FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day ladies and gentlemen and welcome to the third-quarter 2011 Extra Space Storage earnings conference call. My name is Keesha, and I will be your operator for today. At this time, all participants are in a listen only mode. We will conduct a question-and-answer session towards the end of this conference.

(Operator Instructions) As a reminder, this conference is being recorded for replay purposes. Now I would like to hand the conference over to Mr. Clint Halverson, Senior Director of Investor Relations. Please proceed.

Clint Halverson - *Extra Space Storage, Inc. - Senior Director, Investor Relations*

Thank you, Keesha. Welcome to Extra Space Storage's third-quarter 2011 conference call. In addition to our press release, we have also furnished unaudited supplemental financial information on our website. The company will also be sharing updates from today's earnings call via twitter. If you would like to receive these updates, please follow Extra Space at www.twitter.com/ExtraSpaceIR. Please remember that Management's prepared remarks and answers to your questions may contain forward-looking statements as defined in the private Securities Litigation Reform Act. Actual results could differ materially from those stated or implied by our forward looking statements due to risk 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, Friday, October 28, 2011. 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, Chairman and Chief Executive Officer.

Spencer Kirk - *Extra Space Storage, Inc. - Chairman, Chief Executive Officer*

Thanks Clint. Welcome and thank you for joining us today. With me are Karl Haas, our Chief Operating Officer, and Kent Christensen, our Chief Financial Officer. For Q3, Extra Space again posted strong consistent operating results which included revenue up 4.9%, NOI up 7.3%, occupancy up 340 basis points and FFO per share up 33% from the prior year.

As we have preemptively reminded everyone on prior conference calls, we are going up against very tough comparables in the second half of 2011. In light of that, this quarter's excellent results are even better when you consider the fact that we posted best in class results in Q3 last year with revenue up 3.9% and NOI up 7.8%. This consistent year-on-year performance is a direct result of our investment in quality properties, capable people, and a sophisticated operating platform. I'd like to turn the call over to Karl to give some color on our operations and then to Kent to review the financials, our acquisition activity, and balance sheet efforts.

Karl Haas - *Extra Space Storage, Inc. - Chief Operating Officer*

Thanks Spence. I'm going to go off script here for a second and just say that if you are at the night before your earnings call and, even though, you are tired and cranky and you feel like you need to go to bed but you are watching your team and it's the 7th inning and they are down by 2 runs, don't go to bed, stay up and watch the end of the game. I did not and I regretted it. But I am here and I'm fresh and rested. With that, all in all it was a good quarter. At the end of the quarter, we were at 89.1% same-store occupancy. This is the highest level we have achieved at the end of September ever.

Moving forward, we may see slight increases in average occupancy but our top line growth is going to primarily come from optimizing rental rates and continuing to reduce discounts and promotions as a result of higher occupancy levels. We are seeing positive traction in these areas. Overall, over the last several years, we have maintained very aggressive rates in order to drive our occupancy. While we have reached our occupancy goals and now we will have more focus on rates and reduced discounts. During the quarter, we saw an average increase in street rates of over 3% compared to last year and discounts were down 9%. These top line drivers combine to produce same-store revenue growth of 4.9%.

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We again had a strong quarter of expense control and came below forecast, generating same-store net operating income of 7.3%. We saw reductions in our utility usage and expense due to our ongoing sustainability initiatives. Our electronic lease process continues to reduce our office expenses through decreased spend related to paper and toner. We also made a change this year in our office supply vendor allowing us to negotiate more competitive rates and to better control and monitor our supplies usage. We continue to shift dollars from Yellow Pages to online advertising, where we have seen a lower cost per customer acquisition. People simply stopped using the Yellow Pages.

During the quarter, we finalized contracts to move our Yellow Page relationships to a pay-per-call model. As we see the impact of the Yellow Pages decline, this allows us to remain competitive and only pay for actual results. The impact of these contracts will be realized in 2012 and 2013 as we transition all Yellow Page books to this new arrangement and shift the spend to online initiatives. With that I would like to turn it over to Kent Christensen.

Kent Christensen - *Extra Space Storage, Inc. - Chief Financial Officer*

Thanks Karl. Last night we reported FFO per share of $0.32 including $0.02 of lease-up dilution. This is $0.02 above the high-end of our guidance and is due to our property performance, our tenant insurance program, and lower income taxes. Excluding one-time events, this is the highest quarterly FFO we have reported as a public company. Optimization of the balance sheet on an ongoing basis is a key focus of our finance and treasury teams. During the quarter we closed a $50 million secured loan at a fixed rate of 3.7%. With bank competition high, we approached certain financial institutions about early repayment of loans so that we could refinance them at lower rates. We have been able to renegotiate approximately $136 million in secured loans during and subsequent to the end of the quarter and reduce the rates on these loans by an average of 2.2%. We were able to renegotiate these terms without adding any additional cost or corporate covenants.

During the quarter, we closed on the acquisition of 3 properties for approximately $16 million in Maryland and Texas. Subsequent to the end of the quarter, we closed on an additional 21 properties for approximately $123 million. 19 of the 21 properties are from a portfolio acquisition in California. In conjunction with this transaction, we assumed approximately $69 million in CMBS financing, which was the primary reason the closing was drawn out over 2 quarters. We have 3 additional properties under contract for approximately $23 million.

Year-to-date, we have purchased 48 properties. Excluding 2 portfolio acquisitions, 9 of the remaining 14 came from our joint venture or management relationships. We continue to be a disciplined buyer and are looking for accretive deals to strengthen our portfolio. Our third-party management business is a strong focus and continues to generate substantial interest due to our solid performance. We were able to acquire 3 properties from this program during the quarter and, overall, this program has a total of 178 properties under management. Based on the results in the third quarter, we are increasing our annual FFO outlook for the year to be between $1.16 and $1.17. For further assumptions and guidance, please refer to our earnings press release. With that I will turn the call back to Spencer.

Spencer Kirk - *Extra Space Storage, Inc. - Chairman, Chief Executive Officer*

Thank you Kent. Extra Space has taken advantage of its unique structure to perform well. We will continue to invest in and use our advanced platform to maximize shareholder value. Rather than continue with prepared remarks, we would like to spend the rest of the time addressing your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Todd Thomas, Keybanc Capital Markets.

Todd Thomas - *Keybanc Capital Markets - Analyst*

Hi. I am on with Jordan Sadler as well. First question is it seems like occupancy tailed off at the end of the quarter a little less than that it has historically. And I think in the past you said the fourth week of July has typically been the peak in occupancy. So I was wondering if there was anything going on that is causing the seasonality this year to change that you have sensed?

Spencer Kirk - *Extra Space Storage, Inc. - Chairman, Chief Executive Officer*

No, we just continue to manage the same way we have. And we do expect the occupancy delta year-over-year to close because as I've said, we reached our stabilized occupancy goal. So if we're -- a year from now we don't expect to see occupancy being 2 or 3 points above where we are currently. It will probably be actually relatively comparable to where we are currently.

Todd Thomas - *Keybanc Capital Markets - Analyst*

Okay. Any impact to the ending occupancy being the last day of the quarter falling on a Friday before a big move-out weekend?

Spencer Kirk - *Extra Space Storage, Inc. - Chairman, Chief Executive Officer*

No, nothing that I can think of. No.

Todd Thomas - *Keybanc Capital Markets - Analyst*

Last question, on the asking rents, with regard to the 3% increase that you saw in the quarter, is that actual pricing power that you are seeing throughout the market, meaning that you are seeing market rents rise throughout the storage industry more broadly? Or is it that you were 89% occupied and you feel you are increasing asking rent within your portfolio specifically?

Karl Haas - *Extra Space Storage, Inc. - Chief Operating Officer*

This is Karl, the latter. In the prior year, because we were so aggressively trying to build occupancy, our rates went down more. This year we are able to hold them.

But your assessment of it's not an indication that there is some big rise in the overall rates in the market. We haven't necessarily seen that.

Todd Thomas - *Keybanc Capital Markets - Analyst*

Okay, how do you plan to manage rate versus occupancy over the next couple of months in the off-peak season here?

Karl Haas - *Extra Space Storage, Inc. - Chief Operating Officer*

The same as we have. Like I said, we are pretty much where we want to be from an occupancy standpoint so we feel we have a little bit more pricing power. In the past, we may have been even less expensive than our competitors. We are probably going to be as expensive and we are also continuing to get the benefit as a result of higher occupancy, able to rent more units at either one month half-off or even no discount.

Todd Thomas - *Keybanc Capital Markets - Analyst*

Okay great. Thank you.

Operator

Christy McElroy, UBS.

Christy McElroy - *UBS - Analyst*

Hi guys. Good morning. The degree to which the larger storage operators have been able to take market share in the last 2 years has been surprising, especially since about 5 years ago the sense was that the internet was supposed to be effectively the great equalizer in this industry and now it seems the opposite is occurring. Do you think that changes over the next 5 years at all, as small as operators gradually become more search engine savvy? And in the meantime a smaller operators are increasingly leaning toward larger property management and branding platforms as you benefited from. Do you ever see this business becoming more profitable for you?

Spencer Kirk - *Extra Space Storage, Inc. - Chairman, Chief Executive Officer*

It's Spencer. I'm trying to prognosticate what the landscape will look like for the internet, social media network, and mobile search technologies is haphazard at best. But what I can tell you is we believe the larger operators generally will have the resources to throw at the internet to stay ahead of the curve. Between our inside team and some consultants we have, we have 36 people focused on the internet and social marketing and mobile search technologies. I just don't think that, that's the kind or resource even a smaller regional folks can put toward this evolving landscape in which we are all operating.

So for the foreseeable future, we've invested where we think that the results will likely come from. We have also hedged our bets in some other areas and at the end of the day, I think the companies with a national footprint and the resources will continue to outpace the smaller folks.

In terms of profitability, that remains to be seen. I think there will be some efficiencies of scale. As we get into this but we were going to have to see how it plays out.

Karl Haas - *Extra Space Storage, Inc. - Chief Operating Officer*

This is Karl and I would like to add another aspect to it as well. I think one of the things that is differentiating us in the last 2 or 3 years is, and as much as I hated to do it, we got a lot more aggressive on price than especially the local operators. If you look at, when we look at our comps and price premium and things like that, we came down in price and we were more competitive than at times that I even felt comfortable with. But we stuck with that strategy and because our resident management group convinced us it was the right strategy and -- we made the decision to go with occupancy and I think it has paid off.

We are continuing to take our revenue management to the next level. I think we mentioned we have a couple of -- 1 PhD and another -- some really sophisticated people that are working on our next version of pricing. And quite frankly I think that's also going to be -- that may be a competitive advantage that's even going to be tougher for the local operator to come up against because while they are holding the prices and we don't need to lower prices, we are going to adjust our prices to get to where we think is the best answer. And it's going to be based on massive amounts of data that our industry now has available but people are just starting to get used to.

I think that's going to be another differentiator between the local operator and the larger operator. As well as the internet.

Christy McElroy - *UBS - Analyst*

Kent, can you comment on what you are seeing in the CMBS market? Are you still getting quotes and what do they look like? And can you address the CMBS loans that you have coming due? I think there's 2 in December and January and your plans to refi those?

Kent Christensen - *Extra Space Storage, Inc. - Chief Financial Officer*

The CMBS market right now is still open. We have a number of people that would like us to do loans with them. That being said, the banks in the United States today have substantial dollars that they would like to place. And we have found better terms and conditions with going with banks as opposed to the CMBS market. So the majority of the quotes that we have been receiving in the last 6 months have been from banks as opposed to the CMBS market because we found that the terms and conditions from the banks are very favorable for what it is that we would like.

We could still get CMBS loans but we are really in the market for getting bank loans right now. That's what the focus of our team has been in the last little while. On the bank side, we are seeing around 200 basis points over whatever the applicable treasury is that we are tracking against from a bank perspective as a general rule. Was there a second part of the question?

Christy McElroy - *UBS - Analyst*

Goes to CMBS loans in December and January?

Kent Christensen - *Extra Space Storage, Inc. - Chief Financial Officer*

Those loans are small and with those we would just repay with the cash that we have and use those properties that are the collateral for those loans to be put into our unencumbered property loans and replace those loans next year.

Christy McElroy - *UBS - Analyst*

Okay. Lastly, you have several construction loans coming due next year. I know most of them are expendable. Most have pretty high floors.

Given slower lease-up on the construction projects these days, maybe it doesn't make sense to put permanent debt on the assets yet. But would you potentially consider putting debt on some of your currently unencumbered but stabilized assets at lower rates and using the cash to pay down the development loans instead of extending them?

Kent Christensen - *Extra Space Storage, Inc. - Chief Financial Officer*

You have articulated 1 course of action that we are taking. The second course of action, which is what we announced in our earnings release, is that one of our current lines of credit with one of our banks is actually a facility that allows us to put lease-up assets into the facility. And that as the assets lease-up, we are able to draw more and more and more against those assets.

So they go in at some value, at a lower value, not at a lower value but at a lower amount of money that we can draw against the asset and then as the asset leases up it gives us the ability to draw more against that. So it's one of our 5 lines of credit and the one that we just expanded that we announced in our earnings release that expanded after the end of the quarter or the first part of this month, was we added some additional lease-up assets into that line of credit so that we can do what I've just stated.

Christy McElroy - *UBS - Analyst*

Got you. Thank you.

Operator

Your next question comes from the line of Eric Wolfe with Citigroup.

Eric Wolfe - *Citigroup - Analyst*

Thanks. Just a question on following up on Christy's question, you mentioned that the strategy of keeping your prices down improved occupancy is working and clearly we can see that in the results. My question is why change it now? If the private guys can't compete with you from an advertising point of view, why not try to steal more market share and just keep your prices underneath them?

Karl Haas - *Extra Space Storage, Inc. - Chief Operating Officer*

This is Karl. Because we are not opposed to that and our system and data and revenue management people will -- we are not guaranteeing that we won't move up in occupancy. But, we are letting our system drive it and right now it is telling us it's pretty happy where we are in occupancy and that we've got the opportunity to get some more rate. And we are going to continue to get the benefit from discounts.

We think it's a strategy that is going to generate the maximum revenue. We've already run into some issues, even at the occupancy where we are, where Spencer goes out and visits a property and says, we've got 73, 10 by 10s and none them are available and we haven't raised the rents by 30%.

We are balancing it and the whole goal is -- we think we have a very good system. We keep improving the system and our system is based on not just pricing but based on what is going on today, but it's based on looking at the history going back 5 years and trying to predict where we will be in 3 months. And making sure that -- I mean one of the things about our business is you can continue to raise your rates and we have done that in the past and what happens is you have customers that come in, in August or July that you say well, we don't need them because look at where occupancy is. And then in September and October, your occupancy has dropped and you are going boy, I sure wish I had some of those customers that I could have gotten in July and August if I'd been just a little bit more price competitive.

We don't have all the answers by a long-shot but we think we are continuing to learn every day and get a little bit better at this game and we have more data and we have a lot of smart people working on it.

Eric Wolfe - *Citigroup - Analyst*

How receptive would you say your current customers are to rate increases? Is the fact you are seeing some new incremental demand for move-ins make you want to be more aggressive with those renewals or is it just sort of a consumer out there that is still pretty price-sensitive?

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Spencer Kirk - *Extra Space Storage, Inc. - Chairman, Chief Executive Officer*

The existing customer rate increased Eric, by the way this is Spencer. We have been doing this month-in and month-out. You will be interested to know in the last quarter on average we did about 45,000 rate increases per month, averaging anywhere from 7% to 9% across the board.

There might be some room in there but we think we have optimized the sweet spot. We have statistically tested what consumers will tolerate in terms of rate increase and the frequency with which they will tolerate it. And we think are right in the sweet spot so this is one of those things where it ain't broke, we are not going to try and fix it.

Eric Wolfe - *Citigroup - Analyst*

Got you. One last quick one. Complete change of topic but what would you say the CapEx spread is between your highest quality and lowest quality assets? I'm just trying to understand if in your higher density markets you would call it more like a 6 cap, in your weaker assets would be an 8 or 9 maybe? Just trying to understand the spread.

Spencer Kirk - *Extra Space Storage, Inc. - Chairman, Chief Executive Officer*

At Extra Space, we kind of have used a 100 basis point difference between high and low but in that number that I just said, what I can tell you is we can't statistically prove that. When you look around the United States and look at acquisitions that take place, it's hard to find comparable really good properties and comparable really bad properties that you can then ascribe a cap rate to it and say here is the difference. As a general rule, we kind of use 100 basis points, but that's not statistically proven.

Eric Wolfe - *Citigroup - Analyst*

That's helpful. Thanks.

Operator

Your next question comes from the line of Paula Poskon, Robert W. Baird.

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

Thanks and good afternoon and congratulations on a good quarter. Would you say the improved incremental demand you are seeing is more on the residential side, the business side, or both?

Spencer Kirk - *Extra Space Storage, Inc. - Chairman, Chief Executive Officer*

Yes.

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

(laughter) So I take that as both?

Kent Christensen - *Extra Space Storage, Inc. - Chief Financial Officer*

Yes.

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

Anyone more particularly more pronounced than the other?

Karl Haas - *Extra Space Storage, Inc. - Chief Operating Officer*

This is Karl. Not to give you a hard time. I don't see a difference. I think business is doing well and residential is doing well and we are pleased to see it.

We are pleased to not be living off of just reduced vacates and seeing some traction on rentals. But I can't say, I don't have any data that tells me that our mix of new customers coming in has changed at all.

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

Okay thanks. You have often said in your investor presentations that you thought you would recapture the lease-up dilution fully by 2014. Just given the occupancy trends, do you see that accelerating?

Kent Christensen - *Extra Space Storage, Inc. - Chief Financial Officer*

This last year we had a good year and in some of the properties accelerated but there still were some other properties that are laggards. So the number of 2014 reflects but we still have one more property to open which is hopefully opening by the end of the year. And it will take it through 2014 to get that property leased up. So it's a very extended date of when we think this is all going to happen is based on the properties that have opened this year.

But your point is a good one Paula which is that our lease-up assets have had a very good year. And we have been very pleased with the overall how the properties are leasing up, how we have some superstars and we have some laggards but overall they are slightly ahead of where we had hoped they would be.

Karl Haas - *Extra Space Storage, Inc. - Chief Operating Officer*

Another point to this is on some of the worst of the rent out properties, we have seen where our web initiatives have been able to drive some occupancy. It has taken a lot of focus and a lot of effort. But we have, especially in the real laggards, this year, we probably have seen that more than I've ever seen in the past, where we have been able to target it and gain on some stuff that we really were stumped on.

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

Thank you. Finally, the big picture question for you Spencer to follow up on some of the earlier Q&A, could this be the beginning of the end of seasonality in the form that we have known it?

Spencer Kirk - *Extra Space Storage, Inc. - Chairman, Chief Executive Officer*

It's a great question. We've had a lot of internal discussion about this. My personal opinion is there is some seasonality to our business. I think there are things that we can do with pricing to ameliorate seasonality. But I don't think personally that to assume there isn't seasonality based on weather patterns and people's lifestyle habits and a few other things that it's disappeared is a correct assumption. I would not go with that today.

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

Thanks very much that's all I have.

Operator

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

Michael Salinsky - *RBC Capital Markets - Analyst*

Good afternoon guys. You talked a little bit about occupancy and I want to get a clarification on a question that was asked previously by Todd. Heading into the October and November and December, as well as the slower season, is the focus on retaining occupancy or are you guys going to be more aggressive in pushing rate during the seasonally slow period?

Spencer Kirk - *Extra Space Storage, Inc. - Chairman, Chief Executive Officer*

Mike, our philosophy is and strategy is to achieve a certain occupancy percentage to average for the year and it will go up and down based on the season. We expect to see occupancy drop through now until about some date in February -- third week of February. So we will lose some occupancy because -- you'd be really swimming upstream trying to change that and at this point, we don't feel like we need to do that. We are kind of where we want to be.

What we will be doing is, we won't be dropping rates as much as we did the prior year when we were in a mode of still trying to grapple more or grab more of the occupancy and a bigger share of the pie. You will see -- you should see, that we will continue to get a better rate because we don't have to be as aggressive in rates because we are where we want to be in occupancy. I hope that answers your question.

Michael Salinsky - *RBC Capital Markets - Analyst*

I think it does. It sounds like more of an occupancy strategy and you'll move rate accordingly.

Spencer Kirk - *Extra Space Storage, Inc. - Chairman, Chief Executive Officer*

Yes.

Michael Salinsky - *RBC Capital Markets - Analyst*

That's fair enough. I apologize if I missed this but did you give October trends for the portfolio?

Kent Christensen - *Extra Space Storage, Inc. - Chief Financial Officer*

You didn't miss this. What I'd say Michael is October is trending exactly as we would have expected. The ball is going right down the middle of the fairway on rentals and vacates and we don't see any surprises or anything that's aberrational.

Michael Salinsky - *RBC Capital Markets - Analyst*

Karl, with 3% street rate growth you mentioned. How much of that is actual rent growth versus how much is lower concessions?

Karl Haas - *Extra Space Storage, Inc. - Chief Operating Officer*

That's actually increase in year-over-year rate, street rate. But, don't lose sight of the fact that, that's year-over-year street rate and that is tied to last year we decreased rates more, this year we are holding rates. So it's not like our rates are necessarily going up that much. It's more that they are not going down as much as they did in the prior year.

Michael Salinsky - *RBC Capital Markets - Analyst*

Coming out of the busy summer season, what is the delta right now between in-place rents versus street rates?

Karl Haas - *Extra Space Storage, Inc. - Chief Operating Officer*

Actually it's fairly small.

Michael Salinsky - *RBC Capital Markets - Analyst*

Small okay. Finally, can you touch a little bit in terms of the acquisition market and what you have seen in pricing? Doesn't look like there was a significant amount of pickup in the pipeline. Is that more a function of assets on the market or pricing at this point?

Spencer Kirk - *Extra Space Storage, Inc. - Chairman, Chief Executive Officer*

It's more from our perspective there have been less properties come for sale in the last half of this calendar year than we saw in the first half of the year. There is clearly not as much in the pipeline from a for-sale perspective first and second, the assets that have come there have been substantial number of people bidding on those assets so there's quite a bit of competition out there. It clearly seems to be quite a bit of capital chasing self storage properties which is really pushing down the cap rates below where it is. We were wanting to bid so there have been some deals we have been bidding on that we have been outbid on but what I'm talking about our deals we been bidding on I'm not talking about tens and 20s and 30s it has been a small number that we have had a chance to look at and make that's all.

Michael Salinsky - *RBC Capital Markets - Analyst*

That's all from you guys thanks.

Operator

Your next question comes from the line of [Jay Syxtene.]

Jay Syxtene - - *Analyst*

Hey guys. A question for you on rent growth. I would like to get your outlook for street rent growth for over the next 6 or 12 months generally but I'm curious to sort of have you couch it in terms of -- I'm curious if you think the current environment of lower new rentals but also lower move-outs is better for perspective rent growth? Or is the old environment better in terms of where you have more new demand in terms of new rentals but also higher move-outs? I'm just curious or does it not matter?

Karl Haas - *Extra Space Storage, Inc. - Chief Operating Officer*

I hope it doesn't matter. (laughter) It's a very complicated question.

As I said, earlier, we are not -- there is not tremendous traction out there for everybody being able to raise rates. But we have gotten to a point where we have gotten our occupancy where we want it so we don't have to be as aggressive. So we can get higher rates coming in because we are not as worried about -- we don't need a disproportionate share of the pie to stay where we are. The peripheral benefit of lower discounts because once again, we are getting the rentals without having to give away as much.

Where 2012 goes -- It's a big question. We feel pretty good about it and part of the reason we feel as good about it is that there is no new competition or very little new competition coming along. And yet, we still have 50% of the customers renting saying they have never rented self storage before. So we think there is some growth out there and demand and supply has stabilized.

In the normal cycle, at this point in the cycle, you would normally see a lot of new stuff coming out of the ground and a lot of new competition coming. We have not seen that at all and that makes us feel pretty good about the next year or 2.

Jay Syxtene - - *Analyst*

On expenses, I'm just wondering -- I know you have not given guidance for 2012 yet but there's probably no way we can continue to hover around this flat to maybe even 1% up kind of territory because it's been like that for so long seemingly. We have to be talking about at least maybe 2% expense growth maybe next year, right?

Karl Haas - *Extra Space Storage, Inc. - Chief Operating Officer*

This is Karl. That's probably a very realistic assessment.

We continue to look for other initiatives. I think we still have some opportunity in the utilities area because we continue to do a lot of sustainability initiatives. So we have some opportunity in utilities.

But payroll expense, we expect to see 3% to 3.5% growth. We need to be realistic in that area.

In repairs and maintenance, we are going to keep our product at a -- we are going to do what's needed to keep our product in good shape and it's not going to come by spending less every year. So yes, we expect expenses to grow. But we are going to keep looking for opportunities to reduce expenses wherever we can.

Jay Syxtene - - *Analyst*

My last question just has 2 parts and involves acquisitions. One, do you have opportunities to mine and then manage portfolio even though the overall environment has slowed down a lot? And two, Kent, did I hear you right that there is only, call it 100 basis point cap rate difference between say New York and say Cincinnati?

Kent Christensen - *Extra Space Storage, Inc. - Chief Financial Officer*

Once again, my 2 questions, we clearly had the opportunity and our partners and those who we're affiliated with, we constantly are having discussions with them about the opportunity of buying their assets. We are seeing in the market a reflection of what the people that we have as part of our system, as what we are seeing in overall acquisition market which is very -- a lot of people are waiting to decide whether or not they are going to sell their assets because they think there is opportunities in the future that would allow for them to get more money if they were to wait. And so a lot of people it seems are waiting first.

And second, they say that if they were to sell and they were to get their money, they are not sure what they would do with it. Right now they believe leaving their money invested in a self storage property is a very good investment. So those are kind of a couple of the reasons we are hearing why people have decided not to sell.

And second is your question about 100 basis point difference between New York and Cincinnati. It goes back once again to I don't think there is a lot of data in the marketplace right now that can support what the actual cap rates are and the differences between Cincinnati and New York. There is not a lot to get bought or sold in these markets that we can point to that shows that. What I said was what Extra Space uses as a general rule but we don't have data that supports one way or the other.

Jay Syxtene - - *Analyst*

Then you guys buy into some of those markets this year?

Kent Christensen - *Extra Space Storage, Inc. - Chief Financial Officer*

We have. And the cap rate at which we've purchased the assets is very comparable in those 2 markets.

Jay Syxtene - - *Analyst*

Okay. Thank you.

Operator

Your next question comes from the line of Ki Bin Kim with Macquarie.

Ki Bin Kim - *Macquarie Research Equities - Analyst*

Thank you. Follow-up on that previous line of questioning. What is the average cap rate you were buying assets at this year?

Spencer Kirk - *Extra Space Storage, Inc. - Chairman, Chief Executive Officer*

Ki, this is Spencer. Year-to-date, we have bought 48 assets for approximately $223 million. Blended all in cap rate across those 48 assets is 7.25%.

Ki Bin Kim - *Macquarie Research Equities - Analyst*

Given that it seems like that is very available and cheap and a lot interest in the product, have you thought about adjusting your hurdle rates and is it appropriate to get more aggressive or not?

Spencer Kirk - *Extra Space Storage, Inc. - Chairman, Chief Executive Officer*

In terms of doing more acquisitions and being a lot more aggressive, I would offer this. We remain a very disciplined and selective buyer. As we have done historically, we want to continue to identify and pursue creative assets.

I think it's interesting to do a look back historically where the market tended to get whipped into a frenzy and people started pursuing assets at lower and lower cap rates. And unfortunately the track record is not great when you look back over history that, that's a wise thing to do for us. We just want to remain disciplined and selective and where we can do an accretive deal, we will pursue it.

Ki Bin Kim - *Macquarie Research Equities - Analyst*

It sounds like you are talking about a large comp that's in New York. Have you done any kind of study at looking at, the total IRRs of deals that you probably didn't pursue and maybe those financially actually work out better or not? Have you looked at those kind of studies? It's probably hard to but --.

Kent Christensen - *Extra Space Storage, Inc. - Chief Financial Officer*

This is Kent, based on what you just said for us to be able to do an IRR calculation, you have to sell the asset. We have not sold many of those we have bought. It's hard to do an IRR calculation.

The assets we have acquired for the most part we have done a look back at them and we've looked at 6 years worth of acquisitions. Our actual experience on those properties has come within 20 basis points of what we had expected from a performance perspective on those assets. We feel like we have done a very good job on doing our underwriting and expecting what we thought we would get from those assets. And we believe the return on those properties to our shareholders has been very good.

Ki Bin Kim - *Macquarie Research Equities - Analyst*

Okay. One more question. It seems because you're [direction] is very good in getting cheap costs, your fixed charge coverage ratio is completely fine but your debt to EBITDA is higher than your peers. How do you think about that and what is on both metrics, what is your comfort level and where do you want to be?

Kent Christensen - *Extra Space Storage, Inc. - Chief Financial Officer*

This is Kent again. We believe we are operating from a debt perspective at a very appropriate level right now. While our debt to EBITDA ratio is higher than our peers, for the REIT market we are right in line with the average of REITs. So we think we are right in the sweet spot of where a self storage company ought to be operating from a debt and equity perspective.

Ki Bin Kim - *Macquarie Research Equities - Analyst*

So, this closing of $150 million of assets that's going to occur this quarter, how does that change that equation?

Kent Christensen - *Extra Space Storage, Inc. - Chief Financial Officer*

It doesn't change it at all. As you know, earlier this year we did an equity raise that helped us get the equity that we needed to help with the acquisitions that we have done this year. So we believe that we have appropriately matched equity and debt this calendar year at a level that we feel is appropriate.

Ki Bin Kim - *Macquarie Research Equities - Analyst*

Alright, thank you guys.

Operator

Your next question comes from the line of Swaroop Yalla with Morgan Stanley

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Swaroop Yalla - *Morgan Stanley - Analyst*

Quickly wanted to touch upon the CMBS pricing again. There has been a lot of volatility in the CMBS market. And I was wondering not for one-off deals but for portfolio deals, how are the cap rates trended? I know that you said that the cap rates were competitive for one-off deals but for portfolios which traditionally might have seen some CMBS financing, how are cap rates trending in those?

Kent Christensen - *Extra Space Storage, Inc. - Chief Financial Officer*

This is Kent. Once again, from the CMBS perspective, we have not looked at doing another CMBS loan this year. We did one earlier this year but we have had a number of organizations call saying that they would do CMBS loans with us. So we still believe the CMBS market is open for the self storage product type. The size of kinds of loans that we look at are between $50 million and $100 million, which is generally what we would take to the market.

As far as appraisals are going, and cap rates and appraisals, the appraisal market is still a little choppy. We have had some appraisals come in and some properties that have been below a 6 cap and some properties that are in the high 7s and low 8s. Right now you are getting a full range of appraisals from the low 6s to high 7s, low 8s.

Ultimately on the loans that we are doing, they get an appraisal done and then we have to negotiate with the bank as to what the bank feels is the appropriate cap rate to use after they have received the appraisal. Since the appraisals are backward looking, the banks are trying to assess whether cap rates are going up or down and we have a negotiation with them on that.

Swaroop Yalla - *Morgan Stanley - Analyst*

Got it. Turning to average length of stay in your portfolio. We are seeing evidence of more and more households remaining hunkered down, during the slow growth period. What are seeing in your portfolio in the last couple of years? Can you share some trends there?

Spencer Kirk - *Extra Space Storage, Inc. - Chairman, Chief Executive Officer*

Length of stay has increased very modestly. There is not a pronounced difference that we have been able to identify. A market might ebb and flow a little bit but overall length of stay, it's been pretty consistent.

Swaroop Yalla - *Morgan Stanley - Analyst*

Got it. Lastly, what is the 3.7% interest you were able to get on the loan, is that 5-year money or is it 7-year?

Kent Christensen - *Extra Space Storage, Inc. - Chief Financial Officer*

That was 7-year money.

Operator

Your next question comes from the line of Tayo Okusanya with Jefferies.

Tayo Okusanya - *Jefferies & Co. - Analyst*

Good afternoon. Congratulations on a stellar quarter. All the cylinders were firing pretty nicely.

Couple of questions. Street rent and that 3% increase, could you give us a sense right now of where street rents are relative to the local players in most of your markets? What that delta looks like right now. And how far do you think you can push that delta before you could see reversals in regards to potential new customers becoming more price sensitive and going for the lower priced product?

Spencer Kirk - *Extra Space Storage, Inc. - Chairman, Chief Executive Officer*

It really varies on market and occupancy in that market, general conditions in some markets were probably lower. Maybe significantly lower than the competition because our occupancy isn't necessarily in that particular market where we wanted to be.

In other markets, and in the healthier markets, we are probably more comparable to our competition. So, it really varies. And I think on an overall basis, we are probably at or a little bit below a lot of our competition. That's why we have got some opportunity.

Tayo Okusanya - *Jefferies & Co. - Analyst*

How are you defining your competition though? Is it your public peers or is it also the local mom-and-pop guys who my understanding is that their price points are much lower than yours?

Spencer Kirk - *Extra Space Storage, Inc. - Chairman, Chief Executive Officer*

Both and I would not say that the local operators' price points are really that much lower than ours. They have been less price sensitive and really have lowered their prices less during the great recession than we have. The local operators, from what our survey show, the rates really don't change that much. Whereas, some of our competition, especially some of our bigger competition, their rates are moving all over the place, as are our rates.

Tayo Okusanya - *Jefferies & Co. - Analyst*

Got it. That's helpful. Also, the increase in your total capacity on your lines, which of the 5 lines have the $25 million increase that gets you to $340 million from $315 million?

Spencer Kirk - *Extra Space Storage, Inc. - Chairman, Chief Executive Officer*

Bank of America.

Tayo Okusanya - *Jefferies & Co. - Analyst*

And the rate on that line again is?

Spencer Kirk - *Extra Space Storage, Inc. - Chairman, Chief Executive Officer*

I don't remember. It's LIBOR plus something. I'd have to look at the schedule. It's in our supplemental.

Tayo Okusanya - *Jefferies & Co. - Analyst*

Okay great. Last question, the large increase in tenant reinsurance, talk a little bit about what grew of that this quarter?

Spencer Kirk - *Extra Space Storage, Inc. - Chairman, Chief Executive Officer*

We have more customers take our tenant insurance first. Second, we have brought on as part of our third-party management business, we were able to bring on some new third-party managed business that included in that business were properties that had a higher penetration rate than what most new properties that come into our system. And we were able to bring those properties into our system that helped us increase our tenant insurance for the quarter.

Tayo Okusanya - *Jefferies & Co. - Analyst*

One more question on the operating expense line, every quarter you guys seem to always figure out a new way to cut operating expenses. As we look forward, could you talk a little bit about what you see more opportunities?

Karl Haas - *Extra Space Storage, Inc. - Chief Operating Officer*

This is Karl. As I said, I think we had some opportunities on utilities because we are making a substantial investment in upgrading our lighting and more efficient lighting, motion activated lighting, things like that. And I think we might have some opportunity to continue with even HVAC costs, utility costs.

We are continuing also to move, to be as paperless as we can. We talk about our DocuSign that we use for our leases and we have almost no paper related to leases. We have also moved in that direction with even new-hire paperwork where we are using a cloud application for new-hire paperwork which reduces the cost of paper, reduces mailing of paper, and things like that from locations to our home office and things.

Those are some of the things. But clearly we are running in to, we have milked a lot of this stuff a whole lot. And so we are not going to let the quality of our operations suffer in order to squeeze expenses a little bit more. We are going to do it smart and what is prudent but ultimately we are going to do what we need to do to keep the quality of properties up and keep our employees happy and keep good vendors working for us.

Tayo Okusanya - *Jefferies & Co. - Analyst*

Great. Okay. Thanks for that and keep up the good work.

Operator

Your next question comes from the line of Todd Stender with Wells Fargo.

Todd Stender - *Wells Fargo Securities - Analyst*

Hi guys. Thanks. With the portfolio you acquired in California, the 19 properties, what was the cap rate on that?

Spencer Kirk - *Extra Space Storage, Inc. - Chairman, Chief Executive Officer*

It was right around the average of Spencer said,7.25%.

Todd Stender - *Wells Fargo Securities - Analyst*

Any portion of that still in lease-up?

Spencer Kirk - *Extra Space Storage, Inc. - Chairman, Chief Executive Officer*

No, this was a fully stabilized portfolio.

Todd Stender - *Wells Fargo Securities - Analyst*

How about the occupancy or current rent per square foot?

Spencer Kirk - *Extra Space Storage, Inc. - Chairman, Chief Executive Officer*

The occupancies were in the mid- 80s and I don't have the per square foot in front of me.

Karl Haas - *Extra Space Storage, Inc. - Chief Operating Officer*

Probably in the 12 range.

Todd Stender - *Wells Fargo Securities - Analyst*

CMBS debt on that, I think you mentioned it was $69 million? Can you tell us a little bit about that, the maturity and the coupon?

Spencer Kirk - *Extra Space Storage, Inc. - Chairman, Chief Executive Officer*

I don't have that in front of me either. In our subsequent press release, or the supplementals, we will have all that information. The reason I don't have it is because it was 4 loans and so it's a combination of 4 different loans with different maturity levels. That's why it's not just one loan with one amount.

Todd Stender - *Wells Fargo Securities - Analyst*

How was the deal sourced? Was it widely marketed or a direct transaction?

Spencer Kirk - *Extra Space Storage, Inc. - Chairman, Chief Executive Officer*

It was widely marketed. There were quite a number of people that bid on this one.

Todd Stender - *Wells Fargo Securities - Analyst*

Okay. Thanks. If you could give us an update. You have got a very good program. It is very intuitive, the 599 program, if you could tell us how that's doing right now?

Spencer Kirk - *Extra Space Storage, Inc. - Chairman, Chief Executive Officer*

The rental increases, I addressed this earlier. We had statistically tested the amount with which we can hit an existing customer and the frequency with which we can hit existing customers and that's where we raised the rates after they've moved in at 5 months. And then it's 9 months thereafter, so 5999 et cetera. As I said earlier, last quarter each month on average we put out 45,000 rate increase letters to our customers averaging 7% to 9%.

Karl Haas - *Extra Space Storage, Inc. - Chief Operating Officer*

This is Karl. One of the things I didn't realize is that Herman Cain may have got his 999 program copying our 599.

Todd Stender - *Wells Fargo Securities - Analyst*

Very possible. Spencer, you gave the year-to-date acquisitions how about year-to-date dispositions and cap rates around those?

Spencer Kirk - *Extra Space Storage, Inc. - Chairman, Chief Executive Officer*

We really haven't disposed of anything. Some of our partners have but wholly-owned assets, we really haven't done anything. We've had some partners leave the system. Just for a point of reference, even though this isn't what you're asking, in our third-party managed program, we brought on 8 properties, we acquired 3 and we jettisoned 7 where we didn't think it was a good fit for us.

Operator

Your next question comes from the line of Smedes Rose with KBW.

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

Thanks. I just want to ask you as you look at the landscape and acquisitions, are the prices being paid at greater than construction costs? And is there a point where the improving of overall demand trends do you think there is going to spur, more supply coming back maybe more quickly than you would have expected? And if supply does come back is there any markets or historically better the first to start leading the way that you would expect to see new building?

Spencer Kirk - *Extra Space Storage, Inc. - Chairman, Chief Executive Officer*

This is Spencer, I think on this question of new developments coming on, the first question is to what does that mean for the existing operators? I think we are in a really good place right now where if you've got an existing asset with a limited supply in the marketplace that we are going to do very well as the economy rebounds and the population continues to grow.

My personal opinion on this is you will see some pockets of limited development but for the next 2 to 3 years I don't foresee any pronounced developmental efforts on a widespread basis. I think one of the statistics is from 2004 to 2007, 9,000 self storage facilities were added across the country. We are not going to be anywhere close to that. We are going to be a very, very small fraction of that.

In terms of markets where it starts, I think you're likely to see it in the dense markets where people are getting a higher rent per square foot. So it's anybody's guess but I think Boston is a likely place. Baltimore, Washington DC, San Francisco, Atlanta, Dallas.

There are places that it will happen but we are not prognosticating in our outlook any massive influx of supply coming in. As Kent Christensen has said many times, with $1 billion balance sheet, it is incredibly difficult to get a loan against a construction project. We can get loans all day long against stabilized cash-flowing assets that with the $1 billion balance sheet we have difficulty and what does that mean for someone else.

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

How about just acquisition pricing versus construction costs? Even if construction isn't a big issue?

Spencer Kirk - *Extra Space Storage, Inc. - Chairman, Chief Executive Officer*

I think it's going to be all over the map.

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

Okay thank you.

Operator

Your next question comes from the line of RJ Milligan with Raymond James.

RJ Milligan - *Raymond James - Analyst*

Good afternoon or good morning to you guys. Spencer, I wanted to follow-up on a quick question on your comment about rental rate increases to existing customers. I know you guys have some pretty extensive data that you have collected over years in terms of how often and how much you want to raise the rents. But given, we are in a different economic environment, we are in a different -- we are seeing different secular trends in terms of public REITs getting more market share, are you guys doing anything in terms of sample sets or experimenting with current customers in terms of -- are you guys leaving anything on the table by not increasing rents more often or at a greater percentage?

Spencer Kirk - *Extra Space Storage, Inc. - Chairman, Chief Executive Officer*

You know what RJ, we have tested this multiple ways in an expanding economy, in a contracting economy and a really good case in point would be during the credit crisis people said you can't raise rents on existing customers and we said well you might be right that we are going to test it. We tested it and you know what we learned?

You can and we continued the program. The only thing that we did was we very slightly moderated the rate at which we increased those customers so for us. We might be leaving something on the table but this is something that is tested frequently and I'm talking several times a year across tens of thousands of customers. We are very comfortable, as I said previously, that we are hitting the bullseye on our existing customer rate increase programs.

RJ Milligan - *Raymond James - Analyst*

Okay great. Thanks.

Operator

Your next question is a follow-up from the line of Eric Wolfe with Citigroup.

Michael Bilerman - *Citigroup - Analyst*

It's Michael Bilerman. I want to know if you are going to tweak my question?

Spencer Kirk - *Extra Space Storage, Inc. - Chairman, Chief Executive Officer*

I may.

Michael Bilerman - *Citigroup - Analyst*

Only if it's good right. Kent, can we come back to the capital plan for a second and I certainly appreciate your comments regarding where you stand today burst debt versus equity in relations to the REIT average I guess as we head into the fourth quarter with the acquisitions closing, at least on your lines of credit, you won't have as much capacity to move forward. So I'm just curious as you think about the next 12 months in terms of sources and uses of capital, what are you going to do to raise capacity to continue your growth plan?

Kent Christensen - *Extra Space Storage, Inc. - Chief Financial Officer*

We have about 60 assets that are unencumbered and our plan is to take those assets and put long-term fixed-rate loans on them and replenish our lines of credit. That will then allow us to have the firepower that we need to be able to continue doing acquisitions and as the acquisition market as we find opportunities in the acquisitions market. And those opportunities rise to the level of a substantial amount, then we will match the appropriate amount of equity with that when we see those opportunities that are there.

Michael Bilerman - *Citigroup - Analyst*

But that's just for debt. It doesn't really affect -- you are effectively your leverage will increase heading into the fourth quarter by closing the acquisitions. Why having some unencumbered base, having 60 assets is a good rainy day fund if something were to occur in the economy, why use that capacity rather than trying to replenish and with either asset sales or common equity?

Kent Christensen - *Extra Space Storage, Inc. - Chief Financial Officer*

Again, a good question, we believe that the equity that we raised earlier this year was the equity that we needed to do all of the acquisitions for this calendar year. So, our leverage level right now today was a little low from where we would like it to be because of the equity that we raised earlier this year. You are correct in that the properties that we are bringing on in the fourth quarter are going to bring up our leverage level but it was what we anticipated.

Michael Bilerman - *Citigroup - Analyst*

What sort of metrics do you guide yourself on in terms of is it debt to gross asset value, debt to EBITDA, fixed charge and sort of what do you see as the appropriate level for the metric that you measure leverage against?

Kent Christensen - *Extra Space Storage, Inc. - Chief Financial Officer*

We use debt to net asset value with the net asset value being based on a market value cap rate and then a debt to EBITDA coverage ratio. And also a fixed charge coverage ratio and we believe that all 3 of those are in line with where we would like to be right now.

Michael Bilerman - *Citigroup - Analyst*

So going forward everything -- any incremental dollar of new investment will have to be matched with some level of equity?

Kent Christensen - *Extra Space Storage, Inc. - Chief Financial Officer*

In the long run. We clearly, because of our product type, we are going to buy a $7 million property, we can't come to the equity markets and get $3.5 million.

Michael Bilerman - *Citigroup - Analyst*

If you had an ATM you could.

Kent Christensen - *Extra Space Storage, Inc. - Chief Financial Officer*

If we had an ATM we could but and that is an option for us as well as many other equity types of opportunities for us. Based on the kind of opportunities that we see in the marketplace, we will match the debt and equity that is appropriate based on what we are seeing in the marketplace from an acquisitions perspective.

Michael Bilerman - *Citigroup - Analyst*

My comment before about keeping some assets unencumbered for a rainy day or if credit markets were to go through what we experienced previously. Is that not a desire to keep somewhat of an unencumbered base?

Kent Christensen - *Extra Space Storage, Inc. - Chief Financial Officer*

Yes it is but we also believe that having 5 lines of credit are effectively that same thing and that instead of putting a mortgage on properties and then drawing down that cash. We have been able to secure lines of credit, 5 of them, that we absolutely know that if we needed the money we could go get the money because a bank has already committed to give us that money. The drawing on our lines of credit temporarily -- allows us to get the acquisitions completed and then we have to replenish those lines by having these unencumbered assets. So if you take a combination of the unencumbered assets and the lines of credit we feel like we have quite a bit of firepower.

Michael Bilerman - *Citigroup - Analyst*

Last question, just in terms of the loans that you negotiated down and you talked about 2.2%, are you talking 220 basis points or are you talking 2.2%?

Kent Christensen - *Extra Space Storage, Inc. - Chief Financial Officer*

220 basis points. I have to make sure that everyone is clear on that. Today, it is 220 basis points but many of those loans have floors and we were able to get the floors taken out. So as LIBOR increases, the savings to the Company won't be 220 basis points because the floor was a floor and as we come up against that floor, it means we would've had less savings. But today that is the amount of savings.

Michael Bilerman - *Citigroup - Analyst*

I apologize if I missed this, but what was the gross amount of loans that you reduced on and what are the maturity dates of those loans?

Kent Christensen - *Extra Space Storage, Inc. - Chief Financial Officer*

It's about $137 million it was between 12 months and 36 months. There were many of them but anywhere between 1 year and 3 years.

Michael Bilerman - *Citigroup - Analyst*

And you didn't pay anything, you didn't have to pay down any loans, you didn't have to do anything, you just were able to renegotiate and you could have paid off the loans and gone to rebid them out effectively?

Kent Christensen - *Extra Space Storage, Inc. - Chief Financial Officer*

I had to pay some attorneys to do the documents but that was about the extent of what we did.

Michael Bilerman - *Citigroup - Analyst*

Thank you.

Operator

That's all the time that we have today for questions. I would now like to turn the call back over to Spencer Kirk for closing remarks.

Spencer Kirk - *Extra Space Storage, Inc. - Chairman, Chief Executive Officer*

We appreciate your interest in Extra Space today. We look forward to the next quarterly conference call. Thank you.

Operator

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