THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

EXR - Q4 2015 Extra Space Storage Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 24, 2016 / 6:00PM GMT

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

CORPORATE PARTICIPANTS

Jeff Norman *Extra Space Storage Inc. - IR*

Spencer Kirk *Extra Space Storage Inc. - CEO*

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

CONFERENCE CALL PARTICIPANTS

Todd Thomas *KeyBanc Capital Markets - Analyst*

David Toti *BB&T Capital Markets - Analyst*

Jeremy Metz *UBS - Analyst*

George Hoglund *Jefferies LLC - Analyst*

Smedes Rose *Citigroup - Analyst*

Ki Bin Kim *SunTrust Robinson Humphrey - Analyst*

Jenna Gallagher *BofA Merrill Lynch - Analyst*

Landon Park *Morgan Stanley - Analyst*

Jonathan Hughes *Raymond James - Analyst*

Ryan Burke *Green Street Advisors - Analyst*

Wes Golladay *RBC Capital Markets - Analyst*

Steve Sakwa *Evercore ISI Group - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Extra Space Storage Inc. fourth-quarter 2015 earnings conference call. (Operator Instructions). As a reminder, today's program is being recorded. I would now like to introduce your host for today's program, Mr. Jeff Norman, Director of Investor Relations. Please go ahead.

Jeff Norman - *Extra Space Storage Inc. - IR*

Thank you, Jonathan. Welcome to Extra Space Storage's fourth-quarter and year-end 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, Wednesday, February 24, 2016. 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.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

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

Hello, everyone. 2015 was a record-breaking year. We executed at a high level and produced outstanding results despite difficult comps. For the fourth quarter same-store revenue growth was 9.3%, NOI growth was 11.9%, year-end occupancy was 92.9% and FFO as adjusted group 28%. This marks 21 consecutive quarters of double-digit increases.

We delivered these exceptional same-store operating results while expanding our physical real estate and digital real estate footprints by 24%. In 2015 we added 259 stores to our platform and our year-end EXR branded store count was 1,347.

For the year we closed on $1.8 billion in acquisitions. Seller expectations are high and we expect pricing to remain competitive in 2016. However, we are finding accretive acquisitions, including off-market transactions, and we are off to a solid start in 2016. I would now like to turn the time over to Scott.

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

Thanks, Spence. Last night we reported FFO as adjusted of $0.87 per share meeting the high end of our guidance. Including costs associated with acquisitions and non-cash interest, FFO was $0.38 per share for the quarter. This was below our Q4 guidance due to additional transaction-related costs.

We paid $16 million in SmartStop transactional costs, $8 million for SmartStop's investment bankers and $8 million in severance expenses. These costs were expensed on our books rather than on SmartStop's. In essence we paid SmartStop's transactional costs with SmartStop's working capital. These costs were included in our original purchase price estimates and had no effect on the transaction on a net-net basis.

For the year, FFO as adjusted was $3.13 per share, meeting the high end of our guidance. Including acquisition and non-cash interest costs FFO was $2.58 per share. Our same-store revenue growth was driven by higher rates to new and existing customers, increased occupancy and lower discounts. Our top-performing markets were California, Colorado and Florida. Our worst-performing markets still grew at 4% to 5% and our platform continues to maximize results.

We had a busy quarter on the acquisition front adding 131 stores for $1.4 billion. The majority of these stores were part of the SmartStop acquisition which are performing in line with our underwriting expectations.

Last night we provided guidance and annual assumptions for 2016. Our new same-store pool will increase by 61 properties for a total of 564. We expect the change in the same-store pool to positively impact our revenue growth by approximately 50 basis points.

For 2016 our acquisition guidance of $600 million refers only to our same-store -- only to our wholly-owned same stores -- our wholly-owned stores. The impact of our JV acquisitions is captured in our equity and earnings.

Our full-year FFO as adjusted is estimated to be $3.65 to $3.73 per share. 2016 FFO guidance is $3.57 to $3.65 per share. This guidance includes $0.05 of dilution from our 2015 and 2016 certificate of occupancy acquisitions.

Our guidance also includes 2015 acquisitions that, as anticipated, will require time to be brought up to our performance standards. Once they are performing at our portfolio average they should produce an additional $0.10 per share. I will now turn the time back to Spencer for some closing remarks.

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

Thanks, Scott. We expect 2016 to look much like 2015. Demand is steady. New supply, while present, is still muted and our advantage on the Internet continues to grow. However, in 2015 increases in occupancy and reductions in discounts contributed approximately 300 basis points to revenue. This year we expect occupancy gains of approximately 100 basis points and little to no additional benefit from discount reductions.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

I congratulate our team on the significant growth and the strong performance in 2015. It has resulted in Extra Space being included in the S&P 500. We are pleased to be recognized as a top-tier REIT and a member of this fine group of companies. Let's turn the time back to Jeff to start the Q&A session.

Jeff Norman - *Extra Space Storage Inc. - IR*

Thanks, Spencer. In order to ensure we have adequate time to address everyone's questions, I would ask that everyone keep your initial questions brief. If time allows we will address follow-on questions once everyone has had an opportunity to ask their initial question. With that will turn it over to Jonathan to start our Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Todd Thomas, KeyBanc Capital Markets.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Just first question on occupancy. There was a much more muted seasonality impact at the end of the year, only a 30 basis point decrease from the average occupancy in the fourth quarter. I am assuming that was a pretty conscious effort. But what levers did you pull on to keep occupancy at 92.9% at the end of the year?

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

So we continue to advertise out there. So I think that one of the things we made a conscious effort of is we spent some [paper quick] dollars as well as maximizing our SEO spend. We continue to try to make sure that we maintain occupancy in the slow season so we are ready to push rates as we move into the busy season.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Are you able to share your occupancy through today and where that was year over year perhaps?

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

Without giving exact numbers it hasn't changed significantly.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay. And just a follow-up then on Houston, with regard to occupancy there, it actually fell rather sharply. It was higher year-over-year last quarter, but was lower this quarter by 120 basis points and it is now one of the few markets in the portfolio where occupancy is lower. What is your read on Houston and are you operating in Houston any differently than you operate in any of your other markets?

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

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

Yes, so, Houston is overall, Todd, 2% of our total portfolio. This is the beauty of a broadly diversified and geographically dispersed portfolio. And yes, there is softness in Houston. And we have not done anything differently operationally on our interactive marketing efforts, or our revenue management specifically, to try and address something that is just part of the economic softness in that part of the country.

So, we are going to continue to do everything we can without being aberrational in our behavior. We've got a platform, we have got a system and we are letting the system run based on the laws of supply and demand.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay, thanks, I will jump back in the queue.

Operator

David Toti, BB&T Capital Markets.

David Toti - *BB&T Capital Markets - Analyst*

Hey, guys, I just have two questions on rent growth. And Spencer, I think you mentioned a revenue forecast for the year. You are assuming little discount burn-off and about 100 basis points of occupancy. Can you share what your rent assumptions are embedded within that revenue forecast?

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

So if you look at our revenue forecast, David, the majority of that is actually going to come from rate. You are going to get about 100 basis points from occupancy and the rest is all rate. So we think that we will continue to be able to push rates in the mid- to high-single-digits and hopefully we continue to see strength through the summer months here.

David Toti - *BB&T Capital Markets - Analyst*

Okay. And then a follow-up to -- a follow-up to that question. In assets where you have occupancy in the mid-90s or higher, and you have some limited inventory, what is a typical rent strategy in those types of assets? Do you push rent to dislocate tenants to create more inventory? How do you guys approach that situation?

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

We push rate as hard as we think is prudent for the market and for the data that we have for a particular property and the unit size codes that are in demand. Part of the beauty of our platform is that data is probably our single most valuable asset. And as you look at 800,000 plus units that we have information on, we are going to push rate as hard as we can.

Obviously we don't want to dislodge customers, but where we have existing customer rate increases being benefited by lofty street rates, yes, we can get pretty aggressive both with new customers walking in the door as well as the existing customer. And our system is going to try to optimize the revenue for any particular size code.

David Toti - *BB&T Capital Markets - Analyst*

Okay, thanks for the detail.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

Operator

Jeremy Metz, UBS.

Jeremy Metz - *UBS - Analyst*

I am on with Ross here. I was just wondering if you could talk about what you're budgeting for SmartStop in 2016 in terms of the revenue growth and how that breaks down between occupancy and rents.

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

Yes, so we are hoping to have their occupancy be at similar rates to what we have in our occupancy by the end of the rental season or by the end of the summer. You are going to do that first by making sure the rates are relatively low. But overall for an annual growth rate it is high-single-digits.

Jeremy Metz - *UBS - Analyst*

Okay. And then just on one of the potential JVs you mentioned in the press release it looks like all those assets are developments in New York you would buy at CO. So I am just wondering if you can walk us through your thinking there and thoughts on current supply already underway in the market. And then in terms of the JV, is your partner the actual developer or just the financial partner?

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

So it is actually just a financial partner, it is an institutional partner so it is one we are excited to do more business with, to have more investment with. We like the New York City market, New York City -- the boroughs have low per square foot penetration as far as square feet per population. And we are excited to have additional product in a market that has great demographics and high rent per square foot.

Jeremy Metz - *UBS - Analyst*

And is there a chance you could increase your --?

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

It is Spencer, if I could just provide a little color on JVs. Number one, JVs help us with the dilution part of the equation on our earnings. Number two, it increases our return. And then to answer part two of your question, new supply generally throughout the country -- I think that is the question you're getting at -- it is still muted. And my own personal number is total number of properties delivered, new assets in the United States in 2016, 600.

Jeremy Metz - *UBS - Analyst*

Appreciate the color, guys. Thanks.

Operator

George Hoglund, Jefferies.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

George Hoglund - *Jefferies LLC - Analyst*

Yes, I was wondering if you could just, one, comment on expenses in Chicago that were up pretty significantly.

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

It's property tax reassessments. Illinois is very aggressive on an annual basis and some of those we will appeal.

George Hoglund - *Jefferies LLC - Analyst*

Okay, and then when you think about the guidance range in terms of what is most likely to push you towards the higher end of the guidance range or could even -- what would be the outlier that would push you above the range? What factors do you think are most likely?

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

I would give you two items, one would be if property taxes come in lower than we're originally budgeting. We are budgeting them close to 6%. I think it was 5.8% for our budgets on same stores this year. And then second of all, if rates hold better than expected through the summer months.

George Hoglund - *Jefferies LLC - Analyst*

Okay, thanks. And then I guess just one more. In terms of -- you talked about occupancy, you had mentioned it earlier, that it was about the same or unchanged. Was that versus the year end or is that on a year-over-year basis?

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

Versus year end.

George Hoglund - *Jefferies LLC - Analyst*

Okay, thanks.

Operator

Smedes Rose, Citigroup.

Smedes Rose - *Citigroup - Analyst*

You mentioned that some of the acquisitions made in 2015 can drive an additional $0.10 to make it up to your company wide portfolio metrics. Can you talk about maybe some of the dilution I guess that is embedded in your guidance for this year from the 2014 or so [CofO] properties coming online?

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

Yes, so the dilution is actually primarily from the 2015 and 2016 acquisitions. And you have got about $0.05 in those properties.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Smedes Rose - *Citigroup - Analyst*

Okay, thanks.

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

So from a growth perspective you have got $0.05 from CofO and another $0.10 from properties that we purchased considering them to be value add opportunities.

Smedes Rose - *Citigroup - Analyst*

Okay. And then could you just remind us when you were calculating your adjusted FFO, how do you treat the convertible notes in terms of --?

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

The non-cash portion we take out as an adjustment and then the other adjustment is the transaction cost for acquisitions. So those are really our only two adjustments.

Smedes Rose - *Citigroup - Analyst*

Okay. All right, thank you.

Operator

Ki Bin Kim, SunTrust.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

Could you just give a quick update on where your street rates were this quarter or in January, whichever one you prefer, year-over-year? And in terms of tying that into your same-store revenue guidance, it sounds like 600 basis points comes from rate. Is that pretty equivalent to street rate growth? So to get to 600 basis points of revenue growth from rate does that equal 6% street rate growth for next -- for this year?

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

Yes, a couple of things just of note here. First of all they are high-single-digits year over year, December versus last December. But again, that could depend on what you did last December with your rates. So we would caution people always to look at it on average.

So we continue to raise rates, but then the other thing that is important is what is our actual achieved rate. Because everyone doesn't come in and pay street rate, you have some Internet specials, things like that. So you also need to look at what our achieved rate is versus our street rates. But overall they continue to grow. And again, as I mentioned earlier, the majority of our growth this year is going to come from our rate increases.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

Okay. And I think the high-single-digit year-over-year increase in street rates in December is -- it sounds mostly noticeably better than last December year over year. If this holds up as we get into summer leasing season, is it reasonable to expect that year-over-year increase in street rates to be more than that 8%-ish number that you posted last summer?

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

You know what, Ki Bin, it all depends on how our busy season transpires. We are walking into our prime season with a record occupancy. And we are going to push rates as hard as we can. It is certainly not out of the realm of possibility. But I think we are premature to offer any kind of prognostication as to what is going to happen. Give us another 90 or 100 days and let us kind of see how things are starting to transpire and I think we can add some color. It is too early.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

Okay, sounds good. Thank you.

Operator

[Jenna Gallagher], Bank of America Merrill Lynch.

Jenna Gallagher - *BofA Merrill Lynch - Analyst*

Can you provide some detail on where the stores you bought year to date and the acquisitions you are targeting in 2016 are located? Whether you are trying to increase scale in the SmartStop markets or just generally for the portfolio wide?

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

I would tell you they are more in our core markets. We're not necessarily trying to add in some of the one-off markets where SmartStop is. I think that we are buying them wherever we can buy them and make it the best pricing possible.

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

Yes, Jenna, it is Spencer. The one thing that I would add to this, and I've said this many times, we are not going to get to 3,000 properties by being in Los Angeles and New York. We are going to have a broad national platform. And as we have talked about, some of these markets that are experiencing a little softness, we also have markets that are performing at levels that are unprecedented.

And a geographically diversified portfolio is best. And I think a rational strategy of saying, look, we can't predict winners and losers over the long haul; virtually every market will cycle, that I am aware of. We want to be broadly diversified and geographically dispersed so that we can capitalize on what this self storage business has to offer. And that is best-in-class performance amongst any real estate class.

Jenna Gallagher - *BofA Merrill Lynch - Analyst*

Thank you. And then just kind of your thoughts on funding the acquisitions and any guidance for dispositions this year.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

Yes, first of all, the funding of our acquisitions, included in our share count and our equity estimates we have about $225 million to fund the $600 million in acquisitions. So $225 million of equity or OP unit issuance.

Jenna Gallagher - *BofA Merrill Lynch - Analyst*

And any dispositions?

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

Oh, and then in terms of dispositions, we continue to look at the bottom part of our portfolio. Right now we are looking at $25 million or less in dispositions that are -- we have a few properties listed right now, but it is a small portion.

Jenna Gallagher - *BofA Merrill Lynch - Analyst*

Thank you.

Operator

Vikram Malhotra, Morgan Stanley.

Landon Park - *Morgan Stanley - Analyst*

Hey, guys, this is Landon on for Vikram. Just wanted to touch on Chicago, I know it has been sort of one of the weaker markets this year for you guys. And we have heard from some private operators that there is quite a few pockets of supply cropping up there. Is that sort of impacting that market or on the revenue side what do you think is driving the weakness?

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

There is new supply, Landon. And there are pockets of development around the country. You start to think about parts of Texas, parts of Florida, Chicago obviously. Yes, there is some development going on and it is going to have an impact. But overall if you look at the entire country, 600 assets plus or minus coming online this year is barely keeping up with the population increase of this country in terms of new supply that needs to be added.

So back to my earlier comment, being in a bunch of markets with an operating platform that optimizes performance is our strategy. And if one market is up another one might be down and Chicago right now is feeling softness. And we are okay with it. It is not what we want, but it is not causing us to have a good night's rest -- we are able to just rest well with a portfolio that is producing outstanding results.

Landon Park - *Morgan Stanley - Analyst*

So, is the weakness there -- you think it is largely attributable to new supply?

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

I would tell you a portion of it is new supply, a portion of it is the overall health of the economy there. I think that there is new supply, [it is coming from] markets we have seen, probably outsized supply growth.

Landon Park - *Morgan Stanley - Analyst*

Okay. And just more broadly on supply, how quickly do you think that that supply could ramp over the next few years with fairly quick build times in the industry?

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

(Technical difficulty) and the credit requirements to obtain a loan are tightening, entitlements are still very, very difficult to get generally around the country. And although there will be new supply I still maintain it is likely to be muted. And I don't expect a hockey stick for the aforementioned reasons. So I think the operating environment continues to look favorable for the next couple of years. And as we progress down the road we get better clarity, we will speak to it.

Landon Park - *Morgan Stanley - Analyst*

Okay, great. And then just one last one on the reinsurance income. How much of the increase year-over-year is going to come from higher penetration at SmartStop? And how do you see the penetration of that portfolio sort of trending over the next few years?

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

I would tell you it is going to come -- part of it is going to come from the increase in that. But part -- overall our penetration is low- to mid-70s and it is going to be tough to push it much more than that. So you are going to continue to add to our tenant insurance income through acquisition and through addition of management properties primarily.

Landon Park - *Morgan Stanley - Analyst*

And just remind me, what was SmartStop at when you close the deal?

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

I think their penetration wasn't that different. I think it was a little bit more in the rate and kind of what their -- the dollar amounts they were ensuring.

Landon Park - *Morgan Stanley - Analyst*

Okay, great. Thank you very much.

Operator

Jonathan Hughes, Raymond James.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Jonathan Hughes - *Raymond James - Analyst*

Just to touch on Landon's question. I was hoping you could kind of give some similar commentary on maybe the same-store revenue growth in your DC portfolio. Is that being impacted by new supply at all or maybe weaker job growth?

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

We have not seen outsized growth in new supply in DC. But I think that probably has to do more with the overall health there. It was also one of the markets that held up better during the downturn than some of the others. So if you look at a 10-year average or a 5-year average, I am not sure it is that different than some of the other markets.

Jonathan Hughes - *Raymond James - Analyst*

Okay, all right. And then turning to the SEO deals that were added to the pipeline. Are most of these projects with developers you have had prior relationships with or are they new entrants to the storage development market?

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

Some of them we have had relationships with in the past and I would say none of them are new entrants to self storage, they are all experienced self storage developers.

Jonathan Hughes - *Raymond James - Analyst*

Okay. And then what are the yields on those deals versus stabilized cap rates?

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

So obviously when you get into a CofO deal, Jonathan, your yield is zero. And so, what we do is look at the market. And we like to generally see about a 150 basis point spread between that new opportunity and what a fully stabilized asset would be trading in that market. So it depends. It depends on the market.

Jonathan Hughes - *Raymond James - Analyst*

Okay. And then that 150, I mean has that compressed significantly over the past six months or is it pretty much stable?

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

It is pretty stable over the last six months.

Jonathan Hughes - *Raymond James - Analyst*

All right, that is it. Thanks, guys.

Operator

Ryan Burke, Green Street Advisors.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Ryan Burke - *Green Street Advisors - Analyst*

Net rents on the properties that you will roll into the same-store pool this year, about 20% below the average for the 2015 same-store pool. Just curious if you expect to fully close that gap, obviously not in 2016 much but over time.

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

So you are saying the properties that are moving from the month same-store to the same-store in 2016, what will we do with that -- I a think a portion of that is not just that they are priced below, but also it is a function of what markets they are in.

I mean from our perspective we are looking at more what the lift is changed between the two same-store pools. So in my earlier comments I mentioned that it was going to add 50 basis points. Part of that is coming from the properties that are below market rents in certain markets. But you can't always just look at that because some of them may be in a different market with a lower per square foot rent.

Ryan Burke - *Green Street Advisors - Analyst*

Okay, thanks. Acquisition volume has been strong across the sector, it has been very strong for you so far this year. Is there any evidence that the smaller private operators are starting to become more willing sellers? And what is your general outlook for portfolios that may be coming to market?

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

So, I think as there has been some cap rate compression over the last few years, Ryan, I think, yes, there are a number of folks out there that are saying, I don't know that it is going to get any better than it is today, I probably ought to take a look at selling this single asset or this portfolio.

We're obviously out in the market looking at everything that is out there. I can't tell you that there is any next big SmartStop hanging out there in the wings for us to go capture in 2016. What I can tell you is we are going to participate in the open market and do so in a disciplined fashion.

And we are also going to be going after all of the off market stuff because we have got a wonderful relationship with hundreds of operators who at this point may decide or elect to sell. And we'll have to see how the next 10 months play out.

So we think open market and off market we are off to a good start and we expect to have a decent year in 2016. But I can't predict another home run hit like SmartStop in 2016 because there isn't anything right now on the table.

Ryan Burke - *Green Street Advisors - Analyst*

Great, thank you.

Operator

Wes Golladay, RBC Capital Markets.

Wes Golladay - *RBC Capital Markets - Analyst*

First off congrats on the S&P 500 add. Looking at SmartStop, what is your forecast for expense growth for that portfolio this year?

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

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

In terms of expense growth we actually didn't model it at all in terms of what they had their expenses at versus ours. We actually just modeled it entirely based on what our expense structure is. So we took what our payroll structure is, we took the pro forma property tax adjustments, all of that. So I couldn't even comment on what the growth would be in expenses.

Wes Golladay - *RBC Capital Markets - Analyst*

Okay. And then looking at the 600 facilities coming online in 2016, how much of that is competitive for your portfolio? And do you see any markets where supply will meaningfully overwhelm demand?

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

I think a portion of those are obviously competitive to us. I would tell you that I don't see a single market where it is going to overwhelm demand. I think you are seeing more construction in Texas and in Florida and Chicago, some of the markets where it is typically and historically a little bit easier to build and get things entitled.

Wes Golladay - *RBC Capital Markets - Analyst*

Okay, thanks a lot.

Operator

(Operator Instructions). George Hoglund, Jefferies.

George Hoglund - *Jefferies LLC - Analyst*

Just one additional question. On the past few months have you seen any change in appetite from JV partners in terms of how much they want to buy or have you seen new JV partners looking to enter into the space?

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

I would say, George, that for the last two years there has been a fair amount of interest from various would-be participants wanting to get into self storage. I think self storage has proven itself as an excellent investment. And whether it is private equity or institutional investors, there is a lot of demand, there is a lot of inquiry to trend, to put it into the last 90 days or the last six month I think would not be fair.

I will just say that we are frequently getting calls, as I am sure the other major operators are, saying hey, I would like to participate with you, can we do something together. And I don't think that that is going to change because storage is a really good asset class. So, nothing out of the ordinary in the last quarter or two quarters. I would just say there has been a constant level of inquiries and interest expressed over the last couple years.

George Hoglund - *Jefferies LLC - Analyst*

Okay. And then just on cap rates on acquisitions, what are you seeing on stabilized properties for some of the stuff you have been doing year to date?

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

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

We will typically stabilize a property mid sixes, but that is not necessarily your forward-looking year one cap. Sometimes we will take some opportunities to buy a property that maybe has lower occupancy or is in the lease up phase. So I would tell you cap rates are all over and it is going to be market by market. In the secondary markets you might get something in the sevens, but if you want to buy something in New York City you are not going to buy in the sixes even.

George Hoglund - *Jefferies LLC - Analyst*

Okay, thanks.

Operator

Todd Thomas, KeyBanc Capital Markets.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

So in the past you have said that you would tolerate about 3% FFO dilution from CofO and development deals. In 2016 sounds like you are expecting about $0.15 overall, so $0.05 I think, Scott, you said from CofO deals and $0.10 from development and lease up deals. So that is a little over 4% at the midpoint of guidance and you are taking up your exposure to CofO deals. Has your tolerance to for FFO dilution changed at all or is there anything in terms of risk that you are willing to tolerate more at this point?

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

I am not sure it has changed at all, Todd. If you look at our 2015 acquisitions, obviously that is heavily weighted towards one large acquisition. And so, we viewed that as an opportunity and so we were willing to take a risk on more of a one-time thing there.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay, and then just lastly, taxes associated with the REITs, [TRS], the assumption there is about $17 million for the year, so about $0.13 per share. In the past there have been various initiatives to drive that back down. Any thoughts about reducing that expense? And assuming that the TRS' tax expense does continue to grow, does it cause you to think differently about how you operate the portfolio or run the business in any way?

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

I would tell you we continue to look for opportunities to save taxes in the TRS. We have done solar, we have looked at making sure that the TRS is paying its fair share in terms of acquisition costs from making sure that they reimburse the REIT for access to these customers.

So I would tell you our strategy is going to be to continue to be aggressive, but I think there are benefits from having a TRS and having an insurance captive. So we will continue to look for opportunities and ways to maximize our return.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay, thank you.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS

Operator

Steve Sakwa, Evercore ISI Group.

Steve Sakwa - *Evercore ISI Group - Analyst*

Spencer, I was just wondering as we are getting sort of deeper into the economic cycle here, and you guys are doing more CofO deals, how do you just sort of think about the risk of the lease up on the developments? And are you guys sort of changing your underwriting at all or getting more conservative as you kind of analyze these different projects around the country?

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

I would say, Steve, that as we are thinking about CofO deals philosophically, first of all we have to recognize that historically or compared to the historical lease up time, we are running at about one-half the time that it takes to fill up a property.

Now there are always outliers on that, but for us, whether you are looking at the economic cycle as being steady or even decelerating, what I can tell you is that the life-changing events that cause people to use storage, happen in good economies and bad economies.

And we are not underwriting anything differently on lease up in 2016 or even 2017 than what we would say. We are doing better than we historically done and the Internet is the game changer that is allowing us to drive more traffic at the proper price point to our properties than we were able to before. And we are going to continually refine that process so that we maximize performance. And maximizing performance is fill it up as fast as you can in an economic fashion to optimize revenue.

Steve Sakwa - *Evercore ISI Group - Analyst*

So, not to put words in your mouth, but if you knew a recession was coming you really wouldn't do much differently?

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

That is correct.

Steve Sakwa - *Evercore ISI Group - Analyst*

Okay, thank you.

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

We never actually changed our underwriting to be more aggressive when things were leasing up faster.

Steve Sakwa - *Evercore ISI Group - Analyst*

Got it, okay, thanks.

Operator

And this does conclude the question-and-answer session of today's program. I would like to hand the program back to Spencer Kirk, CEO.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

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

We appreciate your interest in Extra Space today and we will look forward to the next quarter's call. Thank you.

Operator

Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2016, Thomson Reuters. All Rights Reserved.

©2016 Thomson Reuters. All rights reserved. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is prohibited without the prior written consent of Thomson Reuters. 'Thomson Reuters' and the Thomson Reuters logo are registered trademarks of Thomson Reuters and its affiliated companies.

THOMSON REUTERS