity.

George Hoglund - *Jefferies - Analyst*

Okay. Thanks, guys.

Operator

R.J. Milligan, Baird.

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

Good afternoon, guys. Question, on your underwriting of the CofO deals can you talk about maybe how that has changed or different expectations over the past year, given the improvement in fundamentals?

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

RJ, this is Scott. We actually haven't changed our underwriting. I think that we still been pretty consistent in how we underwrite these deals. I think that, if anything, we are being surprised on the upside, meaning these assets are leasing up quicker than expected.

But at the same time, that could change. So some of these CofO deals we are looking at today, one or two of them are opening in early 2018 now. So your problem with becoming more aggressive in the short term is these assets may be more of a long-term play. We have pro forma-ed them more with three- to four-year lease-ups, 36-month lease-ups have been pretty standard.

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

Okay. My second question is on the increased guidance. Same-store NOI for the year upped it about 200 basis points at the midpoint. Can you talk about the different drivers of that increase? What was going on in the second quarter that surprised you guys to the upside?

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

Two things that have really better than we expected, one is our occupancy. Our occupancy we expected to peak at about 94%. You are at 94.5%. The second one is we think it -- well, the second part of occupancy is we think it will continue to be strong for the year. We expect our occupancy delta to average 1.5% to 2%.

And then the second one is discounts. Discounts have been significantly below where we originally estimated.

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

Great. Thanks, guys.

Operator

Vikram Malhotra, Morgan Stanley.

Vikram Malhotra - *Morgan Stanley - Analyst*

Just on that occupancy comment, if you kind of look at all your assets and break them up into maybe three buckets, what proportion would you say -- obviously based on every submarket has different peak occupancies. But what proportion would you say is kind of at, in your view, peak occupancy versus maybe just way below where you think you can really get a lot more gains in the next 12 months?

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

I would tell you in terms of number of properties that we think there's a lot of upside on, it's minimal right now. Most of our properties are above 90%. We do have a few that maybe have some functional issues, but most of our properties are actually more in the 95% range. We do have a few that are full completely, meaning 100% full, and we have a few that are in the upper 70%s just because maybe they are too big or a new competitor has come in right nearby.

Vikram Malhotra - *Morgan Stanley - Analyst*

So it seems like kind of the one end of the tale is it's very, very small right now. Most of them are kind of near or at that peak-ish level.

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

Yes, that's correct.

Vikram Malhotra - *Morgan Stanley - Analyst*

Then just on the rate growth that you saw, you said the discounts surprised you. But if we look forward how sustainable is this mid to high -- a little bit above mid single-digit growth in terms of the overall rent per square foot growth?

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

As far as how long it goes, I think it's difficult to say. I think supply is going to play into that. Your other thing is the usage of storage and how your rates compare to, for instance, apartment rates and things like that; the rate per square foot.

We have some markets where they approach that, but the one thing you do have going for you in storage is it is an infrequent transaction. Someone knows what they are supposed to pay in rent because typically they have friends that rent or they know a lot of other renters and so they know what your average rental rate is. But at the same time, people don't rent self-storage very often, so they typically just end up paying what the market is.

Vikram Malhotra - *Morgan Stanley - Analyst*

Okay, thank you.

Operator

Todd Thomas, KeyBanc Capital Markets.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Thanks. Just wanted to dig in a little further on the scalability of the property type. Spencer, you mentioned the importance of growing your digital footprint.

Not suggesting growth for growth's sake, but how important is the growth of your digital footprint when it comes to driving core growth? And is that something that you can quantify or discuss as it pertains to your decision to buy property? How is that factored into the equation when you look at new investments?

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

You know, Todd, it's your lucky day. We are fortunate to have James Overturf, our Executive VP over Marketing and Internet guru here, so I'm going to flip that question over to James and let him take it.

James Overturf - *Extra Space Storage Inc. - EVP & Chief Marketing Officer*

Todd, I guess I walked by the room at the wrong time here. But it influences our decision; is it 30% or 40% of the decision? No, I think it's around the edges right now.

But thanks to the data that we have, we do know where we are going to be able to have a little better impact on the marketing side with certain acquisitions. When we acquire properties in areas that we currently don't have scale, it's going to be a little bit more difficult to get those listings up in a quick fashion, but we do know the benefit will be there. If we acquire properties, like I say Los Angeles, Chicago, or Dallas, the impact is almost immediate, especially if it's a smaller operator.

We've seen huge upside in terms of their Internet traffic. So it does influence our decision, but mostly it goes back to the underwriting and the revenue assumptions. We always have battles in our RAC about being too aggressive or too conservative. I think we have been properly valuing the properties, but we do see the Internet being more and more of a factor in terms of customer acquisition going forward and we will look for those opportunities where --. The small providers can't compete with us and so we will look for those opportunities in the future.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Then with regard to SmartStop and that transaction, how did you value the third-party management agreement that you struck as part of that transaction overall? What is that opportunity like for you?

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

We feel like it's a big opportunity, Todd. They have two more funds that are going to be raising money and buying properties and those management contracts are coming our way.

In terms of how we value it and put a cap on it, we viewed it more as a benefit and so, therefore, we were maybe willing to pay a more aggressive cap rate on the existing assets. We didn't necessarily say it's worth x because those management contracts are month-to-month. We don't expect them to go anywhere, but at the same time we don't put a huge amount of value on that.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Thank you.

Operator

Todd Stender, Wells Fargo.

Todd Stender - *Wells Fargo Securities - Analyst*

Thanks. CofO activity continues to astound. We see the activity you guys are doing, especially across the industry as well.

Is there a general increase in lenders in this space? I wanted to see how you guys assess who is supplying liquidity to developers, how we're thinking about increasing your supply of these assets and you guys potentially taking more incremental risk, just seeing how you're thinking about the front-end on the lending side.

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

Yes, on the lending side, I think that lenders are still conservative. A well-capitalized developer is going to be able to get a loan. I think the majority of these developers we work with are well-capitalized. We want to make sure that our developers have the ability to absorb losses if that's required and that they can perform to our standards.

I think that lenders are willing to lend, but I don't think they are willing to lend at a rate that is going to cause significant new supply at this time.

Todd Stender - *Wells Fargo Securities - Analyst*

Okay, thanks. That's helpful, Scott. Just going back to third-party management. Again, the shift is more towards the CofO deals and not stabilized facilities that you guys manage. Just wanted to get your current thoughts on how you are looking at the potential pipeline to acquire your third-party assets.

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

Todd, it's Spencer. Nothing has shifted. We are very interested in stabilized assets because you take that stabilized asset, put it into our operating platform, and that's where you squeeze a lot of incremental performance out of what we would generally consider an undermanaged asset.

So it hasn't been a shift to the CofO. We like stabilized assets and we think that the market is wide open for additional operational consolidation. My personal math is if there are 54,000 self storage facilities in the US, you could probably knock 30,000 of those out as being too small, too old, or in the wrong markets for us.

If you take out another 4,000 to 5,000 for the large national operators and that still leaves somewhere around 19,000 to 20,000 properties that are wide open for operational or financial consolidation. And we think there's plenty of room to grow on both fronts.

Todd Stender - *Wells Fargo Securities - Analyst*

Great. Thanks, Spencer.

Operator

Neil Malkin, RBC Capital Markets.

Neil Malkin - *RBC Capital Markets - Analyst*

Good morning out there. First question is on rent growth and trends. Given that we have seen a pickup in housing velocity vis-a-vis existing home sales, just strength out of that market, and that is your number one demand generator of the residential market, and we've seen wage pressure pick up recently. Do you think that even though supply may come on in 24 months more than it is now, we could see a ramp-up still of rental rate growth, given that strong correlation with the housing market and your guys' performance?

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

Neil, it's Scott. First of all, I think we do see some correlation with the housing market, but it's not a perfect correlation. I think the thing that has the highest correlation is change. Whether that is a housing or a change in someone's personal life, that is what is causing people to rent self storage. They all have a need coming in the door.

We think that those needs are going to continue and as long as new supply is low, we think that we will have pricing power.

Neil Malkin - *RBC Capital Markets - Analyst*

Okay. Then, Spence, I guess this one's for you. Talking to some brokers and it seems like in a certain market, like Denver for example, there's probably 50 or so permits for storage and probably even only 8 to 10 will be actually delivered near term. Can you explain or help explain why there is a large disconnect between permits and then actually getting approved?

I know some fallout just by the nature of the permitting process, but can you maybe give some color on the difficulty or complexity to get a permit from start to go to ground break time?

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

Yes, so there are a lot of factors in there. One of the biggest ones is self-storage is not a welcome asset class in most neighborhoods.

We don't provide a lot of jobs. We don't collect a lot of tax revenue and most municipalities don't roll out the red carpet. You throw in the cost of land, because everybody is trying to develop, just not folks that can do storage. You look at the lending environment.

Probably one of the biggest ones, Neil, that I have observed is the risk versus reward curve shifted and it's not in favor of the developer. The local developer has an ability to go out and get the property entitled if the lucky and get it constructed on budget, if they are lucky.

Then they are left with the question, now what do I do? Because I can't take out a yellow page ad anymore and I am in no man's land. Oh, I need to align myself with a management company that can drive traffic to this property and I'm going to pay management fees. I am probably going to give up some or all of the tenant insurance.

I'm going to get downstreamed to a bunch of other costs and at the end of the day I'm going to make a lot less money than I would've made otherwise. So the return on these investments for these guys trying to go out and get a permit, I think there's some hesitation. I think land costs are higher than what a lot of people have thought they would be. Permitting is more difficult.

I can tell you two cases in California on properties that we had worked on; it took more than 10 years to get a permit in some prime locations. So this is not easily done in some locations.

Yes, you are seeing some development come out of the ground. You cited Denver; sure. But across the country we still maintain and assert that the rate of growth of new supply is still less than the rate of growth of the population in the US. It is a great time to be in storage.

Neil Malkin - *RBC Capital Markets - Analyst*

All right, thank you.

Operator

Jonathan Hughes, Raymond James.

Our next question is from Ryan Burke, Green Street Advisors.

Ryan Burke - *Green Street Advisors - Analyst*

Thank you. Scott, you mentioned the more aggressive cap rate on the SmartStop portfolio. That is a cap rate that certainly comes in below where you typically target your acquisitions on a 6% basis. Can you talk us through your view on what that cap rate was on trailing NOI in SmartStop's hands and what it becomes year one in your hands?

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

First of all, I think it's difficult to comment on what the trailing NOI is because there's some expense differences in how we operate the properties. There's also property tax assumptions that are made.

Going forward, we can clearly comment on that. We are viewing this as kind of a mid-5% cap rate year one and growing from there. As we bought it, I think the one thing that we always consider is -- what happens is there seems to be a portfolio premium that is applied to any portfolio that is out there, especially one of this size. I think this is one of the, if not the, largest, the largest one to trade hands in some time. We typically look at that as -- you end up paying 75 basis points premium to get a portfolio deal done.

Ryan Burke - *Green Street Advisors - Analyst*

Okay. Can you talk a little bit about the tenant insurance penetration rate on the portfolio and how that compares to your same-store portfolio?

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

So their tenant insurance penetration is lower than ours, significantly lower. They are closer to 50% penetration and their average rate per policy is a fair amount lower than ours also.

Ryan Burke - *Green Street Advisors - Analyst*

Okay. So how long do you think it takes -- if your same-store penetration rate is in the 70% range, say, how long does it take to get that up there?

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

We think it will be one to two years to get it up to our penetration level, just because we're not going to bother the existing customers. We're going to do it as these units churn.

Ryan Burke - *Green Street Advisors - Analyst*

Sure. Okay, thanks. One quick one just on the balance sheet. Can you update us on your thoughts on entering into an ATM program and how likely you are to do so? And if so, how you plan to use it moving forward?

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

So an ATM is obviously always a Board decision. It's something that we are in discussions in today. It's something that we have talked about in the past quite often, so it's very difficult to comment on their decision there.

Ryan Burke - *Green Street Advisors - Analyst*

Okay, thank you.

Operator

(Operator Instructions) Jeremy Metz, UBS.

Jeremy Metz - *UBS - Analyst*

Guys, I'm on with Ross. Unless I missed it, I don't think you guys gave a July update yet. So you finished the quarter with occupancy up about 240 basis points, so I was just wondering kind of where occupancy stands today versus last year. Same with street rates.

Then just kind of bigger picture, you had realized rent growth of north of 6%. So I guess can this continue at this high level or should we think about rate growth kind of settling back down to that 4% to 5% range here?

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

Jeremy, it's Spencer. For July we are not giving specifics. What I can tell you is occupancy is holding. Rates are holding. And we will have to see how the rest of the year plays out, but things are good.

Jeremy Metz - *UBS - Analyst*

And just so -- where were street rates then versus last year in 2Q?

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

Kind of in the 7% to 8% up.

Jeremy Metz - *UBS - Analyst*

Okay, and then I think Ross has a question.

Ross Nussbaum - *UBS - Analyst*

I've got two questions. The first is on page 16 of your supplemental. When you show in the quarter that rentals were down 1% and vacates were up 1.2%, how should we think about that information?

Obviously it differs quite dramatically from what you are putting up on a same-store revenue and occupancy front, but it kind of shows you had more people moving out than moving in. How should we think about that data relative to what's on the income statement?

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

Yes, I think there's a couple things to consider there. You need to look at the rentals, but you also need to look at the vacates. Because vacates were -- depending on where you are rentals versus vacates and the difference between them, because certain times of year you have significantly more rentals than you have vacates.

What we focus on more than rentals and vacates, we view that -- when we look at this we don't look at this just on a three-month or a six-month period. We look at rentals and vacates and see how they compare to the past six or seven years on average per property. And then we focus much more on the occupancy of the property.

Ross Nussbaum - *UBS - Analyst*

Okay. My second question is to you, Spencer, which is I'm looking at my comp spreadsheet here and I'm looking at a $4 billion company that trades at a 6% cap rate.

What is your appetite for public M&A? It seems like your appetite for private M&A at five handle valuations is pretty high. Why not look at some of your smaller peers?

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

Our appetite really has nothing to do with they are public or private, Ross. It has a lot to do with does it make sense and is it the right thing for our shareholders? If you look at the public environment, there's probably going to be a stiff premium affixed to that kind of transaction and we are rational buyers.

Ross Nussbaum - *UBS - Analyst*

Okay, appreciate that. Thank you.

Operator

Ki Bin Kim, SunTrust Robinson Humphrey.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

Yes, thank you. Spencer, you definitely sound pretty bullish and you have the results to back it up. And maybe it's a little premature, but we are past the halfway year mark, so looking ahead -- and I'm not asking for guidance.

But just looking ahead maybe 18 months or so, how should we think about some of your bullish comments, the really good results, and how that probably ties into kind of a forward growth rate for your company in terms of same-store organic growth? Because it does seem like towards the end of every year, not just you, but all your companies start to become a little more conservative about the outlook.

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

So if we look forward I see things, Ki Bin, still being good. I don't know if we're going to be operating in the stratosphere, but I can tell you, with no new supply and our ascendancy on the Internet, I don't see anything that is disruptive, barring a black swan event, in the next 12 to 18 months. I am bullish and this is an unprecedented market in which we are operating and we're going to take every advantage to maximize the result.

My crystal ball is no better than anyone else's, but I don't see anything that is likely to disrupt the operating environment in which we are currently operating. And I think you can expect to see really strong results.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

Okay. Thanks for that color. This is just a comment, but I think half the companies in the sector report maintenance CapEx and half don't. I was just curious if you guys have any thoughts about maybe including that going forward, just for comparability's sake. I'm sure that fact just makes you look better anyway.

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

Yes, it's something we'll look at. It's not anything we have put out there yet. We have a pretty robust supplemental package, but it's something we will consider.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

All right. Thank you, guys.

Operator

Jonathan Hughes, Raymond James.

Jonathan Hughes - *Raymond James - Analyst*

Good morning, guys. Sorry about getting cut off earlier. Most of my questions have been answered at this point, but I had one follow-up.

How aggressively do you plan to raise rates in the SmartStop portfolio once it closes in 4Q? I noticed that the rates are like 28% below EXR's overall rent per square foot. Maybe they don't get theirs right off the bat, but I'm just curious as to the trajectory of how quickly you will try to narrow that gap.

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

Yes, we will focus mainly on occupancy in the first year. We'll try to get their occupancy up to exactly where we are.

The other thing I would caution you on is you can't just look straight at 20%, because they may or may not compete directly with our properties. So we will aggressively move the occupancy and then from there we will aggressively move the rates to be in line with our existing stores that are in the same markets.

Jonathan Hughes - *Raymond James - Analyst*

Okay. That's it from me, guys. Thanks.

Operator

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

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

Thank you, everyone, for your interest in Extra Space today. We will look forward to next quarter's call. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you for your participation. Have a wonderful day.