

# FINAL TRANSCRIPT

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**EXR - Q2 2010 EXTRA SPACE STORAGE INC Earnings Conference Call**

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## CORPORATE PARTICIPANTS

**Clint Halverson**

*EXTRA SPACE STORAGE INC - Senior Director of IR*

**Spencer Kirk**

*EXTRA SPACE STORAGE INC - Chairman, CEO*

**Karl Haas**

*EXTRA SPACE STORAGE INC - EVP & COO*

**Kent Christensen**

*EXTRA SPACE STORAGE INC - EVP & CFO*

## CONFERENCE CALL PARTICIPANTS

**Eric Wolf**

*Citigroup - Analyst*

**Christy McElroy**

*UBS - Analyst*

**Ki Bin Kim**

*Macquarie Capital Market - Analyst*

**David Toti**

*Friedman, Billings, Ramsey Group, Inc - Analyst*

**Todd Thomas**

*KeyBanc Capital Markets - Analyst*

**Todd Stender**

*Wells Fargo Securities - Analyst*

**Paula Poskon**

*Robert W. Baird & Company, Inc. - Analyst*

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*Keefe, Bruyette & Woods, Inc. - Analyst*

**Michael Knott**

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**Mike Salinsky**

*RBC Capital Markets - Analyst*

## PRESENTATION

**Operator**

Welcome to the Extra Space Storage second quarter 2010 conference call. A brief question-and-answer session will follow the formal presentation. (Operator Instructions). As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Mr. Clint Halverson with Extra Space Storage. Thank you. You may begin.

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

Thank you, Manning. Welcome to Extra Space Storage second quarter 2010 conference call in addition to our press release unaudited supplemental financial information on our website. Please remember that management's prepared remarks and answers to your questions contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995.



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Forward-looking statements address matters which are subject to risks and uncertainties that may cause actual results to differ from those discussed today. Examples of forward-looking statements include those related to Extra Space Storage's development and acquisition programs, revenues and operating income, FFO and guidance.

We encourage all of our listeners review a more detailed discussion related to these forward-looking statements contained in the Company's filings with the SEC. Forward-looking statements represent management's estimates as of today, Thursday, July 29, 2010. Extra Space Storage assumes no obligation to update these forward-looking statements in the future because of changing market conditions or other circumstances. I would now like to turn the call over to Spencer Kirk, Chairman and Chief Executive Officer.

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**Spencer Kirk** - EXTRA SPACE STORAGE INC - Chairman, CEO

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

For some time now I have spoken of the principle of LIFO or last in, first out. And in comparison to other real estate assets, self storage would be among the last to move into the recession then it would be among the first to recover. I'm pleased to report that this theory seems to be playing out. In the second quarter our portfolio performance turned positive with year on year improvement for each month within the quarter on almost every metric. For the second quarter we reported \$0.22 of FFO per share with revenue and NOI both positive. Our out performance was primarily due to an occupancy increase of 220 basis points, an increase in rental activity of more than 4% and a year-over-year increase in achieved asking rates of 4%. During the quarter, we completed two state-of-the-art development projects, which will further contribute to our internal growth.

We have seen a slight pick up in activity in the acquisitions market and are diligently looking for accretive opportunities. We acquired four properties, three of which came from our third party management program, a proven acquisition source to fuel our external growth. We made further improvements to our balance sheet, paid off some debt early and increased our financial flexibility with the recent placement of a revolving line of credit for up to \$45 million with Wells Fargo. We continue to believe that the current economic cycle will be a gradual recovery back to pre-recession levels.

With that said, our high quality portfolio, advanced operating platform and embedded growth from the stabilization of our development pipeline position us to participate fully in whatever recovery may be ahead. As a result, we have grown more confident in our expectations for the remainder of the year. I will now turn the call over to Karl to discuss operations.

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**Karl Haas** - EXTRA SPACE STORAGE INC - EVP & COO

Thanks, Spence. We have pleased with the way our stores performed in the second quarter with improvements in virtually all the metric as we return to a normalized level of move outs. Our same store net operating income was up 2.8% for the quarter from the same period last year and up 2.5% sequentially from the first quarter. This quarter is marked by a return to a more normal level of move outs, which was out paced by increase in year-over-year move ining. The level of move outs this quarter is in line with historical trends. This is further confirmation that the recovery in our business at large continues. Importantly, the gain in net rentals is not driven by higher levels of discounting. On that front, discounts as a percentage of rental income remain in line with what we are offering in the second quarter 2009.

The improvements in same store net operating income include increases in same store occupancy of 220 basis points, increases in same store revenue of 2.3% and a slight increase in expenses, which were only up 1.3%. The improvement in occupancy in the quarter is a 15 consecutive month of improvement. We have continued to see the results of active expense management as expenses have decreased by 0.4% YTD, basically flat with 2009.

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Our relatively strong performance during both the challenging and improving time is a testament to our platform. Our revenue management systems, internet marketing and national call center have allowed to us effectively read economic and market conditions on a local level and translate that into pricing changes by channel in the field. We continue to invest resources in our web technology and the results have exceeded our expectations. We believe that the systems that we have put place to capture data and the team that in place to interpret the data continues to be a competitive advantage, especially when it comes to local operators. These systems are back stopped by excellent service at the national call center and at the individual property level. Our focus on revenue management, the quality and training of our people and constant focus on technological innovations will continue to help us to be a leader in our sector. Were they I would like to turn it over to Kent.

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**Kent Christensen** - EXTRA SPACE STORAGE INC - EVP & CFO

Thanks. Last night we reported FFO including the diluted impact of our development program of \$0.22. This was \$0.02 ahead of the top end of our guidance range. Better property performance and lower interest costs contributed to our earnings coming in ahead of our estimate. During the quarter, we placed two development projects and service for \$21.3 million closed on four acquisitions, totaling \$17.2 million. These properties were purchased with the combination of cash on hand and one assumed loan.

We retired \$100 million debt in advance of it's August maturity date, using cash on hand as well as an additional \$60 million CMBS debt coming due in 2014. The extinguishment of debt freed up 26 previously encumbered properties on which new debt can be placed. The early pay off of this debt will result in interest savings of \$1.2 million in 2010. We have reached a point in -- where trends have stabilized and we feel we have the ability to get loans against our existing properties. Debt and equity is more available and we no longer feel the need to carry large amounts of cash as ability in insurance policy. As of June 30, we have \$28.4 million of cash and \$29 million of capacity on our line of credit. In addition, we have unencumbered asset base of 66 wholly-owned properties on which we can place loans of up to an estimated \$280 million.

We are please to do say that the acquisitions environment has become somewhat more active. We closed on four properties during the quarter and one since the ends of the quarter. We current have five additional properties with signed agreements and are reviewing additional assets for purchase. Of the four properties acquired during the quarter, three were from our third party management portfolio, underscoring this as an opportunity for selective external growth.

On the third party management front, we increased our properties under management by 18 during the quarter and eight subsequent to the end of the quarter. We now have 148 sites under management, making us the largest self storage management company in the United States. Each of these sights is branded as Extra Space Storage and marketed in a consistent way with our own sites and one brand with no differentiation. Since the inception of our formal third party management program in 2008, we have added approximately 100 properties. Third party management gives us a stable and long-term pipeline for external growth, incremental revenue and additional assets over which we can spread our overhead.

Given the improvement in our business, we are increasing our annual guidance range for FFO to \$0.82 to \$0.85 per share. This increase is driven by better than expected results in the first half of the year and lower expected interest rates. Including tenant insurance, our annual same store revenue range is now positive 0.5% to a positive 1.5%. We also adjusted our same store expense assumption to flat to up 1%. Consequently, our annual same store NOI guidance is now flat to a positive 2%. As visibility for this calendar year continues, we will adjust our forecast accordingly. With that, I will turn the call back to Spencer.

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**Spencer Kirk** - EXTRA SPACE STORAGE INC - Chairman, CEO

Thank you, Kent. Steady improvement in our business is evident. We have shared with you our view that is the sector the self storage industry has been a good place to be during the economic downturn and we are encouraged by our future prospects in participating in the recovery. We expect further improvement throughout the remainder of the year, but as we have seen the economic environment can change quickly. We are in a fragile economy and the Extra Space team is working hard to capture



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every say and minimize expenses wherever possible to continue to grow our FFO. In addition, our development projects are budget to do add approximately \$0.25 of incremental FFO over the next four to five years.

Through our high quality portfolio, advanced revenue management system and technology platform, and our continual expanding national footprint on the web, we are positioned for future success. I want to thank and complement our excellent team on our ongoing focus and I'm confident they will continue to perform well for the rest of the year. I also want to thank you for your interest in Extra Space. We sincerely appreciate it. I now would like to welcome your questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Our first question is from the line of Eric Wolf with Citi. Please go ahead.

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### Eric Wolf - Citigroup - Analyst

Thanks, guys. Michael is also on the line with me. I'm just wondering if you saw any change in trends from April and May to June and July, whether the lower consumer confidence numbers we saw or lower activity in the housing market maybe had an impact on your month to month results.

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### Spencer Kirk - EXTRA SPACE STORAGE INC - Chairman, CEO

Eric and Michael, this is Spencer. I would characterize it as this. The trends have been improving month over month and as I said in my remarks, on almost every metric during the quarter we saw improvements and we don't see any change in July in the numbers there. The consumer confidence in other things obviously are a factor but we are not seeing something that is measurable yet.

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### Eric Wolf - Citigroup - Analyst

But July it did change a little bit. Is that just from your remarks right there?

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### Spencer Kirk - EXTRA SPACE STORAGE INC - Chairman, CEO

The month isn't over and I would say that what we've seen in the month to date activity is its trending normally and in the pattern that we've seen over the last several months. There are no aberrations that we could highlight.

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### Eric Wolf - Citigroup - Analyst

Got you. Can you just tell us how many of the five acquisitions that you have under contract are from your third party management business and what type of IRs you are underwriting?

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### Kent Christensen - EXTRA SPACE STORAGE INC - EVP & CFO

This is Kent. Three of the five are from our third party management business and we are targeting high sevens to say low eight cap rates.

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**Eric Wolf** - Citigroup - Analyst

Are you getting the sense just from the owners that you are talking with that they are more like to the sell now that they've gone through their peak leasing season, they think they are getting better pricing.

**Kent Christensen** - EXTRA SPACE STORAGE INC - EVP & CFO

Yes, that's part of it, they feel like the occupancies in numbers. We are using trailing 12 numbers. We are not using numbers as of today. And so it's a backward looking 12 months based on where the properties are performing.

**Eric Wolf** - Citigroup - Analyst

Got you. Just lastly, LA looked a little bit weaker than we would have expected on occupancy and rate. Was that there something specific to your portfolio that happened there or is it more market driven?

**Karl Haas** - EXTRA SPACE STORAGE INC - EVP & COO

This is Karl. I think it's more market driven.

**Eric Wolf** - Citigroup - Analyst

Is there anything you can speak to that's going on in the market that would have and maybe just your expectations going forward?

**Karl Haas** - EXTRA SPACE STORAGE INC - EVP & COO

No, it's, especially when you move east out of LA and into the San Bernadino and kind of north, those areas are still suffering from housing and job losses and I think it's kind of a stressed environment.

**Eric Wolf** - Citigroup - Analyst

Got you. Thank you.

**Operator**

Thank you. Our next question is from the line of Christy McElroy with UBS. Please go ahead.

**Christy McElroy** - UBS - Analyst

Hey, good morning, guys. I just wanted to follow up on a prior question, qualify your comments, Spencer. I was wondering if year-over-year move outside and moves in trended in the quarter through July. The self storage data seems to look better sort of towards the beginning of the quarter and the momentum slowed by June, or for you guys was it different, was it sort of consistent throughout?

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**Spencer Kirk** - EXTRA SPACE STORAGE INC - Chairman, CEO

I will let Karl take this one because he has the data in front of him.

**Karl Haas** - EXTRA SPACE STORAGE INC - EVP & COO

We have seen consistent, we've had consistent growth throughout the quarter. And we started the year at a delta to last year at about 1.5% to 1.6% and we ended the quarter at about 2.2%. We are going to starting to against a little bit tougher numbers from last year because we kind of bottomed out last year in April. But the rentals are still above last year. Vacates now are above last year. But the rentals are ahead of the vacates as far as the delta.

**Christy McElroy** - UBS - Analyst

What do you think is driving the year-over-year growth in move ins that you are seeing? So who is the incremental renter that wasn't there at this time last year?

**Karl Haas** - EXTRA SPACE STORAGE INC - EVP & COO

Well, I mean, you have to remember last year the rentals were down. Not dramatically but in the first half of the year they were down. Luckily so were the vacates starting in April. So I'm not sure that it's really, through this whole thing, really all through 2009 our rentals are only down 1.9% and that was in the, with the first half of the year being especially the first four, five months of the year being considerably down from the prior year. So I'm not sure we've ever really seen the fall off in rentals. What really hurt us was in the latter half of 2008 and early 2009 was the a fairly dramatic increase in vacates.

**Christy McElroy** - UBS - Analyst

Is there any group that you can speak to, whether it's promotional users or the discretionary user that had moved out that had driven those move outs? Are you seeing a return of any sort of one group?

**Karl Haas** - EXTRA SPACE STORAGE INC - EVP & COO

I really couldn't say that I have. That I had, it may be but I don't know the anything that we've seen that can, would tell us that it's one group. The one thing that certainly surprises me and through this whole thing is that with the lack of movement in housing that we haven't been more hurt by the, just people not moving as much as they were. But we've really held pretty consistent.

**Christy McElroy** - UBS - Analyst

Okay. Then what was the timing of the pay down of both the \$100 million and \$60 million loans during the quarter?

**Kent Christensen** - EXTRA SPACE STORAGE INC - EVP & CFO

The \$100 million was in, both of them were -- one was at the end of May, the \$60 million, the other the first part of June, the \$100 million.

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**Christy McElroy** - UBS - Analyst

Were there any prepayment penalties associated with the 2014 debt pay down?

**Kent Christensen** - EXTRA SPACE STORAGE INC - EVP & CFO

There was not. We were fortunate in that the 2014 loan was a loan that extended last year. And when it extended the part of the extension was from then on. There were no more prepayment penalties.

**Christy McElroy** - UBS - Analyst

Okay. Thank you.

**Kent Christensen** - EXTRA SPACE STORAGE INC - EVP & CFO

Thanks.

**Operator**

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

**Ki Bin Kim** - Macquarie Capital Market - Analyst

Just a couple of quick follow-ups. In terms of vacates, it looks like it moved on on a year-over-year basis for the first time in about a year. Does that make you think that approximately you push up rents too high or is that very normal?

**Karl Haas** - EXTRA SPACE STORAGE INC - EVP & COO

No. This is Karl. We believe it's that we are just back to more normal levels.

**Ki Bin Kim** - Macquarie Capital Market - Analyst

Going back to your comments about the three of the four properties you bought, were they marketed? Or was it an off market deal?

**Karl Haas** - EXTRA SPACE STORAGE INC - EVP & COO

They were off market deals and that's the beauty of the three plus program or the third party management because we are managing it because we have the relationship, the owners typically come to us and say if you'll give me a fair price, let's just skip brokerage fees and everything else and let's conduct a quiet transaction and I think it's one of the strategic strengths of the third party program as an acquisition pipeline.



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**Ki Bin Kim** - *Macquarie Capital Market - Analyst*

Got you. Last question. Looking into the year forward in terms of refinancing it looks like a lot of the debt is coming to a variable rate. Given the backdrop of deflationary talks and prolonged low interest rate environment, what are your plans in refinancing there?

**Kent Christensen** - *EXTRA SPACE STORAGE INC - EVP & CFO*

The plans for refinancing the debt?

**Ki Bin Kim** - *Macquarie Capital Market - Analyst*

Yes, because a lot of it is variable rate. Would you keep eight variable rate going forward?

**Kent Christensen** - *EXTRA SPACE STORAGE INC - EVP & CFO*

No. We are actively managing our, the interest rate risk that we have where we are constantly looking at the different loans and whether or not we can be locking in those loans. We have one loan that's the [Zions] loan that we had, we were able to get that loan locked and lock the interest rate on that one. So we are looking at each of the individual loans and looking at ways of hedging our interest rate risk. We will have some amount of variable rate debt. But we are trying to lock in as much as debt as we can as fixed rate.

**Ki Bin Kim** - *Macquarie Capital Market - Analyst*

So when you take into account hedging costs as a swap rate what kind of fixed rate debt cost be if you had to refinance that?

**Kent Christensen** - *EXTRA SPACE STORAGE INC - EVP & CFO*

Fixed rate now is in the high fives, low sixes.

**Ki Bin Kim** - *Macquarie Capital Market - Analyst*

Thank you.

**Operator**

The next question is from a David Toti with FBR Capital Markets.

**David Toti** - *Friedman, Billings, Ramsey Group, Inc - Analyst*

Hey, guys. Just going back to the third party business, can you give any indication on the pipeline of potential acquisitions that you see there? Are you in discussions on any assets?

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**Spencer Kirk** - EXTRA SPACE STORAGE INC - Chairman, CEO

We are in numerous, this is Spencer, first of all, David. We are in numerous discussions. What we would like to indicate about the third party business is that it's growing at a healthy clip. Interest actually is increasing because as we have been showing descent performance in the self storage sector, there's been more attention called to the value proposition that we offer. And rather than quantify what we will produce throughout the rest of the year, what the specific numeric targets are I would simply say that it's expanding. It's growing at a healthy clip. We are having more and more discussions for future acquisitions. And the general interest has exceeded our expectations because of our relative performance.

**David Toti** - Friedman, Billings, Ramsey Group, Inc - Analyst

Great. And are you increasing the terms in terms of it being more favorable to you as that interest level rises?

**Spencer Kirk** - EXTRA SPACE STORAGE INC - Chairman, CEO

No, not yet.

**David Toti** - Friedman, Billings, Ramsey Group, Inc - Analyst

How do you see this business maturing? Is there sort of no upper limit to the size of that platform relative to your infrastructure?

**Spencer Kirk** - EXTRA SPACE STORAGE INC - Chairman, CEO

Well, I think there is an upper limit. Realistic if you say there are 52,000 self storage facilities in in the United States, I would take half of them and say either the asset quality or the market or the location of the asset within a market would disqualify fully 50% of those assets. So for us if you figure that the four publicly traded rates that are in the storage sector control 8% of the market, we think that there is still tremendous upside and potential in this third party management program.

**David Toti** - Friedman, Billings, Ramsey Group, Inc - Analyst

Okay. Great. And then, Kent, a question for you about the tone from lenders relative to development. And I don't know if that's improved at all. Obviously given the facility there is some improvement and also secondly, are you seeing a change in lending appetite? I know you were very focused on small regional banks for awhile. Has that dissipated as well?

**Kent Christensen** - EXTRA SPACE STORAGE INC - EVP & CFO

We were fortunate in getting a couple of loans done in the last quarter that have to do with our development projects. One is the Wells Fargo line that we've talked about. I think if you look at that line you'll find it to be very unique and unusual. I think we were fortunate to be able to get that one done. Other than that we did only one other construction loan. So even though we've been able to get some loans done on the development, on development projects I'd still have to characterize our ability to get development loans as very marginal at best. It is still very difficult and very few banks are want to lend on construction assets. So it's increased slightly over last year and the last year was almost zero. But it's still is not at a level that I think we are or our industry is going to see a lot of development taking place yet.

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**David Toti** - *Friedman, Billings, Ramsey Group, Inc - Analyst*

Okay. And then my last question is for Karl relative to how you guys typically run a couple of tests in different markets and I was wondering if you could update us on any of those tests and if you are seeing any interesting data points relative to pushing rents or pushing renewals and so forth?

**Karl Haas** - *EXTRA SPACE STORAGE INC - EVP & COO*

We are continuing to have and we have through the whole recession continued to push rates and we varied the percentage but we've continued to push rates and we continue to see that it's, the benefit of the increase revenue from our rates as a result of the rate increase far exceeds the vacates that are caused by rate increase creases because there are some rate in -- there are some vacates that are caused by rate increases. But that's probably the biggest take away that we have from the recession.

**David Toti** - *Friedman, Billings, Ramsey Group, Inc - Analyst*

So no testing of like a concession removal?

**Karl Haas** - *EXTRA SPACE STORAGE INC - EVP & COO*

We did that. We did that -- well, we've done a little of that and we may do some more of it but it's going to be in a way that, we will try to tie it where we are being flexible and give our people a little bit more flexible to start off with a lesser offer and then increase the offer. And we actually -- we are, we tested that a little bit and we are going to test it a little bit more later in the year.

**David Toti** - *Friedman, Billings, Ramsey Group, Inc - Analyst*

Okay. And my last question and I will yield the floor, are you seeing an increase in conversion rates from your web, your web driven customers since the first quarter?

**Spencer Kirk** - *EXTRA SPACE STORAGE INC - Chairman, CEO*

It's a resounding yes. We've gotten better on the web. We've been testing and retesting what we present to those that are online and we've refined what we are offering considerably in the conversion rate continues to increase month over month. We are doing well on the web.

**David Toti** - *Friedman, Billings, Ramsey Group, Inc - Analyst*

Great. Thanks for the detail, guys.

**Spencer Kirk** - *EXTRA SPACE STORAGE INC - Chairman, CEO*

Thank you.

**Operator**

Thank you. Our next question is from the line of Todd Thomas with KeyBanc Capital Markets. Please go ahead.

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**Todd Thomas** - KeyBanc Capital Markets - Analyst

Hi, good afternoon. A quick question on your data efforts there as well. Did you here anything from your managers on the grounds or at your sales center regarding any type of increase or decrease in activity relate to do expiration of the home buyer tax credits in general or anything in any of your specific markets?

**Spencer Kirk** - EXTRA SPACE STORAGE INC - Chairman, CEO

No. I think the answer on this, Todd, is there are so many drivers for demand in this business that trying to measure something that's out on the tail is extremely difficult and the only thing that I would simply say is I think that the results speak for itself. Rental is up. Occupancy is up. Vacates are trending more towards normalcy. We've been in a period of great turbulence and we don't have the data to suggest either anecdotally or directly that the expiration of a tax credit has had any material impact that we can measure.

**Todd Thomas** - KeyBanc Capital Markets - Analyst

Okay. And then regarding the acquisition environment, you mentioned that some of the uptick might be attributable to where we are in the leasing cycle. But what else do you senses has changed such that the pace of acquisition has started to increase here?

**Kent Christensen** - EXTRA SPACE STORAGE INC - EVP & CFO

This is Kent. I'd say the number one aspect that affects us a lot that has allowed some of the acquisitions to occur is sellers expectations have changed as to what they would accept as a cap rate. I think obviously from two years ago people were selling assets in the high fives and in the sixes and sellers were hoping to some day be able to get those numbers. And I think realism has finally set in and people are now starting to sell their assets at higher cap rates than two years ago but not of the kind of cap rates that many of us were hoping to get early last year. So I think it's just more realistic view of where the acquisitions market is.

**Todd Thomas** - KeyBanc Capital Markets - Analyst

Okay. Should we expect this pace of acquisitions to continue for the next couple of quarters?

**Kent Christensen** - EXTRA SPACE STORAGE INC - EVP & CFO

We've told you about the five we have under contract. Other than those, again, as Spencer said a minute ago, there's 52,000 self storage facilities in the United States and we are talking boy two or three acquisitions. So even though the pace has picked up which is good for us compared to a year ago which was zero, we are still not looking, still not, there is hundreds of properties for sale. And what we are telling you is that there are assets that are coming for sale here and there and a few portfolios. But still not massive amounts of properties.

**Todd Thomas** - KeyBanc Capital Markets - Analyst

Okay. And then lastly, in the three plus management platform, what's the break out of properties that are owned by individuals versus institutional owners?

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**Kent Christensen** - EXTRA SPACE STORAGE INC - EVP & CFO

This is Kent. I don't have that exact number but my guess is going to be that it's 50/50.

**Todd Thomas** - KeyBanc Capital Markets - Analyst

Okay. Thank you.

**Kent Christensen** - EXTRA SPACE STORAGE INC - EVP & CFO

Thanks, Todd.

**Operator**

Our next question is from the line of Todd Stender with Wells Fargo. Please go ahead.

**Todd Stender** - Wells Fargo Securities - Analyst

Hi, thanks, guys. You may not have this kind of data yet but just if you are looking at the three of the four acquisitions you made with stores through your third party management business, can you identify say a basis point difference in your cap rates? Are you negotiating, say, 50, 75 basis points better rate than, say, on marketed acquisitions?

**Kent Christensen** - EXTRA SPACE STORAGE INC - EVP & CFO

This is Kent. Our experience, what we've found in buying our assets from our third party managed business is that the only way that that really works is if we are competitive in our pricing and buying those assets. If these are generally pretty sophisticated real estate people and they know that if we are getting a real good deal, they are going to take it to the market and sell it. So we are, we are probably talking 10 or 15 basis points. We are not talking 50 or 100 basis points. It would be a small amount. We have to give them a competitive price. Otherwise they are going to take it to the market and sell it.

**Karl Haas** - EXTRA SPACE STORAGE INC - EVP & COO

This is Karl. I will add to this. One thing that comes into play is that there's no broker involved when we are buying, when we buy indirectly which is an advantage to the seller. And the other piece is that when we already manage the property, our underwriting is a lot more confident because we are running the property. We are not, we are not working with somebody else's numbers. We know what the property is capable of doing. And we have a much more in depth knowledge of the property. And that really helps and also enables us to move relatively quickly.

**Todd Stender** - Wells Fargo Securities - Analyst

Thanks. And I don't know maybe you've already disclosed this, what were the cap rates on the properties in Georgia and New York?

**Kent Christensen** - EXTRA SPACE STORAGE INC - EVP & CFO

Within total, we have the properties that are stabilized are in the high sevens and the lease up properties are in the eights.



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**Todd Stender** - Wells Fargo Securities - Analyst

Okay. Thank you. And just switching to the development projects, specifically the two projects completed in the quarter, what are the projected initial lease yields look like and have they changed since you broke ground in the third quarter of '08 and the third quarter of '09?

**Kent Christensen** - EXTRA SPACE STORAGE INC - EVP & CFO

The answers are, yes, they've changed. The initial yields I think on those projects were in the eights. So this, we approved these projects and, two, over two years ago which when we had been in the height of the market of development and acquisitions, and my guess is now that they are between 50 and 100 basis points less than that now. And the properties are all of our development properties are filling up basically on pace for what we expected but we are getting 10% to 15% less in rents than what we expected.

**Todd Stender** - Wells Fargo Securities - Analyst

Okay. And then looking at the three properties you started in Q. Q2, Arizona, Florida and California, what do those initial lease yields look like?

**Kent Christensen** - EXTRA SPACE STORAGE INC - EVP & CFO

Same. They would still be in the eights.

**Todd Stender** - Wells Fargo Securities - Analyst

Okay. Thanks, guys.

**Operator**

Our next question is from Paula Poskon with Robert W. Baird.

**Paula Poskon** - Robert W. Baird & Company, Inc. - Analyst

Thanks very much. Good afternoon. Would you say that you've turn the corner in all markets or are you still skipping along the bottom in some?

**Spencer Kirk** - EXTRA SPACE STORAGE INC - Chairman, CEO

I think, Paula, I appreciate you joining the call. It's not fair to say we've turned the corner in all markets. We are seeing improvements but when you look at a market like Las Vegas which is at the top of our most challenged markets, to say we've turned the corner there, I'm not there yet. If you look at parts of Florida or Phoenix, we've got to market continually and perennially continue to be challenged. What we are seeing, however, is some other bright points popping up. San Diego has done really well recently. Albuquerque has done well. Denver and Indianapolis. Some other secondary markets maybe haven't been as prominent have started to show some strength. I think across the board we are seeing improvements but we still have markets that we are concerned about.

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**Paula Poskon** - *Robert W. Baird & Company, Inc. - Analyst*

Thanks, Spencer. I appreciate that. Are you seeing any change in the average length of stay now that trends seem to be stabilizing?

**Karl Haas** - *EXTRA SPACE STORAGE INC - EVP & COO*

No. This is Karl. No, we really haven't.

**Paula Poskon** - *Robert W. Baird & Company, Inc. - Analyst*

Okay. Thanks. And what are you seeing with Internet marketing costs?

**Spencer Kirk** - *EXTRA SPACE STORAGE INC - Chairman, CEO*

The internet marketing costs are -- well, let's characterize it this way. The costs are going up but our efficiency and the way we are using the internet has become surprisingly complex and we've become much more adept at bidding on key terms that produce the best result. So at the end of the day we are holding our costs as it pertains to acquisition.

**Paula Poskon** - *Robert W. Baird & Company, Inc. - Analyst*

Okay. Thank you. Kent, are there any other of the CN BS notes that no longer have prepayment penalties?

**Kent Christensen** - *EXTRA SPACE STORAGE INC - EVP & CFO*

No, that was the last one.

**Paula Poskon** - *Robert W. Baird & Company, Inc. - Analyst*

A housekeeping item the share count was up 600,000 or so. What's that attributable to?

**Kent Christensen** - *EXTRA SPACE STORAGE INC - EVP & CFO*

Exercising -- I'm sorry, it was the issuance of grants to our employees and our directors.

**Paula Poskon** - *Robert W. Baird & Company, Inc. - Analyst*

Okay. Great. Thanks. That's all I have.

**Spencer Kirk** - *EXTRA SPACE STORAGE INC - Chairman, CEO*

Thanks, Paula.

**Operator**

Our next question is from the line of suspense rose Smedes Rose with Keefe Bruyette Woods.

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

Hi, thanks. You mentioned your asking rates were up 4%. Can you talk about the difference between the asking rates and the in place rents now, if there is still a gap or what that looks like?

**Spencer Kirk** - EXTRA SPACE STORAGE INC - Chairman, CEO

The gap has become immaterial. A year ago it was double digits. And today I'm pleased to report that it's pleased to report that it is not material and not relevant.

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

Okay, and then, where was the penetration for your tenant rate reinsurance program, about what percent of your customers participate.

**Spencer Kirk** - EXTRA SPACE STORAGE INC - Chairman, CEO

Total penetration is, it's approaching 60% new penetration is approaching 90%.

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

Okay. Great.

**Spencer Kirk** - EXTRA SPACE STORAGE INC - Chairman, CEO

A tick under in both cases.

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

Okay. Then just curious, you bought the minority interest of two properties in the quarter. Was that, was there just any color behind that or would you expect to be doing anything like that going forward or did the holders of the put do something to you or what was the story of that?

**Kent Christensen** - EXTRA SPACE STORAGE INC - EVP & CFO

We had a partner that need to do get some cash so he came to us and asked us if we would by him out of his partner. We were able to negotiate a price that was acceptable to him and that's why we were able to by him back. It was small amount of our cash, a very small amount.

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

Okay. Thank you.



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**Operator**

Our next question is from the line of Michael Knott with Green Street Advisors. Please go ahead.

**Michael Knott** - *Green Street Advisors - Analyst*

Hey, guys. Just wanted to clarify that you acquired \$17 million of properties during the quarter and then you're talking about some additional properties under contract. Is that correct? Those are separate?

**Kent Christensen** - *EXTRA SPACE STORAGE INC - EVP & CFO*

That is correct, Mike.

**Michael Knott** - *Green Street Advisors - Analyst*

Then what's the dollar volume of the under contract portion?

**Kent Christensen** - *EXTRA SPACE STORAGE INC - EVP & CFO*

If it all closed it would be about \$27 million.

**Michael Knott** - *Green Street Advisors - Analyst*

Okay. And then just a quick for Spencer. I think on the last call, you had mentioned that the way you would think about the decision to raise equity would be deal driven. Just to be curious, did these not meet your expectations for deals that you thought the market would like or is this share price related or you do not think you need additional equity or just sort of update us on how you are thinking on that particular question.

**Spencer Kirk** - *EXTRA SPACE STORAGE INC - Chairman, CEO*

Current state of the mind on equity issuance is this. I would first characterize it by saying, based on the discussion we've been having so far, there really are limited opportunities to deploy capital accretively. These little onesies, twosies, to my way of thinking don't dictate whether we ought to go out and raise \$100 million, \$200 million or \$250 million. You look at paying down debt, Kent just indicated the ability to pay down debt based on where we are and the maturity schedule and the fees, we've kind of done what we could on paying down debt. We are naturally delevering the balance sheet. We have right-sized our dividend. We are getting the development accretion that I alluded to in my opening remarks and our FFO is growing organically as well. So we are naturally delevering. I think as we look at the ability to meet our needs, we've been able to source debt and the most difficult economic environment in decades. \$341 million last year and with 66 unincumbered bird properties we have the ability to go out and get cash. One of the challenges for us as a management team is discipline and if we go out and raise a significant amount of money on an equity raise, we are going to feel pressured to deploy it and we want to be disciplined. We make our money when we buy real estate, not when we sell.

And with all that being said, Mike, I would simply say it's a discussion that we have frequently internally. It's something that is at the top of our Board meetings. It's an option. And as the environment dictates I think will you find Extra Space being not only nimble but willing to access whatever market is required to meet our growth.

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**Michael Knott** - Green Street Advisors - Analyst

Okay. Thanks for that. And then on the operational side strategically, is it fair to say that you guys are still kind of going down the road of at the margin focusing a little more on rate, excuse me, on filling your properties on occupancy over rate in terms of your, how you think about maximizing revenue?

**Spencer Kirk** - EXTRA SPACE STORAGE INC - Chairman, CEO

What we wanted to is maximize revenue and I think it's a delicate balance between rate and occupancy. And what we have believed is that with our existing customer rate increase it's important to have occupancy because you can't pass along rate increases on empty space. And we don't know exactly what point on the occupancy curve that drives revenue maximization but we are testing and retesting and refining it. I think the results over the last quarter or the last several quarters show that we are getting closer to optimization.

**Michael Knott** - Green Street Advisors - Analyst

Thanks. Then my last question, I may have missed this earlier but I guess for Karl, what did you say the street rates increase versus sort of last year.

**Karl Haas** - EXTRA SPACE STORAGE INC - EVP & COO

About 4%.

**Michael Knott** - Green Street Advisors - Analyst

4%. Okay. And you anticipate further being able to push street rates even though you are kind of now even with some of the more recent economic data points that we've seen?

**Karl Haas** - EXTRA SPACE STORAGE INC - EVP & COO

I'm not sure that we are, that we are saying we are going to be able to push the street rates that percentage that much more above last year. But we are hoping to hold that somewhere in that range.

**Michael Knott** - Green Street Advisors - Analyst

Okay. Thank you.

**Operator**

Thank you. Our next question is from the line of Mike Salinsky with RBC Capital Markets.

**Mike Salinsky** - RBC Capital Markets - Analyst

Good afternoon. Very good color on the street rates. Just curious as to renewals, what you guys are passing along right now? Did you see any change during the second quarter and has there been any change kind of in frequency in trying to make sure you are maintaining occupancy levels?

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**Karl Haas** - EXTRA SPACE STORAGE INC - EVP & COO

No, there really has been no change in the percentage or the frequency.

**Mike Salinsky** - RBC Capital Markets - Analyst

And the percentage again, is it still five to six, five to eight, what is it today?

**Karl Haas** - EXTRA SPACE STORAGE INC - EVP & COO

Six to eight.

**Mike Salinsky** - RBC Capital Markets - Analyst

Six to eight. Okay. Thank you. Second of all on the tenantry insurance, I mean, that's continuing to increase. Is that entirely a function of the third party management or are you still seeing pretty good growth at the property level as well with that?

**Karl Haas** - EXTRA SPACE STORAGE INC - EVP & COO

We are kind of topping out and it's, I think if when we take over new properties we have some upside on those. But on the mature properties we are getting to a point where our goal for this year is to get to 60%. We are at 59-point something percent and it's very, we are moving very, very slowly up. We are still getting a little bit of gain but it's, it's moving much -- much more slowly and we are really sensing that we are probably topping out.

**Mike Salinsky** - RBC Capital Markets - Analyst

Okay.

**Karl Haas** - EXTRA SPACE STORAGE INC - EVP & COO

As far as the percentage penetration.

**Mike Salinsky** - RBC Capital Markets - Analyst

That makes sense. The third, usually on the conference calls you give an update as to what July or the month forward trends are. How has July played out relative to the second quarter? Is it pretty consistent or have you seen a pick up at all?

**Spencer Kirk** - EXTRA SPACE STORAGE INC - Chairman, CEO

It's consistent, Mike, this is Spence. Obviously we are not even through July. We are the first to report amongst storage REITS. All I can say is the trends that we have seen during Q2 have continued in July with the normal seasonality pieces baked in there's no aberration or anything abnormal that would cause us to temper our comments or our results and in fact the revised guidance reflects that we think things are getting closer to normalcy than they have been and that's giving us some confidence.

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**Mike Salinsky** - RBC Capital Markets - Analyst

That's encouraging. Finally just a bigger picture question. As you see operating trends improve has there been any thoughts to maybe moving back in the development a little bit, maybe not on a grand sale but doing one offs here and there, maybe on some of the parcels that you had on balance sheet that you have written off previously.

**Spencer Kirk** - EXTRA SPACE STORAGE INC - Chairman, CEO

Let's talk about development for a minute. I think what we need to recognize is first of all as Kent said earlier, getting financing or loans for development projects is extremely difficult. The way we look at getting development returns for us we need to have that kind of leverage to justify the risk. To capture the return. We made a difficult decision to shut down the development department and with the inability to get loans and talent walking out the door we don't have any plans to try and crank this up. Once again, storage development is unique to the real estate second in that it takes a couple of years to get entitlements, a year to build, and then two, three, four years to lease it up. And this is not a spigot that we open and turn off easily and we've made a decision now. Now, with that being said, there are joint venture partners out there that we may participate in one or two select opportunities where we want to be but it would be on a limited basis and it would be with a partner. But opening a spigot and trying to start a development program again, I am not going to say never but we did shut down the development program and it is a permanent decision.

**Mike Salinsky** - RBC Capital Markets - Analyst

Okay. Thank you.

**Operator**

(Operator Instructions). Our next question is from the line of Ki Bin Kim.

**Ki Bin Kim** - Macquarie Capital Market - Analyst

Just a quick question, to the extent you are able to can you comment on the self storage portfolio, in the market with initial talk on price and volume or size?

**Kent Christensen** - EXTRA SPACE STORAGE INC - EVP & CFO

Well, we know that the, some properties were taken back by Wells Fargo. Wells Fargo is looking at marketing those assets. We are in the preliminary stages of getting information about that. So that's all we have right now is just what the information that Wells Fargo is going to plan on marketing the properties that we took back. But as of yet I can't -- I don't know what the total pricing is yet on things like that. I think there's 26 properties but that's all the information I have right now.

**Ki Bin Kim** - Macquarie Capital Market - Analyst

Do you know what kind of time frame they are looking at.

**Kent Christensen** - EXTRA SPACE STORAGE INC - EVP & CFO

We've been told that they wanted to do something quickly but quickly for that size of portfolio would probably be two or three months.

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**Ki Bin Kim** - *Macquarie Capital Market - Analyst*

Okay. Thank you.

**Operator**

Our next question is from the line of Michael Knott with Green Street Advisors. Please go ahead.

**Michael Knott** - *Green Street Advisors - Analyst*

Hey, Kent, I guess this is for you. have you looked at the pros and cons of the ATM equity programs and sort of where do you shake out on that?

**Kent Christensen** - *EXTRA SPACE STORAGE INC - EVP & CFO*

Yes, we have looked at that. It is another form of being able to raise equity. I think it raise equity. I think it goes back to the comment Spencer made to you a few minutes ago is if we decide to do sell stock, that would be a program we would look at in addition to other ones. In the case where we are right now it's a program but it's not one that we need to be working on since we are not in the process of needing to sell any stock right now.

**Michael Knott** - *Green Street Advisors - Analyst*

Thank you.

**Operator**

Thank you. We have no further questions at this time. I would like to turn the floor back over to management for any closing comments.

**Spencer Kirk** - *EXTRA SPACE STORAGE INC - Chairman, CEO*

We appreciate your participation today and we thank you for your interest in Extra Space Storage. We look forward to the next quarterly call. And we hope you have a good day. Thanks again.

**Operator**

Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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