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EXR - Q4 2010 EXTRA SPACE STORAGE INC Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the fourth quarter 2010 Extra Space Storage Inc., earnings conference call. My name is Fab, and I'll be your operator for today. At this time, all participants are in listen-only mode. Later, we will conduct a question and answer session.

(Operator Instructions)

As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the conference over to your host for today, Mr. Clint Halverson, Senior Director of Investor Relations. Please proceed.

Clint Halverson - *EXTRA SPACE STORAGE INC - Senior Director, IR*

Thank you, Fab.

Welcome to Extra Space Storage's fourth quarter 2010 and year-end conference call. In addition to our press release, we've also furnished unaudited supplemental financial information on our website. At periodic times, the Company will also provide graphical information related to the Company and/or the self storage industry. These graphics can be seen at www.extraspace.com/irgraphic.

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 those related to Extra Space Storage's development and acquisition programs, revenues and operating income, FFO and guidance.

We encourage all of our listens to review a more detailed discussion related to these forward-looking statements, contained in the Company's filings with the SEC. Forward-looking statements represent management's estimates as of today, Wednesday, February 23rd, 2011. Extra Space Storage assumes no obligation to update these forward-looking statements in the future because of changing market conditions or other circumstances.

I'd now like to turn the call over to Spencer Kirk, Chairman and Chief Executive Officer.

Spencer Kirk - *EXTRA SPACE STORAGE INC - Chairman of the Board, CEO*

Welcome, and thank you for joining us today. With me are Kent Christensen, our Chief Financial Officer, and Karl Haas, our Chief Operating Officer.

We're pleased to announce another solid quarter of operational performance and financial results. FFO exceeded the top end of our guidance by $0.02, and we once again experienced strong core growth with an increase in same-store revenue of 3.3%, and NOI growth of 5.3% for the quarter. We realized a year on year increase of 190 basis points in same-store occupancy to 84.8%.

We are approaching what we consider to be optimal occupancy for maximizing revenues, and we feel that our revenue management system and occupancy philosophy have delivered and will continue to deliver outstanding results. We're optimistic that, entering our prime rental season, we will continue to see revenue and NOI growth come in line with historical trends. While acknowledging we are coming up against increasingly difficult comparables, we feel that we have made the right decisions regarding our balance sheet, which is in good shape and gives Extra Space both optionality and flexibility.

In addition, we are seeing increased momentum in our acquisitions pipeline, and are currently looking at several potential deals. Our Board made the decision to increase our quarterly dividend by 40%, to $0.14. This is a reflection of the confidence level that our Board has in our performance as we head into 2011.

I would now like to turn the call over to Karl to discuss our operations in more detail.

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

Well, thanks, Spence.

We ended the quarter with year-end occupancy levels that we've not seen since 2007. Rentals were flat for the quarter which, considering that in the fourth quarter of 2009 our rentals were up dramatically from 2008, makes us feel good about demand. Our vacates for the quarter were down 2%, which resulted in overall improvement of occupancy of almost 2%. Demand appears to be stable.

The increase in occupancy was accomplished with discounts down almost 10% to the last year, and achieved higher rents. Pricing in the market is still challenging and we continue to actively manage our rates to attract customers. These factors combined to produce the same-store revenue increases of 3.3% for the quarter, and 2.1% for the year.

We continue to do an excellent job of managing our expenses. We saw a slight decrease in the fourth quarter and a 1.1% overall decrease in expenses for the year. This expense containment contributed to our same-store net operating income growth of 5.3% for the quarter, and 3.9% for the year.

Our cost savings initiatives in 2010 included the streamlining of our postage process, minimal labor cost increases at the property level and a reduction of utility costs. We will continue to push technological innovation to improve operational efficiency.

In late 2010, we launched a pilot program that will eliminate the need to print and maintain paper leases, and allow our customers to sign and receive their lease electronically. We anticipate that this initiative will decrease our office expense even further, as it reduced the cost of paper and toner. At the same time, this will improve the customer experience.

Another part of our cost reduction efforts is a sustainability ish -- initiative. We're altering light configurations across the portfolio to be more energy efficient, and have also begun to install solar panels in selective properties.

We finished the year with accounts receivable and bad debts below historical levels. We have continued to focus on managing our receivables, and have seen progress even in the worst of the months of the depre -- of the recession. By more aggressively managing the controllable aspects of our business, we have demonstrated that we can enhance our property revenue performance.

On another note, we have seen a definite uptick in the attendance and interest at our auction process. We attribute this to the recent television series that highlights the self-storage auctions, which glamorizes this otherwise unfortunate part of our business. As a result, we are starting to see some units actually auctioned for more than the amount owed on the unit. This is an unusual trend for the self-storage industry, and one that will probably be short-lived.

In 2010, we saw the interactive marketing continue to have an increased impact on our business. Based on the industry occupancy data, we are driving disproportional levels of traffic to our properties. We believe that the Internet has a lot to do with this. More than half our customers are utilizing the Internet at some point in the buying process.

We have been able to control our cost per acquisition by improving our conversion percentages through the various initiatives. We continue to push our operational platform, and refine our revenue maximization and marketing approaches to produce best-in-class results.

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

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

Thanks, Karl.

Last night we reported FFO per share of $0.26, including $0.03 of development dilution for the quarter. For the year, we reported FFO per share of $0.91, including $0.12 of development dilution, and a $0.02 charge related to the write-off of a lease that we assumed in our acquisition of Storage USA.

We have continued to focus on strengthening our balance sheet and, subsequent to the year end, we finalized the CMBS loan for $82.5 million, which has a ten-year term amortized over 30 years. This transaction helps us layer our debt maturities. The uncertainty around future interest rates helps us lock in longer-term money at a favorable rate of 5.8%. We continue to actively manage our balance sheet while avoiding restrictive corporate covenants.

During the quarter we closed on our previously announced acquisitions of eight properties for approximately $42 million. These properties are located in Maryland, New York, Texas, Utah and Virginia. For the year, we purchased 15 properties for approximately $64 million, of which 7 came through our third-party management business.

We are continuing to see acquisition opportunities and have placed seven properties under contract for approximately $40 million since the end of the year. It is anticipated that these acquisitions will close by the end of the second quarter. The acquisition environment continues to be competitive with numerous buyers.

We've continued to grow our third-party management business and have increased to a total of 160 properties under management as of year end, all branded Extra Space Storage. This enables us to take full advantage of our national footprint and increase our brand awareness. Our third-party management platform continues to demonstrate its value as a way for us to lever our operating platform and provide an acquisition pipeline.

Subsequent to the end of the quarter, we opened a development property in Arizona and have two more scheduled to open within a few weeks in Florida and California. We have three remaining properties to complete in our development pipeline, located in California, Florida and Maryland. On average these -- the projected lease-up of our development properties is in line with historical averages.

Our development program is already contributing to our earnings increase in 2011. And from now until 2014, we estimate an $0.18 increase in our FFO from these properties. Our development growth is another component that sets us apart.

For the first quarter of 2011, we estimate our FFO of between $0.02 -- $0.24 and -- $0.22 and $0.24, and between $1.01 and $1.07 for the year. We are forecasting same-store annual topline growth to be between 1% and 2.5%. For further assumptions on our guidance, please see our earnings release.

And with that, I'll turn the call back to Spencer.

Spencer Kirk - *EXTRA SPACE STORAGE INC - Chairman of the Board, CEO*

Thanks, Kent.

Self-storage is a great business. Coming off a nearly unprecedented down year in 2009, the sector and, in particular, Extra Space rebounded nicely in 2010. We see a continued pattern of improvement in 2011 as we progress towards more normal topline growth. We have confidence in the sustainable and stable growth trajectory going forward.

Our earnings forecast for 2011 represents a year-on-year FFO growth of over 14% at the mid-point of our range, validating the effectiveness of our proven operational platform, technological prowess and financial strategies. We strengthened our balance sheet and we feel we have a near optimal and appropriate leverage ratio. Acquisition opportunities are becoming more prevalent, and we will be aggressive, yet disciplined in growing the portfolio intelligently. We will continue to offer and provide other self-storage owners best-in-class performance and service through our third-party management program, Management Plus.

Looking back at 2010, we promised and delivered the results from the investments we've made in our people, our properties and our technology platform, to provide our shareholders with sector leading results. However, as we look forward, there is no room for complacency. We are proud of what we have accomplished, but we are not satisfied and we will continue to push, innovate and expand to optimize our results.

With that said, let's take some questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

And your first question will come from the line of Christy McElroy from UBS.

Christy McElroy - *UBS - Analyst*

Hi, good morning, everyone.

As you become more aggressive in your acquisition strategy, what approach do you expect to take in financing growth going forward? And, given that you have $100 million of acquisitions in your guidance for 2011, what's embedded in guidance for financing of those acquisitions?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

Where our dividend is set right now, Christy -- I'm sorry, this is Kent -- is that we have between $40 million and $50 million of cash flow from our existing properties, from our FFO. When you match that with 50% debt, or double that number, it gives us about $100 million. So, we can -- with the cash flows that we have in the Company and matching that with debt, do $100 million of acquisitions. And so, while you see in our guidance that there is no increase in our number of shares, is based on that strategy of being able to use the cash flow and matching that with debt to do our acquisitions.

Christy McElroy - *UBS - Analyst*

Okay. That makes sense. So, if we're looking sort of going forward, you probably wouldn't exceed that level and, if you did, you would probably be looking at alternative levels of -- alternative forms of equity financing. How are you looking at leverage today, and what kind of leverage levels are you targeting? Are you comfortable with the current level?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

Yes, we are very comfortable with our current level of leverage and we would expect that, in going forward, we would want to do acquisitions on a leverage-neutral basis, meaning at a debt level that is comparable to where we are today.

Christy McElroy - *UBS - Analyst*

Okay. And, given that you're pretty active in the private market, can you just give some, maybe additional color on what you are seeing today in terms of volume of buyers and sellers out there as well as market cap rates?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

So far this calendar year, we've seen comparable to what we've seen in last year, which was obviously much lower than what previous years had been. There is still some activity, but I wouldn't say that the flood gates have opened at all. There are properties that are for sale. When properties come up for sale, there are numerous bidders. To give some specifics, we've looked at about $180 million worth of acquisition opportunities already this year. Of those, about one-third are properties we would not even bid on. Two-thirds are properties that we would bid on. And, of those properties that we are bidding on, we're getting between 5 and 20 people that are bidding against us. And the cap rates, my guess is that they are in the 7s. Most of the stuff that we are talking about has not been put under contract, nor has it closed yet, so I don't know what the -- what the actual cap rates are that are going to be paid. But, the talk on the street and what most people are bidding are kind of in the mid-7s.

Christy McElroy - *UBS - Analyst*

Okay. And then just lastly, looking at your 1% to 2.5% revenue growth forecast for '11. Can you walk through some of the bigger picture macro assumptions that are embedded in your best case scenario versus your worst case scenario?

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

Well, the base case is that we have gained occupancy and holding that occupancy, and that will enable us to get somewhere around in that range of growth. Our best case scenario would be, we don't expect to see our occupancy -- this is Karl, by the way -- we don't expect to see our occupancy delta improve dramatically. We're hoping that we can leverage that positive occupancy delta into higher achieved rates. It's still challenging out there. We haven't seen the ability to really strongly push rates yet. And, that's part of the reason that we're putting out the numbers we are.

Christy McElroy - *UBS - Analyst*

So, I guess the high end of that range would assume a much stronger ability to be able to push street rents this year, as opposed to not having as much pricing power?

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

The high end would not really -- it wouldn't be a really high level of rate increase. But it -- certainly better than we've been achieving in recent years.

Christy McElroy - *UBS - Analyst*

Thank you.

Operator

Your next question will come from the line of Todd Thomas from KeyBanc.

Todd Thomas - *Keybanc Capital Markets - Analyst*

Hi. Good afternoon. I'm on with Jordan Sadler. I just had a question. If you look at the JV debt maturity schedule, the $115 million loan that matures in April, I was just wondering what the plans are for the JV to refinance that maturity and if there is a possibility that there is a paydown required, and that Extra Space might have an option to acquire its partner's interest?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

That loan is currently being negotiated with some banks. We're far enough along in the process that the loan -- that we've already locked the interest rate. And the interest rate on a go-forward basis is going to actually be lower than the rate that is currently there. The loan will be a different size loan. The joint venture partner has decided to sell a few of their properties, of which Extra Space was able to have discussions with them about potentially acquiring some of those that they would want to sell. And there were some that we did not want to buy that we'll probably sell outright. So, the new loan will be at a smaller dollar amount because of the sells of a few of the properties in the portfolio. But, for the most part, the loan will be very similar loan-to-value, and we're not having to pay the loan down due to any kind of remargining. It's going to be a lower amount because of the number of properties that are going to be included in the loan. But overall, the loan is going to be a very good loan, long-term with a lower interest rate. It hasn't closed yet, and so that's why I'm just giving you some of the generic -- I'm not being real specific about it, just what we do know so far today.

Todd Thomas - *Keybanc Capital Markets - Analyst*

Okay. Understood. And, are those acquisitions, are they included in the seven properties that you've placed under contract?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

Yes, they are.

Todd Thomas - *Keybanc Capital Markets - Analyst*

Okay. And then, Karl, just touching back to your comments on same-store revenue and where asking rents are. I was actually wondering, today, where the spread is between asking rents and in place rents for your wholly-owned portfolio?

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

The gap is certainly below the levels that we've had in the past. And, we're comfortable with where they are.

Todd Thomas - *Keybanc Capital Markets - Analyst*

Okay. So, asking rents -- can you just clarify that? So, asking rents are above in place rents but the spread is narrower than it has been in the past?

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

Actually, asking rents are slightly below in the in place rents. But, relatively close.

Todd Thomas - *Keybanc Capital Markets - Analyst*

Okay. And then, just one clarification on guidance. It's not mentioned but, given the $100 million assumption for acquisitions in the year, I just wanted to confirm whether or not there were any unrecovered acquisitions expenses in the outlook.

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

Yes, there is some amount included. Since we are planning on doing $100 million of acquisitions, included in our cost would be the costs associated with doing those $100 million of acquisitions.

Todd Thomas - *Keybanc Capital Markets - Analyst*

Okay.

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

Of about $0.01.

Todd Thomas - *Keybanc Capital Markets - Analyst*

All right. Thank you.

Operator

Your next question come will come from the line of Lindsey Yao from Robert Baird.

Lindsey Yao - *Robert W. Baird & Co. - Analyst*

Thank you. You had mentioned that the JV potential acquisitions are included in guidance. So, the three interests that you purchased during the quarter, is that included in the eight properties that were acquired?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

No, that was not included in our total acquisitions. When we talk about the acquisitions, those were of properties -- the number of properties that we actually acquired, not including our joint venture -- interest in some joint ventures we have.

Lindsey Yao - *Robert W. Baird & Co. - Analyst*

Okay.

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

Those properties were already consolidated, so they kind of in our numbers. I'm sorry, two of them were not but some were. So, when we talk about acquisitions, it's from outside properties that we're not associated with.

Lindsey Yao - *Robert W. Baird & Co. - Analyst*

Okay. And so, then what motivated the purchase of those interests?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

What is motivating a buyout of our interest of our joint venture partners is, in many instances, loans coming due, and the bank is asking us to remargin those loans. And so, do we go to our partners and ask them to put up their pro rata share. In some instances, they're not able to do that. So, in those cases we negotiate with our joint venture partners for us. Since we are able to put up our pro rata share of the loan, since we're having to put up all of the money that's needed to remargin those loans, we ask our partners for an opportunity to buy them out of those joint ventures. And, we have been able to reach an agreement that's acceptable to them and to us for that transaction to occur, for us to buy them out.

Lindsey Yao - *Robert W. Baird & Co. - Analyst*

Okay.

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

That's not always the case, that it's associated with the loan. But that's been a number of the reasons why in this last 12 months that we've done that.

Lindsey Yao - *Robert W. Baird & Co. - Analyst*

Okay. Just continuing, because those were development assets. I noticed some of the assets in the schedule are high 80% occupied, and a couple are 90% and above. Can you just go -- clarify what the same-store criteria is, and whether those would also be considered stabilized at this point?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

It needs to be 80% occupied for a full calendar year, or three calendar years from when it opens. Once you pass the third calendar year starting in January -- sorry, excuse me -- starting in the January following the year that it reached its third calendar year.

Lindsey Yao - *Robert W. Baird & Co. - Analyst*

Okay. So, for instance, one of the properties in the '05 vintage that is 87% occupied, is that stabilized?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

Yes. That would be included in our stabilized properties now.

Lindsey Yao - *Robert W. Baird & Co. - Analyst*

Okay. And then can you just give some color on the markets, in terms of lease-up of these development assets, in general?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

The overall -- as I kind of said in my prepared remarks -- overall, they are on average. But, what I can tell you is that they are all over the board. We have properties that are -- a property in Florida that is not doing very well. It's only 20% occupied after about a year and a half. And then, we have properties in California and Chicago and Massachusetts that are 70% and 80% occupied after two and a half years. So, you've got some really good properties and then you've got some properties that have not done so well. And, when you take all of them in total, they are all on average for what we would have expected. So, that's why we talk about that in total they are on average exactly where our historical averages have been.

Lindsey Yao - *Robert W. Baird & Co. - Analyst*

Okay, thank you.

Operator

Your next question will come from the line of RJ Milligan from Raymond James.

RJ Milligan - *Raymond James - Analyst*

Good afternoon, guys. This was touched on, on the last earnings call, but can you just talk about your approach in underwriting the acquisitions, what kind of growth assumptions you are using in terms of filling vacancies, versus the ability to increase rents? I guess, given where you think we are in the cycle, do you think there's more of upside in vacancy or the ability to push rents?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

This is Kent again. In doing our underwriting, we're trying to acquire properties on a backward-looking basis with all of the moderate growth similar to what we've just told you about is what we think our same-store properties would do, which is 2% to 3% increases over the next, coming year. On the properties where there is some lease-up or opportunity to grow the current earnings because there is some vacancy in the property, we really look hard at what is causing that vacancy, and whether it is actually a property that is leasing up or whether it's a property that is 70% occupied, and that's its stable occupancy. In the case of property that is 70% occupied, and it's been that way for a while, then the 70% is what we underwrite with very limited growth. Now, if we're able to actually achieve better than that, then our shareholders will all get a benefit from us being able to produce better results on those properties than what we've underwritten. But, we are being quite conservative in the underwriting of these assets as we are (inaudible) and looking forward as to how they might be able to produce NOI for the Company.

RJ Milligan - *Raymond James - Analyst*

Do you find that your competition, those five to 20 other bidders, are being more aggressive or just as conservative as you are in terms of those assumptions?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

It's been very interesting from our perspective on the acquisitions bids that have occurred. Whereas in previous years, there would be a company or one or two companies that would be very aggressive in buying. What we're seeing, again, this is from our perspective, is that most of the bids are coming in a very tight band. So, it appears that there isn't a lot of difference between whether it's five or 19 bidders, we're all coming within 3% or 4% of one another. Now, the information I just gave you is coming from brokers, and so that's the brokers telling us where everyone is coming in, and I have to assume they are giving us honest information.

RJ Milligan - *Raymond James - Analyst*

Thanks, Kent. And then, I guess, with the signs of a recovery in the sector, are you seeing less or more interest in the third-party management program?

Spencer Kirk - *EXTRA SPACE STORAGE INC - Chairman of the Board, CEO*

This is Spencer, RJ. I would say that we're seeing more interest. When we started the third-party management program, most of our efforts were outbound and actively going up, trying to get people interested. The thing that happened in 2010 is that flipped, and the equation became one of largely inbound. Where, we are being much more selective in what we choose to pursue, because we have the option to do that. We are finding that our sector-leading performance is our single greatest calling card. That our revenue management our Internet activities, our call center and just the outstanding performance of 2010 have peaked the performance, with a lot of folks in the market saying, "Could Extra Space do better with my property than I'm doing with the proper under my management?" And the answer seems to be a pretty compelling yes. And so, we're finding an ability to take inbound calls at a higher and greater rate than what we had forecast.

RJ Milligan - *Raymond James - Analyst*

Okay. Great. Thank you.

Operator

Your next question will come from the line of David Toti from FBR Capital Markets.

David Toti - *FBR Capital Markets - Analyst*

Hi. Good afternoon.

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

Good afternoon, David.

David Toti - *FBR Capital Markets - Analyst*

I joined a little bit late, so forgive me if you've addressed some of these topics. Did you talk at all about your strategy around your floating rate exposure, going forward?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

We did not.

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

Did you want to talk about it?

David Toti - *FBR Capital Markets - Analyst*

No, I just thought I would ask. If you could, maybe just walk us through your thoughts on the current level being somewhat elevated relative to peers, and increasing chatter about rising rate and the risk that the floating rate exposure presents, potentially.

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

Yes, Dave, we will. At the end of the year, we were at 66% fixed, 34% variable. When we closed our CMBS loan, all of the proceeds from that loan went to pay down our lines of credit. What is in our 34% variable rate at the end of the year, was that we had a number of our lines of credit drawn. The CMBS loan paid down a number of our lines of credit back to zero. So, once we did that, then that brought our variable rate to 28% instead of 34%. We do believe that there is some amount of variable rate debt that we think is appropriate, and that's anywhere from the range of 10% to 30%, is where Extra Space thinks is an appropriate place to be managing our interest rates on a variable rate basis. We're not schooled in the ability to be able to determine where interest rates are going to go, so we think a mix of fixed rate and variable rate is appropriate with the kind of debt structure that we have. So, we will be managing that anywhere from, like I said, 10% to 30% in the variable rate level. We were a little high at the end of the year, but our CMBS loan, which we closed early in January, helped us bring that down.

David Toti - *FBR Capital Markets - Analyst*

Great. That's helpful. And then, my next question has to do with the fee and reinsurance revenue streams. Did you disclose what your outlook is for the growth of those two categories in the year?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

I think in our guidance we had put in that we planned on doing 40 -- I'm sorry. I'm going to make sure I've got the right number in front of me. Our tenant insurance is going up about 10% to 11%, which is in line with the growth in our earnings on a revenue basis from all of our different properties, our acquisitions, our development and that. Our tenant insurance is going up by 11%, but that's in line with the growth in our NOI. We're not expecting to see a substantial increase in our tenant insurance on a per store basis. It's more a result of acquiring and bringing on more properties. And then, we plan on bringing on about 30-40 new third-party managed properties throughout the year.

David Toti - *FBR Capital Markets - Analyst*

Okay. That's helpful. And then my last question, and this is for Spencer, or for you, Kent -- are you seeing any change either positive or negative in any of the macro trends that you are watching relative to demand? Maybe coming in a little bit above what you are forecasting, maybe a little bit below? Any changes in the housing market that might be an indicator for you? Just anything that foreshadows some variance in the performance expectation, potentially.

Spencer Kirk - *EXTRA SPACE STORAGE INC - Chairman of the Board, CEO*

David, its Spencer. Obviously, at the beginning of 2011, there is a lot of guesswork and a lot of assumptions baked into the guidance that we have provided. One of the things that we have tried to get the message out on is, there are numerous demand drivers for our business and, trying to find a correlative measure to housing or relocations, or job growth, or a lot of other things has been tenuous and problematic, at best. What we would say is that storage, through good times and bad times, has, without question, shown that it is a need-based product, and that there are life-changing events that drive people to use storage. And, we do not see any macro factor, other than the overall economic health of the US economy, being anywhere directly correlative to what we're doing. As you try to break it down into smaller subparts, it becomes increasingly more problematic and irregular in terms of predictability. So, I would say, overall economic health is probably the best driver or indicator.

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

Dave, this is Kent. I'll just add a little bit to what Spencer has said. We've included in our press release this time, is a link to a new graphic that we've put out on the web, which is 516 properties, the exact same 516 properties over the last five years. And it shows the rentals by month on those 516 properties. We'll be adding to this a similar chart for vacates. What you'll be able to see on those is what Spencer just said. In good years, 2007 and '08, and in recession years, 2009 and '10, and then also it shows the number of rentals in each one of those years, 2006 through 2010, and it's very, very consistent. And so, there is a lot that goes on in this product type other than just one component such as housing or unemployment or CPI growth, things like that. This is a really consistent product type.

David Toti - *FBR Capital Markets - Analyst*

Great. I appreciate all of the detail today.

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

Thanks, David.

Operator

Your next question will come from the line of Swaroop Yalla from Morgan Stanley.

Swaroop Yalla - *Morgan Stanley - Analyst*

Yes, hello everybody.

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

Hi.

Swaroop Yalla - *Morgan Stanley - Analyst*

Hi. I wanted to touch upon the sources of debt. You tapped into the CMBS market. I just wanted to find out how the underwriting has changed on this source, as well as how the other competitors out there, whether it's insurance companies and others, when you are looking into financing debt?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

On the CMBS side, the underwriting on that was that we were able to get a 70% loan-to-value. The values were established based on appraisals. I would say most of the appraisals came in on average at about a 7.5% cap. So, it's a 7.5% cap -- 70% loan-to-value on a 7.5% cap. We, in the last two years, have done loans with many local, regional and large banks. We did one life insurance company loan, and now this CMBS loan. And so, Extra Space is continuing to tap each of these different markets and look at the different alternatives that are available to us. We like our banking relationships and we like the ability for us to be able to tap into the life insurance and/or the CMBS market. So, we feel like we have a number of alternatives available to us today.

Swaroop Yalla - *Morgan Stanley - Analyst*

Great. On those lines, are you seeing cap rates compress in your space or, how do you see them trending over this year?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

From a lending perspective, do you mean?

Swaroop Yalla - *Morgan Stanley - Analyst*

Yes. I mean holiday influencing the cap rate, and --

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

Yes, it's hard for the banks because they are having -- their appraisals are being done. Many times there is not a lot of good product that has been sold in the market that the appraisers are able to use. And so, for the most part, when the appraisals come in we're negotiating with the banks and the different organizations we're working with as to what the proper cap rate to use, because the appraisals are not -- don't have sufficient enough data to be able say this is what the cap rate should be. And so, we're able to supplement the appraisals with information that we're aware of, as far as other transactions that are taking place, either what we've done or others that we are aware of, and supplementing that with the appraisals to be able to come up with the cap rate that we use to determine the loan-to-value.

Swaroop Yalla - *Morgan Stanley - Analyst*

Great. Lastly, I just had a question on the guidance, again on revenue. Once you strip out the tenant insurance, what is your guidance in terms of just purely rental group?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

It's about -- going forward, it will be about 20 to 30 basis points in the numbers, as related to the tenant insurance piece. That number will be dropping over time because, obviously, this is an increase over the previous year. So, our tenant insurance is included in the previous year and it will be included in the next year. The change is going to be smaller as we go forward.

Swaroop Yalla - *Morgan Stanley - Analyst*

Okay. Thank you so much.

Operator

Your next question will come from the line of Eric Wolfe from Citi.

Eric Wolfe - *Citigroup - Analyst*

Thanks. Following up on Christy's question. Would the $50 million of debt you're using for acquisitions come from your lines of credit or from encumbering further properties?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

We would expect to encumber further properties. I mean, we would close on the transaction with our lines of credit, so that -- when we go to a seller the seller wants to be able to know that we have cash to be able to close, and that it's not subject to financing. So, in all of the contracts that we are writing, we do not have any financing contingencies. But, after we've closed on the properties, we would expect to put longer-term, secured financing on those assets.

Eric Wolfe - *Citigroup - Analyst*

Okay. And so, your line of credit today, I think you said you used the CMBS to pay down your lines of credit, so it should be at around $90 million today, so that's about where it's going to be at the end of the year as well?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

No. We had about $240 million of lines of credit, of which $170 million was drawn.

Eric Wolfe - *Citigroup - Analyst*

Right.

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

And so, we've now paid $80 million of that down.

Eric Wolfe - *Citigroup - Analyst*

Right.

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

But we have about $120 million, $130 million availability on our lines of credit today.

Eric Wolfe - *Citigroup - Analyst*

Right, right. Sorry, I think I phrased that wrong. You're going to have drawn about $100 million by the end of the year.

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

Well, we have $100 million right now, drawn on our line of credit, after using the CMBS loan to pay that back down. We have four of them, so I'm talking in total all four.

Eric Wolfe - *Citigroup - Analyst*

Right. I guess, as you look at your overall capital structure today, is there a desire to move more toward a secured capital structure? In the sense, I mean -- I think you have about $200 million left. Is that comfortable for you right now, or is there going to be desire to eventually unencumber some of those assets further down the road?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

From our perspective, we found that the best financing environment for us is secured financing as opposed to public debt financing. As I stated in my prepared remarks, Extra Space is -- it's been important for us to be able to have all of our lines and loans to have no corporate covenants. We only have one loan that has one corporate covenant, and it's not very restrictive at all as far as a corporate level. When you look at unsecured financing or public debt financing, what would come with that would be a lot more covenants and a lot more restrictions. And, from our perspective, we like the flexibility that we have today, to be able to execute without lots of restrictions.

Eric Wolfe - *Citigroup - Analyst*

Understood. And then, just last question. I think I missed this in one of your answers before, but could you just give us a sense for what the total amount of acquisition opportunities you are looking at? So, you are expecting to do $100 million, but you're underwriting how much right now?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

So far this year, already, we've looked at $180 million. We've had opportunities of $180 million, of which only two-thirds of that would be properties that we are interested in, and that we would be doing underwriting on. And of that amount, we would not have put bids on all of it, but those were amounts that we've looked at and run some numbers on.

Eric Wolfe - *Citigroup - Analyst*

Great. Thank you. Michael Bilerman, just had a quick follow-up. I guess, if you were to acquire more than that $100 million, that's what would trigger an equity raise at that point?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

At that point, we would be wanting to match what is going on inside of the Company, our stock price debt, to make sure that the acquisitions that we're doing are very accretive to our shareholders. And, based on what you've just stated, if all of those things fall into place and selling stock would be something that would allow us to do very highly accretive acquisitions, that's what we would do.

Eric Wolfe - *Citigroup - Analyst*

But, arguably, the $50 million of free cash for a lever of two to one, gives you $100 million of buying capacity. Unless you're going to sell assets, to buy more you have to raise common, right? There is no other choice, other than taking leverage up.

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

Unless we take our leverage up, that is correct.

Eric Wolfe - *Citigroup - Analyst*

And that's something you're comfortable doing from this point?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

Well, to buy one property. But, if we're going to go out and buy a large chunk of properties, then it would have to be using some more additional equity.

Eric Wolfe - *Citigroup - Analyst*

But there's nothing imminent at this point, you don't feel the need to -- you've ridden it out pretty well in terms of the balance sheet and strategy, and holding off doing an equity raise, I guess it doesn't seem like it is something you would want to do at this point?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

Well, as we've stated previously, if the acquisition opportunities merit it, then we would want to match debt and equity in some form or fashion, and doing those transactions that seem to make sense to us. But, no. We're not in a position right now that we believe we need to sell stock to deleverage, because we think our leverage is at a good spot.

Eric Wolfe - *Citigroup - Analyst*

Okay, thank you.

Operator

Your next question is from the line of Smedes Rose from KBW.

Smedes Rose - *KBW - Analyst*

Thanks. I wanted to ask you a couple of questions on your acquisitions. I just wanted to make clear -- did you give the average cap rate for those ones that you closed in the fourth quarter and the ones under contract in the first quarter, or where you would expect, where you're underwriting them to.

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

They are in the mid-sevens.

Smedes Rose - *KBW - Analyst*

In the mid-sevens, okay.

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

For both last year and this year.

Smedes Rose - *KBW - Analyst*

Okay. And are you sourcing any of those through your third-party platform, or are these just all other sources for the deals?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

It's kind of 50/50. Half of them have come from our third-party managed, our properties that we have in -- that already have an Extra Space name on them. And others are not coming from, just total outside sources.

Smedes Rose - *KBW - Analyst*

Okay.

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

But, it's once again our third-party management business or our platform is allowing us to take advantage of some acquisition opportunities on a ongoing basis.

Smedes Rose - *KBW - Analyst*

Okay. And then, it looks like the expected dilution from the development program was a little bit steeper for 2011 and '12. And, I was just wondering what the cause of that was versus your -- the third quarter release?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

Steeper -- meaning, I guess --

Smedes Rose - *KBW - Analyst*

Well, you're looking for $0.09 dilution in 2011, whereas it was at $0.07 and $0.03 in 2012, whereas it was flat?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

What is occurring is that we're not bringing on -- it's just that the wind down of the development program is occurring and you're seeing the full effect of the development without -- in the winding down of it. It's not getting worse, it's actually getting better, and you're just seeing the effect of the properties that are being built and opening up coming online.

Smedes Rose - *KBW - Analyst*

Okay. And then, finally, tenant reinsurance. I think you said last quarter it was around 60% penetration. Is that about where it is still?

Spencer Kirk - *EXTRA SPACE STORAGE INC - Chairman of the Board, CEO*

Yes, Smedes, it's Spencer. That's exactly where it is. Spot on.

Smedes Rose - *KBW - Analyst*

Okay. Thank you.

Operator

Your next question will come from the line of Michael Salinsky from RBC Capital Markets.

Michael Salinsky - *RBC Capital Markets - Analyst*

Good afternoon. Karl, first question for you, I don't know if you touched upon this in your prepared remarks, but what were January trends across the portfolio? And also, if you could give us a sense of where February is shaping up to be, I'd greatly appreciate it.

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

Pretty much what we had projected, and at levels comparable to what we saw in the fourth quarter.

Michael Salinsky - *RBC Capital Markets - Analyst*

Okay. So fairly comparable to the fourth quarter?

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

Yes.

Michael Salinsky - *RBC Capital Markets - Analyst*

Okay. Second of all, walk me through the guidance. If you're rolling renewal increases, call it at the 6% to 8% range, which you have targeted. You have some roll down, you're assuming flat occupancy, how do you get to your guidance? Is it all the roll down in market rents? Market versus renewals, if you're assuming occupancy is flat?

Spencer Kirk - *EXTRA SPACE STORAGE INC - Chairman of the Board, CEO*

Mike, this is Spencer. Let's talk about this guidance for a minute if we can, and see if we can put some perspective on this.

As you look at the beginning of 2011, we enter the year with a number of unknowns, both in the marketplace as well as in the US economy, and even on the world stage. There are just a lot of unknowns right now. And, as we talk about our guidance, we're nearing our optimal occupancy level in our minds, so we're not going to get a lot more juice there. We're going to continue to have some reasonable gains in the same-store arena. But, what I'd like to do is suggest that we stand and look at the bigger picture. And, yes, there is some same-store growth that's going to account for a few cents but, as we look at the overall earnings growth, I think the message that we would like to get out for 2011 is we are optimistic about 2011 for a variety of reasons. And, the first of which, is our overall earnings growth is a composite of the same-store performance which, in a tough market and near optimal occupancy, and some challenges on pricing power. We're not expecting a home run hit in same-store performance.

But, as we broaden our perspective and look at the acquisitions of last year, which are going to add several cents of earnings power. We look at the development pipeline that Kent has been talking about, adding several cents. You look at tenant insurance as we increase the platform, adding a few cents. As you look at our third-party growing, in terms of scale and scope, we see an opportunity for Extra Space in terms of overall earnings growth, by pulling multiple levers to go from $0.91 to as much as $1.07. And, that would be a nearly 18% jump in FFO. I think it's fair to say that in 2010, Extra Space got more than its lion share of a strong rebound, and we are coming up against much tougher comps, particularly in the second half of 2011. And with the unknowns out there in the marketplace, and in the overall macro-economic environment, we just have to say our guidance for 2011 in same-store, we think is realistic given that we do not have perfect visibility for the rest of year. But, we also have multiple levers that we are pulling to drive what we believe is an outstanding overall earnings growth forecast for the coming year. And, we think that the guidance we have given is appropriate and relevant.

Michael Salinsky - *RBC Capital Markets - Analyst*

Fair enough. Second question. Also kind of a bigger picture question. And, I know you guys have talked -- you've shut down your on-balance-sheet development program here. But, as you look out over the next couple of years here at the various growth levers you've talked about there, is there thought to starting back up development on a joint venture basis? Are you seeing private guys willing to come up and partner with you on a joint venture off the balance-sheet development? Are you seeing any interest in that area?

Spencer Kirk - *EXTRA SPACE STORAGE INC - Chairman of the Board, CEO*

There is interest, Mike. Obviously, those local developers have excellent knowledge in their particular markets. Extra Space is a company that likes partnerships. We function well with partnerships. And, we continue to explore and cultivate those types relationships that would allow us to do some off-balance-sheet developments. But, I doubt that we're going to be at the same scope and velocity that we were prior to winding down the development program. But ,we'll very to see what plays out in the years to come.

Michael Salinsky - *RBC Capital Markets - Analyst*

Okay. Then finally, just in terms of your same-store expense guidance of 1.5% to 3%, what are you assuming in terms of real estate taxes increases?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

This is kind of a can of worms. We've put in our budgets about a 3%, but that's the wild card in our expense number, is what's going to happen with property taxes. We are, once again, not aware nor have we been notified of any substantial increases in any major metropolitan areas where we have lots of properties. But, with all of the struggles going on in the United States right now in different communities, that would be an area where we don't have control over, but would expect to see something in the future, but not anything yet.

Michael Salinsky - *RBC Capital Markets - Analyst*

That's all for me, thanks.

Operator

(Operator Instructions)

Your next question will come from the line of Lukas Hart wich from Green Street Advisors.

Lukas Hartwich - *Green Street Advisors - Analyst*

Thank you. Karl, this is a question for you. It sure seems to me like the same-store portfolio has been outperforming the JV stabilized properties, and we're just curious -- why do you think that is? I would have thought that the portfolios were pretty similar in their make-up?

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

Actually, the owned portfolio has a heavier concentration in Boston and New York, which helps. And then, in California the quality, especially the location quality and where the properties are in the owned portfolio, especially the legacy Extra Space stuff, they're just better properties, better locations. And, I think that it's really benefited from that.

Lukas Hartwich - *Green Street Advisors - Analyst*

Okay. And then, on the spend expense front as well, it looks like you were able to cut expenses more on the same-store?

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

Yes. Some of it is quirk, but some of it is also, I think the -- probably one of the most clear-cut ones is when you talk about the energy initiatives that we've done. Most of those, we started on the owned properties, because we wanted to prove that we could make this stuff work. And we didn't want to -- it's hard to go to a third-party owner and convince them to make a fairly large investment on something that's unproven. We now have established that these things that we're doing have a very strong payback, and also some of the initial ones we did are ones that really had big payback.

We had some properties that we had bought that actually had lights on, internal lights in the hallways on 15, 16 hours a day, and we were able to go and motion activate those lights when they only come on, when the hallways are occupied. And, in some of those cases, we were able to reduce -- it was a limited number of properties, but we were able to reduce utilities consumption by 25%. Some of the other initiatives have resulted in, not that kind of savings, but fairly significant savings. And so, as a result on the owned portfolio, our utility costs in 2010 were down 5% on the third-party -- the rest of the big portfolio, it was down only about 2.7%. And, I believe there is some tax -- there are some taxes that also --

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

This is Kent. Two more items, along with what Karl is talking about. We had income tax rebates -- I'm sorry, property tax, I said income, sorry -- property tax on properties that we owned where we went and fought to get a lower amount, which we were able to get, which was a substantial amount, first.

And then second, some of our joint venture partners choose to not participate in our property insurance that we have. They go get their own property insurance. And, we were able to have a substantial reduction in our property insurance, whereas our partners didn't realize that same thing. So, when you take those three things, the tenant insurance, the property insurance, the property taxes and the utility savings that Karl is talking about, those are the big reasons why our expenses are different than our -- than our other properties. And, it's decisions being made by us, but we're allowing our partners, if they want to participate that in many cases they choose not to.

Lukas Hartwich - *Green Street Advisors - Analyst*

Okay.

Karl Haas - *EXTRA SPACE STORAGE INC - COO*

To go back to the revenue part, I just want to clarify. There is no -- how we treat the properties, the call center, the Internet and even at the local management level, we really do not differentiate between owned and managed properties.

Lukas Hartwich - *Green Street Advisors - Analyst*

Okay. Helpful. Thanks.

Operator

Your next question will come from the line of Ki Bin Kim from Macquarie.

Ki Bin Kim - *Macquarie Research Equities - Analyst*

Thank you. If I could turn your attention to talking about your rent increase letters, that will probably go out early spring to your customers, could you just give us a sense of what percent of your current customer base will get it, and what percent increase you're looking at. And, what that implies for same-store revenue growth.

Spencer Kirk - *EXTRA SPACE STORAGE INC - Chairman of the Board, CEO*

Ki Bin, this is Spencer. One of the unique attributes about Extra Space is, we pass along existing customer rate increase letters every month of the year. There is no seasonality to what we do. On average, we're putting out somewhere between 32,000 and 36,000 rate increase letters every single month, and the range of those increases is in the 7% to 9% range. And, it's a philosophy that we have been really consistent on.

Ki Bin Kim - *Macquarie Research Equities - Analyst*

Yes. Sorry about that, I got mixed up with PSA for one second. And so, is that 7% to 9%, is that larger than it was last year?

Spencer Kirk - *EXTRA SPACE STORAGE INC - Chairman of the Board, CEO*

No. It's perfectly in line with what we've been doing. The rate increases that we have been sending out through the recession have continued in terms of volume. The only thing that we did at the depth of the recession is we moderated the percentage, and dropped it down into the 6% to 8% range, or 6% to 7.5% range, but we have consistently passed along existing customer rate increases every single month.

Ki Bin Kim - *Macquarie Research Equities - Analyst*

And what does that 36,000 customers mean on a percentage basis?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

Well, we have about 430,000 customers, so you do the math.

Ki Bin Kim - *Macquarie Research Equities - Analyst*

Okay. Got it. And, what was the cap rate from your JV interest purchase? You said acquisitions were at the mid-7s, but is that the same for --

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Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

It would have been in line with all of the other acquisitions that we're doing.

Ki Bin Kim - *Macquarie Research Equities - Analyst*

Okay. And, turning to your G&A increase in 2011 and your interest expense increase, how much of that is just due to real G&A increases and real increases in interest rates, versus capitalized accounting?

Spencer Kirk - *EXTRA SPACE STORAGE INC - Chairman of the Board, CEO*

A lot -- this is Spencer again, Ki Bin. A lot of the G&A rise is primarily driven by four areas. And, if I could just go through those. Number one, we continue to invest and we'll continue to invest in our IT platform and our customer relationship management software, as well as our enterprise resource planning platform. Second area that is a significant driver in G&A, is revenue management. We believe that the algorithms that we have can be further refined and better automated. So, we're investing in that. Third area is the web-based/interactive marketing initiatives, that I think are helping to drive a disproportionate share of renters to Extra Space, relative to a lot of other operators out there. And, number four, quite frankly, we continue to invest in our people and our programs that are driving our results. And, without getting too specific, those are four broad categories that I would say account for the G&A rise.

Ki Bin Kim - *Macquarie Research Equities - Analyst*

Okay. And on the interest expense part? Is that just a pure refinancing rate effect?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

Yes. It's assuming that as we go throughout -- over time, we would expect the interest rate to be higher on the new loans that we'll be rolling and doing. And so, it's just an increase, first. And second, in our guidance is $100 million of new acquisitions, which will be 50% leverage, so our interest rate, interest cost would go up, because of having more debt for the acquisitions that we're acquiring.

Ki Bin Kim - *Macquarie Research Equities - Analyst*

And last question. How much were snow removal costs an impact in the first quarter and in your guidance?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

We don't have -- it is included in our guidance and the costs are up pretty substantially. But, we actually had -- I mean balancing it out, we expect it to be in the range of probably $300,000 to $400,000.

Ki Bin Kim - *Macquarie Research Equities - Analyst*

And how does that compare to last year?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

It's $300,000 to $400,000 above last year.

Ki Bin Kim - *Macquarie Research Equities - Analyst*

Okay. Got you. And, where are street rates today, versus where they were last year?

Kent Christensen - *EXTRA SPACE STORAGE INC - CFO*

They are actually pretty comparable. And, when you talk about street rates with -- in our systems right now, it's really difficult to peg, because we have a lot of things going on with our rates and a lot of different programs. But, all in all, they're relatively close to last year. Slightly up -- if you -- on the Internet, we're slightly below, but on achieve we're probably real, real close to it.

Ki Bin Kim - *Macquarie Research Equities - Analyst*

Got you. All right. Thank you.

Spencer Kirk - *EXTRA SPACE STORAGE INC - Chairman of the Board, CEO*

Great. This is Spencer. We very much appreciate your interest in Extra Space today. We look forward to the next quarterly call and we wish you a good day. Thank you.

Operator

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