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CORPORATE PARTICIPANTS

Jeff Norman *Extra Space Storage Inc. - Senior Director of IR*

Spencer Kirk *Extra Space Storage Inc. - CEO*

Joe Margolis *Extra Space Storage Inc. - Chief Investment Officer*

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

CONFERENCE CALL PARTICIPANTS

R.J. Milligan *Robert W. Baird & Co. - Analyst*

Juan Sanabria *BofA Merrill Lynch - Analyst*

Jeremy Metz *UBS - Analyst*

Wes Golladay *RBC Capital Markets - Analyst*

Smedes Rose *Citigroup - Analyst*

George Hoglund *Jefferies LLC - Analyst*

Todd Thomas *KeyBanc Capital Markets - Analyst*

Ki Bin Kim *SunTrust Robinson Humphrey - Analyst*

Vikram Malhotra *Morgan Stanley - Analyst*

Gaurav Mehta *Cantor Fitzgerald - Analyst*

Gwen Clark *Evercore ISI - Analyst*

Ryan Burke *Green Street Advisors - Analyst*

Todd Stender *Wells Fargo Securities - Analyst*

Neil Malkin *RBC Capital Markets - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen and welcome to Extra Space Storage Inc. third-quarter 2016 earnings conference call. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session and instructions will be given at that time. (Operator Instructions). As a reminder, today's program is being recorded.

I would now like to introduce your host for today's program, Jeff Norman, Senior Director of Investor Relations for Extra Space Storage.

Jeff Norman - *Extra Space Storage Inc. - Senior Director of IR*

Thank you, Jonathan. Welcome to Extra Space Storage's third-quarter 2016 earnings call. In addition to our press release, we have furnished unaudited supplemental financial information on our website.

Please remember that management's prepared remarks and answers to your questions may contain forward-looking statements as defined in the Private Securities Litigation Reform Act. Actual results could differ materially from those stated or implied by our forward-looking statements due to risks and uncertainties associated with the Company's business. These forward-looking statements are qualified by the cautionary statements contained in the Company's latest filings with the SEC which we encourage our listeners to review.

Forward-looking statements represent management's estimates as of today Thursday, October 27, 2016. The Company assumes no obligation to revise or update any forward-looking statements because of changing market conditions or other circumstances after the date of this conference call.

I would now like to turn the call over to Spencer Kirk, Chief Executive Officer.

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

Hello, everyone. As many of you know, last month I announced that I will be retiring at the end of the year and that I will be succeeded by our Chief Investment Officer, Joe Margolis. I have had the opportunity to work with Joe for more than 18 years. He was instrumental in structuring our first JV with Prudential in 1998. He served on our Board of Directors for more than a decade and he has excelled in his role as our Chief Investment Officer. He has the right balance of real estate expertise and leadership skills to lead Extra Space in its continued growth and success.

So at this time, I would like to turn the time over to Joe.

Joe Margolis - *Extra Space Storage Inc. - Chief Investment Officer*

Thank you, Spencer. Good afternoon, everybody. It has been great to meet with many of you face to face since we announced Spencer's retirement and I look forward to getting to know you better through future interactions.

It was another strong quarter for Extra Space. FFO per share as adjusted grew 26% year-over-year. This growth was the result of more than solid operating performance. It was also fueled by accretive acquisitions, joint ventures, third-party management and an optimized balance sheet. We are focused on using all of these levers to continue to grow shareholder value.

Operationally, we continued to push rates to new and existing customers in the quarter and experienced average street rate growth of approximately 7%, similar to 2015. This growth was partially offset by an increase in bad debt and discounts which resulted in same-store revenue growth of 6.1%. Discounts while still very low from our historical measure are up from an all-time low in 2015.

Expenses increased only 1.4% which led to NOI growth of 7.8%. Quarter end occupancy was strong at 93%. Year-to-date, we have acquired $825 million in wholly-owned stores. With very few exceptions, these acquisitions were not broadly marketed but came from our JV, managed and other relationships. The largest of the off-market transactions closed on September 16 when we purchased Prudential's majority interest in 23 stores for $238 million. Concurrently, we sold our minority interest to Prudential in the remaining 42 stores in the joint venture for $35 million. We will continue to manage these stores.

In addition, we are under agreement with the JV partner to purchase its majority interest in 11 stores for approximately $153 million. We plan to close this transaction in the fourth quarter which will result in wholly-owned acquisitions of $1 billion in 2016.

We also expect to close $255 million in [CofO] acquisitions in 2016, $90 million of these will be wholly-owned and the remainder will be in joint ventures with our investment in these ventures totaling $53 million.

Our JV strategy and our CofO program are working and are creating value year in and year out.

I would now like to turn the time over to Scott.

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

Thanks, Joe. Last night we reported FFO as adjusted of $1.02 per share exceeding the high-end of our guidance by $0.02. Including costs associated with acquisitions and non-cash interest expense, FFO was $1.00 per share for the quarter. The beat was primarily the result of stronger than anticipated performance from our 2015 acquisitions, specifically SmartStop. We also benefited from the collection of $1 million in business interruption insurance proceeds.

As Joe mentioned, our same-store revenue growth was driven by higher rates to new and existing customers. This is consistent with our guidance which assumed no benefit from occupancy and a headwind from discounts in the second half of 2016. We continue to have solid revenue and NOI growth throughout our diversified portfolio.

Our top-performing markets in the quarter included Las Vegas, Los Angeles, Sacramento, San Diego and Tampa-St. Pete with revenue growth in the high single digits. The slowest markets were Boston, Chicago, Denver, Houston and Memphis. With the exception of Denver which represents about 1% of our revenue, all of our markets showed positive revenue growth year-over-year.

Subsequent to the end of the quarter, we completed a $1.15 billion unsecured credit facility. The facility consists of a $500 million revolving line of credit, a five-year $430 million term loan and a seven-year $220 million term loan. The credit facility has an accordion feature that allows us to increase total capacity to $1.5 billion.

At closing, we drew $300 million on the five-year tranche and paid off and terminated three of our four bilateral revolving lines of credit. The five- and seven-year tranches have delayed draw features. We will access the remaining available term balances as needed to finance future acquisitions and to pay off debt. This unsecured facility further diversifies our capital structure and reduces our average interest rate. Our goal is to have access to multiple types of capital, to (technical difficulty) and to maintain financial flexibility. This credit facility helps accomplish all of these goals.

Due to the outperformance of our 2015 acquisitions, we are increasing our annual FFO guidance. FFO as adjusted is now estimated to be $3.78 to $3.80 per share. FFO is now estimated to be $3.63 to $3.65 per share. This guidance includes $0.05 of dilution from our 2015 and 2016 CofO stores. It also includes acquisitions that as anticipated, will require time to be brought up to our performance standards. As these properties move toward our portfolio average, we expect outsized NOI growth.

I will now turn the time back to Spencer.

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

Thanks, Scott. This is my final earnings call as the CEO of Extra Space. I have enjoyed working with each of you and I'm grateful for the relationships and friendships that have been developed over the years.

Going forward, I will continue to be actively involved as a member of the Board and I will remain the Company's largest individual shareholder. My interests are perfectly aligned with those of our shareholders. Thinking back 7.5 years ago when I took over as CEO, it wasn't about my predecessor, Ken Woolley and today it isn't about Spence Kirk. It has always been about our constant and capable executive team which has an average tenure of 14 years. I'm 100% comfortable that Joe Margolis is the right person at the right time to lead this very strong team.

Our unique structure and our ability to execute a clear business strategy has allowed us to be among the fastest-growing REITs in the nation. None of that changes with this transition. Over the last five years, we have profitably acquired over $5 billion of real estate. These acquisitions alone would constitute one of the largest storage companies in the nation. When you combine that kind of external growth with the industry's best operating platform which just delivered its 24th consecutive quarter of double-digit FFO growth, Extra Space is well-positioned to continue to deliver outsized growth for years to come.

With that, let's turn it over to Jeff to start the Q&A.

Jeff Norman - *Extra Space Storage Inc. - Senior Director of IR*

Thank you, Spencer. In order to ensure we have adequate time to address everyone's questions, I would ask that everyone keep your initial questions brief. If time allows, we will address follow-on questions once everyone has had an opportunity to ask their initial questions.

With that, we will turn it over to Jonathan to start our Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). R.J. Milligan, Baird.

R.J. Milligan - *Robert W. Baird & Co. - Analyst*

Good afternoon, guys. First off, congratulations Spencer. It has been great working with you. So congratulations on the retirement.

Scott, I had a question in terms of the acquisitions and sort of plans for long-term funding. Obviously a lot more acquisitions this quarter and for the year more than planned. But given where the stock price is trading, curious what your plans are for funding those acquisitions and if you would be comfortable raising equity at the current price?

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

First of all I would tell you that we don't look at our current stock price any time we make an acquisition decision. It is not made with a short-term cost of capital in mind. We always look at the long-term costs. So we have always tried to have many sources of capital and right now I would tell you that we still do. Debt is an option. We just closed this facility that gives us a fair amount of capacity. The preferred market is still very good and our stock price, we don't like it as much today as we have in the past but I think that we will always look to access the cheapest cost of capital which could also include joint ventures or even proceeds from the sales of properties.

R.J. Milligan - *Robert W. Baird & Co. - Analyst*

So would you be willing to increase debt levels for the short term until maybe you have a better stock price?

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

Marginally, yes, we would.

R.J. Milligan - *Robert W. Baird & Co. - Analyst*

Okay. I will get back in the queue. Thank you, guys.

Operator

Juan Sanabria, Bank of America Merrill Lynch.

Juan Sanabria - *BofA Merrill Lynch - Analyst*

Good afternoon, guys. I was just hoping you could talk a little bit about the state of demand. If I look at page 20 of your supplemental, it looks like rentable square feet on a same-store basis declined year-over-year for the three months and for the nine months and you kind of talked about concessions going up. So just curious about the health of demand and kind of what you are having to offer to get people to sign the leases?

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

I'm assuming you're looking at the rentals and vacates in our supplementals. We always tell people to be careful when looking at rentals and vacates. It depends a little bit on what happened last year. We focus more on occupancy and revenue growth. I would tell you demand is still solid. We are very near our record high occupancy for this time of year. Last year was our best year ever so while we are slightly below last year, it is still very sol6id. We are still seeing rate growth in our street rates. For the quarter, we grew 6% to 7% and we continue to push those here into the fourth quarter.

Juan Sanabria - *BofA Merrill Lynch - Analyst*

And any color on concessions to get people in and how that has changed as a percentage of revenue or absolute dollar terms?

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

So our discounts are up slightly from where they were. Last year was kind of the bottom where as a percentage of revenues if you take discounts divided by revenues you were around 3%. Current year they have kicked up slightly from there but they are going to kick up for a couple of things. One is the fact that our rates are up and then the second thing that affects discounts obviously is how many rentals you are doing that month. With rentals being down slightly, that helps. With rates being up, that hurts. And then in addition, we are offering slightly more discounts right now to try to compensate a little bit for our drop in occupancy. We ended the quarter about 40 basis points below where we were last year, we would like to pick up a little bit of that going into the slow season here.

Juan Sanabria - *BofA Merrill Lynch - Analyst*

Thank you.

Operator

Jeremy Metz, UBS.

Jeremy Metz - *UBS - Analyst*

Just two quick ones. In terms of the joint venture acquisitions, can you talk about what prompted these? Was this driven by your partners coming to you and saying they wanted to sell? Any insight into why now and then did you have a ROFO on those?

Joe Margolis - *Extra Space Storage Inc. - Chief Investment Officer*

So I will answer the second piece. We have a ROFO in all of our joint ventures but that was not the triggering factor here. We have done five transactions with four different joint ventures, all managed by Prudential. Each venture is run by a different portfolio manager, has a different strategy and the catalyst for the transaction in each case was different. In some case, we had an unsolicited offer for a property that we didn't want to sell, that started the discussion. In another case, the portfolio manager wanted to change up his geographical diversification and wanted to sell a bunch of properties primarily in California.

From our standpoint though, the similarity in each venture was that we had an embedded promote in the venture that we could not get to without a capital transaction. So we restructured earlier this year, we restructured two of the accounts without a capital transaction and realized over $40 million in promote. And then in the purchases we have done from the two single client accounts, the sales proceeds to the venture will be sufficient to satisfy the accrued preferred return, pay down some capital and put us in a position going forward where we will be cash flow promoted in the ventures.

Jeremy Metz - *UBS - Analyst*

Appreciate that color. And then I just had a second one on supply. Just any changes in the supply picture in terms of expected starts out there? Any new markets where you are seeing it start to get more heated than maybe you initially thought?

Joe Margolis - *Extra Space Storage Inc. - Chief Investment Officer*

I think the picture looks pretty much the same to us. We see increasing supply from a period where there was very little supply. The markets that we see supply are the markets that have limited barriers to entry primarily. And many markets in California and others don't, we don't see that supply. Maybe a new market we are starting to focus on would be Austin, Texas. But overall, supply we are in a development cycle, we are seeing increased supply, we are seeing in some instances it affects our operations, in some instances it doesn't. But on a portfolio level, we still perceive it to be at a manageable moderate level.

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

Jeremy, I would maybe add one thing to that and that is clearly as these properties open there is demand. If you look in our supplementals and look at the occupancy of our CofO deals, these properties are leasing up extremely quickly so obviously there is some type of pent-up demand.

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

By the way, Jeremy, it is Spencer. One of the things you need to know is just because a macro market might have a lot of supply, it doesn't necessarily mean that it is going to impact certain individual sites. A lot of noise has been made about South Florida and Miami. This past quarter our revenues were up 6.8% and NOI was up 7.3%. So there can be new supply in Miami but apparently today it is not having any impact that is discernible on our property level performance because those sites aren't within a three or four or five mile radius of our current operations. So it all depends as you look across the country the impact of supply.

Jeremy Metz - *UBS - Analyst*

Thanks.

Operator

Wes Golladay, RBC.

Wes Golladay - *RBC Capital Markets - Analyst*

It looks like the street rates are still pretty healthy, renewal rates are pretty good, concessions are slightly higher and occupancy is just a tad lower than you would expect. But we are seeing about 150 basis points of sequential decline in revenue growth likely three quarters in a row potentially to get to the low-end of the guidance. What is going on? Is it just you guys are above market and you are just resetting back to a more normal level? Is that the driver or is it the concessions? What is driving the 150 basis points a quarter?

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

Yes, so year to date we have had 150 basis points a quarter so Q1 to Q2, Q2 to Q3, it has been 150 basis points per quarter. That is coming off of all-time highs, record NOI growth. I would tell you the rate of decline has slowed from the second going into the third quarter so it was fairly steep and then later in the third quarter, it has absolutely slowed.

Wes Golladay - *RBC Capital Markets - Analyst*

Okay, so would it be potentially you guys are just above market for even new lease growth -- or effective rent was -- or street rate was growing call it 5% and you guys might have been above and as your portfolio starts to reset back to where the market is, the pace of decline will start to moderate and maybe start to re-accelerate again? Is that how we should look at it?

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

I would tell you it is tough by market because every market is a little bit different. Some markets, it truly is new supply, other markets it is that we have grown 15% for two years in a row. We wouldn't expect to grow 15% again next year. So Denver is a combination of supply plus Denver in 2014 grew double digits, 2015 double digits, 2016, it is now in this quarter went slightly negative. So it varies by market but overall you are coming off of record highs it is just the timing of when you are coming off of those.

Wes Golladay - *RBC Capital Markets - Analyst*

As I recall, you guys do have some governors that you don't want to be too far above market. It sounds like in Denver you guys might have been somewhere where the governors were at and then you have the new supply and that is why we are seeing such a drastic decline in Denver and that will probably be most extreme example. Is that a fair assessment?

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

I think that is probably fair. The one thing we do have like you mentioned is the governors so what governs that is street rates. So as street rates are increasing, you do have the ability to increase existing customers also but if street rates aren't moving then your existing customers won't be getting rate increases at some point also.

Wes Golladay - *RBC Capital Markets - Analyst*

Okay, and then lastly just on there's a lot of new supply and we always talk about how it will affect your current operations. But what do you see as far as the managed business or maybe your CofO business? How much share of the new development can you take in your market either developers wanting to affiliate with Extra Space? I see some developments in Charlotte that will be managed by you. I just wondered how much opportunity there is for you?

Joe Margolis - *Extra Space Storage Inc. - Chief Investment Officer*

Thank you very much for asking that question. Because we always talk about development as a risk to our business, while development also provides an opportunity for us. If you look at our supplements and see how our CofO assets are leasing up, you can get an idea of what good investments those are going to be and the value those are going to add to our shareholders.

Also on the managed side as you point out, the vast, vast majority of our incoming, our pipeline of managed stores are new development. So we will be able to grow that platform. We are growing it this year even though we had some sales out of the management plus platform and be able to continue to grow that business both as a revenue generator, a source of additional data and a pipeline for future acquisitions.

Wes Golladay - *RBC Capital Markets - Analyst*

Okay, thanks a lot. Congrats, Spencer. Congrats, Joe.

Operator

Smedes Rose, Citigroup.

Smedes Rose - *Citigroup - Analyst*

Hi, how are you. I wanted to just ask if you are seeing any changes in seller expectations despite very healthy fundamentals still the pace obviously has declined. And I was wondering if you have changed your underwriting at all given a little bit the slowdown of the industry or are you seeing any kind of change in the private market cap rates?

Joe Margolis - *Extra Space Storage Inc. - Chief Investment Officer*

Sellers always have unrealistic expectations and I think they still have unrealistic expectations. But to the point of your question, we feel that the cap rate compression has stopped and that things are still trading at very healthy prices but perhaps there is fewer bidders and there is not as much pressure on pricing. We I think through this period we have done a good job of being realistic and disciplined in our underwriting and because of that, we have not been successful with widely marketed deals. Only about 12% of the deals we have approved this year in our real estate committee were from a broker. Everything else came through some type of relationship or off market transaction.

So we have not changed our underwriting. We continue to try to be disciplined and I think we are going to continue to be largely unsuccessful in the bid auction market until there is a significant change.

Smedes Rose - *Citigroup - Analyst*

Okay. Just switching to CofO deals for a second, have you seen any sort of change in the frequency of folks approaching you with these kinds of deals say versus six months ago?

Joe Margolis - *Extra Space Storage Inc. - Chief Investment Officer*

I wouldn't, I think we have always had a very strong pipeline of CofO deals and we see storage is still a very, very healthy business and folks who have not been in storage before want to get into storage and want to be developers and approach us in a pretty consistent basis. So I think the pipeline is still strong and we are very selective both in terms of who we want the developers to be and which projects we want to commit to in terms of what else is being developed in that area.

Smedes Rose - *Citigroup - Analyst*

Okay, thanks. That is helpful. Spencer, I wanted to add on my best wishes to you as well going forward. Thank you.

Operator

George Hoglund, Jefferies.

George Hoglund - *Jefferies LLC - Analyst*

First off, Spencer, enjoy retirement. It has been a pleasure working with you.

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

Likewise, George. Thank you.

George Hoglund - *Jefferies LLC - Analyst*

I guess my two questions have to do with two specific markets. One in New York, if you can just comment a bit on the performance on the sequential slowdown in revenue growth? And then also in Denver, sort of what drove that large increase in same-store expenses up 25%?

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

I will take the Denver one first and then maybe, Joe, if you want to take new work. The Denver one is actually a property tax increase in expenses and it is not that the taxes this year went up, it is a comp from last year where we won an appeal last year and so you had expenses go down because we got effectively a lower rate or cash back. So it is really more of a year-over-year comparison on the expense side than a big increase in expenses.

Joe Margolis - *Extra Space Storage Inc. - Chief Investment Officer*

New York is a little bit of a mystery to us. It is a good market, there is some development coming online. The saturation is extremely low. Perhaps it is a market where valet is making a little bit of an inroad. But we have a hard time understanding and predicting the New York market right now.

George Hoglund - *Jefferies LLC - Analyst*

Okay. Thanks for the color.

Operator

Todd Thomas, KeyBanc Capital.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Hi, good afternoon. Spencer, best of luck in retirement. Good luck. First question, Joe or Scott maybe, just following up on the discounting can you just talk a little bit more about the discounting in the quarter; maybe quantify what percent of customers receive discounts in the quarter, how that compared year-over-year?

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

So year-over-year current year about 58% of our new customers received a discount, compared to last year it was 47% of our new customers. Now that can be a little misleading sometimes because it is going to depend on which discount they received.

So even though fewer customers last year received a discount, it's possible you could have given more discounts if you gave a larger discount. But that is -- we are still -- the majority of our customers coming in the door are getting the discount as they come in.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay. So how should we think about that discounting in the context of the 7% higher asking rents that were mentioned year-over-year? What does that mean for move-in rates in the quarter on a year-over-year basis?

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

So discounts, assuming all things were equal, 7% increase in asking rates would be a 7% increase in discounts. I would tell you they are slightly higher than that, because we have increased the percentage of customers getting the discount. And then we have also, depending on the market, depending on occupancy, we will continue to change discounts offered, the specific discount offered. But it is not significantly higher, but it is higher and it is affecting your net rental income.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay. And then just maybe for Joe, just like a bigger picture question here. Just sticking with revenue growth and the deceleration that we are seeing today, realizing are coming off record highs, are there any signs of stabilization today whether it is discounting or something else, though, that you might be able to point to? Or do you think this deceleration on a broader portfolio level could continue over the next several quarters?

Joe Margolis - *Extra Space Storage Inc. - Chief Investment Officer*

Our view is that deceleration is going to moderate and flatten out and we are going to revert to more normal rates of growth. Self storage normal which historically has been higher than other property types. So we are already feeling that and that is what we expect.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay, so it seems like your comments suggests then that you think you just sort of moderate and sort of stair step down to a level that stabilizes in the coming quarters then?

Joe Margolis - *Extra Space Storage Inc. - Chief Investment Officer*

Correct.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay, thank you.

Operator

Ki Bin Kim, SunTrust.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

Thanks. Spencer, it was great working with you and best of luck. So maybe we could just start off with maybe you could provide some October stats on street rate growth and promotions.

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

Our street rate growth for October is slightly lower than where it was in the third quarter so you are mid-5s in street rate growth, mid-to upper 5s depending on kind of the time. Discounts are pretty similar to what they were in the third quarter, up slightly. The reason we are adjusting discounts and pricing is obviously to try to recoup some of the occupancy that we were down.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

Right. So if I look at your adjusted guidance and what it implies for the fourth quarter, we are roughly looking at like a low 5% same-store revenue growth rate. What is interesting about that is that probably that is your rent per occupied square foot growth rate for the first time is going to surpass the same-store revenue growth rate. At least it is trending that way. So it feels like there is maybe some levers whether that is promotions like we talked about or existing customer rate increases having a lower benefit to the same-store revenue numbers or just decrease in the street. But it feels like there are some other levers that are giving way. So I wondering if you had any thoughts on that?

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

I would tell you in terms of levers the majority of our growth at the end of last year and all of this year has been street rate growth. Existing customer rate increases don't add a lot but it is almost entirely rate growth. That has been offset slightly by discounts and bad debt has increased nominally also.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

Okay, and I guess in the same line of questioning, I know we tend to focus a lot on the supply issues but maybe something on the demand side because it feels like even your good markets are -- not just LA, but just overall some of the great markets are becoming just very good and just kind of toning down a notch. Is there something you can point to on the demand side? Are customers shopping price more often or is there just less traffic or are there some things that you are seeing out there that is pointing towards just a little bit weaker demand than what we are used to?

Joe Margolis - *Extra Space Storage Inc. - Chief Investment Officer*

I think what we are seeing is just the cyclicality of markets. We did a study, we looked at almost 90 markets over a ten-year period and one thing you see is that markets are strong and then markets are less strong. And they are not correlated and they move in all different directions. Our number one market for 10-year NOI growth is Chicago which is now one of our weaker markets. So we fully expect to see markets like Sacramento be very strong for a few years and then perhaps be not as strong.

One of our markets now that we reported as a weaker market is Boston. Boston is not a market that has been impacted by a lot of supply but it is just kind of in t0hat cyclical pattern that we see. So we are very happy to have designed a portfolio that is highly, highly diversified across many, many markets that will smooth out the ups and downs of individual markets.

Operator

Vikram Malhotra, Morgan Stanley.

Vikram Malhotra - *Morgan Stanley - Analyst*

Thank you. Congrats, Spencer, on retirement and congrats on the new role. Two quick questions. Just on the comments about steady-state, can you give us some context? If I look at like the last 10 years, self storage same-store NOI is probably in the 4% to 5% same-store NOI range. And I'm just trying to understand like when you say steady state given sort of all of the changes in technology, etc., is that somewhere in between the long-term average and today's numbers? Can you just give us some sense of what steady-state means?

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

I would tell you we are reverting back to that historical average of 4% to 5% and I think as a company that is largely our belief. You are going to have times that it is above that, they are not going to be way above and there are times you are going to be below that and they are not going to be way below. It is the beauty of self storage is that it is a fairly stable property type.

Vikram Malhotra - *Morgan Stanley - Analyst*

Okay. Then just on supply and talking to several private operators, it seems like in markets where there was this uptick in supply given the performance, subsequent performance, it seems like some projects are getting either pushed out or delayed and it is also just taking longer to get new projects started just given capacity issues in terms of contractors. I'm just wondering if you have seen that in any markets?

Joe Margolis - *Extra Space Storage Inc. - Chief Investment Officer*

We see that across all markets that a fairly sizable percentage of planned projects do not get built because of local opposition, increasing construction costs, difficulty getting financing, land costs, whatever it is. But that being said, there are projects being added to the funnel and a good portion of them don't make it through the funnel but there are still more projects getting added to the funnel. So I think the factors you talked about will slow and moderate the development cycle but not stop it.

Vikram Malhotra - *Morgan Stanley - Analyst*

Okay, great. Thank you.

Operator

Gaurav Mehta, Cantor Fitzgerald

Gaurav Mehta - *Cantor Fitzgerald - Analyst*

Thanks. A couple of quick ones. Number one, for your existing customers, have you seen any pushback from your tenants on rent increases and can you comment on the move out for rent increases in your portfolio?

Joe Margolis - *Extra Space Storage Inc. - Chief Investment Officer*

So we have not seen any changes if that is the question. We still have a very small percentage of customers who will actually go get their boxes and move out when they get a rate increase. We continue to every time we sent out a rate increase keep a control group and measure the control group's move out rate against the folks who got the rate increase. I think about 1% of people move out so there has been no change in that, it is something we continue to monitor and it proves to us that the rate increase program continues to be valuable.

Gaurav Mehta - *Cantor Fitzgerald - Analyst*

Okay, and the second, you talked about discounts, higher discounts in the quarter. Were there any markets where you had to use more discounts than others?

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

Any market that has shown softness in terms of occupancy or rate, we will typically increase the discounts. As we look at the levers we have to pull, you are going to look first to increase your spend on the web. The last thing you want to do is decrease your rate so in terms of magnitude you will typically increase your spend on the web, you will increase your discounts or you will change your rate. And you typically want to do them in that order because of the cost, the long-term cost or benefit.

Gaurav Mehta - *Cantor Fitzgerald - Analyst*

Okay, thank you.

Operator

Gwen Clark, Evercore ISI.

Gwen Clark - *Evercore ISI - Analyst*

Can you give us an update on how you are thinking up out valet storage, the threat to the industry and then also some color on sites like SpareFoot?

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

We have done quite a bit in terms of research on the valet storage and we don't see it as an imminent threat. We understand it a lot, we have done deliveries with several companies, we have done click throughs to see if they choose them over us and right now based on the way it is priced, we do not see it as a major threat. The other thing we have is the ability to get into that business fairly quickly. We have the real estate, we have the customer lists so not a huge threat at this time.

Gwen Clark - *Evercore ISI - Analyst*

Okay, that is helpful. Then on a different note, it looks like Denver was one of the first of the markets to go negative. Can you give us an update on how to think about what markets could be next and what would be driving that?

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

It is tough to predict the future. You know if you looked at a market that has had 15% growth two years in a row and had a lot of new supply, I think that it is probable that market is not going to do great next year. (multiple speakers)

Gwen Clark - *Evercore ISI - Analyst*

All right, understood. Thank you.

Operator

Ryan Burke, Green Street Advisors.

Ryan Burke - *Green Street Advisors - Analyst*

Thank you. Scott, I appreciate the comment on in regards to not focusing necessarily on what your share price is today in terms of driving your external growth strategy. But what is it that the team looks for that would or that will eventually tell you that it is time to slow growth from that perspective?

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

I would tell you when things are not accretive anymore. So in other words, what you are paying for a property is greater than your cost of capital. So we are very careful in terms of assessing our cost of equity as well as assessing our cost of debt and trying to look at that long-term and having real estate growth assumptions. But I think that is what could cause you bigger problems if pricing stays extremely low.

Ryan Burke - *Green Street Advisors - Analyst*

Okay. You have obviously seen great success on producing this double-digit FFO growth over many consecutive quarters now. Do you consider that a hard target internally as you are looking at acquisitions or is that more just an outcome of what the strategy that you have employed and you are okay with not producing double-digit FFO growth at a certain point in time?

Joe Margolis - *Extra Space Storage Inc. - Chief Investment Officer*

No, we are not okay with not producing. That is too many negatives. Our goal and we are very focused on producing double-digit FFO growth both through acquisitions and all of the other levers we have to pull to do that. Whether that is as we talked about restructuring our ventures, our management plus platform. We will add over 9000 units this year through expansions or [convads], where we have turned 10X10s into 5X5s. So we are very focused on that goal.

Ryan Burke - *Green Street Advisors - Analyst*

Okay, thanks. Just wanted to make sure that we sort of round out quantifying the rent growth trends for the quarter. I think what we heard is 6%-ish to 7%-ish both street rate growth and move-in rate growth. Are the increases to your existing customers, have they changed at all?

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

No, they are still high single digits.

Ryan Burke - *Green Street Advisors - Analyst*

High single. Okay. Are you able to quantify what the rolldown is from move out to move in for the quarter?

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

Yes, it depends on what we are doing with street rates but they are typically low to mid single digits and they can get as bad as high single digits. Right now you are more in the low to mid with the fact that you have been pushing your street rates.

Ryan Burke - *Green Street Advisors - Analyst*

Okay, got it. Thank you.

Operator

Todd Stender, Wells Fargo.

Todd Stender - *Wells Fargo Securities - Analyst*

Thanks, guys. I just want to get a sense of how you are evaluating your cost of capital, how you are deploying capital at this point in the cycle? Can you talk about the three buckets that you invested in, the JV assets that sound like they are pretty mature. I think you acquired three properties outside of that in the quarter. And then your CofO deals, is there a way to quantify your return expectations side-by-side with those three?

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

A lot of questions all in one, Todd.

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

I think it would tell you we are very focused on the long-term cost of capital, that is going to take into consideration debt as well as equity and it is going to be the mix of debt and equity.

In terms of returns, we are typically a cap rate buyer. We also consider your replacement costs, we also look at IRRs and we also look at cash on cash yields. Because we are a long-term holder, I think cash on cash is probably the most relevant one that we focus on. Rather than just looking at a cap rate today or a stabilized cap rate, what is the return because that equalizes.

If you look at a seven-year cash on cash return on a CofO deal, you now can compare that to how is that cash on cash yield to an acquisition? So I would tell you we are focused on long-term cost of capital, we are focused on cap rates and cash on cash yield.

Joe Margolis - *Extra Space Storage Inc. - Chief Investment Officer*

Here is the other thing, Todd, is if you look at those three types of acquisitions, they all serve a different purpose. The assets we buy from the joint venture partner that we manage, we have already maximized performance, there is less upside in those assets but there is also less risk. We know them inside and out, we know exactly what the performance is, there is already branded. So those are kind of our safest, lowest returning assets.

The CofO deals where we are taking full lease up risk, no construction risk and we have the period of dilution that Scott mentioned, those are higher returning type deals in return for taking that lease up risk. And then the deals that we buy on market they span the globe. There are deals, our first year cap rate on acquired deals range from 2.7% to 8% so that just tells you how much juice there is or lease up or a value is in those deals so those could be anywhere along the spectrum.

Todd Stender - *Wells Fargo Securities - Analyst*

So what are you guys expecting? What is a cash on cash return for the Pru assets because it sounds like we are going to see some more JV assets being pulled into Q4, what kind of return expectations there?

Joe Margolis - *Extra Space Storage Inc. - Chief Investment Officer*

So the deal we just announced with (inaudible) where we dissolved that joint venture and purchased 23 assets, the forward 12 cap rate on that was a 58. So that gives you a sense of that.

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

It is tough to give you the cash on cash yields because they vary so much depending on lease up, CofO versus [this]. I would tell you a JV is more like buying the safe annuity and some of the others are more swinging for the fences, much higher returns.

Todd Stender - *Wells Fargo Securities - Analyst*

Great. Thank you.

Operator

Juan Sanabria, Bank of America Merrill Lynch.

Juan Sanabria - *BofA Merrill Lynch - Analyst*

Just a follow-up on Todd's question. Just curious what your typical return is for the C-O deals that you are looking at today that are in the pipeline?

Joe Margolis - *Extra Space Storage Inc. - Chief Investment Officer*

So we try to target, we target 200 basis points over what we believe a stabilized asset -- we would buy a stabilized asset for in that market. So we are looking at stabilized cap rates of the 31 COs we have approved this year between 6.5 and 10. And that will give you a seven-year cash on cash between high 5s to 8. All unlevered.

Juan Sanabria - *BofA Merrill Lynch - Analyst*

Okay. And then could you give us just a snapshot, it sounded like SmartShop was a big driver of kind of outsized non-same-store growth of where that portfolio stands today?

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

So SmartStop compared to our underwriting assumptions all year has been outperforming in terms of revenue growth. It continued to outperform in revenue growth. Our problem has been on the expense side where we have been spending higher than our original projections. In the quarter, the expenses continue to be -- well it didn't continue -- they actually came in right on budget and our revenues continued higher. We actually were about $1.1 million ahead for the quarter for SmartStop alone in NOI.

Juan Sanabria - *BofA Merrill Lynch - Analyst*

And what is the occupancy there?

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

You are just over 90%.

Juan Sanabria - *BofA Merrill Lynch - Analyst*

Okay. Just one last question. I think it was Joe and correct me if I am wrong, may have said that the on-demand or valet could have been a driver of maybe some deceleration in New York. Do you guys have any sense of market share in New York or other large metros for the on-demand or valet?

Joe Margolis - *Extra Space Storage Inc. - Chief Investment Officer*

We really don't. Talking to some folks who have large exposure in Manhattan in particular, they had a hypothesis that that business may be gaining some traction there but it is really just a guess at this point.

Juan Sanabria - *BofA Merrill Lynch - Analyst*

Any other markets that mimic Manhattan like San Francisco?

Joe Margolis - *Extra Space Storage Inc. - Chief Investment Officer*

We haven't heard that yet.

Juan Sanabria - *BofA Merrill Lynch - Analyst*

Okay. Thank you.

Operator

Neil Malkin, RBC Capital Markets.

Neil Malkin - *RBC Capital Markets - Analyst*

Spencer, just wanted to say congrats and it was good working with you. I know everyone else has that but wanted to get that in myself.

My two questions, one, how many people in the quarter were eligible in your total rent or population to receive a renewal?

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

In terms of how many people were eligible, it is tough.

Neil Malkin - *RBC Capital Markets - Analyst*

Percentagewise is fine.

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

Percentagewise, we give about -- it is 1/12 basically because we are raising rents every month but we give about 80,000 rental increases every single month.

Neil Malkin - *RBC Capital Markets - Analyst*

Okay, I just wondered because you do that the 5 and 9 so (multiple speakers).

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

You have some people that will stay the full-year though. So some people get that and get full and other people don't get that, get full. They just get the first. Some people may only (multiple speakers)

Neil Malkin - *RBC Capital Markets - Analyst*

Participant^

Sorry. So it winds up working to about roughly like saying someone gets one per year because of the churn and people leaving, etc.?

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

About 10% of our customers actually get them every single month is what it turns out to be. So it is slightly higher than 1/12th. Lower.

Neil Malkin - *RBC Capital Markets - Analyst*

Okay. Then my last question is on expenses for next year. Obviously I know you guys aren't giving guidance but would you expect to see maybe more pressure on expenses just from real estate number one because you have more deliveries coming so maybe more price discovery for municipalities? And then number two is as you get more competition, you would be spending more on marketing things along those lines. Is that what hit the expense side?

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

So I would tell you from a property tax perspective it will be above inflation. I mean the couple of years we have seen 4% to 6%, we expect that again next year. We hope to be able to grow less than inflation in some of the other areas by some of the things that we are doing. So hopefully that will offset some of it but in terms of marketing hopefully as we grow, we will start to experience some of the size and scale benefits so we hope to keep that somewhere near inflationary also.

Neil Malkin - *RBC Capital Markets - Analyst*

Thank you, guys.

Operator

Todd Stender, Wells Fargo.

Todd Stender - *Wells Fargo Securities - Analyst*

Thanks for taking the follow-up. Just back to the migration from a secured balance sheet to the unsecured, does that do anything to your cost of debt? I know you are a nimble borrower on a secured basis but now on an apples-to-apples basis, do you think that will adjust your cost of debt down? That is part one.

Part two, do you think that helps your valuation in the stock as you guys kind of move toward a more I would say modern era REIT?

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

I would tell you it does a couple of things for us. One is hopefully it decreases our average cost of debt. And then two, hopefully it extents out the average length of maturity. In terms of whether or not that increases the value, I think that I will leave that to the investors and the analysts.

Todd Stender - *Wells Fargo Securities - Analyst*

Okay, thank you.

Operator

Gwen Clark, Evercore ISI.

Gwen Clark - *Evercore ISI - Analyst*

Thanks for taking my follow-up. I think there is some confusion about what normalized growth means for the sector and for Extra Space. Can you try to quantify it a bit more specifically?

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

Yes, so there are a lot of numbers out there, Gwen, it is Spencer. If you look back over the last 10+ years, it is hard to get an exact beat on this because you've got some occupancy gains and other things mixed in there. But some numbers that I have used in the past for the 10-year average for this group, the storage sector operator specifically, the NOI growth has been about 5.3%. That is very healthy report card in the world of REITs by any measure.

Extra Space has done a little bit better than that. We have averaged about 6.7% over that 10+ year period. And the last quarter we just reported was 7.8%. We are still way above the historical norm. You can pull out some of the occupancy and the other things that might be inflating some of those numbers. But my personal opinion is not only today but going forward, storage will be amongst the best if not the best-performing asset class.

So yes, we have seen some deceleration. I am personally a little surprised at the negativity but I have a high degree of confidence that storage and Extra Space in particular are going to put up excellent results by any measure in the world of REITs. But I don't think any of that changes so reverting to maybe more normal historical trends, it is still impressive.

Gwen Clark - *Evercore ISI - Analyst*

So that is helpful and it seems like there is clearly some benefit from occupancy and then in more recent years the TI. If you were to try and take out the occupancy gain and then take out the benefit from the TIs which are probably kind of reached peak penetration, do you have an idea of what the revenue growth would be like?

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

I would have to get back with you on that. For me to shoot off the hip wouldn't be the right thing to do.

Gwen Clark - *Evercore ISI - Analyst*

Okay, understood. Thank you very much.

Operator

This does conclude the question-and-answer session of today's program. I'd like to hand the program back to Spencer Kirk, CEO, for any further remarks.

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

Again, this is very heartfelt. It has been a pleasure working with each of you. Thank you for making the last 7.5 years so enjoyable. I appreciate your support and interest in Extra Space and we will look forward to next quarter's call.

Operator

Thank you, ladies and gentlemen for your participation.