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EXR - Q3 2012 Extra Space Storage Inc. Earnings Conference Call

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PRESENTATION

Operator

Good day ladies and gentlemen and welcome to third-quarter 2012 Extra Space Storage Inc earnings conference call. At this time all participants are in a listen-only mode. Later we will conduct a question-and-answer session.

(Operator Instructions)

As a reminder, this call is being recorded for replay purposes. I would like to turn the conference over to your host for today, Mr. Clint Halverson, Vice President Investor Relations. Please proceed.

Clint Halverson - *Extra Space Storage, Inc - VP IR*

Thank you, Tahesha. Welcome to Extra Space Storage's third-quarter 2012 conference call. In addition to our press release, we 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, Tuesday, October 30, 2012. The Company assumes no obligation to revise or update any forward-looking statements 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*

Hello, everyone. As we start this call, I would like to simply say we are keenly aware of the natural disaster that has taken place and is still yet in process. And we're aware of the destruction and disruption of people's lives. And we want you to know that our thoughts and prayers are with all those that are being impacted, recognizing fully that the aftermath and the challenges going forward are not fully known, nor what the course of the storm will yet be.

So we wanted to just acknowledge that this is not an optimal time for a call, but, nonetheless, we've had to make a decision, and we have elected to go forward. But know that we are going to keep good thoughts for all those that have been in harm's way or will yet be affected.

Extra Space did have an outstanding quarter thanks to the diligent and focused efforts of the entire team. The environment and culture here are riveted on innovation, technology, and performance. Additionally our industry leading results speak to the depth and sophistication of our systems, our processes, and our unique financial and ownership structures. I have spoken many times about our ability to deliver double-digit FFO growth.

This past quarter was no exception, with a robust 34% year-over-year increase. Property performance was strong, and our results benefited from accretive acquisitions. Speaking of accretive acquisitions, we currently have six properties with an aggregate purchase price of $50 million slated to close by the end of the year, on top of the $486 million already closed in 2012.

We continue to execute in a meaningful and substantive way to grow the REIT from open-market and off-market acquisitions. We are delighted with the success of this quarter and our performance year to date. We are keenly aware that the comps for next year will be a very large hurdle. Please remember this statement. I'd now like to turn the time over to Karl to talk about operations.

Karl Haas - *Extra Space Storage, Inc - EVP & COO*

Thanks, Spence. During the third quarter we experienced a very strong same-store revenue growth of 6.8%, especially in light of the 4.9% revenue growth we had in the third quarter of last year. Year-to-date same-store revenue was up 6.6%. We continue to see our Internet marketing and revenue management strategies pay big dividends. As we refine our pricing model, we will continue to steal market share from our smaller competitors.

Rental demand for storage remains stable in the third quarter, and we haven't seen a meaningful influx of new supply, which resulted in record high occupancy levels for our portfolio. We ended the quarter at approximately 90%, up nearly 2% over last year. Stable rentals coupled with the lack of new supply allowed us to increase street rates 5% on average for the quarter.

Same-store expenses continue to be below budget. The primary drivers for expenses being down by 2.8% were lower repairs and maintenance cost, continued benefit from sustainability initiatives and lower credit card processing fees. The benefit of lower credit card processing fees began in October of last year, and this will dissipate in the fourth quarter.

Discounts were down year-over-year 15% for the quarter and 10% for the year. This is due to higher occupancy and a focused effort to offer the right price and promotion. All this combined to produce third-quarter same-store net operating income of 11.4% on top of 7.3% growth last year. Now with that, I'd like to turn it over to Scott for a little bit more.

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

Thanks, Karl. Yesterday we reported third-quarter FFO of $0.43 per share, inclusive of a $2.5 million charge related to our acquisitions. We exceeded the top end of our quarterly guidance by $0.02. This can be attributed primarily to better than expected same-store property results and the performance and timing of our 2012 acquisitions.

We've had a banner year for acquisitions. During the quarter we closed on 53 properties for approximately $450 million. Of these 53 properties, 36 were from the Prudential transaction. As of today, we have six additional assets under contract for just over $50 million. These six properties are located in Florida, Massachusetts and New Jersey, and will be great additions to our portfolio. With the acquisitions closed during the quarter, we now have 416 wholly owned assets, compared to 304 joint venture properties and 190 third-party sites under management.

We continue to focus on growing the REIT in a disciplined and meaningful way. As of September 30, the Company had five separate lines of credit with a total capacity of $340 million with $240 million drawn on these lines. Subsequent to the end of the quarter, we paid off the $100 million GE line that recently matured and replaced this line with secured loans.

Interest rates continue to be at all-time lows. As a point of reference we recently closed a five year loan at 2.8% and a seven year loan at 3.2%. Both loans were swap fixed. Based on the results for the third quarter, we have raised our full year 2012 FFO guidance to be between $1.56 and $1.58 per share. Key assumptions relating to these estimates can be found in our press release. With that, I will now turn the time back to Spencer for some closing remarks.

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

Thanks, Scott. This year we have had one main theme, and that is to focus on fundamentals. Simply put, to maximize every revenue opportunity and appropriately minimize every expense. Our third-quarter results show that this focus is paying off. We will continue to drive innovation in our systems, our marketing and our operating platform to capture the right customer at the right price at the right time.

It is no surprise, but uncertainty seems to be once again a primary theme this earning season. The word is being dropped frequently in many conference calls so far, and it echoes much of what we are hearing both on and off the street. However, we remain optimistic about the self-storage sector and our ability to produce solid results for our shareholders going forward. With that I'd now like to now turn the time over to Clint to start the Q&A section.

Clint Halverson - *Extra Space Storage, Inc - VP IR*

Thank you, Spencer. We understand there are several individuals that are not able to join us on the call today. We would invite those that are on the call to ask all the questions that they have at this time, and we'd invite those not able to be on the call to meet with us at NAREIT in the next few weeks. With that we'll turn it over, Tahesha, to start our Q&A section.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

David Toti.

David Toti - *Cantor Fitzgerald - Analyst*

I just have a couple of small questions. I just want to discuss the acquisition strategy a little bit. In terms of the platform, the operating platform, do you think there is a size where you sort of reach maturity. The pace has been pretty aggressive for a couple of years now, or is it an infinite proposition in your view?

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

When we started to build Extra Space, we had scalability in mind. That's why we've had a significant technology focus. And, from my perspective operationally, this is close to being infinitely scalable. It's the vision that we had, and it's the way we have structured our systems and processes.

In terms of the integration of a fairly robust year of acquisition activity, I think we've managed it well. We've been measured. We've been disciplined. And the good news, as we talked about the 53 acquisitions in Q3 alone, 36 of those were from Prudential. They were already in our system. The Management Plus progress we've had in growing that third-party management where we've prospected and brought some of those properties in on our balance sheet, once again, those were already branded Extra Space, our systems, our people behind the counter.

And so, as you look at the three ways we can grow the REIT, either the through open market or off market transactions and growth of Management Plus program, I think most of these speak to reasonable pace and minimal risk as we go forward.

David Toti - *Cantor Fitzgerald - Analyst*

Thanks, Spencer. Then at a certain point does it make sense to start putting some of the weaker assets? I know generally the operators are hesitant to do that because of the scale issue. But when you get to a certain size maybe there is some sense in dispositions?

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

Dispositions are something that certainly we look at. As I have said many times, we're in the process of building a company. As conduit loans and other things provide some flexibility, we'll take a look at it. I think the primary word for us is growth, not dismantling.

David Toti - *Cantor Fitzgerald - Analyst*

Okay. My last question on this topic, as the operating base grows, are there other synergies you expect in terms of operating leverage over the existing basket, or is it just an expansion of the current synergies. In other words are there expense savings that you expect to obtain as you get into a new size?

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

Yes. I think size and scale still matter, but I would say we're starting to talk out on the margins, David. I don't think that it would be reasonable to model in anything that is on a large scale or substantive base, because I just don't see it.

David Toti - *Cantor Fitzgerald - Analyst*

Okay and then my last question. You mentioned in the press release that incentives were down. How do you guys read that? Is it the period? Is it because of your occupancy levels? Or is it just the overall environment where pricing power is increasing for you?

Karl Haas - *Extra Space Storage, Inc - EVP & COO*

Discounts are down, because our occupancy is up. And as we reach certain occupancy thresholds, it's done by unit type. So, the discount available for our managers offer go down. The first step is taking it down from full month to half month and then to no months. The good thing is our major competitors are also more occupied, and they're doing the same thing.

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David Toti - *Cantor Fitzgerald - Analyst*

Okay. Great. Thanks for the detail today.

Operator

Michael Knott.

Michael Knott - *Green Street Advisors - Analyst*

I hate to ask an insensitive question about the storm, but just curious if you have any intel on your own portfolio and any damage there may be? And then also is there any reason to expect that this particular storm wouldn't be beneficial for the industry like prior big storms have been?

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

It's not an insensitive question. It's just a matter of fact that we've got to deal with the environment in which we're doing business and natural challenges and those things. First of all, the storm is far from over. We've had a team that's been up all night. What I can tell you today is we've got one store that we know has about four feet of water in the office and the property has some problems -- serious problems.

But the vast majority of our stores are open for business. And I think the preliminary report is positive in that we're in reasonably good shape. But not knowing what the path and the rest of this storm has out there, I would hate to prognosticate where I don't know.

Natural disasters obviously help drive the business. We also know that there will be some expenses associated with this. But the indications are right now that the guidance that we have given that Scott just talked about is what we still maintain as the likely outcome for the performance of this Company in Q4.

Michael Knott - *Green Street Advisors - Analyst*

Okay. And then just as it pertains to your insurance business, that was obviously had another good quarter in 3Q with expenses down. Do you expect that the storm will reverse that trend next quarter? Or maybe even in Q1. I am not sure what the lag is on sort of when those claims might be paid out, or how that works.

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

We would expect them to be up some in the fourth quarter and potentially trailing into the first quarter of next year. But we had a pretty serious storm go through last year in the same area in New Jersey. While claims did go up slightly, it wasn't like they spiked a significant amount. The other thing that we're sorting through is which of those claims will be covered, whether or not it is from rising water or from wind damage. Because certain types of things are excluded in the coverage.

Michael Knott - *Green Street Advisors - Analyst*

Okay. Then just one more question and I'll hop back in the queue. I guess this one will be for Karl. Karl, I would assume that rent growth this quarter was about 5% or so on average. And my question is is more than 100% of that coming from increases on existing customers? In other words are move-in rates still lower than move-out rates? Or is that starting to dissipate?

Karl Haas - *Extra Space Storage, Inc - EVP & COO*

No, it's starting to balance out. It really depends on the length of stay. I mean if you take it on a micro basis, customers that have been with us for a long time can be well above street rates. And so there is some negative churn for those. But on balance, it's -- we're not losing a lot. It's pretty relatively flat. Our street and existing customer rates are really close together.

Michael Knott - *Green Street Advisors - Analyst*

Okay. So when tenants move out that's kind of a flat revenue event assuming it's back-filled but then the rent growth is really coming from existing customer increases?

Karl Haas - *Extra Space Storage, Inc - EVP & COO*

Yes, and street rates being up slightly.

David Toti - *Cantor Fitzgerald - Analyst*

Okay. Thanks. I'll get back in the queue.

Karl Haas - *Extra Space Storage, Inc - EVP & COO*

In comparison to the prior year.

Operator

Michael Salinsky.

Michael Salinsky - *RBC Capital Markets - Analyst*

First question. You talked about 5% street rate growth in the quarter. I'm assuming that's year-over-year. Can you talk about how that trended through the quarter? I believe when you talked back in July you said 3%. Sounds like there was some nice acceleration. Also, can you give us a sense of what you are seeing in October?

Karl Haas - *Extra Space Storage, Inc - EVP & COO*

This is Karl, Mike. It is up and down continuously. Our system controls it, and it's doing it based on a very micro basis, property-by-property, unit type by unit type. So it goes up. It goes down. We really -- I think it's better to look at it in a longer period of time rather than trying to get either excited or depressed about it being up and down week-to-week and month-to-month.

Michael Salinsky - *RBC Capital Markets - Analyst*

Okay. Can you talk a little bit then about the trend, what you have seen under that pretense over the last 90 days?

Karl Haas - *Extra Space Storage, Inc - EVP & COO*

It's holding pretty well. Our occupancy is actually slightly above where we expected it to be, our delta to prior-year. So that's enabling us to hold the rates a little bit better. Then it's the combination of that, and the other significant benefit is just, at the higher levels of occupancy, we're giving away less discounts. So our achieved rate continues to trend very favorably.

David Toti - *Cantor Fitzgerald - Analyst*

Okay. That's helpful. Second question a little bit on asset pricing. Have you seen any compression in cap rates over the last 90 to 120 days? And also are you seeing any increase in volume, the amount of properties being put on the market by sellers at this point?

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

In terms of cap rate compression, last 90 days I won't say that it has been substantive. I would simply say, as we have looked out for deals, we think for us somewhere between 6.5% and 8% is the sweet spot. And obviously it depends on the quality of the asset, the market in which that asset is located, and other things because there is a broad range of variability in terms of asset quality.

But, as we look at transactional volume, we see opportunities. We're bidding on opportunities. There seems to be a fair amount of interest. One of the big questions for us is what happens between November 6 and the end of the year? That's one of the unknowns. I will say that after November 6 or 7, it becomes a little tougher to transact, but we do expect that there will be increased activity potentially.

Michael Salinsky - *RBC Capital Markets - Analyst*

Okay. And the final question, kind of a bigger picture question. We haven't seen a whole lot of supply or starts in the storage space over the last 18 months, actually probably longer than that. But given the rent growth that you're seeing and occupancy pick up at the storage spaces when do you expect supply to start ramping up there?

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

It's anybody's guess, Michael. I think I made a comment previously in another call that the bankers have been a little bit reluctant to loan against new construction as we have demonstrated quite amply. If you have got a stabilized asset, you can get loans all day long, but new construction has been problematic. Once you are in that mode, it's a year or two to get an entitlement, a year to build it, and then two to four years to lease it up.

Having spoken with a number of folks in the industry, I reaffirmed that I think in major markets there might be several dozen properties being built, and maybe in the entire country, several hundred. We're not back in the hey day of the mid-2000s, of 2003, '04, '05, '06, '07 where on average 2,500 or 2,600 properties a year were being built. So it's anybody's guess, but this is one of those things that's driving the performance of the self-storage sector. And that is, there is relatively no new supply.

As I go around, for instance, I hear of a city like Phoenix that might have three, four, five assets coming out of the ground. We are not seeing massive amounts of supply. And it's going to just depend on market dynamics and financing and a whole host of issues. But right now it's really good if you are an existing storage operator.

Michael Salinsky - *RBC Capital Markets - Analyst*

That's all for me guys. Thank you much.

Operator

Paula Poskon.

Paula Poskon - *Robert W. Baird & Co. - Analyst*

To follow up on Mike's question about the acquisition environment, are you seeing more, particularly out of your third-party platform, more owners being more willing to sell driven by tax policy concerns?

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

Paula, this is Scott. We have seen an increase in probably the last 60 days of owners wanting to get a transaction done by end of the year. They may or may not be able to get that done. Or we may be able to agree on pricing or not. But we have seen more individual sellers versus portfolio deals.

Paula Poskon - *Robert W. Baird & Co. - Analyst*

And then out of the joint venture funds, is it the normal course of capital recycling through your joint venture partners? Or is there a strategic change where they're being they're apparently more willing to sell out assets?

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

We would tell you it depends on the fund and their objectives. Each fund is going to have different objectives. But, for the most part, many of them are looking to buy more self storage rather than divest of their self-storage investment. All of our partners have been very happy with the performance of self storage.

Paula Poskon - *Robert W. Baird & Co. - Analyst*

Thanks, Scott. And then, Spencer, you had mentioned in one of your earlier responses that not only your occupancies are high but many in the sector are high. Even if we do see a more normal seasonality pattern through the trough in February, doesn't that suggest that portfolio occupancies will still be higher than normal heading into the spring leasing cycle which could translate to some pretty healthy pricing power?

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

That is our hope. There is a lot of distance between now and then, Paula. But that's one of the things that we have modeled that virtually no new supply and our occupancies being at the highest level we've ever seen. Going into the next prime season we're optimistic it is going to be a good year for us and that we'll capture and deliver some solid results.

Paula Poskon - *Robert W. Baird & Co. - Analyst*

That's all I have. Thank you very much.

Operator

(Operator Instructions)

Ross Nussbaum.

Ross Nussbaum - *Bank of America - Analyst*

Where are your street rates today relative to the peak of the market back in '07?

Karl Haas - *Extra Space Storage, Inc - EVP & COO*

I'm not sure I have that handy. Probably above it, but we've gotten back and above where we were. But I don't have it handy with me.

Ross Nussbaum - *Bank of America - Analyst*

That's generally the color I was looking for. On the insurance side, I just want to follow up and make sure I understand. There was a suggestion that not all claims fall under the policy. Is flooding or water damage not caused by wind not covered under your insurance policies?

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

Generally, no. We have two different types of coverage. We have a general insurance policy and then a flood policy also.

Karl Haas - *Extra Space Storage, Inc - EVP & COO*

A flood rider.

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

A flood rider.

Ross Nussbaum - *Bank of America - Analyst*

What percentage of your tenants who generally elect for the general go for the flood as well?

Karl Haas - *Extra Space Storage, Inc - EVP & COO*

Well, we just started offering the flood rider in the middle of this year, so it's not a high percentage of our customers that actually have the flood rider. I view it as a positive if our customers do have coverage, and, in an instance like this, it helps to further enhance our saleability of insurance and drives home the point that it's a good thing to have insurance.

We will probably experience some claims, but that's not a bad thing. And you know it helps our managers feel better about having this program, and it will also drive home the point to our customers. Which is the same thing I think the big insurance companies, they're going take a big hit here. But they're well -- they're able to do that and on a go-forward basis it's probably going to help their business. We view it in the long run, one, it is good for our customers, and two, it's going to be good for us.

Ross Nussbaum - *Bank of America - Analyst*

If I go back and look at the positive impact that other weather-related disasters have had on the storage business, in particular, let's take a Florida hurricane for example. Is there a way you can help us quantify how much of an uptick in demand let's say over a 30- to 90-day period you typically see after one of these events?

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

It's tough to quantify the uptick. What if we can tell you is our internal discussions have been look we are at 90% occupancy at the end of the quarter. We don't have that much more headroom for maneuvering. This is very different than five years ago. I would suggest we're going to have some gain in revenue. We'll probably see some nice uptick in occupancy in some of those affected areas. We're also going to have some claims. The revenue and the expenses, we still reaffirm our guidance. I think it's right in that range of $1.56 or $1.58 for the full year. We're not modeling anything dramatically different. And that's based on lots of experience over lots of years.

David Toti - *Cantor Fitzgerald - Analyst*

Okay. And, when I look at your supplemental and look at for the quarter on a year-over-year basis you had 1100 fewer rentals and about 554 higher vacates. So those numbers, how should we think about those heading into next year? Obviously we'd like the signs in front of those numbers to be reversed.

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

One of the things we caution people on is not to get too hung up on the year-over-year because bad year may have been abnormally good or bad. What we generally focus on is how those trends appear on a seven-year trend. So we look at our rentals and vacates over a seven-year period. And we would tell you that those numbers lie in the middle. In addition to that, our occupancy is higher, so we would expect rentals to be down slightly and vacates to be up slightly. So, there's obviously fewer units to rent and more people to vacate.

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

There is also one other thing to consider. We do somewhere between 30,000 to 40,000 rentals a month depending on seasonality. When you pick a data point, say you had 1,100 fewer and 500 greater, the swing -- the order of magnitude, we are talking 1%, 1.5% in context. And I think a lot of that is well within the range of normal business cycle variations or normal economic changes that can't be modeled or forecast. So I go back to what Scott said. You need to be careful when you're taking a look at those numbers.

Karl Haas - *Extra Space Storage, Inc - EVP & COO*

We focus on square footage, not necessarily just units. Our square-foot delta is actually exceeding our expectations. We're pleased with where we are. We don't need -- we expected our square-foot delta to continue -- the gap to continue to close, because, although I have been saying this for a while, and our system has changed a little bit where it's not just totally driven by occupancy. So it hasn't closed as quickly as I would have thought. But we're still in a plus 2 to the same time last year and in October at almost 90% occupancy. So we are where we want to be.

Ross Nussbaum - *Bank of America - Analyst*

Okay. And then just two quick housekeeping items. When did the bulk of the acquisitions close during the quarter on both PRISA as well as the other 17?

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

PRISA closed on July 1, so 36 of the 53 assets closed July 1. Another 6 closed on July 17. The others closed throughout the quarter.

Ross Nussbaum - *Bank of America - Analyst*

Then just a last reminder. When is Ken officially back, and what should we be thinking about in terms of 2013 G&A impact?

Karl Haas - *Extra Space Storage, Inc - EVP & COO*

First of all G&A impact has been already modeled in everything that we've given you; no change there. Ken has come back as Chairman of the Board and the Chief Investment Officer. And I think he's doing a good job in helping us to identify opportunities. For your modeling, officially, the financial impact started July 1, 2012.

David Toti - *Cantor Fitzgerald - Analyst*

So he' already there. I missed it. Hi, Ken, if you're there.

Operator

Michael Knott.

Michael Knott - *Green Street Advisors - Analyst*

Hey, Spencer, just going back to your cap rate comment of 6.5% to 8%. Just curious, is that the range that you're willing to buy in, or do you feel like that's representative of some of your best markets versus some of the lower end markets? I would think that many of the better markets would be well below 6% today, but just curious if you can clarify those comments?

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

The 6.5% to 8 range%, Michael, is a fair representation of where we think we should be transacting to do accretive transactions. I think we have amply demonstrated that we are able to produce intelligent results without getting whipped into a frenzy. We're in this for the long haul, and I think it's important for us to remain disciplined and focused and recognize that we've had plenty of activity, that we don't need to pour an accelerant on something that's already going pretty well. I think the results speak for themselves.

Michael Knott - *Green Street Advisors - Analyst*

Okay. If we move that conversation to market cap rates, do you feel like Bostons, New Yorks, LA, San Francisco-type markets are and maybe south Florida are 5.5% today? Where would you peg those? And where would you peg a very average market within that 6.5% to 8% range?

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

Let me see if I can answer this. I think there will always be buyers that are willing to pay a lot. I still maintain you can pay too much for gold. An A asset in an A market you can get crazy and over pay for something. And for us we've said in building long term value, if it's a good asset in a good market, we're going to be in the sixes. If we start to get to a secondary market, it needs to drift into the sevens.

I spoke last quarter about asset quality being the physical condition of the asset itself, the quality of the market, and then the location of the asset within the market. It becomes fairly complex, because you have objective and subjective measures by which you value something. And for extra space we've got a seasoned acquisitions team. We've got a lot of experience, and we don't necessarily subscribe that markets have to be in the fives to produce meaningful results. We've demonstrated through 2012 that we can do intelligent acquisitions without being crazy.

Michael Knott - *Green Street Advisors - Analyst*

Okay. And then a couple more questions for me. One would be have you looked at all or thought about potentially expanding into Europe at some point in the future through acquisitions?

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

This is one where I can be pretty clear. We are not going to Europe. We are a North American source self-storage company. Strategically, the Board of Directors decided that the greatest opportunity is in our own backyard. Data point, and this is rounding, in North America there are about 54,000 self-storage facilities. In all of Europe, there might be 3,000.

I think the greatest opportunity is right here where we are, keenly positioned on the Internet, revenue management systems, operating practices, cultural things, linguistic capabilities of our managers. I think we've got the right formula to produce the very best result. And I for one am not interested in looking for a pasture that in my opinion is not greener on the other side of the fence.

Michael Knott - *Green Street Advisors - Analyst*

Okay. Fair enough. Last question for me. Can you update us if you have the numbers off the top of your head but the '09 to '12 development pipeline? What stabilized yield are those tracking to? I know you're out of that business now, but are these properties exceeding what you underwrote? How are they trending?

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

Right now they're leasing up very well, but they're leasing up at rates lower than we originally underwrote. Generally, once those properties become stabilized, we'll push the rates. If one were to just look at the rates you would say that those properties are behind the original estimates. But they are doing well in our mind because we want to fill them up first and then push the rates.

Michael Knott - *Green Street Advisors - Analyst*

So you're going to stabilize at what kind of unlevered yield?

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

It depends on the property. It depends on the year. You're probably talking somewhere between 8% and 10% depending on the asset.

Michael Knott - *Green Street Advisors - Analyst*

Okay. Thanks.

Operator

Rj Milligan.

Rj Milligan - *Raymond James - Analyst*

I'm just curious in terms of marketing. For your mobile platform, how many of your customers are coming now mobile versus desktop? And what do the conversion rates look like? And I am just wondering if you have ideas to the smaller mom and pops, how many of those have a mobile platform? What does the competition look like there?

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

Let me take the second question first. I can't speak to what the smaller operators are doing with their mobile platforms. One of the questions as to why we think the larger operators are taking market share is using Extra Space as a data point. We've got 42 people internally and externally working on our traditional Internet, our mobile strategy and our social media strategy. And we are spending tens of thousands of dollars a day on paid search.

The conversion rate on the mobile penetration today is just over 30%, Rj, and the conversion rate is a little bit higher than that. So the mobile strategy is very important to us. It's accelerating. It's accelerating very nicely, as a matter of fact, and we have invested heavily in our mobile strategy. I can't imagine how a smaller operator can put those kind of resources for programming and optimization into multiple platforms, because you are talking traditional Internet which is very different than mobile that different than social. And you look at all the different devices and the software and it becomes a very large matrix. It's complex, and it's expensive, and I don't know how the small guy does it.

Rj Milligan - *Raymond James - Analyst*

Okay. Thanks guys. That's it.

Operator

Michael Bilerman.

Michael Bilerman - *Citi - Analyst*

In terms of expenses heading into the fourth quarter, it would appear as though your guidance has got about a 4% lift for fourth-quarter expenses. Given the trend that you have been seeing, it seems like a large growth rate. I don't know if there is anything particular about this fourth quarter. I know we've talked a little bit about claim activity. Or is there anything in last year's fourth quarter that we need to be mindful of?

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

Really one big item is last year you had very little snow removal. So, basically, our fourth-quarter numbers are largely going to our budget. We're showing that snow is going to be at the historical norm, which is our budget. In addition, we're losing the effect of the credit cards. The benefit from credit cards took place last October. So year-over-year you're going to lose that in this fourth quarter. So your big changes are really credit card and snow removal. And then property taxes are coming in at that 4% to 5%.

Michael Bilerman - *Citi - Analyst*

And so how much would snow and credit card have an impact on that 4% growth rate? If they were flat with the prior year, what would that imply?

Karl Haas - *Extra Space Storage, Inc - EVP & COO*

It would probably bring it down to closer around 2%.

Michael Bilerman - *Citi - Analyst*

Arguably the snow and credit card is across the entire portfolio, not just the same-store, so I would expect all expenses to be up. Is there a certain level of drag on the entirety of the portfolio?

Karl Haas - *Extra Space Storage, Inc - EVP & COO*

When we give our assumptions, remember those are just the same-store assumptions.

Michael Bilerman - *Citi - Analyst*

Correct. That's why I am saying the snow and credit card would obviously have an effect on the entire portfolio.

Karl Haas - *Extra Space Storage, Inc - EVP & COO*

Yes that's correct.

Michael Bilerman - *Citi - Analyst*

Is there some level, is there a dollar number that you can share with us in terms of that negative impact both the aggregate on the same-store and the entire portfolio, maybe just what snow removal was in Q4 of last year and what the estimate is today, and what credit card was last year verses what it is today?

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

We actually don't have that in front of us right now.

Michael Bilerman - *Citi - Analyst*

Okay. Then Spencer you were pretty clear in terms of your Europe answer. How does Canada factor into the mix?

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

Canada is part of North America. If and when there is a good opportunity to move northward into Canada, we'd love to participate. It's very simple. We like Canada. We just haven't found the right opportunity.

Michael Bilerman - *Citi - Analyst*

Okay. Thank you.

Operator

Paula Poskon.

Paula Poskon - *Robert W. Baird & Co. - Analyst*

Just a follow up, Scott, on your comment about real estate taxes. Any market that you have seen surprisingly higher or lower real estate taxes?

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

No market. There is no theme between markets. It's more property by property, but no one market is significantly higher than it has been.

Paula Poskon - *Robert W. Baird & Co. - Analyst*

Thanks.

Operator

Todd Thomas.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

I just had a couple questions on acquisitions. It sounded like part of the beat in the quarter and increase in guidance for the remainder of the year was attributable to the performance of the acquisitions completed year to date. They're running ahead of expectations. I was just wondering what you attribute that to.

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

Our PRISA 3 properties are running ahead of what we originally used as our budgets to the tune of about $300,000 in the quarter. In addition to that, we are talking more about timing of those properties. We originally estimated that six of those properties would close August 1. They closed July 17. In addition to that, the other four properties, in regards to the New Jersey, New York properties, we estimated were going to close in late October. They ended up closing in August. So, timing was a portion of it as well as the performance of PRISA properties.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay. Then based on what you see today, what's the general sense of the acquisition environment? If you exclude the PRISA acquisition, is the level of acquisitions that you have seen something that you feel can be maintained for the time being?

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

We feel like things are pretty competitive out there. We want to try to be disciplined. We feel like we have done that this year. We hope to be able to continue to do that going forward. As cap rates fall we have become a little bit more aggressive, but we haven't necessarily chased them all away. So as we model things going forward, if you modeled something $100 million a year, we would tell you that's reasonable. If you did $500 million a year I'd think that's going to be aggressive.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Lastly, Spencer it sounded like you are pretty firm about expecting the tough comps to be challenging to overcome in 2013. Is that a function of occupancy at record levels where there isn't that much room to improve on the occupancy front, or is it because you feel there is still a lack of pricing power based on what you see today?

I know you haven't provided 2013 guidance but it sounds like street rents are higher by 5% year over year. You're still getting the existing customer rent increases. In terms of revenue growth, can you just help me understand where that statement, where the caution that you started the call with really stems from?

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

Yes, Todd. The caution comes from this. NOI was up 7.3% a year ago. We are up 11.4% this year. You compound that it's 19.53%. So almost 20% over that time period. That's pretty good. To expect double-digit performance really puts us at the top end of anything that is historically the average. And I don't for one second want to delude myself or any of our investors or shareholders that continuously operating above what has been the historical norm is sustainable.

It's a great time in storage with no new supply, and we're taking market share from the smaller operators. The assumptions that were in the press release speak to little more optimistic and buoyant environment in which we can produce results that are on the top end of what the historical patterns have been. I just want to make sure that we do not come to expect double-digit NOI growth for year-in and year-out and have that become something that is attributed to self storage, because I don't know that that is something we can produce, and I don't want to set an improper expectation.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Do you feel the same caution if you think about just top line, if you think about just revenue growth, do you feel the same about that? Or is it more a function of the combination with the lower operating expenses and purely on same-store NOI growth where you feel that's going to be tough to replicate?

Karl Haas - *Extra Space Storage, Inc - EVP & COO*

From the top-line standpoint, we've benefited from three drivers. One is the rate which we've gotten some traction on rate. That's really good. The second is occupancy. We've had very good growth in occupancy. We've gotten to almost a stabilized point on occupancy. And the third is discounts or the reduction in discounts and bad debt expense over the last two or three years. Both of those have been squeezed pretty hard, the discounts and bad debt. It's going to be hard to replicate that kind of growth to have that boost the same-store revenue growth. So, unless we find something new or different, it's going to be hard.

I read this in some of the analysts' write ups on apartment complexes. I don't think we're that much different. The norm is not 5.5% to 6.5% revenue growth long term in our business. And it's hard to maintain. So, I think not just us, but we're going to do as well if not better than your competition. That we're going to drive. But it's somewhat unrealistic to think that we're going to be able to continue with 5.5% to 7% same-store revenue growth.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay. That's helpful. Thank you.

Operator

Michael Knott.

Michael Knott - *Green Street Advisors - Analyst*

Can you talk a little bit about the about the stickiness of customers and whether that is increasing or not? And then I don't know if you happen to know what percentage of your customers have been in place for a year or longer and then maybe just speak to any seasonality around that number?

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

Anticipating tough questions like this, I have those statistics directly in front of me. Our greater-than-12 months is 58.6%. Our greater-than-24 months is around 37%. And I am not going to go into any more detail because you will then remember those and want to know it every quarter. But the good thing is that those numbers are slightly up from prior periods. We're not seeing any deterioration of our client base.

Michael Knott - *Green Street Advisors - Analyst*

Great. Thanks.

Operator

And ladies and gentlemen, we have no more questions in the queue at this time.

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

Thank you everyone for joining us, joining with the Extra Space Management team today. This concludes our call. A final remark. To all those that have been affected by this super storm Sandy, we sincerely wish you the best for the best possible outcome as you go back to rebuild your personal and professional lives. We know it's been a great disruption, and there has been significant loss. Just know that we're going to keep good thoughts for you. Thank you.

Operator

Ladies and gentlemen, that concludes today's conference. Thank you for your participation. You may now disconnect. Have a great day.
