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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Fourth-Quarter 2011 Extra Space Storage Inc Earnings Conference Call. My name is Shantalay and I will be your facilitator for today's call. At this time, all participants are in listen-only mode. We will be facilitating a question and answer session toward the end of this conference. (Operator Instructions)

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

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

Thank you, Shantalay. Welcome to Extra Space Storage's 2011 conference call. In addition to our press release, we've furnished unaudited supplemental financial information on our website. The Company will also be sharing updates from the earnings call via Twitter. If you would like to receive these updates, please follow Extra Space at www.twitter.com/ExtraSpaceIR. Please remember that Management's prepared remarks and answers to your questions may contain forward-looking statements as defined in the Private Securities Litigation Reform Act. Actual results could differ materially from those stated or implied by our forward-looking statements, due to risks and uncertainties associated with the Company's business.

These forward-looking statements are qualified by the cautionary statements contained in the Company's latest filings with the SEC, which we encourage our listeners to review. Forward-looking statements represent Management's estimates as of today, Wednesday, February 22, 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'd now like to turn the call over to Spencer Kirk, Chairman and Chief Executive Officer.

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

Thanks, Clint. Welcome and thank you for joining us today. With me are Karl Haas, our Chief Operating Officer, and Scott Stubbs, our Chief Financial Officer. Let me start by saying that we are very pleased with our performance in 2011. For the year, revenues were up 4.9%, NOI was up 7.6%, and occupancy was up 310 basis points. In December, Scott Stubbs stepped into the CFO role. He is an 11-year veteran of Extra Space with 10 years as our Senior Vice President of Accounting and the Principal Accounting Officer.

Scott has been actively involved in our financial architecture and activities, before and after going public, and the transition has been seamless. Many of you have had the opportunity to meet with Scott. For those that have not, I invite you to contact him.

For the past year, I have been talking about Extra Space's five levers of growth. Our performance in 2011 and into the future is directly attributable to these levers. Let me illustrate what these levers actually mean in tangible terms. Our core performance resulted in annual same-store NOI growth of 7.6%.

We acquired 55 assets during 2011 for nearly $300 million. Our third-party management platform grew to 185 properties. Our lease up assets are slated to add an additional $0.10 of FFO by the end of 2014 and we added approximately 35,000 potential customers for our tenant insurance program in 2011. In my 14 years in the storage industry, I have never felt more confident in the future than I do now. We grew our FFO by 32% in 2011. In 2012, at the midpoint of our guidance, we are positioned to have almost 18% growth in our FFO over 2011 and 55% growth over 2010. These results highlight our platform and the performance it is producing; yesterday, today and tomorrow.

With that, let's turn the call over to Karl to discuss operations.

Karl Haas - *Extra Space Storage Inc. - COO*

We finished 2011 with a strong quarter. Occupancy continued at historically high levels. At year-end, our same-store properties were 87.8% occupancy. We will see a seasonal increase in occupancy as we head into the rental season, but let me emphasize that our top line growth will primarily come from optimizing rental rates, now that we've reached our occupancy goal levels. We've seen consistent reductions in discounts and promotions as our occupancies climbed. Now that we are where we want to be with occupancy, discounts will begin to stabilize on a year-over-year basis. For the year, discounts were down over 5% compared to 2010, and for the quarter, they were down 1%.

During the quarter, we saw an average increase in street rates of over 4.5% compared to last year. All of this combined to produce same-store revenue growth of 5.8% for the quarter. When you factor in another strong quarter of expense control, we generated same-store NOI growth of 9.3%. We continue to see reductions in our utility usage and expense due to our sustainability initiatives. Electrical consumption is down 19% versus 2009 on properties where we have done energy retrofits and that is excluding solar panels. Technological innovations continue to decrease expenses at the site level.

In addition, in Q4, we had lower snow removal expenses and energy costs at all northern sites due to the mild winter. We've been able to reduce advertising expense due to a more efficient online spend and to continued reduction in yellow page advertising. We are committed to increasing our operating efficiencies. Nothing is considered off-limits as we look for areas to optimize our business. A few past examples are electronic leases, energy retrofits and solar. While we continue to search for additional efficiencies and cost reductions, we do not feel we will be able to keep our year-over-year expense growth as low as we have the last several years.

And with that, I'd like to turn it over to Scott Stubbs.

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

Thanks, Karl.

Karl Haas - *Extra Space Storage Inc. - COO*

You're welcome.

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

Last night, we reported fourth-quarter FFO of $0.35 per share, including $0.01 of lease up dilution. For the year, we reported $1.20 per share, including $0.07 of lease up dilution. This is $0.03 above the high end of our guidance, due primarily to better than expected rental revenues, lower than expected property operating expenses, and strong performance by our tenant insurance program. For the first quarter of 2012, we estimate FFO to be between $0.31 and $0.33 per share and to be between $1.37 and $1.45 per share for the year.

During the fourth quarter, we recognized a one-time severance charge of approximately $0.02. In addition, our G&A expense included a non-recurring charge relating to litigation matters of approximately $0.02. These charges were offset by a $0.04 true-up in managed asset management fee income and equity in earnings, $0.03 relating to prior years and $0.01 related to the current year. In 2011, we installed solar panels at 51 properties throughout the country. This enabled us to realize tax savings of approximately $0.06, in addition to the reduced energy costs that we experienced at the properties. We expect to take advantage of these tax credits for the next two to three years.

During the quarter, we closed on the acquisition of 28 properties for approximately $190 million. Of the 28 properties purchased, 19 came from a portfolio located in Southern California. An additional six flagship properties were added through the purchase of a partner's 90% interest. For the year, we have purchased a total of 55 properties located in 17 states for nearly $300 million. As always, we continue to look for accretive deals that will strengthen our portfolio and we will continue to focus on being a disciplined buyer.

Our third-party management program has proven to be a strong acquisition pipeline in 2011. Excluding portfolios, 75% of our acquisitions came through existing management and joint venture relationships. As of the end of the year, we had 185 third-party properties under management. If you include joint venture properties, we have 526 properties under management. We are well-positioned to act on acquisition opportunities from these relationships as we move forward.

I would now like to turn the call back to Spencer for some closing remarks.

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

Thank you, Scott. As I said earlier, we are pleased with the success we've had in 2011 and are optimistic about 2012. Commensurate with our robust growth in earnings, our first-quarter dividend is being increased by 43% to $0.20 per share. We have one main theme in 2012 -- focus on fundamentals. It is the consistent execution on the fundamentals that will continue to propel our growth and our performance.

We would now like to spend the remainder of the time addressing your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) David Toti, Cantor Fitzgerald.

David Toti - *Cantor Fitzgerald - Analyst*

I don't know if I missed this, but did you guys comment on the change in move-in versus move-out rates in the fourth quarter? Is that just the typical seasonal pattern to see that reverse a bit?

Karl Haas - *Extra Space Storage Inc. - COO*

This is Karl. Not necessarily seasonal pattern, but I think it's more vacates getting back to more normalized levels. It's not a surprise and on a macro basis, I think you've got to keep in mind and going forward for us, in that we've reached our target occupancy levels. You're going to probably see our rental delta be a little bit worse because we're going for more rate, because we're not trying to boost our occupancy. We're at 3%-something above last year on average occupancy. We expect that gap to close and to get near zero somewhere during 2012.

David Toti - *Cantor Fitzgerald - Analyst*

Okay. Along those lines, the rent growth was quite strong relative to some of the commentary out of your peer group. Is that strictly a product of pushing more on rate because you've reached that target occupancy and do you think that rate or that rent growth is sustainable going forward?

Karl Haas - *Extra Space Storage Inc. - COO*

Yes to the first question. In the fourth quarter and throughout 2011, we still had a lot of growth coming from the delta in occupancy and we'll probably have that, looks like in the first quarter as well. Because even though we're pushing rates, we're probably holding occupancy better than we projected. But it will, on the second and probably third and fourth quarter, it will be more from rate.

David Toti - *Cantor Fitzgerald - Analyst*

Okay. My final question, Spencer, any change in your thoughts on development? I know you guys have been very vocal about not thinking about it at this point in the cycle, but given some firming in pricing and increasing absorption, are you guys talking internally about that any differently?

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

No.

David Toti - *Cantor Fitzgerald - Analyst*

No? Okay, that's easy. Thanks.

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

One word, no.

Operator

Paula Poskon, Robert W. Baird.

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

Housekeeping question -- how much of management franchise fees are embedded into your guidance?

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

When you say how much of the management fees, you're talking about the one-time charge that we experienced in the fourth quarter or just going forward?

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

No, just going forward. Perhaps a different way of asking it is, would what would be a quarterly run rate that you're looking at?

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

We're estimating them to be $25 million to $27 million for the year next year. Basically, we're hoping to continue to grow them, but the majority of the growth is coming from the property rental revenue times the management fee.

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

Great, thank you. Karl, could you provide some color on what trends you're seeing in call volumes at the call center? Has it been unusually higher or lower over the winter?

Karl Haas - *Extra Space Storage Inc. - COO*

Not unusually, but they're higher than same time last year. Not dramatically though.

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

Okay, thank you. Are you seeing increasing interest in the third-party services from independent owners?

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

I would say there is an awakening, it's gradual at best, but I think that there is an awareness that is building that the larger operators, i.e., the public companies, definitely have an advantage when it comes to scale and sophistication. I think the public rates have demonstrated that not only is the revenue growth and the NOI growth better than the smaller operators but the occupancy is better than the smaller players. For us, we're saying it's going to be a gradual evolution, not a revolution, in terms of awareness of what the sophistication and the power of revenue management Internet call center and other things can provide an operator. We are seeing some thawing, yes.

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

Thanks, Spencer. Just to dig a little deeper into the third-party strategy, what you say to those folks who say it's a lot of brain damage and why would you go about improving asset performance of an asset that essentially you're ultimately raising the price that you'd have to pay for it when you want to own it anyway?

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

Excellent question, Paula. The answer for us is this -- we've said that the third-party management business becomes a quasi-proprietary acquisition pipeline. We still believe that's true. When it comes time for that owner to sell, of course, we've improved the performance and probably raised the price, to which the owner is going to give us the first call because we already have an existing relationship. We believe that the call will not go beyond that in many cases. Last year, 75% of our non-portfolio acquisitions came because of our relationships with our partners. It was really one called Extra Space and nobody else.

The answer is this, if we give the owner a fair price, two things come to our benefit. Number one, because we have perfect operational knowledge of that asset, our acquisition risk approaches zero. We have all the information we need and we don't need to build in a contingency. Secondly, we're not paying brokers fees. At the end of the day, we can have something that no one else gets, we don't pay brokers fees, we don't take acquisition risks, and everybody comes away a winner and that, to me, is the best of all situations where it's a mutually beneficial transaction.

Karl Haas - *Extra Space Storage Inc. - COO*

Paula, this is Karl. I'd like to add something that I just heard from somebody in our acquisition or third-party management group just this morning and that is, in almost every case, we try to acquire the properties first. Then they tell us no, we're not interested in selling and then the next part of the discussion is about management. That's not the case in the big portfolios, like W.P. Carey and things like that, but on the more local operators, that is the case. They're just not willing to sell at where they are. It's not like we're taking it and going all right, well we don't want to buy it, we just want to manage it. It's we're never given the option, they don't want to sell yet.

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

Okay. Then, as you think about the $100 million in acquisition volume that's in your guidance this year, do you expect a repeat split of where that's being sourced from or do you see the marketed opportunity set improving?

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

We continue to underwrite a lot of deals. We continue to underwrite things that are in-house as well as outside. I would tell you that right now we have just under $50 million under contract or under letter of intent, of which it's pretty evenly split that we hope to close by the middle of the year.

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

Thanks, Scott. Since this is your first time officially on the call with us in your new role, would you share a little bit of your philosophy about managing the balance sheet, particularly as you look out over the next few years?

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

Yes. I don't think you're going to see major changes. I think, if anything, it's probably on the margins. I think that we've had a lot of input here, whether it is Spencer, Karl, myself, I think that we all believe in the philosophy that we're using where we utilize some unsecured debt, whether it's exchangeable debt or trust preferred, secured debt, then looking at raising equity as we have a place to put that money. I think that it's going to be largely the same. I think right now we've been able to delever as a result of keeping our dividend low and the natural growth within the company.

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

Just one final question for you, Spencer. Can you just give a little bit more color on the reason for Karl's retention bonus? Particularly in light of having his employment agreement expire last August and the commentary around that?

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

Yes, actually let's bifurcate that. Karl is doing an outstanding job for this Company and our results speak volumes about what Karl and his leadership and the operations team are able to produce. I think the best thing to do however is have Karl talk about his perspective on the retention agreement and put it in proper context.

Karl Haas - *Extra Space Storage Inc. - COO*

Thanks, Spencer. My roots are in the East Coast and I never intended my move to Salt Lake City to be a permanent one. However, I still have a lot of passion for what I'm doing and the Company provided me a generous incentive for me to stay another two years. As with all the members of our executive team, I'm actively working on my succession plan, identifying and developing a core team of individuals that will be ready to step into my position then or whenever I retire.

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

Fair enough. Thank you, gentlemen.

Operator

Eric Wolfe, Citi.

Eric Wolfe - *Citigroup - Analyst*

I just wanted to follow up on Paula's question and better understand the process you actually go through when you pull a property into your third-party management platform. How do you integrate that property? How much does it cost? How you look at the return on that investment, putting aside maybe the acquisition opportunities down the road?

Karl Haas - *Extra Space Storage Inc. - COO*

The cost depends. If we're adding one property in a city where we already have 12, we almost have no incremental cost. If we go into a market where, and we've had some of these this year, where we have no presence, but we're adding a good number of properties, and that happened in Southern California, it will visit and a fairly significant increase in cost, because we will have to add DMs to accommodate it. Back here in our store support center, we also, and it kind of works the same way, it depends, if you add one property, it doesn't have much impact, if you add 20, we're going to add a property accountant and maybe some other resources. It really depends on how they come in and what the impact is. We look at the real direct cost is somewhere between the 3% and 6%. Where our profit comes from is tenant insurance over the long-term.

Eric Wolfe - *Citigroup - Analyst*

Okay, that's fair. I'm just curious, in terms of the acquisition pipeline that you're building through your third-party management platform, just wondering how many of those assets, I know you always get the first look at it, but how many of the ones that you've been third-party managing actually end up in other people's hands besides Extra Space?

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

We've lost a few. Nothing significant, but generally, it's a pricing issue where we can't get to the number where the seller wants to be.

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

But it's single digits, Eric. It is a handful.

Eric Wolfe - *Citigroup - Analyst*

Got you. Just one last question, switching topics, looking at the strong occupancy growth you had in the second half of the year 2011, I would expect that the comps get much more difficult as the year progresses. In terms of thinking how we should expect revenue growth to trend through the year, should we expect it to start around 5%-ish and then trend down to 3%? Just wondering how you think it's going to look through the year?

Karl Haas - *Extra Space Storage Inc. - COO*

This is Karl. I think it will probably be pretty flat throughout the whole year. At least that's the way we've pro formaed it.

Eric Wolfe - *Citigroup - Analyst*

Okay, flat just a little bit above 4% through the whole year?

Karl Haas - *Extra Space Storage Inc. - COO*

Yes. We're not projecting any tremendous spikes. It will go down a little bit. We'll start a little bit stronger in the beginning of the year and trend down but it's not really dramatic.

Eric Wolfe - *Citigroup - Analyst*

Okay. All right. Thank you.

Operator

Michael Salinsky, RBC Capital Markets.

Michael Salinsky - *RBC Capital Markets - Analyst*

You guys talked a little bit about acquisitions. Can you talk a little bit about what you're seeing in terms of pricing and the amount of product on the market? Also, just as we think about acquisitions, I would assume probably similar to last year where you had enough free cash flow to cover the acquisitions. How would you think about funding if there was upside to that number?

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

Mike, this is Scott. Right now, we continue to see a steady deal flow. I think pricing's gotten a little bit more expensive. We continue to underwrite things around a seven. We want to be an aggressive buyer, but we also don't want to get crazy on what we buy and make sure that we're a disciplined buyer. As far as the $100 million that we've projected in our guidance, we feel like we can obviously finance that with cash generated internally. If we did a larger acquisition than that, then obviously I think that we'd have to take a look at our options at that point. But again, we don't want to raise equity if we do have anywhere to put it.

Michael Salinsky - *RBC Capital Markets - Analyst*

Okay, fair enough. Second question, actually to put Karl to work here, in terms of the guidance for 2012, can you walk us through how much of the growth comes from discount burnoff? And what your expectations are for both renewal and street rate growth embedded in there?

Karl Haas - *Extra Space Storage Inc. - COO*

We are not anticipating a lot more benefit from either discounts or decreasing bad debt. We built that pretty dramatically in the last two or three years. We're not anticipating a lot from occupancy, although we'll probably, in the early part of the year get more and the latter part get less from occupancy delta. We're projecting around somewhere between a 3% and a 5% increase in street rates -- coming in street rates. A big contributor continues to be our existing, we call it ECRI, existing customer rate increase and we'll continue to do that as aggressively as we have and that will be in the 7% to 9% range.

Michael Salinsky - *RBC Capital Markets - Analyst*

Okay. And the in place discounts currently?

Karl Haas - *Extra Space Storage Inc. - COO*

In the range of 5%.

Michael Salinsky - *RBC Capital Markets - Analyst*

Okay, so you expect that to moderate throughout the year?

Karl Haas - *Extra Space Storage Inc. - COO*

No, expect that percentage to stay about the same as a percentage of revenue.

Michael Salinsky - *RBC Capital Markets - Analyst*

As a percentage of revenue, but you expect to tailor down discounts throughout the year, or that's not the case?

Karl Haas - *Extra Space Storage Inc. - COO*

No. We don't see discounts dramatically decreasing.

Michael Salinsky - *RBC Capital Markets - Analyst*

Okay. Final question, just as you look at the capital market strategy here, I know you said looking at both unsecured and secured options, is there any bias towards either one in particular at this point, given where pricing is today?

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

Right now, the pricing that we're finding is best in the secured market with local banks rather than conduit loans and CMBS market. Obviously that's an emphasis right now or our focus right now as far as where we're finding money.

Michael Salinsky - *RBC Capital Markets - Analyst*

Okay, that's all for me, guys. Thanks.

Operator

Swaroop Yalla, Morgan Stanley.

Swaroop Yalla - *Morgan Stanley - Analyst*

Just looking at your expense growth guidance up 3% to 4%, it seems a significant jump from this year's almost flat expenses. What are the specific drivers of that? Where you do see some of the savings from some of the initiatives you mentioned earlier coming through at the lower end of guidance?

Karl Haas - *Extra Space Storage Inc. - COO*

Our two major expense categories are payroll and taxes. We have budgeted and expect to see payroll to increase somewhere in the range of around 3.5% to 4% and that is almost one-third of our overall expenses. Taxes, Scott, if you want to talk a little bit more about taxes because you're probably better versed in it.

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

Property taxes we've estimated in the 3% to 5%, depending on municipality. What we've found is that in the past few years, taxes have grown slower than that, but I think at some point, you're going to see an adjustment where municipalities are going to need to raise their taxes. That's the level that we've used to estimate based on our property tax consultant.

Karl Haas - *Extra Space Storage Inc. - COO*

We do expect our utilities to be moderated, but we've got other expense categories are going to be hard to keep, especially as I already said, the payroll and taxes. We have an opportunity in the first quarter because of the utilities and snow removal, we anticipated a normal year and so far, we've had a fairly abnormal year, but we have March to go. We'll see where that goes. But, I think we have a chance in the first quarter to have a little bit better performance on expenses just because of the mild winter.

Swaroop Yalla - *Morgan Stanley - Analyst*

Great. Then just turning to renewals, can you tell us how they trended in 4Q? What are you sending out right now in terms of renewal increases?

Karl Haas - *Extra Space Storage Inc. - COO*

Every quarter is basically the same.

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

Yes, this is Spencer, Swaroop. Our existing customer rate increases, it's about $35,000 per month and they're in that 7% to 9% range and that has not changed at all during the course of 2011 or even into the start of 2012. It's a program that we've tested, we've proven it and it continues to be in full force and effect.

Swaroop Yalla - *Morgan Stanley - Analyst*

Got it. So it's more stable then?

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

Very stable.

Swaroop Yalla - *Morgan Stanley - Analyst*

Lastly, I might have missed it this, but what sort of debt market activity is contemplated in the guidance? Specifically, I was talking about the line of credit which matures in October of this year. Are you planning to term out that debt or sort of renew that line of credit?

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

We're planning on looking at lines of credit. It's a secured line of credit right now, so obviously, if you replaced it with another secured line of credit, it doesn't necessarily affect the number properties that are used in that line or anything of the sort. But we're planning on, obviously, paying that back in October.

Swaroop Yalla - *Morgan Stanley - Analyst*

Got it. Okay, thank you.

Operator

RJ Milligan, Raymond James.

RJ Milligan - *Raymond James - Analyst*

Just a follow-up on David's question earlier in the call in terms of new supply. I know you guys aren't thinking about developing, but just wondering if the outlook for new supply over the next couple of years has shifted since I guess the last conference call when we spoke about it?

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

RJ, this is Spencer. I have a chance to travel around quite a bit and I talk with a lot of the people inside the industry. I don't know what the numbers are, but to the best of our ability to make a guesstimate of what the developmental activity in the country is, it's dozens of properties. I did a look back on 2003, 2004, 2005, 2006, 2007, there were more than 13,000 new self storage facilities added to the US footprint in that five-year period. To the best of my knowledge, and I freely acknowledge that it's an imperfect perspective and vantage point, but we're talking dozens of properties, not hundreds, not thousands in development and coming up out of the ground. I think that bodes really well for the entire industry and for any current operator of self storage.

RJ Milligan - *Raymond James - Analyst*

Thanks, Spencer. In those dozens of developments, is there any specific trend you're seeing in terms of a market that they might be going up in or secondary markets or any additional color you can provide?

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

It's random. It's a smattering.

RJ Milligan - *Raymond James - Analyst*

Okay, great. Thank you, guys.

Operator

Christy McElroy, UBS.

Christy McElroy - *UBS - Analyst*

Just a question for Karl, I just wanted to follow-up a little bit in some of the revenue growth questions. If I think about, say your existing customer rents were up 7% to 9% this year, your street rents are up 4% to 5% year-over-year, your discounts are down 5%. If I look at page 16 of the supp and if I look at the realized rent per occupied square foot, for the same-store pool, it looks like that was up about 1.4%, so you saw 1.4% growth in realized rents over last year. Am I thinking about that in the right way? It seems like given that the strong existing customer rents and street rents, that number would've been a little bit higher. Is there any sort of offsetting factor there that I'm missing, whether it's negative impact from churn or anything like that?

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

Christy, one thing to note -- I would tell you our street rates were 4.5% above at the end of the year, but early in the year, they were lower than maybe the competition as we gained occupancy.

Karl Haas - *Extra Space Storage Inc. - COO*

This is Karl. We continued through most of 2011 working the occupancy gain and delta more so than anything else. Really, it was in the fourth quarter that we started to reach our plateau. It was part of our plan, it started in 2010 and it took a long while to get to the occupancy goal that we had. Now, I think that's going to switch some, but we're pretty comfortable with what we're projecting based on the components.

Christy McElroy - *UBS - Analyst*

Okay. If I think about your expectation for about 3.5% to 5% same-store revenue growth for this year, and you're close to full occupancy, the bulk of that is going to come from in place rent growth. Given those different components and that those trends continuing, that number should be higher next year, that growth rate.

Karl Haas - *Extra Space Storage Inc. - COO*

I'm not sure, what growth rate?

Christy McElroy - *UBS - Analyst*

In terms of that in place realized rent per occupied square foot number, that growth rate should be a lot higher next year?

Karl Haas - *Extra Space Storage Inc. - COO*

Yes. Yes.

Christy McElroy - *UBS - Analyst*

Okay. And then just following up on the move-outs, it seems like the delta between the vacates and the move-ins was about 5,800 units this quarter. If I look at the last two years, that number was about 2,000 to 3,000 units and you talked about coming back to a more normalized level. What was that delta in '06 and '07 when you were closer to that full occupancy level?

Karl Haas - *Extra Space Storage Inc. - COO*

I don't have that right available; I don't know off the top of my head.

Christy McElroy - *UBS - Analyst*

Okay. And then, are you guys planning --

Karl Haas - *Extra Space Storage Inc. - COO*

I'm sure we could get that if you need it.

Christy McElroy - *UBS - Analyst*

That would be helpful. Are you guys plan putting any redevelopment capital to work for expansions in the next couple years?

Karl Haas - *Extra Space Storage Inc. - COO*

Yes, we are. We've done an internal review and Spencer, maybe you want to talk about the long-term view related to that?

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

The long-term view is this -- we have assets that are brand new. In fact, this quarter, we'll finish our last development property in Los Gatos out in the Bay Area and bring that on line as a lease up asset. We also have assets that are 35 years of age. We have everything in between. We, as a management team, have very carefully done an abstract on our properties and said 10 years from now, what is the state and condition of our portfolio if we're not adding new purpose built facilities and of course, there will be some acquisitions mixed in there.

We have said we need to look at each asset and look at the markets where they're located and make a determination as to what the highest and best use for that property is in terms of single-story drive-up, climate-controlled, all the various other attributes that comprise a self storage facility to keep our product relevant in that particular market. This is a multi-year, ongoing program that we want to be sustainable. It's going to be something we're not going to be digging into the details a lot on the conference calls, rather you'll just see a commitment from this Company to keep, as I said just a second ago, our product relevant in the markets in which we are doing business.

Christy McElroy - *UBS - Analyst*

Okay. In terms of the equity interest that you purchased from your JV partner in the quarter, what was the cap rate on that transaction versus the other assets you bought in Q4?

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

It was similar. We've tries to underwrite things around a seven, so again, accretive acquisition.

Christy McElroy - *UBS - Analyst*

Okay, thank you.

Operator

Todd Thomas.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

It's Jordan Sadler here with Todd. Just wanted to dig down into the same-store revenue guidance little bit more. Not to beat a dead horse, but on the occupancy front, you guys have obviously worked to lift the occupancies across the portfolio and had these nice increases. Then obviously, the increases will moderate throughout the year. But if you could maybe quantify it in terms of the average occupancy assumption, year-over-year, that's embedded in guidance, that might be helpful as well.

Karl Haas - *Extra Space Storage Inc. - COO*

It's approximately 87% on an annualized basis.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

Which is flat or is that on the same-store portfolio? I'm looking at page 17, you were 87.6% for the full year.

Karl Haas - *Extra Space Storage Inc. - COO*

On the same-store, what we're aiming for is around 87%.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

You're saying it could come moderate 60 basis points or so from --? Is that a conservative --?

Karl Haas - *Extra Space Storage Inc. - COO*

I'm not sure. No. 87% was the goal and what we were shooting for. It could be that the pool has changed a little bit.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

Okay. So, by and large not much uplift embedded in the guidance?

Karl Haas - *Extra Space Storage Inc. - COO*

Although I will say, our strategy is the ultimate as in everybody else's, but we're all trying to maximize revenues. Our strategy is we'll be pushing rates. What we've seen, and it's really a positive surprise that happened in the fourth quarter, is that normally we see more of a downtrend. If you graph our numbers, we normally see more of a little bit of a downturn in the fourth quarter. It didn't really happen this year. That was part of the positive surprise that we had.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

How much of that you think is due to the mild weather versus your changes in the pricing strategy to make that happen?

Karl Haas - *Extra Space Storage Inc. - COO*

Probably other people may say they can answer that question I'm not sure I can.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

Okay. You're not sure if a part of that was a mild weather-driven? You think it's purely as a result of your efforts?

Karl Haas - *Extra Space Storage Inc. - COO*

We're kind of in new terrain here with our occupancy and so we're going to see as we go. It may be a pleasant surprise. We have been very aggressive on rate, as we've talked about over the last couple of years. Beginning in 2009, we got very aggressive on rate and occupancy was driving everything and we achieved big deltas, positive deltas in occupancy. We reached -- our goal was 87%, someone just told me that our goal in 2011 -- or 2012 is 87.1%, so it's pretty close to that 87% number I said.

Now we've gotten there, so we're going to go for rate. But if the higher rate also results in us being able to hold occupancy or even gain occupancy a little bit, well, that'll be the icing on the cake. We don't think that'll be the case because I don't know that anything has indicated that the demand is that strong that we're going to be able to get both occupancy and rate.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

In terms of rate, have you started to see any pushback? You're now, obviously, starting to be much more aggressive on pushing street rates being up 4.5% in the quarter. Seeing any pushback there?

Karl Haas - *Extra Space Storage Inc. - COO*

No. But, as I said, it will happen naturally, because, and as you saw in the fourth quarter, we're not going to get as much increase in rentals as we would have if we're cheaper. It's kind of a natural thing. Higher rate in results a little bit less rentals, but I can't say that it's really pushback. We're really getting to where a rate where we think we probably ought to be anyway.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

Right. No, that makes sense. Last question, do you guys track percent of your customers that are new customers to storage still?

Karl Haas - *Extra Space Storage Inc. - COO*

Yes.

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

Yes, we do.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

Where are we at these days?

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

Sorry, Jordan it's Spencer. More than 50% of our customers have never used storage previously.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

And that's -- it's not moving? Right? That's the number you've told us for years?

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

That is correct, yes. The number has not changed.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

Thank you.

Operator

Michael Knott, Green Street Advisors.

Michael Knott - *Green Street Advisors - Analyst*

If you guys achieve the top end of your same-store revenue growth guidance, that will mean that rent growth is historically strong, maybe best or second-best year ever. Given that the economy is still kind of weak, why do you think that is? Why do you think storage is so strong right now? Are you seeing more discretionary users come back after '09? Is it the lack of new supply that you talked about earlier? On a different tack, do you worry about increasing gas prices denting consumer confidence or consumer wallets in light of weak employment?

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

Yes, yes, yes. No, the answer this, Michael. I believe storage is overall closely tied to the economic health of our economy. An area where I have a different opinion than others is I don't subscribe to the discretionary user. I never have, never will. Every customer that comes in our door is a need-based customer, there's nothing sexy or cool about space, storage space. We're not selling iPhones and iPads and [iTouchs], it's not something people desire to have.

But when a life-changing event takes place, people move in. They are need-based. Now, as time burns off, that user transitions from being a need-based customer to a discretionary user and that's where the vacate takes place. With no new supply coming on board, of course that is one of the things that factors in to what's going on. There are a lot of exogenous forces out there that could disrupt what we're doing, that could cause consumer sentiment to take a hit. But right now, absent that information, we've given our best prognostication as to what we think 2012 is going to be and it's a variety of factors that all amalgamate together to drive the result.

Michael Knott - *Green Street Advisors - Analyst*

Right, okay. Thanks. Scott, a question for maybe you or Spencer. It sounds like you guys are about halfway home on your acquisition guidance for the year. Did I hear that right?

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

Correct. We currently have about $49 million. Now, some of those will close over the next several months and it's the end of February right now and we haven't closed on anything. The $100 million is the total for the year, assuming that it happens evenly throughout the year so we need to close $100 million by the end of the year.

Michael Knott - *Green Street Advisors - Analyst*

Right. Do you care to comment on geographic split out or nature of the $49 million?

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

It's pretty diverse, all in the markets where we are.

Michael Knott - *Green Street Advisors - Analyst*

Okay. Spencer, can you just speak to your team's decision in leadership dynamics when Ken returns to a day-to-day role later in the year? Just maybe give some color on how investors ought to think about you as CEO and he in a Chairman/CIO role?

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

Yes, I'd be happy to. Ken and I have known each other for almost three decades. We've worked well together here at Extra Space for the last 14 years. I took a three-year sabbatical, remained as the Director, came back and things were pretty seamless. The message that I would deliver, Michael, is this Company is way beyond Spencer or Ken, it's about the team. We've tried to highlight and expose the capacity and capability of our team broadly out in the street and with our customers and with our employees.

Ken will come back as the Chief Investment Officer, as we've talked about, and he'll take over the real estate function. I think that's an area where he has supreme expertise, experience, and capability. He'll also take over the Board as the Executive Chairman. What's interesting for me is, we have seven Board Members, each one of them has a vote, someone is asked to run the Board meeting and manage that function of the oversight that the Board provides. I think you'll find Ken and Spencer working very well together, as we have done historically. I think the message to the Street is we've got a management team in place, Spencer Kirk stays on as the CEO, we welcome back a valuable contributor to the team and I think you'll see continued great things come out of Extra Space.

Michael Knott - *Green Street Advisors - Analyst*

Great. But the buck is going to stop in your office, right?

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

That is correct. I am the CEO and I hate to say this, but I'm going to say it again, I'm the single largest private shareholder. I have a vested interest in making sure that the chain of command and the direction of the Company is clearly understood and executed appropriately.

Michael Knott - *Green Street Advisors - Analyst*

Okay, great. Thanks for all the color and I just have one last question. Can you guys just comment on how recent transactions are trading relative to your assessment of replacement cost?

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

I think it depends on the transaction. Some are above, some are below. I think that cap rates have gone down with low interest rates and a lot of interest in self storage.

Michael Knott - *Green Street Advisors - Analyst*

Is that a reason why cap rates may not go a whole lot lower though is because the values could start exceeding replacement costs if they're kind of, on average, at replacement cost now, which sounds like kind of what you're saying?

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

We factor in replacement cost. It's probably not as big of a factor for us. We want to make sure that it's a deal that makes sense in our underwriting as far as we're largely a cap rate buyer. But at the same time, we do look at replacement cost. It's hard to comment on that.

Michael Knott - *Green Street Advisors - Analyst*

Yes, thank you.

Operator

Todd Stender, Wells Fargo Securities.

Todd Stender - *Wells Fargo Securities - Analyst*

Scott, you highlighted the 7% cap rate assumptions. Any real difference in cap rates seeing from California stuff versus Massachusetts, New Jersey, New York?

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

I think it really depends on where at in California and where in each of those markets. Obviously, downtown LA is different than Victorville, cap rates are higher the further out you get from the metropolitan areas.

Todd Stender - *Wells Fargo Securities - Analyst*

Is it fair to say you're interested more in the LA, San Francisco, San Diego markets?

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

Absolutely.

Todd Stender - *Wells Fargo Securities - Analyst*

Okay.

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

Not just in those markets, but we're more interested in those markets than San Bernardino County.

Todd Stender - *Wells Fargo Securities - Analyst*

Sure. Just sticking with the market theme, how are you thinking about some of the underperforming markets? I know in the release you highlighted Houston, Las Vegas and San Diego. Are you patient with these markets or are the fundamentals lagging too far behind? How do you think about those?

Karl Haas - *Extra Space Storage Inc. - COO*

This is Karl. Seattle is not real -- we have a limited number properties there and they're military impacted and actually, San Diego is kind of the same thing. We have two of our major properties there are near Marine bases that really have big ups and downs. Vegas is Vegas and it's a sad story. Houston is a market that just kind of has ups and downs. It's a tough market, but we believe in the long run -- we just brought a property in Houston and we believe in the long run, Houston is a good bet.

Todd Stender - *Wells Fargo Securities - Analyst*

Okay. Just moving towards your comments in your prepared remarks regarding the solar panels, what was the cost allocated for 2011? Have you budgeted any for 2012?

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

We spent just over $20 million in solar panels and we expect to do the same type of volume in 2012.

Todd Stender - *Wells Fargo Securities - Analyst*

Okay. Thanks, guys.

Operator

Smedes Rose, KBW.

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

I just wanted to ask, I saw you bought out one of your partners in order to get a full ownership of six properties. Is that a potential source of acquisitions going forward or is that more of a one-off exception? In the past, you haven't really seen that as an opportunity to --.

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

Smedes, this is Spencer. That was a JV partner and we had six assets that were really a good fit. It's a one-time deal for us with that particular partner at this point.

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

Okay, so for the acquisitions that you've talked about are not buying out any of your JV partners? They're all just kind of new?

Karl Haas - *Extra Space Storage Inc. - COO*

That's correct.

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

All right, thank you.

Operator

Ki Bin Kim, Macquarie.

Ki Bin Kim - *Macquarie Research Equities - Analyst*

When I look at your managed portfolio, it seems like the same-store NOI growth was much better than your core portfolio, so up 15% year-over-year. I think Christy was asking, or Paula was asking, that does make your eventual purchase price higher because you're doing a good job with those properties. Have you thought about restructuring those deals with maybe a promote option in there that would actually help you collect more management fees in the meantime, while decreasing the net cost of those assets if you actually decided to buy them?

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

The answer, Ki Bin, is we have struck what we think are mutually beneficial business arrangements with those partners. We don't like to [retrade] our partners, we're in this for the long-haul. We think we've got a program that is sustainable and it works well for the partner and it works well for this Company. Of course, as time goes on, we'll reevaluate what our options might be to maximize revenues. But I don't want to send a signal to any of our partners that we're unhappy with the arrangements. They're working and they're working well.

Ki Bin Kim - *Macquarie Research Equities - Analyst*

I was referring to more new partnerships not old ones?

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

Yes, we like consistency in what we do and as time marches on and we see how things are coming together, of course we don't want to lock ourselves in. But we do have a program and we're selling the program and we're very consistent in the application of that.

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

You also have to look at, they're not necessarily same-store either. They may have been brought in part way through the year or something of that sort, so the growth could be greater, showing as greater or --.

Ki Bin Kim - *Macquarie Research Equities - Analyst*

Okay.

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

I think you can't just focus on the percentage growth of those assets compared to your same-store assets.

Ki Bin Kim - *Macquarie Research Equities - Analyst*

Okay. Last quarter when you guys reported net vacates, it was actually a benefit as it decreased slightly year-over-year. But this quarter it increased 6%, so actually hurting same-store pull or total revenue pull. Now, given that vacates increased 6% year-over-year, while at the same time street rates increased 4.5%, is that, at the end of the day, a losing formula, well, not a beneficial formula given how you're losing 6%, gaining 4.5% on the other side? Or am I missing -- I'm guessing I'm missing something in between there.

Karl Haas - *Extra Space Storage Inc. - COO*

Yes, this is Karl. I think for one we don't have any control over the vacates and we benefited in the prior year with a lower than normal vacate level and this year is just getting back to more normal vacate level. What we have control over is rentals and rates and that's really where the play is on rentals and the rate for rentals. If I had my choice, I know everybody out there, all these guys are focused on rentals and vacates, what we focus on is our square foot occupancy and delta and what rate we're bringing people in at. Ultimately, that's where we have much more control and it's where we can have much more impact.

Ki Bin Kim - *Macquarie Research Equities - Analyst*

Okay. Thank you. Last question, I don't think you commented on this, can you comment on January, February trends that you're seeing in terms of year-over-year revenue growth or occupancy growth?

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

Right down the middle of the fairway.

Ki Bin Kim - *Macquarie Research Equities - Analyst*

Meaning --?

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

Normal. Completely normal for the season we're in.

Ki Bin Kim - *Macquarie Research Equities - Analyst*

But from a year-over-year standpoint I was referring to? Your year-over-year occupancy trends, has it come from like 310 in the fourth quarter down like 200 or -- yes?

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

Ki Bin, it's Spencer. The answer is this -- there is no aberrational behavior on rentals or vacates. Everything is seasonally trending exactly how we would expect it to in context of the guidance we've already provided.

Ki Bin Kim - *Macquarie Research Equities - Analyst*

Okay, thank you very much.

Operator

Tayo Okusanya, Jefferies & Co.

Tayo Okusanya - *Jefferies & Co. - Analyst*

Congratulations on another great quarter. First one, just in regards to debt maturities next year as they look at the $205 million of debt coming due and the current interest rate on that debt is already pretty attractive. Just curious what you're seeing out there in the market and whether you actually see opportunities to actually re-fi that debt or pay it off or what the exact plans would be?

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

Right now we're seeing rates 3.3% to 3.7% on five-year to seven-year debt and that's primarily with banks rather than CMBS or conduits. We're continually looking at our debt to prepay debt or we've actually been able to restructure a number of our loans where we've approached the bank and told them we wanted to pay it off and the bank came back with a much better proposal. We continue to do that and will continue to do that.

Tayo Okusanya - *Jefferies & Co. - Analyst*

You actually think you're more likely to -- you're going to re-fi it all, possibly even at lower rates than you currently are at right now?

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

Based on where rates are at today yes, I think that's a fair assumption and hopefully they stay low. But again, we don't have any control over that.

Tayo Okusanya - *Jefferies & Co. - Analyst*

Okay, that's helpful. Then just a second question is there any extra color you could provide on the litigation expense of $0.02 for the quarter? It's not very often you guys have that unusual charge?

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

Tayo, I prefer not to give any more detail on those pending litigation matters until they're further resolved.

Tayo Okusanya - *Jefferies & Co. - Analyst*

Could you tell us what the nature of the litigation is?

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

It's in the ordinary course of renting units and managing a base of more than 550,000 customers. The pool continues to grow. I wish I could give you more color, but I can't at this point.

Tayo Okusanya - *Jefferies & Co. - Analyst*

Okay, that's fair enough. Appreciate it. Thank you.

Operator

Paul Adornato, BMO Capital Markets.

Paul Adornato - *BMO Capital Markets - Analyst*

As you max out on some of the other levers at your disposal, I was wondering if you could just spend a minute and talk about tenant insurance and how you plan to use that lever going forward?

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

Paul, I'm not sure that we've maxed out on any of the levers. I think we're deploying them advantageously. What I would say on the tenant insurance is every time we open a new development, anytime we bring on a third-party customer and anytime we do an acquisition, we add a lot of potential customers. As I said in my opening remarks, 35,000 new potential customers in a period is really quite remarkable when you think about the power of that. We like this business, we like our prospects for growing it, both with wholly-owned and non-owned assets and I think it's far from maxed out.

Paul Adornato - *BMO Capital Markets - Analyst*

Okay. With respect to the insurance, does Extra Space's insurance requirements for customers differ significantly from competitors?

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

No.

Karl Haas - *Extra Space Storage Inc. - COO*

This is Karl. No. It's relatively comparable to everybody else.

Paul Adornato - *BMO Capital Markets - Analyst*

Okay, thank you.

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

This is Spencer. We are at the top of the hour. We appreciate your time today. We're grateful for your interest in Extra Space and we'll look forward to the next earnings call. Thank you.

Operator

Thank you for your participation in today's conference. This concludes the presentation, you may now disconnect. Have a wonderful day.