FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the second quarter 2008 Extra Space Storage earnings conference call. My name is Clarissa, and I will be your coordinator for today. At this time, all participants are in listen-only mode. We will be facilitating a question-and-answer session forwards the end of this call. (OPERATOR INSTRUCTIONS).

I would now like to turn the presentation over to your host for today's call, Mr. James Overturf from Extra Space Storage. Please proceed.

James Overturf - *EXTRA SPACE STORAGE INC - IR*

Thank you, Clarissa. Welcome to Extra Space Storage's second quarter 2008 conference call. With us today are CEO and Chairman of the Board, Kenneth Woolley, President Spencer Kirk, CFO Kent Christensen, and COO Karl Haas. In addition to our press release we have also furnished unaudited supplemental financial information on our website.

Please remember that management's prepared remarks and answers to your questions contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements address matters which are subject to risks and uncertainties that may cause actual results to differ from those discussed today. Examples of forward-looking statements include statements related to Extra Space Storage's development and acquisition programs, revenue, net operating income, FFO and guidance. We encourage all of our listeners to review a more detailed discussion related to these forward-looking statements contained in the company's filings with the SEC. These forward-looking statements represent management's estimates as of today, Extra Space Storage assumes no obligation to update these forward-looking statements in the future because of changing market conditions or other circumstances.

I would now like to turn the call over to Chairman and CEO, Kenneth Woolley.

Kenneth Woolley - *EXTRA SPACE STORAGE INC - Chairman, CEO*

Hello, everybody. Thank you for joining us today on the Extra Space Storage conference call. I have with me today Spencer Kirk, our President, Ken Christensen, our Chief Financial Officer, and Karl Haas, our Chief Operating Officer and we welcome them also. During the quarter, we maintained our occupancy at our same store properties and all properties at a similar level to last year. To put a little color on that, however, our rentals were ahead of last year during April, or about the same as last year during May, and were lower than last year during June. So there was a deceleration in our rental efforts as the quarter went on. So as where we were ahead in April, we ended up at the same occupancy level as last year at the end of June. Our vacates didn't vary very much. So that's one of the reasons that we have lowered our guidance as we'll talk about further in the call.

Our same store net operating income, including tenant insurance, has increased 3.2% with revenues up 1.8% and expenses down 0.7%. We generated $0.29 of FFO before a $0.01 of dilution from our mid-May follow on offering, approximately $.015 of one time unrecovered acquisition expenses and a $0.01 dilution from development, which yields a net FFO which is reported of $0.26 per share. We closed during the quarter on the acquisition of two properties in California and Florida, for approximately $17.8 million. This included a development property at C of O in Southern California for $7.5 million. In July, we also acquired an additional 40% interest in an existing joint venture with Prudential Real Estate Investors for approximately $44 million. This provided us with an in place yield of over 8% on the money invested. We currently have eight properties for approximately $58 million under contract for acquisition, which we expect to close by the end of the third quarter.

In the second quarter, our development team completed one project in Aurora, Illinois for $6.9 million. Last week, we opened a property in Antelope, California, near Sacramento for a total cost of $8.9 million. And during the remainder of the third quarter we anticipate opening five more properties with a total cost of $41.5 million. We are on track to open a total of 10 development properties this year, with a total cost of approximately $81 million. During the quarter, we also raised $233 million in a successful secondary offering of common stock. We made the decision to raise the money in May in order to deleverage our balance sheet and also to pay down some debt. This new equity raise has in fact given us great flexibility for acquisitions, and a much stronger balance sheet.

I'd like to now turn the call over to Karl Haas, our Chief Operating Officer, who will talk a little more about our operational performance. Karl?

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

Thanks, Ken. Our same store properties had another quarter of positive revenue and net operating income growth. As Ken already said, we maintained occupancy at last year's levels, and increased rents to our existing customers. Including insurance revenue, revenue and net operating income for the quarter were up 1.8% and 3.2% respectively compared to last year. Excluding insurance revenue, revenue was up 1.4% and NOI was up 2.5. Our teams did a fantastic job of controlling expenses, which were actually down year-over-year for the quarter.

For the first six months, same store revenue was up 2.4 and NOI was up 3.2 including tenant insurance, and 1.9 and 2.5 without tenant insurance revenue. Our entire pool of 631 stabilized properties that we manage had similar results to our same store pool during the quarter. New rentals at our same store properties during the quarter were down 1.3% compared to last year. However, move-outs were also down and as a result, we finished the quarter up essentially flat in occupancy -- I'm sorry, we finished the quarter essentially flat in occupancy compared to Q2 '07. Looking at our monthly results for the quarter, April was a good rental month, May was flat and June was down. Results thus far in July show we're holding flat in square foot occupancy this same time last year. Our same store street rates or asking rates finished the quarter up 1.6% above last year. We expanded our discounting policy somewhat, by relaxing unit occupancy thresholds, and as a result, saw a modest 5.2% or $170,000 increase in concessions. We are forecasting slightly higher levels of concessions for the last half of the year, and modest increases in street rates over the same -- over the prior year. We are being flexible with our pricing and discounting strategies and I believe we are well-positioned to be competitive in the market for new rentals.

On the positive side, we're not seeing any deterioration of our accounts receivable or bad debt write-offs, both are actually slightly down to the same period last year. There haven't been any major changes in the best and worst performing markets since the first quarter. Top performers were Chicago, Houston, Detroit, Columbus and San Francisco/Oakland with increases in revenue between 4 and 7%. Our four largest markets of Boston, Los Angeles, Northern California, New York and northern New Jersey and Baltimore or Washington, D.C. all had decent quarters with revenue increases between 2 and 4%. Florida continues to be a drag on our operational performance. Miami, which had held its own for several quarters, has now gone into negative territory.

The impact that Florida is having on our overall numbers is material. Without Florida, same store stabilized revenue and net operating income growth with tenant insurance income would have been 2.4 and 3.7% respectively. Without tenant insurance income, same store revenue and NOI would have been 2.1% and 3.4%. West Palm Beach actually saw an uptick in occupancy though it had continued decreases in store revenues due to much lower rates. In all, our properties in Florida are well-positioned and we have a talented team there. We believe that Florida with its long-term potential for employment and economic growth will continue to be a place where we want to own and operate self storage. After months of careful analysis, we have made the decision to establish an in-house call center from the ground up in Salt Lake City. Salt Lake City was chosen, educated workforce and proximity to our corporate office. We're in the process of building the human and technology infrastructure and our goal is to be fully operational early in Q1 2009. While we transition to the internal call center, we will continue to use a third party call center.

The importance of the Internet also continues to grow in terms of attracting new customers. We have seen dramatic increases in visits to our website over the last year. Year-to-date, as of June, unique visits were up 49% and reservations are up 45%. 26% of our customers now use the Internet as their primary source of information when making a self storage purchasing decision, compared to 9% for the yellow pages. We are accelerating the reallocation of spending from the yellow page advertising to online advertising in upcoming periods. These changes will be based on analysis and data currently being accumulated and analyzed. A quick update before I close, we experienced no negative effects from the earthquake yesterday in Southern California. And now I'd like to turn the call over to Ken Christensen.

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

Thanks, Karl. Our FFO per share for the first -- for the second quarter came in at $0.26 per share, after approximately $0.015 in unrecovered deal costs or dead deal costs and $0.01 in development dilution. It also contains $0.01 in drag from the follow-on offering that we closed in mid-May. Our properties came in about $0.01 below what we had budgeted earlier this year.

In the question and answer section following our comments, we will be unable to comment on our unrecovered acquisition expenses or dead deal costs due to the agreements that we have signed and based on advice from our legal counsel. What we can say, however, is we believe that this is a one-time event. Our G&A for the quarter was $10 million after deducting fee our net came in at $4.7 million. Our financial position has improved since our follow-on offering. We used the $233 million of proceeds to pay down approximately $21 million of newer term debt maturities as well as finance some of our acquisitions. And we have increased our cash holdings to $186 million as of June 30th from $17 million at the end of the year. Our total debt as of the end of the second quarter was $1.3 billion, fixed rate debt as a percentage of our total debt is 91.5 and our weighted average interest rate on all of our fixed and variable rate debt today is 4.9%.

We feel like our balance sheet is very strong. We have a total capacity today of about $525 million, which includes the $186 million in cash, $100 million on our line of credit, and then approximately $100 million on loans that we have closed with individual banks that we have not drawn the funds on those loans and then an additional $170 million of debt capacity on properties that are unleveraged. Property financing is still available to us for our development deals where spreads between 200 and 225 basis points over LIBOR, 70 to 75% loan to value on three year for a period of three years. As Ken stated, we closed on two acquisitions in the quarter, one in Florida and one in California, for approximately $17.8 million. After the end of the quarter, we completed the acquisition of our additional 40% interest in one of the existing joint ventures we have with Prudential for $44 million, and we currently have $58 million under contract which we expect to close by the end of the third quarter. We have not seen much change in the acquisition environment.

Seller expectations remain high with large spread in the bid to ask. We continue to evaluate deals and have looked at over $900 million of properties that have come to the market for sale since the beginning of the year. Our bids still remain north of the 7.25 cap rate and it seems like seller expectations are still in the 6s. In terms of our development activity in the second quarter we opened a property in Chicago for 6.9, and we also opened a property last week in Northern California for $8.9 million. During the third quarter, we estimate openings of five properties located in California, Florida, Illinois and New Jersey for a total cost of $41.5 million. Our total for the year is expected to be 10 properties for a total cost of $80.5 million at this time we have in our pipeline about 15 properties expected to open in 2009 for a total cost of $161 million.

Turning to our guidance for the year, at this time we believe our fully diluted FFO will be in the range of $1.12 to $1.14 per share before development dilution and $1.08 to $1.10 after considering the consideration of approximately $0.04 of development dilution. These estimates include $0.05 in dilution from our May follow-on offering, $0.02 from the loss on our auction rate securities which occurred in the first quarter, and $0.015 on our unrecovered acquisition expenses. Adding these numbers back to our estimates, we are at a run rate of between $1.21 and $1.23 before development dilution and $1.17 and $1.19 after development dilution. The reduction in our guidance due to our property performance is due to a change in our anticipated property growth in the second half of the year. We had anticipated better growth in the second half of the year, but now we anticipate growth similar to the first six months. Our annual same store revenue guidance, including tenant insurance income is between 2 and 3% and our NOI is anticipated to be between 2.5 and 3.5%. We have reduced our revenue and NOI guidance since we reported in the first quarter due to the lower than expected rental revenues and slightly higher discounting than what we had originally budgeted.

With that, I'll now turn the call back to Ken.

Kenneth Woolley - *EXTRA SPACE STORAGE INC - Chairman, CEO*

Thank you, Kent. 15 months ago I commented on a potential slowdown in our sector in one of these conference calls. That slowdown is occurring. The good news is that we are still experiencing positive revenue growth and stable occupancy. So the business is still growing, just at a slower pace. Our portfolio continues to perform comparatively well, thanks to the quality location and diversity of our portfolio and our industry-leading revenue management and operational systems.

Our new customer survey data shows that the only material change in usage is that we have fewer customers using self storage as a result of a move. Down from 50% in 2006 to 40% currently. Those customers have been replaced, however, by customers who are using self storage to down size or for other purposes such as business purposes. The other interesting statistic is that our statistic of how many people have used self storage when they come to rent is 50% are first time renters and that statistic has continued to stay stable for many years. Other positive signs include no increases in move-outs or bad debt and we're continuing to be able to increase existing tenant rates at similar levels to prior years. In addition, new supply remains very low.

So where does this take us? We are just seeing the ability to increase our asking rents at a higher level than earlier in the year. Even though we were -- we scaled back our FFO estimates, we expect property revenues and NOI to continue on a positive and possibly accelerating rate. Our recent equity offering and strong financial condition has positioned the company to take advantage of acquisition opportunities, which may come about due to the stress in the credit markets. We've not seen much of those opportunities yet but we expect they may come. It has been three years since our acquisition of Storage USA from GE. We've grown our wholly owned portfolio since the third quarter of 2005 by nearly 40% and our FFO by nearly 50%. We've implemented more robust technology operational revenue management system and are continuing to innovate. We have matured as a management team and though we face challenges, we are ready and willing to address them head on and go forward. I believe this period of time will once again showcase self storage as a real estate investment time that outperforms other sectors.

In closing, I want to thank everybody for your interest and support. We're now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Your first question comes from the line of Christine McElroy from Banc of America Securities. Please proceed.

Christine McElroy - *Banc of America Securities - Analyst*

Hey, good afternoon, guys. Ken, you spoke earlier about a deceleration in your rental efforts as you went through throughout Q2. What have you seen in July and do you expect a further deceleration in August and September?

Kenneth Woolley - *EXTRA SPACE STORAGE INC - Chairman, CEO*

No, we don't a further deceleration in July, whereas in June we saw rentals considerably lower than the previous year's June with vacates about the same. In July, our rentals are spot on with where they were a year ago, that's up through today and our vacates are spot on. So our rentals and vacates are virtually the same. We just looked at the numbers on our same store pool and we're -- on net rentals, we're 20 units ahead of a year ago in July based on 8500 rentals. That's about as flat as you can be. Also what we've seen is we have been pushing street rents and our street rents are higher today than they were in June relative to the previous year. Those are our asking rents. So we've been able to push asking rents and so we're not expecting any further deceleration. In fact, it looks like we've got a little bit of an acceleration right now.

Christine McElroy - *Banc of America Securities - Analyst*

So just a follow-up on the comment about pushing street rents kind of in an environment where demand trends have slowed, are you approaching the -- kind of the overall revenue management process today any differently than you were a year ago and kind of what does that imply for the balance between occupancy and rent growth?

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

This is Karl. I'll jump in here. We really haven't changed any dramatically. As Ken said, starting last year, we saw the slowdown. We did implement becoming more aggressive in discounting. We were aggressive on prices, especially last year, and now we are getting into a stabilization of occupancy, which we feel is enabling us to push our street rates. Our street rates at the end of the first quarter were flat with the prior year. Right now we're up about 1.6, 1.7% and we think that we can -- we might be able to hold that and even possibly push that a little bit more.

Christine McElroy - *Banc of America Securities - Analyst*

Okay. And then lastly, Kent, you talked about having over $500 million of capacity on your balance sheet. Can you provide a little bit more color on what your plans are in terms of putting some of that capacity to work in the form of kind of incremental investment today.

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

As I talked about, we have $58 million worth of acquisitions that should occur in the third quarter. Other than that $58 million, we don't have any needs for that capacity at this moment in time. What we do, though, believe is that because of the current economic conditions, there could be opportunities that come up on an acquisition front that with the capacity that we have, will make for us to be able to have these opportunities to be able to acquire properties. Or opportunities that could come up. But as of right now, we haven't seen many of those. We're just anticipating that there could be some ability for that. That being said, if there are acquisition opportunities that do come up, then we are positioned because of the debt that we have coming due next year, we have the ability to repay the debt or refinance it with this money that we have. So we're kind of well-positioned either to take advantage of opportunities that come up or if the debt markets don't substantially change or even change a little bit, then we're able to refinance the loans that we have coming due next year.

Kenneth Woolley - *EXTRA SPACE STORAGE INC - Chairman, CEO*

Just to pipe in here, you might wonder why haven't we already paid off some of that debt rather than holding the money as cash and one of the reasons is that if you look at our debt maturity schedules, you'll notice that the two big debt amounts that are due next year are CMBS loans and because of the low interest rates in the treasury market, the cost of defeasance of those loans are extraordinarily high. It would not be a good idea for us to pay them off early.

Christine McElroy - *Banc of America Securities - Analyst*

Thank you.

Operator

Your next question comes from the line of Christeen Kim from Deutsche Bank. Please proceed.

Christeen Kim - *Deutsche Bank - Analyst*

Good morning, guys. In terms, going back to the revenue growth question, it sounds like June was almost a blip on the screen and July is recovering. But if things continued on the pace that you saw in June in terms of net rentals or net move-outs, would you be surprised if revenue growth flattened out in the second half or even got to zero?

Kenneth Woolley - *EXTRA SPACE STORAGE INC - Chairman, CEO*

Well, I would be surprised if revenue growth were flat, get to zero, because it's not going in that direction right now. But clearly June's revenue growth was down at the 1% level and that's not a very good performance. You know, as Karl had commented earlier, we were talking about where is our gross income now. Our asking rents now on a whole portfolio basis are up a little over 3% whereas -- and yet we're maintaining the same rental pace as a year ago and that's good. Three months ago, our asking rents were even with where they were a year ago and part of our slower revenue growth that occurred in the third -- the second quarter was due to the fact that we were being very competitive on asking rents, on average, which led to a slower growth in income. Since we are in fact achieving in July and we are not seeing a deceleration, the answer would be I would be very surprised if our revenue growth were zero to 1% and we're not predicting that.

Christeen Kim - *Deutsche Bank - Analyst*

Fair enough. Are the weaker demand trends impacting your development lease-up at all?

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

This is Kent. Right now it doesn't appear that that is occurring. What we are seeing, as we normally see in a development project, which is -- and I've stated on other calls and in other situations, is that when we put a budget together on our development properties there is one thing that we can guarantee to you and that's that we won't hit that budget. It many will either be better than that or worse than that and we're seeing that. There are properties that are still doing very well and there's some properties that are doing slower. We just opened a property -- one of the properties that we talked about, one of our acquisitions that we bought, C of O, it's in California. I was at that property two weeks ago. It had been opened four weeks and it had rented 50 units of about 550 units. So it had leased up 10% in one month. The property is doing very well. But there are other properties that we've opened that are doing slow. So from our perspective, we're not seeing overall that the properties that we're opening on the development side are leasing up at any slower pace than what we have historically seen. There are exceptions that are faster and there are exceptions that are slower but overall we think it's still pretty good.

Christeen Kim - *Deutsche Bank - Analyst*

Okay. Thanks, guys.

Operator

Your next question comes from the line of Jordan Sadler from KeyBanc Capital Markets . Please

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

Hi, guys. Could you clarify for me just on the guidance on the core, it looks like same store property revenue growth expectations, while they were tweaked a little bit, they now include tenant reinsurance income, that's both property revenue, same store property revenue and NOI. What would those numbers be today or just on an -- excluding tenant reinsurance income.

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

About 50 basis points on the top line and on the NOI. The difference between not including tenant insurance and including it is about 50 basis points in revenue and NOI.

Kenneth Woolley - *EXTRA SPACE STORAGE INC - Chairman, CEO*

Just to comment, why are we couching it that way? There's two reasons. Number one, two of our competitors, both Sovereign Self-Storage and U-Store-It include insurance revenues in their same store numbers. Our third competitor, Public Storage, does not. In the past, we have not. However, in the last year, we put a lot of emphasis on tenant insurance and, the tenant insurance costs roughly $10 for the average tenant per month. Our average tenant's cost or rental rate is about $133. So when 90% of our new customers are now taking tenant insurance, way up from a year ago, that's like a price increase effectively, and so it may be subtracting a bit from our ability to raise the underlying actual rental rate of the property. You know, next year the comparisons will not mean very much because they should even out and be the same because we'll basically have the same percentage of people taking tenant insurance as not and the same store should make the same. That's why we've given you both numbers this year.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

That makes sense. I just wanted, Ken, to clarify your opening comment. You mentioned that sort of conditions change pretty dramatically between early in the quarter and May and June in terms of the direction of activity, but is that -- is what happened the second quarter purely attributable to the reduction? The top line number went from 3.25 at the midpoint to 2% or down 125 basis points. or more than a third of what you were expecting. And I'm curious if that was just a function of the second quarter. because it sounds like what you're seeing going into -- were you being more cautious on what may happen for the rest of the year?

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

Let me just say this. Last time we had a conference call, I believe was near the end of April. And we had seen April's rentals be 8, 10% above where they were a year ago so we were quite bullish and we were quite pleased with what was going on. So we didn't revise our guidance and in fact we had had the $0.02 auction rate security problem and we left our guidance the same because we thought we could overcome the $0.02 auction rate security problem just because things were going good. May was sort of flat with the previous year but frankly June did catch us by surprise. What occurred in June, which was nearly a 10% decrease in rental -- number of new rentals, really caught us by surprise and so we're -- we're erring on the side of cautiousness. We're pleased to see how July is performing right now in that we've been able to raise street rates and we are keeping our rentals at the same basis of a year ago.

We've hypothesized internally about why June has been weak. We suspect that one of the reasons may be that during June, a larger portion of the people who are renting rent as a result of the moving process. And we do see that overall, over the long run, the number of new movers has declined and so June, which is a very big rental month for our business, May, June and July are our biggest months of the year, that that rental portion is probably where we lost customers and what's interesting is that the June slowdown in rentals occurred throughout the country. It was not subject in Florida or California or someplace. It was everywhere. It was in every market, every district. It was not just in one place. It could be that the negative publicity in the US about the US economy, high oil prices, et cetera, changed the consumer's attitude. We know that the consumer sentiment is down and that could have affected us. But July we're pretty pleased with.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

And any changes -- I know you guys track your tenant behavior pretty intimately. Any changes in tenant behavior worth noting, length of stay or, I don't know, anything beyond that, maybe auctions, you said bad debt was flat. Are late fees flat as well?

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

This is Karl. We've been watching for it very closely. Our bad debts are actually down from last year. Our accounts receivable as I earlier said are down from last year. Late fee income is running around the same. We're not seeing any kind of change in the existing customer base. June was a really bad month as far as rentals. But we really haven't seen anything else that would indicate that there's stress out there.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

Okay. And I think Todd Thomas has one.

Todd Thomas - *KeyBanc Capital - Analyst*

Yeah, hi. Can you give us a little more detail on the revisions to your expense growth projections, what's sort of driving that moderation?

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

I mean, well, we're continuing -- well, I mean, we're doing a great job of controlling our payroll expenses and that is something that we've got some good things happening on workers' comp and our actual insurance, which is helping us and we're also continuing to run it below levels on advertising. We have year-to-date and we continue to -- we expect to continue that throughout the balance of the yea year. And those are big portions of our expenses.

Todd Thomas - *KeyBanc Capital - Analyst*

Okay. So you don't expect to sort of ramp up advertising at all in the second half or anything?

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

Well, if we do anything, we might be shifting some more dollars to the Internet. We're seeing the best return on our dollars invested in advertising are on the Internet.

Todd Thomas - *KeyBanc Capital - Analyst*

Okay. And on the advertising, did you guys -- didn't you guys say last quarter that you were going to be double on the I guess the media spend overall or did that not show up in advertising?

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

It is in advertising. However, we scaled it slightly back. We weren't seeing -- we were spending at an increased level. However, we really were not seeing the results that we expected and so we've pulled it back slightly.

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

This is Kent. I think also you're seeing the combination of the two companies, Extra Space and Storage USA and the full repercussions of the advertising expenses in yellow pages and other costs are finally flowing through our financial. So while television advertising is up, the cost of the direct -- the yellow page advertising is down so net-net we're down.

Todd Thomas - *KeyBanc Capital - Analyst*

But you also pulled back the advertising at some point because you weren't seeing the impact. And are you going to -- ?

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

That was slightly and that was just in June so that really hasn't had an effect on the quarter. Really, it's only a small amount of change in that, in the pullback of that in the month of June.

Todd Thomas - *KeyBanc Capital - Analyst*

Did you step that back up in July or -- ?

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

So far we haven't but as Karl stated, we're looking at the proper use or the most effective use of that money which could be putting it towards the Internet.

Todd Thomas - *KeyBanc Capital - Analyst*

Okay. Thank you.

Operator

Your next question comes from the line of Paul Adornato from BMO Capital Markets. Please proceed.

Paul Adornato - *BMO Capital Markets - Analyst*

Hi. Was wondering if you could talk a little bit about the decision to internalize the call center process. Are you expecting cost savings, revenue enhancement or both, just provide a little bit more of what went into that decision.

Kenneth Woolley - *EXTRA SPACE STORAGE INC - Chairman, CEO*

Our expectation is that we will have better control over what happens at our call center and the quality of the agents and reaction to performance and as a result, that we will see improved performance and tied to that, we expect it to have a positive revenue effect.

Paul Adornato - *BMO Capital Markets - Analyst*

And in terms of the cost, do you think it will be -- it will cost more to have your own center and what's the cost of labor in Salt Lake these days?

Kenneth Woolley - *EXTRA SPACE STORAGE INC - Chairman, CEO*

Well, actually the cost of labor in Salt Lake is probably less than it is -- as far as the quality of the labor force versus other areas, the cost is probably slightly less. But we do feel that we probably will see some cost increase. However, we were also anticipating that from our third party vendor. So either way, the cost per store, per month, was going to go up slightly.

Paul Adornato - *BMO Capital Markets - Analyst*

And what's the timing of implementation?

Kenneth Woolley - *EXTRA SPACE STORAGE INC - Chairman, CEO*

We're going to be starting up in the last quarter. We really expect it to hit the road running in the first quarter of '09.

Paul Adornato - *BMO Capital Markets - Analyst*

Okay. Thank you.

Operator

Your next question comes from the line of Michael Knott from Green Street Advisors, please proceed.

Michael Knott - *Green Street Advisors - Analyst*

Can you give a little bit of color of the deals you have under contract now, given that your bid on cap rate is as you said, generally above what sellers are expecting. Can you just talk about these specific deals and how you got them and any other notable characteristics?

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

Mike, this is Kent. As we've reported previously, most of the deals that we have under contract right now are relationships that previously Extra Space had established with owners of self storage properties. The negotiated price is in excess of a seven cap on all of these deals and some of them are better than that. Obviously, since we haven't closed on them yet, I wouldn't want to be disclosing the exact specifics of each of those deals, but we do feel that these deals fit within the guidelines that we've previously talked about and we believe that they'll be -- that the properties that we're closing on are a good use of the money that we have.

Michael Knott - *Green Street Advisors - Analyst*

Okay. And then can you talk about the Prudential deal a little bit more. I thought I heard an 8% number but I'm wondering if that's sort of a return on equity as opposed to cap rate.

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

That's correct. What Ken was talking about is that is an entity that is 35% leveraged and so when you take into account -- and it's debt that's very favorable. When you take into account the cash flows from that entity to us, so that was a number of a return on equity, not a cap rate on the value of the properties.

Michael Knott - *Green Street Advisors - Analyst*

Right. Okay. And do you happen to have the implied cap rate that you could give or maybe the implied value per square foot?

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

Cap rate that we came up with with Prudential was 7.3%.

Michael Knott - *Green Street Advisors - Analyst*

And how does that compare to their basis maybe on a price per square foot basis and then also was there any figuring of any kind of promote that -- was that even a possibility? Did it not trigger? Can you help us with that?

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

On the calculation of that, there was a small amount of the dollars that were factored -- that if you had sold the properties, there was a small amount that was in the promote and that -- Prudential gets yearly appraisals for all of their properties and the appraisals that were done on these properties, this value we came up with was very close to what they had marked their properties -- they had to mark their properties to market and it was pretty close to that.

Kenneth Woolley - *EXTRA SPACE STORAGE INC - Chairman, CEO*

But the appraisals that they get is for them as a pension fund and so that's -- they have one appraisal company that does all of those appraisals for them and since we're not trying to get a loan, Extra Space nor Prudential has ever argued with the appraisers as far as what value they're coming up with. If I was trying to get a loan, I wouldn't have wanted those appraisal numbers, I would be trying to argue for lower numbers but for the purpose that Prudential gets them, it works for them.

Michael Knott - *Green Street Advisors - Analyst*

And then did you happen to have sort of an implied price per square foot, and how that compared to their initial basis three years ago?

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

No, we didn't have a discussion with them about that.

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

It was higher than they paid for the properties.

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

Yeah, it was right on -- they had marked the properties to market but that value was higher than what their purchase price of the properties, like Ken just said.

Michael Knott - *Green Street Advisors - Analyst*

Okay. And then just to make sure we're all clear on the -- sort of the delta in the FFO guidance, looks like $0.10 midpoint to midpoint. Could you just again go through what -- how you get from call it 109 from the old 119?

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

Yeah, it's $0.05 is due to the dilution from our equity rates and the placement of that money. The money that it's earning today based on what we can eventually be able to place that money at. Second is the one-time cost of our debt deal acquisition cost of about a $0.015. We have $0.02 that are related to our auction rate securities that occurred in the first quarter and then the difference between those two is a slowing down from our original budgets from the at the beginning of the year as to how we feel like our properties are going to perform in the second half of the year. As I stated earlier, we felt like that the -- we were going to see the properties perform better in the second half of the year compared to the first half and that's what we modeled and now looks like they're going to come in pretty close to what we saw in the first half as what was going to occur in the second half.

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

Also, Kent's comment, he also indicated the properties had misperformed by $0.01 per share in the second quarter. So you add the $0.01 per share in the second quarter plus about another one or two in the second half and that's how you get there. Because the auction rate security issue was already disclosed when we had given you the guidance of 119.

Michael Knott - *Green Street Advisors - Analyst*

Right. Okay.

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

So effectively you know that is a one-time hit. If you add the $0.05 plus the $0.015 in the one time dead deal costs, you're at $0.065, and we're shy by -- The debt deal it's really $0.015 You're $0.035 shy. $0.01 of that already occurred which means $0.025 of that occurs in the second half. So it's $0.035 property performance and the rest of the other items.

Michael Knott - *Green Street Advisors - Analyst*

Okay. Thank you.

Operator

Your next question comes from the line of [Paula Sucron] from Robert W. Baird. Please proceed.

Paula Sucron - *Robert W Baird - Analyst*

Thank you. You had said that the insurance penetration among new renters was about 90% and I know in your guidance you raised your expectation by about $1 million. Given the slowdown in the new rental activity, what is the total portfolio penetration for that and where do you think that number can get to by year-end?

Kenneth Woolley - *EXTRA SPACE STORAGE INC - Chairman, CEO*

First, I want to correct you. There is no slowdown in new rental activity, except during the month of June. Okay. So there isn't a slowdown. July is the same as it was a year ago in July.

Paula Sucron - *Robert W Baird - Analyst*

Okay.

Kenneth Woolley - *EXTRA SPACE STORAGE INC - Chairman, CEO*

But the overall penetration I think is about 42, 43% right now. It's just moving up because we started putting the focus on this about a year and-a-half ago and gradually the existing tenants come on and it just takes time.

Paula Sucron - *Robert W Baird - Analyst*

Where do you think you can get that to by year end or do you have a target?

Kenneth Woolley - *EXTRA SPACE STORAGE INC - Chairman, CEO*

Karl, do you have a target?

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

We're hoping, actually at the end of July that number is sitting around 44%. We're hoping to hit around 50%. I mean, original goal was 40 but we're making some pretty good progress and we're growing at about around a percent a month as far as overall penetration. So it's an aggressive goal but that's what we're shooting for at this point.

Paula Sucron - *Robert W Baird - Analyst*

Okay. And on the development schedule, it looks as though a couple of completion dates have slipped a little and that some of the funding hasn't really changed very much from the end of Q1 to Q2. Can you just talk a little bit about what you're tracking there, what your plans are on some of those projects?

Kenneth Woolley - *EXTRA SPACE STORAGE INC - Chairman, CEO*

As most people on the call know, when it comes to development, there's always problems that occur in getting our properties developed and so the slips on our schedule from properties moving from one quarter to another or from one year to another is all due to the timing of getting our properties entitled, starting the construction and then getting the construction completed. We have a substantial team of people that are monitoring that and what we put in our supplemental schedule is just what our -- right now our goal is for trying to accomplish and getting those properties built. but in a few instances we have properties that slip. Sometimes slip into the beginning of the next year which is what's occurred. They're all properties that are still under way. They're still really good sites. Everything about the property is still similar to what we had expected, it's just that the timing in getting them completed has moved a little bit.

Paula Sucron - *Robert W Baird - Analyst*

Thank you very much.

Operator

Your next question comes from the line of Michael Salinsky from RBC Capital Markets. Please proceed.

Michael Salinsky - *RBC Capital Markets - Analyst*

Good afternoon. Looking at your schedule there of your wholly owned properties, your joint venture properties and your managed properties, saw a big uptick in the number of managed properties this quarter. Was there any reason behind that?

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

Yeah, this is Kent. We were able to sign a new contract with a party that we had had previously managed a small number of properties for them. The work that we had done with them, we had been so successful at the management that we had done that they came to us and asked us to manage all of their properties, which was about 20 properties in total. So we went from four to about 20. And that organization came on in the end of the second quarter and it's now a very good opportunity for Extra Space and the client is very happy with the work that we've done for them.

Michael Salinsky - *RBC Capital Markets - Analyst*

Okay. Secondly, just going at the demand maybe a different way here, you guys tracked very good operating -- very good statistics among your tenants. Are you seeing any differences between the residential and the commercial segment of demand right now?

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

No. This is Karl. No, we have not.

Michael Salinsky - *RBC Capital Markets - Analyst*

Okay. Let me see here then. Kent, last time you had talked about financing in the market. We've seen obviously some banks that have had some problems here. Has there been any change in financing? Are banks still lending. If you were to go out in the market today, looking for mortgage money, where would the terms be on that?

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

For a development or acquisitions or for refinancings or for development?

Michael Salinsky - *RBC Capital Markets - Analyst*

For refinancing.

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

We're still seeing on the refinancings of our existing debt, we still have a lot of appetite for Extra Space, in doing loans that are on balance sheet at local regional and national banks where they're able to not exceed the amount of loan lending limit that they can have with one organization like Extra Space, but as long as we're below those lending limits per bank, they are very willing to loan to us on a secured basis, first mortgages on properties between 70 and 75%, three years, variable rate, between 200 and 250 basis points over LIBOR, than those if we so choose could be swapped into fixed rate instruments. That seems to be the money that's available today. Obviously, the CMBS market is -- while there is some ability to borrow in the CMBS market, the rate is so high it's still effectively not a market that we're in right now.

Michael Salinsky - *RBC Capital Markets - Analyst*

Staying along on the debt conversation there, there's been some changes in accounting for next year relating to exchangeable notes. What's the impact going to be from a mark-to-market for your exchangeable notes?

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

We're still working with that with our auditors to make sure we completely understand the rules. The rules are out there but they are subject to interpretation by both the company and the auditors and we want to make sure that we're on the same page as our auditors in interpreting the rules that have been put out there. So we're working with them but the -- it appears that it's somewhere between $0.02 and $0.05 would be the amount of the non-cash impact on our FFO next year. And I could -- that's a very broad range of 2 to 5 because there's a number of assumptions that go into the calculations that the rules require us to make.

Michael Salinsky - *RBC Capital Markets - Analyst*

Okay. Then finally, there's been some news lately with municipalities running shortfalls. How are real estate taxes looking versus expectations and do you expect -- do you expect them to come in the line in the second half of the year or do you expect to see some pretty big increases?

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

We haven't seen many changes on our real estate taxes either positively or negatively this year and the information that we're getting from our consultants and what we're seeing on our properties is right now everything's pretty much status quo. Like I said, we haven't seen big changes one way or the other yet.

Michael Salinsky - *RBC Capital Markets - Analyst*

Okay. Thanks, guys.

Operator

Your next question comes from the line of [Eric Rothmann from Urdane Securities]. Please proceed.

Eric Rothmann - *Urdane Securities - Analyst*

Good afternoon. Wanted to ask about the contingent conversion shares. Your guidance before was for 3.3 million shares converting, now you've cut that to 1.4. Half of which you've already done. Why is that? Is the performance of those assets slowing faster than you had expected? Looks like the rolling 12 month NOI, the growth over that threshold amount, the growth rate has been slowing, not that they're not. Is that indicative of those projects or the market overall.

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

These properties are now in the high 70s in occupancy and a a property get closer to being full you would expect the growth rate to slow. All you're seeing is that as these properties are nearing the final lease-up of the properties, which is occurring on most of the properties, you'll see a slowing in the amount of conversion of those properties. It could be that we end up slightly better than what we originally projected, but right now we're -- the numbers that we previously disclosed are what we think is going to happen. You'll see in the third and fourth quarter there won't be the number of units converting as have been historically in the last three and four quarters, because of the slowing, because of the properties reaching their full lease-up. It's not a reflection of the economy or anything else going on. It's just the fact that these properties are now finally full.

Eric Rothmann - *Urdane Securities - Analyst*

Changed from last quarter when you thought twice as many would be converted in 2008.

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

There was about the same amount that was converted in the first quarter converted in the second quarter. I think you might be looking at year-to-date as opposed to quarter to date. The first and second quarter, the percentage of conversion was pretty close to the same in the two quarters.

Eric Rothmann - *Urdane Securities - Analyst*

Sure. Absolutely understand that. But last quarter your guidance was for 3.3 million shares to convert. This times it's 1, 4.

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

The 3 million is a total to date. As opposed to the quarter. That's why it looks like it's double. It's not that it's double. It's that the number's a year-to-date number.

Eric Rothmann - *Urdane Securities - Analyst*

Okay. I guess I'll have to double check that. Do you still expect all of the units to convert?

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

All of the units what?

Eric Rothmann - *Urdane Securities - Analyst*

All of the units, I think it was 8.5 million, if I recall correctly, to convert, because there's a certain period by which they need to convert or the option just goes away.

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

No, right now we're on -- we will have a Board meeting for the second quarter and then after that Board meeting for the second quarter there will be two more Board meetings for the third and fourth quarter of this year. Following the fourth quarter's Board meeting, the meeting that involves the fourth quarter of this year, that will be the final Board meeting. We're anticipating that the number of units will be somewhere in total between 75 and 80% of the total amount that could convert.

Eric Rothmann - *Urdane Securities - Analyst*

Okay. Thank you very much.

Operator

Your next question comes from the line of, follow-up question from Jordan Sadler from KeyBanc Capital Markets . Please

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Jordan Sadler - *KeyBanc Capital Markets - Analyst*

Follow-up on the managed property pick-up. Is there any incremental fee? I mean, that line item actually ticked up sequentially. I know you said you picked it up in the back end of the quarter, but what should we expect on a fee income basis out of those 19 properties?

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

Well, what's included in the second quarter is that in rolling out a -- when we bring on a new property under management, we get a one-time start-up fee for doing that and so what there is in the second quarter is a little bit higher than average management fee income because of those one-time fees that we got in the second quarter. So on the third quarter, you'll see it go down slightly relatively but we also didn't have all of the properties in the third -- second quarter and we have all of them starting the beginning of the third quarter. So our management fee income will still tick up in the third quarter but it won't be as much growth because you'll lose the one-time effect that occurred in the second quarter.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

So how big was that fee, the one-time?

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

I'm sorry, what?

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

The one-time fee was a few hundred thousand or a couple hundred thousand.

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

It was a little over $100,000.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

The full year contribution from these managed properties including the fee probably be under a half a million?

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

No, it will be over a half a million. On an annualized basis would be over $0.5 million. On an annualized basis we would.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

Okay. Somewhere in that range, $0.5 million to $1 million or something like that?

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

Yeah, between those two numbers.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

Okay, thank you.

Operator

Your final question comes from the line of Michael Knott from Green Street Advisors. Please proceed.

Michael Knott - *Green Street Advisors - Analyst*

Hey, Ken or Kent, I think you guys had previously spoken about the possibility of forming joint ventures with some of the currently wholly owned properties. Can you just talk about where that process stands and how you're thinking about that today?

Kenneth Woolley - *EXTRA SPACE STORAGE INC - Chairman, CEO*

We may do that in the future, Michael, but right now we are not because we really -- if we formed joint ventures with our current wholly owned properties would bring us more cash in and be a bigger drag to our financial statement. We need to find profitable places to deploy our capital. After which, we would look at that again.

Michael Knott - *Green Street Advisors - Analyst*

Okay. That's what I thought. Thanks. And then lastly, I may have missed this in the beginning but I wasn't sure if Spencer was on the call today and if he was if he would care to comment on some of the projects he's been working on structurally, organization wise.

Spencer Kirk - *EXTRA SPACE STORAGE INC - President*

Thanks for the question. The initiatives that I've been focusing on, Michael, are company-wide and they deal with optimization of a lot of things. Let me give you an example. With the decision to do a call center in-house, there's a huge IT component for data mining. We're putting a customer resource management module on top of that, to get the data. There will be a web strategy that ties into the call center, because they are linked. And revenue management initiatives will also dovetail into a call center initiative. Look at several of the initiatives that we've got going, they've all tied at increasing the top line and controlling expenses so that we produce better NOI and those are the initiatives that I think, without going into a lot of detail, would give you some flavor that they're company-wide and all very well integrated. A lot of resources being dedicated to making sure that its harmonized so that when a call center for instance is deployed, we're getting optimal value for the dollars invested.

Michael Knott - *Green Street Advisors - Analyst*

Thank you.

Operator

At this time, there are no further questions in queue. I would like to turn the call back over to management for closing remarks.

Kenneth Woolley - *EXTRA SPACE STORAGE INC - Chairman, CEO*

Thank you. We appreciate all of you coming to listen to our conference call today and we appreciate your involvement and investment in our company and we thank those of you who asked questions. We hope the answers were informative and we look forward to talking to many of the analysts and shareholders in the coming days. Thank you very much.

Operator

Thank you for your participation in today's conference. This concludes your presentation. You may now disconnect. Good day.