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EXR - Q4 2012 Extra Space Storage Inc. Earnings Conference Call

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PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the Fourth Quarter 2012 Extra Space Storage Incorporated Earnings Conference Call. My name is Shequana and I will be your coordinator for today.

At this time, all participants are in a listen-only mode. We will facilitate a question-and-answer session towards the end of this conference.

(Operator Instructions)

I would now like to turn the presentation over to your host for today's call, Mr. Clint Halverson, Vice President, Investor Relations. Please proceed, sir.

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

Thank you, Shequana. Welcome to Extra Space Storage's Fourth Quarter 2012 Conference Call. In addition to our press release, we've 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, Friday, February 22, 2013. The Company assumes no obligation to revise or update any forward-looking statements because of changing market conditions or other circumstances after the date of this conference call.

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

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

Good afternoon, everyone.

We don't typically go last amongst our peers, so this has been a nice change to have a chance to see everyone's results and hear what they have had to say on their calls. For Extra Space, 2012 was a superb year. We produced strong operational results due to multiple factors. They include record high occupancy levels, excellent expense control, potent Internet marketing, sophisticated revenue management, a high volume of accretive acquisitions, and virtually no new supply.

With the exception of the Storage USA transaction in 2005, this was our single largest acquisition year. We acquired 91 assets in 24 states and grew our wholly-owned portfolio by 26%. Our unique structure continues to provide us with numerous options for growth. The result -- 71% of our acquisitions came from joint venture and third-party managed relationships.

The credit for the outstanding results in 2012 goes to our talented, creative, and hard-working team. Time and time again, I have spoken of our unique levers that have driven our double-digit FFO growth. In the fourth quarter of 2012, FFO grew by 23%. This is particularly impressive when you consider that the fourth quarter of 2011 was up 35% over 2010, and for the full year, FFO grew 33% on top of 32% growth in 2011 over 2010.

I'll now turn the time to Karl to discuss operations.

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

Thanks, Spence.

During the fourth quarter, we, once again, experienced excellent same-store revenue growth of 6.5%, and that's on top of 5.8% revenue growth we realized in the fourth quarter last year. For the year, revenue was up 6.6% compared to 4.9% in 2011. While the pools were different in these years, it shows an ongoing positive operational trend. Rental trends were strong in the fourth quarter, and our square foot occupancy continued at record high levels. Our same-store pool ended the year at 88.6%, up 1.7% over last year. Demand for the product is stable and our interactive marketing and Internet strategies continue to drive higher rental volumes.

Strong occupancy, coupled with the lack of new supply, allowed us to increase street rates 3.5% to 4% on average for the quarter. During the fourth quarter we also had excellent expense growth that was partially offset by higher property taxes and Superstorm Sandy. Same-store discounts ended the year at 4.3% of rental income, compared to 5.3% at the start of the year. Overall discounts were down by 12%. This is due to higher occupancy and a focused effort to offer the right price and promotion.

All of this combined to produce a fourth quarter same-store net operating income of 8.5%, compared to 9.3% growth last year. Net operating income for the full year was 10.2% versus 7.6% in 2011. All in all, it was one of the best years I have seen in my 25 years in this business.

Now, I'd like to turn it over to Scott.

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

Thanks, Karl.

Yesterday, we reported fourth-quarter FFO of $0.43 per share, including a $0.02 charge related to our acquisitions and $0.01 from Superstorm Sandy. For the year, we reported FFO of $1.59 per share, exceeding the top end of our guidance by $0.01. This can be attributed primarily to better than expected same-store property results and the performance and timing of our 2012 acquisitions.

As Spencer mentioned, 2012 was a great year for acquisitions. We purchased 91 properties for just over $700 million. Of these 91 properties, 57 were from the two large joint venture transactions. Since the end of the year, we have purchased our partners' interests in two more properties, located in Baltimore and Chicago, for approximately $12.9 million. As of today, we have two assets under contract for $20.6 million, located in Maryland and Texas; one of these two assets is a brand new asset that we are buying in [C of O]. As of the end of the year, we had 448 wholly-owned assets, 281 joint venture properties, and 181 third-party properties under management. We continue to grow the REIT in a disciplined manner with a long-term view.

As of December 31, the Company had four lines of credit with a total capacity of $240 million, of which $85 million was drawn. Interest rates continue to be at all-time lows. Without increasing our variable rate exposure, we have lowered our average interest rate from 4.7% at the end of 2011 to 4.2% at the end of 2012.

Yesterday, we released our full year 2013 FFO guidance of between $1.87 and $1.95 per share. We expect FFO for the first quarter to be between $0.42 and $0.44. Key annual assumptions related to these estimates can be found in our press release from yesterday.

I'll now turn the time back to Spencer.

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

Thanks, Scott.

Last year at this time, I stated that our theme for 2012 was to focus on fundamentals. Since we don't have a mascot, we're going to stick with a theme; for 2013 it is -- do it better. Everything we do is in pursuit of maximizing revenue opportunities and appropriately minimizing expenses. Our focus on the fundamentals has served our shareholders well in 2012 and will continue to serve them well as we move into 2013. Record high occupancy, constrained supply, and our operational sophistication set us up to again produce double-digit FFO growth in 2013.

With that, I'd like to turn the time over to Clint to start our Q&A session.

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

Thank you, Spencer. In order to ensure we have adequate time to address everyone's questions, I'd like to ask that everyone keep your initial questions brief, and if possible, limit it to two. If time allows, we will address follow-on questions once everyone's had an opportunity to ask their initial questions. With that, we'll turn it over to Shequana to start our Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Todd Thomas, KeyBanc.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

First question -- in terms of investments, you probably have cast the largest investment net or the widest, in terms of what you're interested in, markets and properties; and some of your peers seem to be a little more selective. Can you just talk about your investment rationale a little bit? Then, given that, are you seeing reduced competition on acquisitions? Is the market opening up a little bit for EXR?

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

Todd, it's Spencer.

Let's take the broader question. We look at open market acquisitions and then what I'll call off-market acquisitions. In the open market acquisitions, there continues to be a lot of money chasing what seems to be a relatively small number of properties, given the size of the total industry. We just want to participate, but we also want to remain disciplined and make sure that the acquisitions we do are accretive.

On the off-market acquisitions, those out of the partnerships that we have, we have been pleased with what we've done. We've still got over 280 assets held in joint venture relationships, and we hope that, at some point in the future when those partners decide that it's time to monetize their assets, that we'll be the first call, and hopefully the only call, when it comes time to transact.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay. Second question -- just looking at your occupancy today, it appears that there's still some occupancy upside in the same-store as it stands. But next quarter, when the same-store pool resets and the new 2011 acquisitions are included, what will occupancy look like for the same-store pool then? I'm just trying to get a sense, from a same-store perspective, whether or not we should expect to see occupancy fall as the pool resets a little bit and what the magnitude of occupancy upside will then look like as we look into 2013.

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

We don't have the exact numbers right now, but we plan on addressing that at the end of the first quarter. We are expecting that the occupancy will fall slightly as the pool changes. We'll be adding a fair number of properties to that pool.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay; thank you.

Operator

Christy McElroy, UBS.

Christy McElroy - *UBS - Analyst*

You said it was about $0.01 in your release, but I was wondering if you could quantify the exact Sandy impact? Can you describe the nature of the expenses? Did it all flow through OpEx? Or were there other income statement lines impacted?

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

It flowed through two items, actually. It flowed through property operating expenses to the tune of about $0.5 million, and then about $900,000 flowed through the insurance company.

Christy McElroy - *UBS - Analyst*

Okay. With regard to tenant reinsurance, where would you say you are today on overall portfolio penetration? What percentage of new customers opt for the insurance? If you look at the 18% year-over-year growth in reinsurance revenues in 2012, how much would you say has been driven by continued increases in penetration in your own portfolio versus the benefit that you get as you add managed properties?

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

This is Karl.

The penetration on new tenants is above 90%. Our overall penetration is in the high 60%s; and I don't really have a breakdown of what's coming between the new from the third-party management versus just the increase from existing customers. I'm sure we can get that, but we don't have it handy.

Christy McElroy - *UBS - Analyst*

If it's in the high 60%s today, do you have what it was a year ago?

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

It was about in the mid 60%s.

Christy McElroy - *UBS - Analyst*

Okay.

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

The one thing that is clear, though, Christy, is that growth does slow the higher it gets; so a larger amount of our growth does come as we add managed properties.

Christy McElroy - *UBS - Analyst*

Okay, thank you.

Operator

David Toti, Cantor Fitzgerald.

David Toti - *Cantor Fitzgerald - Analyst*

Quick question, Spencer, for you -- now that we've seen the forecasts from your peer group relative to expectations for next year, your top-line forecasts seem a little bit conservative, given what's been pretty clear pricing power the last couple quarters. I know that you touched on this before, but can you give us some background on maybe why you're being a little bit hesitant going forward, despite the evidence of pricing power the last couple of quarters? What makes you hold back expectations for rent growth prospects?

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

The answer, David, is our methodology for providing guidance and visibility has not changed. We are at the very beginning of a year. There is a lot of uncertainty out there and we looked down the road and said, what can we reasonably expect to happen? As we've rolled up our property level budgets and baked everything together, we have come to the conclusion that where we are is our best guess as to where we think we might end up with a full year behind us with the benefit of hindsight.

There is a lot of churn out there. Occupancy -- yes, there might be a little more gain. We need to see where street rates come in this year, but I think that the guidance we've given is what we accurately believe we can produce.

David Toti - *Cantor Fitzgerald - Analyst*

Can you just maybe give us a little bit more detail in terms of the mix in that top line? Is it possible to disaggregate the new versus renewal growth that's embedded in that top line?

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

As far as the exact percentages, David?

David Toti - *Cantor Fitzgerald - Analyst*

Yes, just a rough number. But what are you assuming relative to the kind of growth you're going to see on renewal rates going forward?

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

Part of that growth, obviously, is coming from the occupancy delta. We expect to get a bit of an occupancy delta this year. The next largest contributor is discounts. Discounts will continue to be below where they were last year as our occupancy remains high. Then to a lesser degree, it's going to be street rates; and probably last in that list is existing customer rate increases.

David Toti - *Cantor Fitzgerald - Analyst*

Okay. One follow-up question -- what are some plans relative to technology improvement that you might have going forward relative to your revenue management systems? I know you guys are pretty far out relative to the sophistication of the system, but what are some improvements you might be looking at putting in place, or expecting to begin to perform?

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

David, it's Spencer.

Actually, I wouldn't look for any quantum leap. We are on our third generation of revenue management. Today we track 56 different inputs and variables and metrics to help us define our pricing. I think it's going to be more of refinement out on the margin rather than any wholesale new initiative or way of looking at things. It's really a continuation of what we've already been doing, and that is taking what we are learning from our data and applying it with finer granularity.

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

This is Karl.

We will also be focusing more on discounts, trying to get smarter in how we offer the discount, when we offer the discount, and that will also have an impact.

David Toti - *Cantor Fitzgerald - Analyst*

Okay, great. Thanks for the detail.

Operator

Eric Wolfe, Citi.

Eric Wolfe - *Citigroup - Analyst*

Thinking back to NAREIT, there was a decent amount of talk about PSA jumping their street rates by 9% overnight. I'm just curious whether you've seen any incremental improvement in pricing power since that happened, or if things just have remained pretty consistently strong?

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

The latter. This is Karl.

We are pushing rates, but it's in the 4% to 5% range. I think what you're going to find, too, is when we get these questions about where your street rates are versus existing customer rates -- our rates, our overall GPI and the percent change every month, and even during the month, is going all over the place. I mean we're adjusting them constantly, so you almost have to look at it over a longer period of time, and it's in the range of 4% to 5%. We'd like to think that -- and I think this is probably the biggest upside potential that's out there -- is, as we all continue to get better occupancy, that we might have the opportunity to push those rates even more, especially if no new competition comes along.

Eric Wolfe - *Citigroup - Analyst*

Got you, that's helpful.

Second question, a bit of a change of topic, but -- as your stock continues to work and your cost of capital comes down as a result, what type of unlevered return do you think makes sense on acquisitions for your shareholders? I'm just wondering whether that metric changes as your stock does better and your cost of capital moves lower?

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

We consider that. Obviously, we consider our short-term cost of capital, but we also can't ignore the long-term cost of capital. There are times when we might be slightly more aggressive as our short-term cost of capital goes down, but I think that your unlevered IRRs are still somewhere 8% to 10%.

Eric Wolfe - *Citigroup - Analyst*

Got you, okay. Thank you.

Operator

Michael Knott, Green Street Advisors.

Michael Knott - *Green Street Advisors - Analyst*

Spencer, when you say that acquisitions should be accretive, do you mean accretive only to earnings? Or would you consider acquiring an attractively priced lease-up situation that may not immediately be accretive to earnings?

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

Yes, we would consider looking at those lease-up situations and take a short hit on dilution. What we don't want to do is get whipped into a frenzy with the rest of the market and pay rates that may not look so great five years from now.

Michael Knott - *Green Street Advisors - Analyst*

What were your thoughts on the Acadia sale? Were you an active bidder on that transaction?

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

We were not.

Michael Knott - *Green Street Advisors - Analyst*

Okay, thanks.

Operator

Caitlin Burrows, Goldman Sachs.

Caitlin Burrows - *Goldman Sachs - Analyst*

Looking at your same-store results by region, there's some differences, obviously. First, in terms of occupancy, would you say that your goal occupancy varies by region? For example, Chicago was able to increase about 7% to 90%, but Houston is still below 80%. Or is there a reason for the differences by region?

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

This is Karl.

Yes. (laughter)

Caitlin Burrows - *Goldman Sachs - Analyst*

Could you tell us what they might be?

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

Some markets, it's a lot easier to get and they're a lot stronger and we're able to push to our goal overall occupancy quicker than in other markets. There's a certain drag that, trying to cover or to overcome an occupancy gap in a shorter period of time, the cost can be significant; and so we do it more gradually, and our system is looking to get you there, but it's going to get you there in a way that maximizes the opportunity along the way.

If you're at 80% -- yes, you could get to 90% pretty quickly if you wanted to and we could; but we'd rather do it over a longer period of time and give away less and end up getting more the whole way through it. And we will get to our goal occupancy.

Caitlin Burrows - *Goldman Sachs - Analyst*

Okay. Also in terms of the variations between the different regions, it just comes out -- I don't know if it's coincidence or not -- that Chicago, it looked like, had the largest reduction in expenses, about 20% lower. But then Houston's were about 20% higher, with everybody else in between there. Can you tell us why some are doing so much better on expenses than others?

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

It's a very micro, property by property. It has nothing to do with occupancy. It has a lot more to do with just variations, and it can be a quirk of the particular properties in that market. But there's no plan and really is no correlation between rent per square foot. It can be property taxes, as well.

Caitlin Burrows - *Goldman Sachs - Analyst*

Okay, thank you.

Operator

Michael Salinsky, RBC Capital Markets.

Michael Salinsky - *RBC Capital Markets - Analyst*

Can you talk a little bit about January and February trends?

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

This is Karl.

It's really pretty much the same as it has been. Expenses are up a little bit because we had a little snowstorm in the Northeast that hit us pretty good. We're going to have a little bit of variation as a result of the snow. But otherwise, revenues are really holding, occupancy is holding. We're really pretty pleased with where we are, and it's pretty much according to our plan.

Michael Salinsky - *RBC Capital Markets - Analyst*

Okay. Second of all, you gave a little bit of color on the street rates; I think you said 3.5% to 4% up in the fourth quarter. Just as we look at the delta between move-in and move-out rates as you guys have been pushing aggressively on renewals, yet street rates have improved but not quite kept pace. How is the delta right now between move-in and move-out rents versus a year ago?

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

It's about the same.

Michael Salinsky - *RBC Capital Markets - Analyst*

It's about the same?

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

Yes. But once again, it is difficult to take a point in time, because our street rates are up and down so much. But when we look at it over a longer period of time, the gap is about the same now as it was a year ago.

Michael Salinsky - *RBC Capital Markets - Analyst*

What is your expectation for street rate growth, then, in '13? I realize it's on kind of a bell curve, but just curious as to--

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

About that 4% to 5% that we've been talking about.

Michael Salinsky - *RBC Capital Markets - Analyst*

Finally, just in terms of acquisitions -- the amount of deal you're seeing right now, how does that compare versus this time a year ago? Are you seeing greater interest? Would that interest pick up if pricing were to compress?

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

Michael, it's Spencer.

I would say, year over year, interest is about the same. It's the beginning of a new year. We don't have the surge that usually happens in the fourth quarter when people are trying to transact. Year over year, it's about the same; and quite frankly, if there's some more cap rate compression, there may be some more sellers. But right now, the question I think a lot of sellers have is, if I sell myself storage property and pay taxes, where am I going to reinvest my money and have as good of a return as I'm getting out of this existing asset?

Operator

Tayo Okusanya, Jefferies.

Tayo Okusanya - *Jefferies & Co. - Analyst*

In regards to the 2013 guidance, I think you guys have done a great job of telegraphing the potential slowdown in the top line. But in regards to the operating expense and the forecast, could you talk about some of the big ticket items that are driving that large increase?

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

Your largest increases are going to come from really three items -- it's going to be payroll, property taxes, and credit cards. Credit cards -- we had a positive delta last year that has gone away. Property taxes -- we haven't seen major increases for several years and we're forecasting, dependent on the area, 3% to 4% on those.

Tayo Okusanya - *Jefferies & Co. - Analyst*

On the credit card side, is it just swipe fees are going up? Or interchange fees are going up, or what is it?

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

They're not going up, but what happened last year is there was some new rules enacted that enabled us to process debit cards more like an ACH so you weren't charged a credit card interchange on those. It saved us a significant amount, as well as everyone in the business.

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

This is Karl.

Last year, it offset our increases. We don't expect an enormous increase this year, but we're not going to get the significant decrease that we got last year.

Tayo Okusanya - *Jefferies & Co. - Analyst*

Got it. That's helpful.

A quick second question -- are there any markets at this point where you're actually seeing a slowdown in demand simply because the consumer is actually paying higher taxes and has a smaller paycheck to take home now?

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

This is Karl again.

No, we have not seen that. I know that a lot of retailers are, and a lot of ad hoc information out there, but we have not seen that yet.

Tayo Okusanya - *Jefferies & Co. - Analyst*

Okay, that's helpful, thank you.

Operator

Tom Lesnick, Robert W. Baird.

Tom Lesnick - *Robert W. Baird & Co. - Analyst*

I'm just filling in for Paula today.

A couple quick questions -- first, I just wanted to talk about the private operator lending environment. What trends are you seeing and how have those trends changed at all in the past few months or so?

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

I think for stabilized assets, just about anyone can get a loan. Obviously, I think from what we're seeing is, it seems like those with money and with scale it's easier to get debt for those individuals than for a smaller individual. Not a lot of appetite for non-revenue producing or lease-up assets.

Tom Lesnick - *Robert W. Baird & Co. - Analyst*

All right. Secondly -- are you guys seeing any trends in your tenant mix; maybe more home-driven renters or business-driven renters?

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

This is Karl again.

No.

Tom Lesnick - *Robert W. Baird & Co. - Analyst*

Okay, thanks, that's all I've got.

Operator

(Operator Instructions)

Michael Knott, Green Street Advisors.

Michael Knott - *Green Street Advisors - Analyst*

Spencer, I think you've got a version of this question earlier, but with regard to continued attempts to better maximize price, and price the product as well as you can, where do you think you're at now? If you think about it on a scale of 1 to 10, with 10 being a perfect ability to maximize price every single customer -- where are you at now and where do you think you can get to in the next couple years?

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

I'll give you a good solid three.

I think there is a lot of upside, a lot of learning, and a lot more that can be done. I think the application of big data and mining our data semantically to better refine our models will yet yield better results, but we are far from the end game on this and we're far from perfection.

Michael Knott - *Green Street Advisors - Analyst*

Is that good news just for Extra Space or do you think that's a signal that the entire industry could have maybe above inflation-type rent growth over some extended period of time?

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

I would maybe characterize it more towards those larger operators that have the resources to go after a disproportionate share of what's to be had. I think that what we're doing -- for instance, we have six revenue management people in our department. The smaller operator, I highly doubt, is ever going to be anywhere close to that. For us, I think that this is, as the other publicly traded companies have stated many times, a benefit that the publicly traded companies possess.

Michael Knott - *Green Street Advisors - Analyst*

Okay, thanks.

A couple other ones for me -- is the $150 million of acquisition guidance for the year just a pure guess on the conservative side? Or is there some science behind that?

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

How about a guess?

Michael Knott - *Green Street Advisors - Analyst*

Okay.

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

I'm not trying to be smart-aleck, but we just don't know what the velocity of transactions will be this year at the price point at which we're willing to transact. So it's purely a guess.

Michael Knott - *Green Street Advisors - Analyst*

Okay. Guidance-wise, are those loaded in somewhat evenly over the year, Scott?

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

Yes.

Michael Knott - *Green Street Advisors - Analyst*

Okay. Last one -- Scott, can you remind us of the solar tax credits and what the magnitude of that in guidance is?

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

It's $5 million to $6 million this year as far as benefit in the current year.

Michael Knott - *Green Street Advisors - Analyst*

What's the duration of that program? And can it be replaced at some point?

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

Right now, I believe it goes through 2016. We started with the best returns on investment and then we've gone down from there. But we're also still trying to be fairly conservative in what level of investment we're willing to make for the return.

Michael Knott - *Green Street Advisors - Analyst*

Okay, thank you.

Operator

I would now like to turn the call over to Mr. Spencer for closing remarks.

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

We appreciate your interest in Extra Space today, great questions. We look forward to next quarter's call. Thank you very much.

Operator

Thank you for your participation on today's conference. This concludes the presentation. You may now disconnect, and have a great day.
