UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2006

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to .

Commission File Number: 001-32269

EXTRA SPACE STORAGE INC.
(Exact name of registrant as specified in its charter)

Maryland	**20-1076777**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2795 East Cottonwood Parkway, Suite 400
Salt Lake City, Utah 84121
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: **(801) 562-5556**

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of exchange on which registered
Common Stock, $.01 par value	New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K. Yes o No x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The aggregate market value of the common stock held by non-affiliates of the registrant was $752,502,827 based upon the closing price on the New York Stock Exchange on June 30, 2006, the last business day of the registrant's most recently compeleted second fiscal quarter. This calculation does not reflect a determination that persons whose shares are excluded from the computation are affiliates for any other purpose.

The number of shares outstanding of the registrant's common stock, par value $0.01 per share, as of February 15, 2007 was 64,242,922.

Documents Incorporated by Reference

Portions of the registrant's definitive proxy statement to be issued in connection with the registrant's annual stockholders' meeting to be held in 2007 are incorporated by reference into Part III of this Annual Report on Form 10-K.

EXTRA SPACE STORAGE INC.
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Explanatory Note

The financial statements covered in this report for the period from January 1, 2004 to August 16, 2004 contain the results of operations and financial condition of Extra Space Storage LLC and its subsidiaries, the predecessor to Extra Space Storage Inc. and its subsidiaries, prior to the consummation of Extra Space Storage Inc.'s initial public offering on August 17, 2004, and various formation transactions. In addition, the financial statements covered in this report contain the results of operations and financial condition of Extra Space Storage Inc. for the period from August 17, 2004 to December 31, 2006. Amounts are in thousands (except per share data and unless otherwise stated).

Statements Regarding Forward-Looking Information

Certain information set forth in this report contains "forward-looking statements" within the meaning of the federal securities laws. Forward-looking statements include statements concerning our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions and other information that is not historical information. In some cases, forward-looking statements can be identified by terminology such as "believes," "expects," "estimates," "may," "will," "should," "anticipates," or "intends" or the negative of such terms or other comparable terminology, or by discussions of strategy. We may also make additional forward-looking statements from time to time. All such subsequent forward-looking statements, whether written or oral, by us or on our behalf, are also expressly qualified by these cautionary statements.

All forward-looking statements, including without limitation, management's examination of historical operating trends and estimate of future earnings, are based upon our current expectations and various assumptions. Our expectations, beliefs and projections are expressed in good faith and we believe there is a reasonable basis for them, but there can be no assurance that management's expectations, beliefs and projections will result or be achieved. All forward-looking statements apply only as of the date made. We undertake no obligation to publicly update or revise forward-looking statements which may be made to reflect events or circumstances after the date made or to reflect the occurrence of unanticipated events.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in or contemplated by this report. Any forward-looking statements should be considered in light of the risks referenced in "Part I. Item 1A. Risk Factors" below. Such factors include, but are not limited to:

- *changes in general economic conditions and in the markets in which we operate;*
- *the effect of competition from new self-storage facilities or other storage alternatives, which would cause rents and occupancy rates to decline;*
- *our ability to effectively compete in the industry in which we do business;*
- *difficulties in our ability to evaluate, finance and integrate acquired and developed properties into our existing operations and to lease up those properties, which could adversely affect our profitability;*
- *the impact of the regulatory environment as well as national, state, and local laws and regulations including, without limitation, those governing Real Estate Investment Trusts, which could increase our expenses and reduce our cash available for distribution;*
- *difficulties in raising capital at reasonable rates, which could impede our ability to grow;*
- *delays in the development and construction process, which could adversely affect our profitability; and*
- *economic uncertainty due to the impact of war or terrorism, which could adversely affect our business plan.*

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations are subject to risks and uncertainties and can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. You should carefully consider these risks before you make an investment decision with respect to our securities.

We disclaim any duty or obligation to update or revise any forward-looking statements set forth in this Annual Report on Form 10-K to reflect new information, future events or otherwise.

PART I

Item 1. Business

General

Extra Space Storage Inc. (“we,” “our,” “us” or the “Company”) is a self-administered and self-managed real estate investment trust (“REIT”) formed as a Maryland corporation on April 30, 2004 to own, operate, acquire, develop and redevelop professionally managed self-storage facilities. We closed our initial public offering (“IPO”) on August 17, 2004. Our common stock is traded on the New York Stock Exchange under the symbol “EXR.”

We were formed to continue the business of Extra Space Storage LLC and its subsidiaries (the “Predecessor”), which had engaged in the self-storage business since 1977. These companies were reorganized after the consummation of our IPO and various formation transactions. As of December 31, 2006, we held ownership interests in 567 properties located in 32 states and Washington, D.C. with an aggregate of approximately 41 million square feet of net rentable space and greater than 280,000 customers. Of these 567 properties, 219 are wholly-owned, and 348 are owned in joint-venture partnerships. An additional 74 properties are owned by franchisees or third parties and operated by us in exchange for a management fee, bringing total properties which we own and/or manage to 641.

We operate in two distinct segments: (1) property management and development and (2) rental operations. Our property management and development activities include acquiring, managing, developing and selling self-storage facilities. The rental operations activities include rental operations of self-storage facilities.

Substantially all of our business is conducted through Extra Space Storage LP (the “Operating Partnership”), and through our wholly-owned Massachusetts business trust subsidiaries. Our primary assets are general partner and limited partner interests in the Operating Partnership. This structure is commonly referred to as an umbrella partnership REIT, or UPREIT. We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”). To the extent we continue to qualify as a REIT we will not be subject to tax, with certain exceptions, on our net taxable income that is distributed to our stockholders.

We file our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports with the Securities and Exchange Commission (the “SEC”). You may obtain copies of these documents by visiting the SEC’s Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549, by calling the SEC at 1-800-SEC-0330 or by accessing the SEC’s website at http://www.sec.gov. In addition, as soon as reasonably practicable after such materials are furnished to the SEC, we make copies of these documents available to the public free of charge through our website at www.extraspace.com, or by contacting our Secretary at our principal offices, which are located at 2795 Cottonwood Parkway, Suite 400, Salt Lake City, Utah 84121, telephone number (801) 562-5556.

Management

Members of our executive management team have significant experience in all aspects of the self-storage industry, and have an average of more than ten years of industry experience. The senior management team has collectively acquired and/or developed more than 675 properties during the past 25 years for the Company, the Predecessor and other entities. Kenneth M. Woolley, Chairman and Chief Executive Officer, and Richard S. Tanner, Senior Vice President Development, have worked in the self-storage industry since 1977 and led some of the earliest self-storage facility development projects in the United States.

The remainder of our executive management team and their years of industry experience are as follows: Kent Christensen, Executive Vice President and Chief Financial Officer, 9 years; Charles Allen, Executive Vice President and Chief Legal Officer, 9 years; and Karl Haas, Executive Vice President and Chief Operating Officer, 19 years.

Members of the executive management team have guided the Company through substantial growth, developing and acquiring over $2.9 billion in assets since 1996. This growth has been funded through equity offerings and more than $2.0 billion in private equity capital since 1998. This private equity capital has come primarily from sophisticated, high net-worth individuals and institutional investors such as affiliates of Prudential Financial, Inc. and Fidelity Investments.

Our executive management and board of directors have a significant ownership position in the Company with executive officers and directors owning approximately 4.4 million shares or 6.8% of our outstanding common stock as of February 15, 2007.

Industry & Competition

Self-storage facilities refers to properties that offer do-it-yourself, month-to-month storage space rental for personal or business use. Self-storage offers a cost-effective and flexible storage alternative. Tenants rent fully enclosed spaces that can vary in size according to their specific needs and to which they have unlimited, exclusive access. Tenants have responsibility for moving their items into and out of their units. Self-storage unit sizes typically range from five feet by five feet to 20 feet by 20 feet, with an interior height of eight to 12 feet. Properties generally have on-site managers who supervise and run the day-to-day operations, providing tenants with assistance as needed.

Self-storage provides a convenient way for individuals and businesses to store their possessions, due to life-changes, or simply because of a need for storage space. The mix of residential tenants using a self-storage property is determined by a property’s local demographics and often includes people who are looking to downsize their living space or others who are not yet settled into a permanent residence.

Items that residential tenants place in self-storage properties range from cars, boats and recreational vehicles, to furniture, household items and appliances. Commercial tenants tend to include small business owners who require easy and frequent access to their goods, records, extra inventory or storage for seasonal goods.

Our research has shown that tenants choose a self-storage property based primarily on the convenience of the site to their home or business, making high-density, high-traffic population centers ideal locations for a self-storage property. A property’s perceived security and the general professionalism of the site managers and staff are also contributing factors to a site’s ability to successfully secure rentals. Although most self-storage properties are leased to tenants on a month-to-month basis, tenants tend to continue their leases for extended periods of time.

There are seasonal fluctuations in occupancy rates for self-storage properties. Based on our experience, generally, there is increased leasing activity at self-storage properties during the summer months due to the higher number of people who relocate during this period. The highest level of occupancy is typically at the end of July, while the lowest level of occupancy is seen in late February and early March.

Since inception in the early 1970’s the self-storage industry has experienced significant growth. In the past ten years, there has been even greater growth. According to the Self-Storage Almanac (the “Almanac”), in 1996 there were only 25,180 self-storage properties in the United States, with an average occupancy rate of 88.5% of net rentable square feet compared to 42,976 self-storage properties in 2006 with an average occupancy rate of 83.0 % of net rentable square feet. As population densities have

increased in the United States, there has been an increase in self-storage awareness and corresponding development, which we expect will continue in the future.

Increased competition has affected our business and has led to both pricing and discount pressure. This has limited our ability to increase revenues in many markets in which we operate. Many markets have been able to absorb the increase in self-storage development due to superior demographics and density. However, select markets have not been able to absorb the new facilities and have not performed as well.

We have encountered competition when we seek to acquire properties, especially for brokered portfolios. Aggressive bidding practices have been commonplace between both public and private entities, and this competition will continue to be a challenge for the Company's growth strategy.

Increased development within the self-storage industry has also led to an increased emphasis on site location, property design, innovation and functionality. We strive to have a creative and flexible approach to our development projects and we are open to a broad array of opportunities because of this flexibility. This is especially true for new sites slated for high-density population centers, to accommodate the requirements and tastes of local planning and zoning boards, and to distinguish a facility from other offerings in the market. Due to the attractive architecture of many of our development properties, we have been able to eliminate a typical barrier of entry for most self-storage developers in areas usually reserved for more traditional retail and commercial users.

The industry is also characterized by fragmented ownership. According to the 2007 Almanac, the top ten self-storage companies in the United States owned approximately 11.6% of total U.S. self-storage properties, and the top 50 self-storage companies owned approximately 15.5% of the total U.S. properties. We believe this fragmentation will contribute to continued consolidation at some level in the future. We also believe we are well positioned to be able to compete for acquisitions given our enhanced ability to access capital as a public company and our historical reputation for closing deals.

After our acquisition of the Storage USA properties on July 14, 2005, we became the second largest self-storage operator in the United States. We are now one of four public self-storage REITS along with Public Storage Inc. (NYSE: PSA), Sovran Self-Storage, Inc. (NYSE: SSS), and U-Store-It Inc. (NYSE: YSI).

Growth and Investment Strategies

Our primary business objectives are to maximize cash flow available for distribution to our stockholders and to achieve sustainable long-term growth in cash flow per share in order to maximize long-term stockholder value. We continue to evaluate a range of growth initiatives and opportunities. These include:

- ***Maximize the performance of properties through strategic, efficient and proactive management.*** We plan to pursue revenue generating and expense minimizing opportunities in our operations. Our revenue management team will seek to maximize revenue by responding to changing market conditions through our technology system's ability to provide real-time, interactive rental rate and discount management. Our scale allows greater ability than the majority of our competitors to implement national, regional and local marketing programs, which we believe will attract more customers to our stores at a lower net cost.

- ***Focus on the acquisition of self-storage properties from strategic partners and third parties.*** Our acquisitions team will continue to pursue the acquisition of single properties and multi-property portfolios that we believe can provide stockholder value. Our July 2005 acquisition of Storage USA has bolstered our reputation as a reliable, ethical buyer, which we believe enhances our ability to negotiate and close non-brokered, private deals. In addition, our status as an umbrella partnership real estate investment trust enables flexibility when structuring deals.

- ***Develop new self-storage properties.*** We have several joint venture and wholly-owned development properties and will continue to develop new self-storage properties in our core markets. Our development pipeline through 2009 includes 27 projects. The majority of the projects will be developed on a wholly-owned basis by the Company.

- ***Expand our management business.*** We see the management business as a future acquisition pipeline and expect to pursue strategic relationships with owners that should strengthen our acquisition pipeline through agreements which give us first right of refusal to purchase the managed property in the event of a potential sale. Twelve of our 2006 acquisitions came from this channel.

Financing of Our Growth Strategies

- ***Acquisition and Development Financing***

  We, as guarantor, and our Operating Partnership currently have a $100 million revolving line of credit (the "credit facility") that is collateralized by our self-storage properties. As of December 31, 2006, the credit facility had approximately $81.0 million of available capacity based on the assets collateralizing the credit facility. We expect to maintain a flexible approach in financing new property acquisitions. We plan to finance future acquisitions through a combination of borrowings under the credit facility, traditional secured mortgage financing and additional equity offerings.

- ***Development Joint Venture Financing***

  We own 338 of our stabilized properties and 10 of our lease-up properties through joint ventures with third parties, including affiliates of Prudential Financial, Inc. In each joint venture, we generally manage the day-to-day operations of the underlying properties and have the right to participate in major decisions relating to sales of properties or financings by the applicable joint venture. Our joint venture partners typically provide most of the equity capital required for the operation of the respective business. Under the operating agreements for the joint ventures, we typically maintain the right to receive between 17.0% and 50.0% of the available cash flow from operations after our joint venture partners have received a predetermined return, and between 17.0% and 50.0% of the available cash flow from capital transactions after our joint venture partners have received a return of their capital plus such predetermined return. Most joint venture agreements include buy-sell rights, as well as rights of first refusal in connection with the sale of properties by the joint venture.

- ***Disposition of Properties***

  We will continue to review our portfolio for properties or groups of properties that are not strategically located and determine whether to dispose of these properties to fund other growth.

Regulation

Generally, self-storage properties are subject to various laws, ordinances and regulations, including regulations relating to lien sale rights and procedures. Changes in any of these laws or regulations, as well as changes in laws, such as the Comprehensive Environmental Response and Compensation Liability Act, or CERCLA, which increase the potential liability for environmental conditions or circumstances existing or created by tenants or others on properties, or laws affecting development, construction, operation, upkeep, safety and taxation may result in significant unanticipated expenditures, loss of self-storage sites or other impairments to operations, which would adversely affect our financial position, results of operations or cash flows.

Under the Americans with Disabilities Act of 1990 (the "ADA"), all places of public accommodation are required to meet certain federal requirements related to access and use by disabled persons. These requirements became effective in 1992. A number of additional U.S. federal, state and local laws also exist

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that may require modifications to the properties, or restrict further renovations thereof, with respect to access thereto by disabled persons. Noncompliance with the ADA could result in the imposition of fines or an award of damages to private litigants and also could result in an order to correct any non-complying feature, thereby requiring substantial capital expenditures. To the extent our properties are not in compliance, we are likely to incur additional costs to comply with the ADA.

Insurance activities are subject to state insurance laws and regulations as determined by the particular insurance commissioner for each state in accordance with the McCarran-Ferguson Act, and are subject to the Gramm-Leach-Bliley Act and the privacy regulations promulgated by the Federal Trade Commission pursuant thereto.

Property management activities are often subject to state real estate brokerage laws and regulations as determined by the particular real estate commission for each state.

Changes in any of the laws governing our conduct could have an adverse impact on our ability to conduct our business or could materially affect our financial position, results of operations or cash flows.

Employees

As of February 15, 2007, we had 1,835 employees and believe our relationship with our employees to be good. Our employees are not represented by a collective bargaining agreement.

Item 1A. Risk Factors

An investment in our securities involves various risks. All investors should carefully consider the following risk factors in conjunction with the other information contained in this Annual Report before trading in our securities. If any of the events set forth in the following risks actually occur, our business, operating results, prospects and financial condition could be harmed.

Our performance is subject to risks associated with real estate investments. We are a real estate company that derives our income from operation of our properties. There are a number of factors that may adversely affect the income that our properties generate, including the following:

Risks Related to Our Properties and Operations

If we are unable to promptly re-let our units or if the rates upon such re-letting are significantly lower than expected, then our business and results of operations would be adversely affected.

Virtually all of our leases are on a month-to-month basis. Any delay in re-letting units as vacancies arise would reduce our revenues and harm our operating results. In addition, lower than expected rental rates upon re-letting could impede our growth.

We face increasing competition for the acquisition of self-storage properties and other assets, which may impede our ability to make future acquisitions or may increase the cost of these acquisitions.

We compete with many other entities engaged in real estate investment activities for acquisitions of self-storage properties and other assets, including national, regional and local operators and developers of self-storage properties. These competitors may drive up the price we must pay for self-storage properties or other assets we seek to acquire or may succeed in acquiring those properties or assets themselves. In addition, our potential acquisition targets may find our competitors to be more attractive suitors because they may have greater resources, may be willing to pay more or may have a more compatible operating philosophy. In addition, the number of entities and the amount of funds competing for suitable investment properties may increase. This competition will result in increased demand for these assets and therefore increased prices paid for them. Because of an increased interest in single-property acquisitions among tax-motivated individual purchasers, we may pay higher prices if we purchase single properties in

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comparison with portfolio acquisitions. If we pay higher prices for self-storage properties or other assets, our profitability will be reduced.

Our investments in development and redevelopment projects may not yield anticipated returns, which would harm our operating results and reduce the amount of funds available for distributions.

A key component of our growth strategy is exploring new asset development and redevelopment opportunities through strategic joint ventures and on a wholly-owned basis. To the extent that we engage in these development and redevelopment activities, they will be subject to the following risks normally associated with these projects:

- we may be unable to obtain financing for these projects on favorable terms or at all;
- we may not complete development projects on schedule or within budgeted amounts;

- we may encounter delays or refusals in obtaining all necessary zoning, land use, building, occupancy and other required governmental permits and authorizations; and
- occupancy rates and rents at newly developed or redeveloped properties may fluctuate depending on a number of factors, including market and economic conditions, and may result in our investment not being profitable.

In deciding whether to develop or redevelop a particular property, we make certain assumptions regarding the expected future performance of that property. We may underestimate the costs necessary to bring the property up to the standards established for its intended market position or may be unable to increase occupancy at a newly acquired property as quickly as expected or at all. Any substantial unanticipated delays or expenses could adversely affect the investment returns from these development or redevelopment projects and harm our operating results, liquidity and financial condition, which could result in a decline in the value of our securities.

We may in the future develop self-storage properties in geographic regions where we do not currently have a significant presence and where we do not possess the same level of familiarity with development, which could adversely affect our ability to develop such properties successfully or at all or to achieve expected performance.

We rely on the investments of our joint venture partners for funding our development and redevelopment projects. If our reputation in the self-storage industry changes or the number of investors considering us an attractive strategic partner is otherwise reduced, our ability to develop or redevelop properties could be affected, which would limit our growth.

We may not be successful in identifying and consummating suitable acquisitions that meet our criteria, which may impede our growth and negatively affect our stock price.

Our ability to expand through acquisitions is integral to our business strategy and requires us to identify suitable acquisition candidates or investment opportunities that meet our criteria and are compatible with our growth strategy. We may not be successful in identifying suitable properties or other assets that meet our acquisition criteria or in consummating acquisitions or investments on satisfactory terms or at all. Failure to identify or consummate acquisitions will slow our growth, which could in turn adversely affect our stock price.

Our ability to acquire properties on favorable terms and successfully integrate and operate them may be constrained by the following significant risks:

- competition from local investors and other real estate investors with significant capital, including other publicly-traded REITs and institutional investment funds;
- competition from other potential acquirers may significantly increase the purchase price which could reduce our profitability;
- satisfactory completion of due diligence investigations and other customary closing conditions;
- failure to finance an acquisition on favorable terms or at all;
- we may spend more than the time and amounts budgeted to make necessary improvements or renovations to acquired properties; and
- we may acquire properties subject to liabilities without any recourse, or with only limited recourse, with respect to unknown liabilities such as liabilities for clean-up of undisclosed environmental contamination, claims by persons dealing with the former owners of the properties and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

In addition, strategic decisions by us, such as acquisitions, may adversely affect the price of our securities.

We may not be successful in integrating and operating acquired properties.

We expect to make future acquisitions of self-storage properties. If we acquire any self-storage properties, we will be required to integrate them into our existing portfolio. The acquired properties may turn out to be less compatible with our growth strategy than originally anticipated, may cause disruptions in our operations or may divert management’s attention away from day-to-day operations, which could impair our results of operations as a whole.

We depend upon our on-site personnel to maximize tenant satisfaction at each of our properties, and any difficulties we encounter in hiring, training and maintaining skilled field personnel may harm our operating performance.

We had 1,618 field personnel as of February 15, 2007 in the management and operation of our properties. The general professionalism of our site managers and staff are contributing factors to a site’s ability to successfully secure rentals and retain tenants. We also rely upon our field personnel to maintain clean and secure self-storage properties. If we are unable to successfully recruit, train and retain qualified field personnel, the quality of service we strive to provide at our properties could be adversely affected which could lead to decreased occupancy levels and reduced operating performance.

Other self-storage operators may employ STORE or a technology similar to STORE, which could enhance their ability to compete with us.

We rely on STORE to support all aspects of our business operations and to help us implement new development and acquisition opportunities and strategies. If other self-storage companies obtain a license to use STORE, or employ or develop a technology similar to STORE, their ability to compete with us could be enhanced.

Uninsured losses or losses in excess of our insurance coverage could adversely affect our financial condition and our cash flow.

We maintain comprehensive liability, fire, flood, earthquake, wind (as deemed necessary or as required by our lenders), extended coverage and rental loss insurance with respect to our properties with policy specifications, limits and deductibles customarily carried for similar properties. Certain types of losses, however, may be either uninsurable or not economically insurable, such as losses due to earthquakes, hurricanes, tornadoes, riots, acts of war or terrorism. Should an uninsured loss occur, we could lose both our investment in and anticipated profits and cash flow from a property. In addition, if any such

loss is insured, we may be required to pay a significant deductible on any claim for recovery of such a loss prior to our insurer being obligated to reimburse us for the loss, or the amount of the loss may exceed our coverage for the loss. As a result, our operating results may be adversely affected.

Increases in taxes and regulatory compliance costs may reduce our income.

Costs resulting from changes in real estate tax laws generally are not passed through to tenants directly and will affect us. Increases in income, property or other taxes generally are not passed through to tenants under leases and may reduce our net income, funds from operations ("FFO"), cash flow, financial condition, ability to pay or refinance our debt obligations, ability to make distributions to stockholders, and the trading price of our securities. Similarly, changes in laws increasing the potential liability for environmental conditions existing on properties or increasing the restrictions on discharges or other conditions may result in significant unanticipated expenditures, which could similarly adversely affect our business and results of operations.

We do not always obtain independent appraisals of our properties, and thus the consideration paid for these properties may exceed the value that may be indicated by third-party appraisals.

We do not always obtain third-party appraisals in connection with our acquisition of properties and the consideration being paid by us in exchange for those properties may exceed the value as determined by third-party appraisals. In such cases, the terms of any agreements and the valuation methods used to determine the value of the properties were determined by our senior management team.

Environmental compliance costs and liabilities associated with operating our properties may affect our results of operations.

Under various U.S. federal, state and local laws, ordinances and regulations, owners and operators of real estate may be liable for the costs of investigating and remediating certain hazardous substances or other regulated materials on or in such property. Such laws often impose such liability without regard to whether the owner or operator knew of, or was responsible for, the presence of such substances or materials. The presence of such substances or materials, or the failure to properly remediate such substances, may adversely affect the owner's or operator's ability to lease, sell or rent such property or to borrow using such property as collateral. Persons who arrange for the disposal or treatment of hazardous substances or other regulated materials may be liable for the costs of removal or remediation of such substances at a disposal or treatment facility, whether or not such facility is owned or operated by such person. Certain environmental laws impose liability for release of asbestos-containing materials into the air and third parties may seek recovery from owners or operators of real properties for personal injury associated with asbestos-containing materials.

Certain environmental laws also impose liability, without regard to knowledge or fault, for removal or remediation of hazardous substances or other regulated materials upon owners and operators of contaminated property even after they no longer own or operate the property. Moreover, the past or present owner or operator from which a release emanates could be liable for any personal injuries or

property damages that may result from such releases, as well as any damages to natural resources that may arise from such releases.

Certain environmental laws impose compliance obligations on owners and operators of real property with respect to the management of hazardous materials and other regulated substances. For example, environmental laws govern the management of asbestos-containing materials and lead-based paint. Failure to comply with these laws can result in penalties or other sanctions.

No assurances can be given that existing environmental studies with respect to any of our properties reveal all environmental liabilities, that any prior owner or operator of our properties did not create any material environmental condition not known to us, or that a material environmental condition does not otherwise exist as to any one or more of our properties. There also exists the risk that material environmental conditions, liabilities or compliance concerns may have arisen after the review was completed or may arise in the future. Finally, future laws, ordinances or regulations and future interpretations of existing laws, ordinances or regulations may impose additional material environmental liability.

Adverse economic or other conditions in the markets in which we do business could negatively affect our occupancy levels and rental rates and therefore our operating results.

Our operating results are dependent upon our ability to maximize occupancy levels and rental rates in our self-storage properties. Adverse economic or other conditions in the markets in which we operate may lower our occupancy levels and limit our ability to increase rents or require us to offer rental discounts. If our properties fail to generate revenues sufficient to meet our cash requirements, including operating and other expenses, debt service and capital expenditures, our net income, FFO, cash flow, financial condition, ability to make distributions to stockholders and trading price of our securities could be adversely affected. The following factors, among others, may adversely affect the operating performance of our properties:

- the national economic climate and the local or regional economic climate in the markets in which we operate, which may be adversely impacted by, among other factors, industry slowdowns, relocation of businesses and changing demographics;
- periods of economic slowdown or recession, rising interest rates or declining demand for self-storage or the public perception that any of these events may occur could result in a general decline in rental rates or an increase in tenant defaults;
- local or regional real estate market conditions such as the oversupply of self-storage or a reduction in demand for self-storage in a particular area;
- perceptions by prospective users of our self-storage properties of the safety, convenience and attractiveness of our properties and the neighborhoods in which they are located;
- increased operating costs, including need for capital improvements, insurance premiums, real estate taxes and utilities;
- changes in supply of or demand for similar or competing properties in an area;
- the impact of environmental protection laws;
- earthquakes, hurricanes and other natural disasters, terrorist acts, civil disturbances or acts of war which may result in uninsured or underinsured losses; and
- changes in tax, real estate and zoning laws.

Risks Related to Our Organization and Structure

Our business could be harmed if key personnel with long-standing business relationships in the self-storage industry terminate their employment with us.

Our success depends, to a significant extent, on the continued services of our Chairman and Chief Executive Officer and the other members of our executive management team. Our executive management team has substantial experience in the self-storage industry. In addition, our ability to continue to develop properties depends on the significant relationships our executive management team has developed with our institutional joint venture partners such as affiliates of Prudential Financial, Inc. There is no guarantee that any of them will remain employed by us. We do not maintain key person life insurance on any of our officers. The loss of services of one or more members of our executive management team, particularly our Chairman and Chief Executive Officer, could harm our business and our prospects.

We may change our investment and financing strategies and enter into new lines of business without stockholder consent, which may subject us to different risks.

We may change our investment and financing strategies and enter into new lines of business without stockholder consent, which may subject us to different risks. We may change our investment and financing strategies and enter into new lines of business at any time without the consent of our stockholders, which could result in our making investments and engaging in business activities that are different from, and possibly riskier than, the investments and businesses described in this document. A change in our investment strategy or our entry into new lines of business may increase our exposure to other risks or real estate market fluctuations.

If other self-storage companies convert to an UPREIT structure or if tax laws change, we may no longer have an advantage in competing for potential acquisitions.

Because we are structured as an UPREIT, we are a more attractive acquirer of properties to tax-motivated sellers than our competitors that are not structured as UPREITs. However, if other self-storage companies restructure their holdings to become UPREITs, this competitive advantage will disappear. In addition, new legislation may be enacted or new interpretations of existing legislation may be issued by the Internal Revenue Service ("IRS"), or the U.S. Treasury Department that could affect the attractiveness of our UPREIT structure so that it may no longer assist us in competing for acquisitions.

Tax indemnification obligations may require the Operating Partnership to maintain certain debt levels.

In connection with the formation transactions entered into prior to our IPO in 2004, we agreed to make available to each of Kenneth M. Woolley, our Chairman and Chief Executive Officer, Richard S. Tanner, our Senior Vice President, Development, and other third parties, the following tax protections: for nine years, with a three-year extension if the applicable party continues to own at least 50% of the OP units received by it in the formation transactions at the expiration of the initial nine-year period, the opportunity to (1) guarantee debt or (2) enter into a special loss allocation and deficit restoration obligation, in an aggregate amount, with respect to the foregoing contributors, of at least $60.0 million. We agreed to these provisions in order to assist these contributors in preserving their tax position after their contributions. These obligations may require us to maintain certain indebtedness that we would not otherwise require for our business.

Our joint venture investments could be adversely affected by our lack of sole decision-making authority.

As of December 31, 2006, we held interests in 348 properties through joint ventures. All of these arrangements could be adversely affected by our lack of sole decision-making authority, our reliance on co-venturers' financial conditions and disputes between us and our co-venturers. We expect to continue our

joint venture strategy by entering into more joint ventures for the purpose of developing new self-storage properties and acquiring existing properties. In such event, we would not be in a position to exercise sole decision-making authority regarding the property, partnership, joint venture or other entity. The decision-making authority regarding the properties we currently hold through joint ventures is either vested exclusively with our joint venture partners, is subject to a majority vote of the joint venture partners or equally shared by us and the joint venture partners. In addition, investments in partnerships, joint ventures or other entities may, under certain circumstances, involve risks not present were a third party not involved, including the possibility that partners or co-venturers might become bankrupt or fail to fund their share of required capital contributions. Partners or co-venturers may have economic or other business interests or goals which are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives. Such investments may also have the potential risk of impasses on decisions, such as a sale, because neither we nor the partner or co-venturer would have full control over the partnership or joint venture. Disputes between us and partners or co-venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and/or directors from focusing their time and efforts on our business. Consequently, actions by or disputes with partners or co-venturers might result in subjecting properties owned by the partnership or joint venture to additional risk. In addition, we may in certain circumstances be liable for the actions of our third-party partners or co-venturers, which could harm our financial condition.

Kenneth M. Woolley, our Chairman and Chief Executive Officer, Spencer F. Kirk, one of our directors, Richard S. Tanner, Senior Vice President, Development, Kent W. Christensen, Executive Vice President and Chief Financial Officer, and Charles L. Allen, Executive Vice President and Chief Legal Officer, members of our senior management team, have outside business interests which could divert their time and attention away from us, which could harm our business.

Kenneth M. Woolley, our Chairman and Chief Executive Officer, as well as one of our directors and certain other members of our senior management team, have outside business interests. These business interests include the ownership of a self-storage property located in Pico Rivera, California, which as of December 31, 2006 was in lease-up, and the ownership of Extra Space Development LLC. Other than this property and Extra Space Development, LLC, the members of our senior management are not currently engaged in any other self-storage activities outside the Company. In addition, Mr. Woolley's employment agreement includes an exception to his non-competition covenant pursuant to which he is permitted to devote a portion of his time to the management and operations of Nevada West Development, LLC (formerly known as RMI Development, LLC), a multi-family business in which he has a majority ownership. Although Mr. Woolley's employment agreement requires that he devote substantially his full business time and attention to us, this agreement also permits him to devote time to his outside business interests. These outside business interests could interfere with his ability to devote time to our business and affairs and as a result, our business could be harmed.

Conflicts of interest could arise as a result of our relationship with our Operating Partnership.

Conflicts of interest could arise in the future as a result of the relationships between us and our affiliates, and our Operating Partnership or any partner thereof. Our directors and officers have duties to our Company under applicable Maryland law in connection with their management of our Company. At the same time, we, through our wholly-owned subsidiary, have fiduciary duties, as a general partner, to our Operating Partnership and to the limited partners under Delaware law in connection with the management of our Operating Partnership. Our duties, through our wholly-owned subsidiary, as a general partner to our Operating Partnership and its partners may come into conflict with the duties of our directors and officers to our Company. The partnership agreement of our Operating Partnership does not require us to resolve such conflicts in favor of either our Company or the limited partners in our Operating Partnership.

Unless otherwise provided for in the relevant partnership agreement, Delaware law generally requires a general partner of a Delaware limited partnership to adhere to fiduciary duty standards under which it owes its limited partners the highest duties of good faith, fairness, and loyalty and which generally prohibit such general partner from taking any action or engaging in any transaction as to which it has a conflict of interest.

Additionally, the partnership agreement expressly limits our liability by providing that neither we, our direct wholly-owned Massachusetts business trust subsidiary, as the general partner of the Operating Partnership, nor any of our or their trustees, directors or officers, will be liable or accountable in damages to our Operating Partnership, the limited partners or assignees for errors in judgment, mistakes of fact or law or for any act or omission if we, or such trustee, director or officer, acted in good faith. In addition, our Operating Partnership is required to indemnify us, our affiliates and each of our respective trustees, officers, directors, employees and agents to the fullest extent permitted by applicable law against any and all losses, claims, damages, liabilities (whether joint or several), expenses (including, without limitation, attorneys' fees and other legal fees and expenses), judgments, fines, settlements and other amounts arising from any and all claims, demands, actions, suits or proceedings, civil, criminal, administrative or investigative, that relate to the operations of the Operating Partnership, provided that our Operating Partnership will not indemnify for (1) willful misconduct or a knowing violation of the law, (2) any transaction for which such person received an improper personal benefit in violation or breach of any provision of the partnership agreement, or (3) in the case of a criminal proceeding, the person had reasonable cause to believe the act or omission was unlawful.

The provisions of Delaware law that allow the common law fiduciary duties of a general partner to be modified by a partnership agreement have not been resolved in a court of law, and we have not obtained an opinion of counsel covering the provisions set forth in the partnership agreement that purport to waive or restrict our fiduciary duties that would be in effect under common law were it not for the partnership agreement.

Our management's ownership of contingent conversion shares, or CCSs, and contingent conversion units, or CCUs, may cause them to devote a disproportionate amount of time to the performance of the related 14 wholly-owned early-stage lease-up properties, which could cause our overall operating performance to suffer.

In connection with our IPO, we issued to certain contributors, which included certain members of our senior management, CCSs and/or a combination of OP units and CCUs. The terms of the CCSs and CCUs provide that they will convert into our common stock and OP units, respectively, only if the relevant 14 lease-up properties identified at the time of the IPO achieve specified performance thresholds prior to December 31, 2008. As a result, our directors and officers who own CCSs and CCUs may have an incentive to devote a disproportionately large amount of their time and attention to these properties in comparison with our remaining properties, which could harm our operating results.

We may pursue less vigorous enforcement of terms of contribution and other agreements because of conflicts of interest with certain of our officers.

Kenneth M. Woolley, our Chairman and Chief Executive Officer, Spencer F. Kirk, who serves as director, Kent W. Christensen, Executive Vice President and Chief Financial Officer, Charles L. Allen, Executive Vice President and Chief Legal Officer, and Richard S. Tanner, Senior Vice President, Development had direct or indirect ownership interests in certain properties that were contributed to our Operating Partnership in the formation transactions. Following the completion of the formation transactions, we, under the agreements relating to the contribution of such interests, became entitled to indemnification and damages in the event of breaches of representations or warranties made by the contributors. In addition, Kenneth M. Woolley's employment agreement includes an exception to his non-

competition covenant pursuant to which he is permitted to devote time to the management and operations of Nevada West Development, LLC (formerly known as RMI Development, LLC), a multi-family business. None of these contribution and non-competition agreements was negotiated at an arm's-length basis. We may choose not to enforce, or to enforce less vigorously, our rights under these contribution and non-competition agreements because of our desire to maintain our ongoing relationships with the individuals party to these agreements.

Certain provisions of Maryland law and our organizational documents, including the stock ownership limit imposed by our charter, may inhibit market activity in our stock and could prevent or delay a change in control transaction.

Our charter, subject to certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT and to limit any person to actual or constructive ownership of no more than 7.0% (by value or by number of shares, whichever is more restrictive) of our outstanding common stock or 7.0% (by value or by number of shares, whichever is more restrictive) of our outstanding capital stock. Our board of directors, in its sole discretion, may exempt a proposed transferee from the ownership limit. However, our board of directors may not grant an exemption from the ownership limit to any proposed transferee whose ownership could jeopardize our qualification as a REIT. These restrictions on ownership will not apply if our board of directors determines that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT. The ownership limit may delay or impede a transaction or a change of control that might involve a premium price for our securities or otherwise be in the best interests of our stockholders. Different ownership limits apply to the family of Kenneth M. Woolley, certain of his affiliates, family members and estates and trusts formed for the benefit of the foregoing and Spencer F. Kirk, certain of his affiliates, family members and estates and trusts formed for the benefit of the foregoing and certain designated investment entities (as defined in our charter).

Our board of directors has the power to issue additional shares of our stock in a manner that may not be in the best interest of our stockholders.

Our charter authorizes our board of directors to issue additional authorized but unissued shares of common stock or preferred stock and to increase the aggregate number of authorized shares or the number of shares of any class or series without stockholder approval. In addition, our board of directors may

classify or reclassify any unissued shares of common stock or preferred stock and set the preferences, rights and other terms of the classified or reclassified shares. Our board of directors could issue additional shares of our common stock or establish a series of preferred stock that could have the effect of delaying, deferring or preventing a change in control or other transaction that might involve a premium price for our securities or otherwise not be in the best interests of our stockholders.

Our rights and the rights of our stockholders to take action against our directors and officers are limited.

Maryland law provides that a director or officer has no liability in that capacity if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. In addition, our charter eliminates our directors' and officers' liability to us and our stockholders for money damages except for liability resulting from actual receipt of an improper benefit in money, property or services or active and deliberate dishonesty established by a final judgment and which is material to the cause of action. Our bylaws require us to indemnify our directors and officers for liability resulting from actions taken by them in those capacities to the maximum extent permitted by Maryland law. As a result, we and our stockholders may have more limited rights against our directors and officers than might

otherwise exist under common law. In addition, we may be obligated to fund the defense costs incurred by our directors and officers.

To the extent our distributions represent a return of capital for U.S. federal income tax purposes, our stockholders could recognize an increased capital gain upon a subsequent sale of common stock.

Distributions in excess of our current and accumulated earnings and profits and not treated by us as a dividend will not be taxable to a U.S. stockholder under current U.S. federal income tax law to the extent those distributions do not exceed the stockholder's adjusted tax basis in his, her, or its common stock, but instead will constitute a return of capital and will reduce such adjusted basis. If distributions result in a reduction of a stockholder's adjusted basis in such holder's common stock, subsequent sales of such holder's common stock will result in recognition of an increased capital gain or realized capital loss due to the reduction in such adjusted basis.

Risks Related to the Real Estate Industry

Our primary business involves the ownership, operation and development of self-storage properties.

Our current strategy is to own, operate and develop only self-storage properties. Consequently, we are subject to risks inherent in investments in a single industry. Because investments in real estate are inherently illiquid, this strategy makes it difficult for us to diversify our investment portfolio and to limit our risk when economic conditions change. Decreases in market rents, negative tax, real estate and zoning law changes and changes in environmental protection laws may also increase our costs, lower the value of our investments and decrease our income, which would adversely affect our business, financial condition and operating results.

Any negative perceptions of the self-storage industry generally may result in a decline in our stock price.

To the extent that the investing public has a negative perception of the self-storage industry, the value of our securities may be negatively impacted, which could result in our securities trading below the inherent value of our assets.

Costs associated with complying with the Americans with Disabilities Act of 1990 may result in unanticipated expenses.

Under the ADA, all places of public accommodation are required to meet certain federal requirements related to access and use by disabled persons. These requirements became effective in 1992. A number of additional U.S. federal, state and local laws may also require modifications to our properties, or restrict certain further renovations of the properties, with respect to access thereto by disabled persons. Noncompliance with the ADA could result in the imposition of fines or an award of damages to private litigants and also could result in an order to correct any non-complying feature, which could result in substantial capital expenditures. We have not conducted an audit or investigation of all of our properties to determine our compliance and we cannot predict the ultimate cost of compliance with the ADA or other legislation. If one or more of our properties is not in compliance with the ADA or other legislation, then we would be required to incur additional costs to bring the facility into compliance. If we incur substantial costs to comply with the ADA or other legislation, our financial condition, results of operations, cash flow, per share trading price of our securities and our ability to satisfy our debt service obligations and to make distributions to our stockholders could be adversely affected.

Illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of our properties.

Because real estate investments are relatively illiquid, our ability to promptly sell one or more properties in our portfolio in response to changing economic, financial and investment conditions is limited. The real estate market is affected by many factors, such as general economic conditions, availability of financing, interest rates and other factors, including supply and demand, that are beyond our control. We cannot predict whether we will be able to sell any property for the price or on the terms set by us or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property.

We may be required to expend funds to correct defects or to make improvements before a property can be sold. We cannot assure you that we will have funds available to correct those defects or to make those improvements. In acquiring a property, we may agree to transfer restrictions that materially restrict us from selling that property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed or repaid on that property. These transfer restrictions would impede our ability to sell a property even if we deem it necessary or appropriate.

Any investments in unimproved real property may take significantly longer to yield income-producing returns, if at all, and may result in additional costs to us to comply with re-zoning restrictions or environmental regulations.

We have invested in the past, and may invest in the future, in unimproved real property. Unimproved properties generally take longer to yield income-producing returns based on the typical time required for development. Any development of unimproved property may also expose us to the risks and

uncertainties associated with re-zoning the land for a higher use or development and environmental concerns of governmental entities and/or community groups. Any unsuccessful investments or delays in realizing an income-producing return or increased costs to develop unimproved real estate could restrict our ability to earn our targeted rate of return on an investment or adversely affect our ability to pay operating expenses which would harm our financial condition and operating results.

Risks Related to Our Debt Financings

Required payments of principal and interest on borrowings may leave us with insufficient cash to operate our properties or to pay the distributions currently contemplated or necessary to maintain our qualification as a REIT and may expose us to the risk of default under our debt obligations.

As of December 31, 2006, we had approximately $948.2 million of outstanding indebtedness. We expect to incur additional debt in connection with future acquisitions. We may borrow under our line of credit or borrow new funds to acquire these future properties. Additionally, we do not anticipate that our internally generated cash flow will be adequate to repay our existing indebtedness upon maturity and, therefore, we expect to repay our indebtedness through refinancings and equity and/or debt offerings. Further, we may need to borrow funds to make distributions required to maintain our qualification as a REIT or to meet our expected distributions.

If we are required to utilize our line of credit for purposes other than acquisition activity, this will reduce the amount available for acquisitions and could slow our growth. Therefore, our level of debt and the limitations imposed on us by our debt agreements could have significant adverse consequences, including the following:

- our cash flow may be insufficient to meet our required principal and interest payments;
- we may be unable to borrow additional funds as needed or on favorable terms, including to make acquisitions or distributions required to maintain our qualification as a REIT;

- we may be unable to refinance our indebtedness at maturity or the refinancing terms may be less favorable than the terms of our original indebtedness;
- because a portion of our debt bears interest at variable rates, an increase in interest rates could materially increase our interest expense;
- we may be forced to dispose of one or more of our properties, possibly on disadvantageous terms;
- after debt service, the amount available for distributions to our stockholders is reduced;
- our debt level could place us at a competitive disadvantage compared to our competitors with less debt;
- we may experience increased vulnerability to economic and industry downturns, reducing our ability to respond to changing business and economic conditions;
- we may default on our obligations and the lenders or mortgagees may foreclose on our properties that secure their loans and receive an assignment of rents and leases;
- we may violate restrictive covenants in our loan documents, which would entitle the lenders to accelerate our debt obligations; and
- our default under any one of our mortgage loans with cross-default or cross-collateralization provisions could result in a default on other indebtedness or result in the foreclosures of other properties.

We could become highly leveraged in the future because our organizational documents contain no limitation on the amount of debt we may incur.

Our organizational documents contain no limitations on the amount of indebtedness that we or our Operating Partnership may incur. We could alter the balance between our total outstanding indebtedness and the value of our portfolio at any time. If we become more highly leveraged, then the resulting increase in debt service could adversely affect our ability to make payments on our outstanding indebtedness and to pay our anticipated distributions and/or the distributions required to maintain our REIT qualification, and could harm our financial condition.

Increases in interest rates may increase our interest expense and adversely affect our cash flow and our ability to service our indebtedness and make distributions to our stockholders.

As of December 31, 2006 we had approximately $948.2 million of debt outstanding, of which approximately $85.1 million, or 9.0% was subject to variable interest rates (including $61.8 million on which we had a reverse interest rate swap). This variable rate debt had a weighted average interest rate of approximately 6.6% per annum. Increases in interest rates on this variable rate debt would increase our interest expense, which could harm our cash flow and our ability to pay distributions. For example, if market rates of interest on this variable rate debt increased by 100 basis points, the increase in interest expense would decrease future earnings and cash flows by approximately $0.9 million annually.

Failure to hedge effectively against interest rate changes may adversely affect our results of operations.

In certain cases we may seek to manage our exposure to interest rate volatility by using interest rate hedging arrangements. Hedging involves risks, such as the risk that the counterparty may fail to honor its obligations under an arrangement. Failure to hedge effectively against interest rate changes may adversely affect our financial condition, results of operations and ability to make distributions to our stockholders.

Risks Related to Qualification and Operation as a REIT

To maintain our qualification as a REIT, we may be forced to borrow funds on a short-term basis during unfavorable market conditions.

To qualify as a REIT, we generally must distribute to our stockholders at least 90% of our net taxable income each year, excluding net capital gains, and we are subject to regular corporate income taxes to the extent that we distribute less than 100% of our net taxable income each year. In addition, we are

subject to a 4% nondeductible excise tax on the amount, if any, by which distributions made by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years. In order to maintain our REIT qualification and avoid the payment of income and excise taxes, we may need to borrow funds on a short-term basis, or possibly long-term, to meet the REIT distribution requirements even if the then prevailing market conditions are not favorable for these borrowings. These borrowing needs could result from a difference in timing between the actual receipt of cash and inclusion of income for U.S. federal income tax purposes, or the effect of non-deductible capital expenditures, the creation of reserves or required debt amortization payments.

Dividends payable by REITs generally do not qualify for reduced tax rates.

The maximum U.S. federal income tax rate for dividends paid by domestic corporations to individual U.S. stockholders is 15% (through 2008). Dividends paid by REITs, however, are generally not eligible for the reduced rates. The more favorable rates applicable to regular corporate dividends could cause stockholders who are individuals to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our securities.

In addition, the relative attractiveness of real estate in general may be adversely affected by the favorable tax treatment given to corporate dividends, which could negatively affect the value of our properties.

Possible legislative or other actions affecting REITs could adversely affect our stockholders.

The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department. Changes to tax laws (which changes may have retroactive application) could adversely affect our stockholders. It cannot be predicted whether, when, in what forms, or with what effective dates, the tax laws applicable to us or our stockholders will be changed.

The power of our board of directors to revoke our REIT election without stockholder approval may cause adverse consequences to our stockholders.

Our charter provides that our board of directors may revoke or otherwise terminate our REIT election, without the approval of our stockholders, if it determines that it is no longer in our best interests to continue to qualify as a REIT. If we cease to qualify as a REIT, we would become subject to U.S. federal income tax on our taxable income and would no longer be required to distribute most of our net taxable income to our stockholders, which may have adverse consequences on the total return to our stockholders.

Our failure to qualify as a REIT would have significant adverse consequences to us and the value of our stock.

We operate in a manner that allows us to qualify as a REIT for U.S. federal income tax purposes under the Internal Revenue Code. If we fail to qualify as a REIT or lose our qualification as a REIT at any

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time, we will face serious tax consequences that would substantially reduce the funds available for distribution for each of the years involved because:

- we would not be allowed a deduction for distributions to stockholders in computing our taxable income and would be subject to U.S. federal income tax at regular corporate rates;
- we also could be subject to the U.S. federal alternative minimum tax and possibly increased state and local taxes; and
- unless we are entitled to relief under applicable statutory provisions, we could not elect to be taxed as a REIT for four taxable years following a year during which we were disqualified.

In addition, if we fail to qualify as a REIT, we will not be required to make distributions to stockholders, and all distributions to stockholders will be subject to tax as regular corporate dividends to the extent of our current and accumulated earnings and profits. This means that our U.S. individual stockholders would be taxed on our dividends at capital gains rates, and our U.S. corporate stockholders would be entitled to the dividends received deduction with respect to such dividends, subject, in each case, to applicable limitations under the Internal Revenue Code. As a result of all these factors, our failure to qualify as a REIT also could impair our ability to expand our business and raise capital, and could adversely affect the value of our securities.

Qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which there are only limited judicial and administrative interpretations. The complexity of these provisions and of the applicable Treasury regulations that have been promulgated under the Internal Revenue Code is greater in the case of a REIT that, like us, holds its assets through a partnership. The determination of various factual matters and circumstances not entirely within our control may affect our ability to qualify as a REIT. In order to qualify as a REIT, we must satisfy a number of requirements, including requirements regarding the composition of our assets and sources of our gross income. Our ability to satisfy the asset tests depends upon our analysis of the fair market value of our assets, some of which are not susceptible to precise determination, and for which we will not obtain independent appraisals. Also, we must make distributions to stockholders aggregating annually at least 90% of our net taxable income, excluding capital gains. In addition, legislation, new regulations, administrative interpretations or court decisions may adversely affect our investors, our ability to qualify as a REIT for U.S. federal income tax purposes or the desirability of an investment in a REIT relative to other investments.

We will pay some taxes.

Even though we qualify as a REIT for U.S. federal income tax purposes, we will be required to pay some U.S. federal, state and local taxes on our income and property. Extra Space Management, Inc. manages self-storage properties for our joint venture properties and properties owned by third parties. We, jointly with Extra Space Management, Inc., elected to treat Extra Space Management, Inc. as a “taxable REIT subsidiary” of our Company for U.S. federal income tax purposes. A taxable REIT subsidiary is a fully taxable corporation, and may be limited in its ability to deduct interest payments made to us. In addition, we will be subject to a 100% penalty tax on certain amounts if the economic arrangements among our tenants, our taxable REIT subsidiary and us are not comparable to similar arrangements among unrelated parties or if we receive payments for inventory or property held for sale to customers in the ordinary course of business. To the extent that we are or our taxable REIT subsidiary is required to pay U.S. federal, state or local taxes, we will have less cash available for distribution to stockholders.

Complying with REIT requirements may cause us to forego otherwise attractive opportunities.

To qualify as a REIT for U.S. federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our stock. In order to meet these tests, we may be required to forego attractive business or investment opportunities. Thus, compliance with the REIT requirements may adversely affect our ability to operate solely to maximize profits.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2006, we owned or had ownership interests in 567 self-storage properties located in 32 states and Washington, D.C. Of these properties, 219 are wholly-owned and 348 are held in joint ventures. In addition, we managed an additional 74 properties for franchisees or third parties bringing the total numbers of properties which we own and/or manage to 641. We receive a management fee equal to approximately 6% of gross revenues to manage the joint venture, third party and franchise sites. As of December 31, 2006, we owned or had ownership interest in approximately 41 million square feet of space configured in approximately 380,000 separate storage units. Approximately 70% of our properties are clustered around the larger population centers, such as Atlanta, Baltimore/Washington, D.C., Boston, Chicago, Dallas, Las Vegas, Los Angeles, Miami, New York City, Orlando, Philadelphia, Phoenix, St. Petersburg/Tampa and San Francisco. These markets contain above-average population and income demographics for new self-storage properties. The clustering of assets around these population centers enables us to reduce our operating costs through economies of scale. The Storage USA acquisition has given us an increased scale in many core markets as well as a foothold in many markets where we had no previous presence.

We consider a property to be in the lease-up stage after it has been issued a certificate of occupancy, but before it has achieved stabilization. We consider a property to be stabilized once it has achieved either an 80% occupancy rate or has been open for three years.

As of December 31, 2006, greater than 100,000 tenants were leasing storage units at our 219 wholly-owned properties, primarily on a month-to-month basis, providing the flexibility to increase rental rates over time as market conditions permit. Although leases are short-term in duration, the typical tenant tends to remain at our properties for an extended period of time. For properties that were stabilized as of December 31, 2006, the median length of stay was approximately eleven months.

Our property portfolio is a made up of different types of construction and building configurations depending on the site and the municipality where it is located. Most often sites are what we consider “hybrid” facilities, a mix of both drive-up buildings and multi-floor buildings. We have a number of multi-floor buildings with elevator access only, and a number of facilities featuring ground-floor access only.

The following table sets forth additional information regarding the occupancy of our stabilized properties on a state-by-state basis as of December 31, 2006 and 2005. The information as of December 31, 2005 is on a pro forma basis as though all the properties owned at December 31, 2006 were under our control as of December 31, 2005.

Stabilized Property Data Based on Location

Location	Number of Properties	Company Number of Units as of December 31, 2006(1)	Pro forma Number of Units as of December 31, 2005	Company Net Rentable Square Feet as of December 31, 2006(2)	Pro forma Net Rentable Square Feet as of December 31, 2005	Company Square Foot Occupancy % December 31, 2006	Pro forma Square Foot Occupancy % December 31, 2005
Wholly-Owned Properties							
Arizona	3	1,691	1,674	224,435	218,105	91.9%	97.2%
California	30	19,659	19,708	2,136,868	2,134,583	86.9%	86.2%
Colorado	5	2,393	2,408	301,591	301,581	85.9%	82.1%
Florida	25	16,840	16,644	1,789,677	1,776,185	84.9%	92.7%
Georgia	9	5,004	5,012	649,758	645,864	87.4%	85.7%
Illinois	3	2,123	2,144	195,324	197,197	84.3%	77.2%
Kansas	1	502	504	49,940	50,225	89.4%	79.4%
Kentucky	3	1,578	1,567	194,351	194,340	83.1%	88.0%
Louisiana	2	1,413	1,411	147,990	147,900	92.6%	97.4%
Maryland	6	5,430	5,475	573,157	583,504	83.5%	81.6%
Massachusetts	22	12,091	12,014	1,316,372	1,271,915	82.6%	83.6%
Michigan	2	1,046	1,042	134,722	134,912	80.5%	74.2%
Missouri	3	1,349	1,340	169,067	167,487	83.2%	75.9%
Nevada	1	464	462	56,800	56,500	72.4%	95.2%
New Hampshire	2	1,006	1,015	125,609	117,268	81.6%	78.8%
New Jersey	20	16,366	16,369	1,596,993	1,592,351	85.2%	83.9%
New York	6	6,053	6,054	388,074	391,067	79.7%	80.9%
Ohio	4	2,042	2,070	275,291	276,670	83.2%	79.3%
Oregon	1	767	764	103,610	103,690	86.6%	84.4%
Pennsylvania	8	6,134	6,053	641,922	627,975	82.9%	77.3%
Rhode Island	1	730	726	75,241	75,836	85.5%	89.2%
South Carolina	4	2,068	2,082	245,734	246,819	89.0%	89.5%
Tennessee	5	3,146	3,129	409,567	407,942	87.6%	87.7%
Texas	19	11,963	11,956	1,343,041	1,326,637	84.3%	83.6%
Utah	3	1,531	1,523	210,350	210,000	91.3%	88.5%
Virginia	2	1,219	1,220	125,458	126,094	84.1%	84.9%
Washington	3	2,030	2,020	244,595	242,525	93.9%	83.2%
Total Wholly-Owned Stabilized	**193**	**126,638**	**126,386**	**13,725,537**	**13,625,172**	**85.2%**	**85.2%**
Properties Held in Joint-Ventures							
Alabama	4	2,329	2,317	281,788	282,330	83.6%	82.4%
Arizona	12	7,465	7,426	805,981	806,392	92.0%	91.9%
California	72	51,864	52,118	5,315,479	5,332,177	86.6%	87.1%
Colorado	3	1,908	1,906	215,913	216,057	81.3%	79.1%
Connecticut	9	6,509	6,530	750,984	755,159	78.0%	74.3%
Delaware	1	589	589	71,655	71,655	87.5%	85.6%
Florida	24	20,347	20,399	2,081,555	2,059,561	85.0%	88.9%
Georgia	3	1,918	1,918	251,510	251,772	78.5%	77.5%
Illinois	5	3,356	3,329	360,937	363,437	75.6%	70.8%
Indiana	9	3,733	3,739	498,278	470,291	80.6%	81.0%

Kansas	3	1,214	1,208	164,200	164,350	85.0%	78.9%
Kentucky	4	2,276	2,254	268,339	266,377	82.6%	78.3%
Maryland	14	10,923	10,931	1,076,932	1,077,181	82.8%	81.3%
Massachusetts	17	9,238	9,281	1,050,215	1,053,174	81.1%	78.5%
Michigan	10	5,957	5,957	783,032	786,087	78.0%	73.9%
Missouri	5	2,763	2,755	324,130	323,765	81.2%	79.7%
Nevada	7	4,642	4,627	620,698	622,937	88.4%	88.5%
New Hampshire	3	1,323	1,330	137,754	138,779	83.6%	86.0%
New Jersey	18	13,154	13,127	1,387,611	1,307,315	85.8%	85.3%
New Mexico	9	4,728	4,473	529,414	517,481	83.9%	86.2%
New York	21	23,523	23,594	1,741,150	1,737,879	83.6%	80.8%
Ohio	12	5,570	5,588	825,812	829,479	85.1%	76.4%
Oregon	2	1,289	1,279	137,140	136,400	92.5%	87.0%
Pennsylvania	10	6,823	6,814	732,970	728,830	83.3%	78.7%

Rhode Island	1	611	611	73,905	74,005	69.2%	58.4%
Tennessee	23	12,194	12,180	1,585,453	1,588,078	85.2%	82.2%
Texas	19	12,670	12,649	1,603,935	1,600,432	76.9%	76.2%
Utah	1	520	519	59,400	59,400	89.4%	78.8%
Virginia	15	10,387	10,359	1,106,646	1,107,681	80.9%	80.1%
Washington	1	551	551	62,730	62,730	82.2%	92.7%
Washington, D.C.	1	1,536	1,536	101,990	105,592	86.6%	78.3%
Total Stabilized Joint-Ventures	**338**	**231,910**	**231,894**	**25,007,536**	**24,896,783**	**83.8%**	**82.6%**
Properties Managed							
California	3	2,176	2,179	275,910	271,530	81.1%	81.9%
Colorado	1	513	520	56,240	56,240	82.9%	87.3%
Florida	3	1,439	1,442	133,860	134,703	90.1%	90.3%
Illinois	1	763	762	108,590	108,690	85.8%	83.2%
Maryland	6	3,930	3,939	432,174	431,034	84.3%	83.8%
Nevada	3	3,387	3,332	257,533	252,653	83.6%	83.3%
New Jersey	2	1,093	1,079	131,492	131,092	87.3%	88.5%
New Mexico	2	1,585	1,587	171,555	170,955	89.2%	95.1%
New York	2	1,792	1,701	122,835	112,375	73.9%	84.1%
Pennsylvania	1	440	441	61,235	61,410	78.8%	74.4%
Tennessee	3	1,278	1,277	196,615	192,240	86.0%	81.9%
Texas	1	586	586	66,601	64,441	87.6%	90.4%
Utah	2	1,162	1,160	183,720	180,130	96.3%	88.2%
Virginia	2	1,433	1,430	136,737	146,457	76.8%	67.8%
Washington, D.C.	2	1,256	1,256	111,809	111,849	82.5%	79.1%
Total Stabilized Managed Properties	**34**	**22,833**	**22,691**	**2,446,906**	**2,425,799**	**84.7%**	**83.9%**
Total Stabilized	**565**	**381,381**	**380,971**	**41,179,979**	**40,947,754**	**84.3%**	**83.5%**

(1) Represents unit count as of December 31, 2006, which may differ from December 31, 2005 unit count due to unit conversions or expansions.

(2) Represents net rentable square feet as of December 31, 2006, which may differ from December 31, 2005 net rentable square feet due to unit conversions or expansions.

The following table sets forth additional information regarding the occupancy of our lease-up properties on a state-by-state basis as of December 31, 2006 and 2005. The information as of December 31, 2005 is on a pro forma basis as though all the properties owned at December 31, 2006 were under our control as of December 31, 2005.

Lease-up Property Data Based on Location

Location	Number of Properties	Company Number of Units as of December 31, 2006(1)	Pro forma Number of Units as of December 31, 2005	Company Net Rentable Square Feet as of December 31, 2006(2)	Pro forma Net Rentable Square Feet as of December 31, 2005	Company Square Foot Occupancy % December 31, 2006	Pro forma Square Foot Occupancy % December 31, 2005
Wholly-Owned Properties							
Arizona	1	599	—	67,375	—	55.8%	0.0%
California	4	2,830	2,166	346,455	226,688	68.6%	63.5%
Colorado	1	360	368	58,928	60,441	71.8%	47.8%
Connecticut	2	1,357	1,364	122,990	123,465	77.6%	62.5%
Florida	2	1,041	1,010	129,890	127,540	81.6%	76.7%
Illinois	2	1,137	1,141	144,570	144,965	75.5%	65.8%
Massachusetts	6	4,296	3,328	407,332	321,335	58.8%	66.1%
Nevada	1	776	796	74,135	75,385	93.0%	77.0%
New Jersey	3	2,487	2,411	237,875	222,985	79.5%	76.9%
New York	1	903	912	67,360	68,920	80.3%	69.2%
Pennsylvania	1	424	425	47,160	47,680	65.3%	53.0%
Virginia	1	728	727	75,451	75,700	81.2%	70.9%
Washington	1	527	539	61,250	61,250	83.5%	53.0%
Total Wholly-Owned Lease-up	**26**	**17,465**	**15,187**	**1,840,771**	**1,556,354**	**71.9%**	**67.1%**
Properties Held in Joint-Ventures							
Illinois	2	1,627	689	146,388	74,345	54.1%	55.7%
Maryland	1	957	—	73,644	—	25.1%	0.0%
New Jersey	3	2,554	2,550	266,155	266,070	80.9%	72.0%
New Mexico	1	508	530	65,904	58,714	92.5%	58.1%
New York	1	620	621	64,555	64,565	86.4%	66.0%
Pennsylvania	1	764	776	76,773	76,578	82.9%	62.3%
Virginia	1	878	878	84,383	85,025	61.2%	47.7%
Total Lease-up Joint Ventures	**10**	**7,908**	**6,044**	**777,802**	**625,297**	**70.1%**	**63.6%**
Managed Properties							

California	13	8,593	6,457	871,349	654,024	70.8%	64.1%
Connecticut	1	696	696	55,260	55,055	59.0%	43.3%
Florida	4	2,197	2,184	182,903	183,442	76.8%	56.0%
Georgia	5	2,507	2,700	300,385	300,355	76.4%	45.7%
Illinois	2	1,574	1,571	190,509	193,622	59.1%	40.6%
Indiana	1	589	604	68,690	68,740	64.9%	29.0%
Massachusetts	5	4,454	2,460	373,135	211,064	55.5%	51.3%
Maryland	3	2,031	2,003	194,381	194,810	83.2%	64.6%
New York	1	1,579	1,580	116,260	117,911	72.6%	52.9%
Rhode Island	1	504	—	55,995	—	29.1%	0.0%
Texas	3	1,729	1,681	193,539	185,747	82.1%	67.2%
Vriginia	1	682	664	74,850	74,820	75.3%	59.4%
Total Managed Lease-up	**40**	**27,135**	**22,600**	**2,677,256**	**2,239,590**	**69.5%**	**55.7%**
Total Lease-up Properties	**76**	**52,508**	**43,831**	**5,295,829**	**4,421,241**	**70.4%**	**60.8%**

(1) Represents unit count as of December 31, 2006, which may differ from December 31, 2005 unit count due to unit conversions or expansions.

(2) Represents net rentable square feet as of December 31, 2006, which may differ from December 31, 2005 net rentable square feet due to unit conversions or expansions.

Item 3. Legal Proceedings

We are involved in various litigation and legal proceedings in the ordinary course of business. We are not a party to any material litigation or legal proceedings, or to the best of our knowledge, any threatened litigation or legal proceedings which, in the opinion of management, will have a material adverse effect on our financial condition or results of operations either individually or in the aggregate.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of our security holders during the fourth quarter ended December 31, 2006.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock has been traded on the New York Stock Exchange ("NYSE") under the symbol "EXR" since our IPO on August 17, 2004. Prior to that time there was no public market for our common stock.

The following table sets forth, for the periods indicated, the high and low bid price for our common stock as reported by the NYSE and the per share dividends declared:

Year	Quarter	Range High	Range Low	Dividends Declared
2005	1st	$ 14.30	$ 12.55	$ 0.2275
	2nd	14.75	12.19	0.2275
	3rd	16.71	14.32	0.2275
	4th	15.90	13.00	0.2275
2006	1st	17.22	14.25	0.2275
	2nd	17.20	14.40	0.2275
	3rd	18.24	15.50	0.2275
	4th	19.00	16.96	0.2275

On February 15, 2007, the closing price of our common stock as reported by the NYSE was $19.84. At February 15, 2007, we had 186 holders of record of our common stock.

Holders of shares of common stock are entitled to receive distributions when declared by our board of directors out of any assets legally available for that purpose. As a REIT, we are required to distribute at least 90% of our "REIT taxable income," which is generally equivalent to our net taxable ordinary income, determined without regard to the deduction for dividends paid, to our stockholders annually in order to maintain our REIT qualification for U.S. federal income tax purposes.

Item 6. Selected Financial Data

The following table sets forth the selected financial data and should be read in conjunction with the Financial Statements and notes thereto included in Item 8, "Financial Statements and Supplementary Data" and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-K. Dollars in thousands, except share and per share data.

	Company			Predeccessor	
	For the Year Ended December 31,				
	2006	2005	2004	2003	2002
Revenues:					
Property rental	$ 170,993	$ 120,640	$ 62,656	$ 33,054	$ 28,811
Fees and other income	26,271	14,088	3,064	2,762	2,747
Total revenues	197,264	134,728	65,720	35,816	31,558
Expenses:					
Property operations	62,243	45,963	26,066	14,858	11,640
Tenant insurance	2,328	1,023	—	—	—
Unrecovered development and acquisition costs	269	302	739	4,937	1,938
General and administrative	35,600	24,081	12,465	8,297	5,916
Depreciation and amortization	37,172	31,005	15,552	6,805	5,652
Total expenses	137,612	102,374	54,822	34,897	25,146
Income before interest, loss on debt extinguishments, minority interests, equity in earnings of real estate ventures and gain on sale of real estate assets	59,652	32,354	10,898	919	6,412
Interest expense	(50,953)	(42,549)	(28,491)	(18,746)	(13,894)
Interest income	2,469	1,625	251	445	828
Loss on debt extinguishments	—	—	(3,523)	—	—
Minority interests	(985)	434	(733)	(2,701)	(3,859)
Equity in earnings of real estate ventures	4,693	3,170	1,387	1,465	971
Net income (loss) before gain on sale of real estate assets	14,876	(4,966)	(20,211)	(18,618)	(9,542)
Gain on sale of real estate assets	—	—	1,749	672	—
Net income (loss)	14,876	(4,966)	(18,462)	(17,946)	(9,542)
Preferred return on Class B, C, and E units	—	—	(5,758)	(5,336)	(4,525)
Loss on early redemption of Fidelity minority interest	—	—	(1,478)	—	—
Net income (loss) attributable to common stockholders	$ 14,876	$ (4,966)	$ (25,698)	$ (23,282)	$ (14,067)
Net income (loss) per common share(2)					
Basic	$ 0.27	$ (0.14)	$ (1.68)	$ (5.62)	$ (3.84)
Diluted	$ 0.27	$ (0.14)	$ (1.68)	$ (5.62)	$ (3.84)
Weighted average number of shares					
Basic	54,998,935	35,481,538	15,282,725	4,141,959	3,665,743
Diluted	59,291,749	35,481,538	15,282,725	4,141,959	3,665,743
Cash dividends paid per common share(1)	$ 0.91	$ 0.91	$ 0.34	$ —	$ —
Balance Sheet Data					
Total Assets	$ 1,669,825	$ 1,420,192	$ 748,484	$ 383,751	$ 332,290
Total notes payable, notes payable to trusts and line of credit	948,174	866,783	472,977	273,808	231,025
Minority interests	35,158	36,235	21,453	22,390	22,265
Redeemable units and members' and stockholders' equity	$ 643,555	$ 480,128	$ 243,607	$ 21,701	$ 27,516
Other Data					
Net cash provided by (used in) operating activities	$ 74,520	$ 14,771	$ (6,158)	$ (8,526)	$ 1,613
Net cash used in investing activities	$ (239,778)	$ (614,834)	$ (261,298)	$ (59,206)	$ (69,249)
Net cash provided by financing activities	$ 207,406	$ 604,387	$ 280,039	$ 73,017	$ 66,863

(1) 2004 dividend based on annual dividend of $0.91 per common share

(2) The basic income (loss) per share for the years ended December 31, 2006, 2005, 2004, 2003, and 2002 did not include the potential effects of the contingent conversion shares and contingent conversion units, both distributed in connection with the initial public offering, as such securities would not have participated in earnings for these periods. These securities will not participate in distributions until they are converted. No CCSs or CCUs had been converted as of December 31, 2006.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. We make statements in this section that are forward-looking statements within the meaning of the federal securities laws. For a complete discussion of forward-looking statements, see the section in this Form 10-K entitled "Statements Regarding Forward-Looking Information." Certain risk factors may cause actual results, performance or achievements to differ materially from those expressed or implied by the following discussion. For a discussion of such risk factors, see the section in this Form 10-K entitled "Risk Factors."

Overview

We are a fully integrated, self-administered and self-managed real estate investment trust, or REIT, formed to continue the business commenced in 1977 by our predecessor companies to own, operate, acquire, develop and redevelop professionally managed self-storage properties. Since 1996, our fully integrated development and acquisition teams have completed the development or acquisition of more than 600 self-storage properties.

In July 2005, we, along with joint-venture partner Prudential Real Estate Investors ("PREI"), acquired Storage USA ("SUSA") from GE Commercial Finance for approximately $2.3 billion in cash. The transaction made us the second largest operator of self-storage facilities in the United States. At December 31, 2006, we owned or managed 641 properties in 32 states and Washington, D.C. As of December 31, 2006, 219 of our properties were wholly-owned, we held joint venture interests in 348 properties, and our taxable REIT subsidiary, Extra Space Management, Inc., operated an additional 74 properties that are owned by franchisees or third parties in exchange for a management fee. The properties that we own or in which we hold an ownership interest contain approximately 41 million square feet of rentable space contained in approximately 380,000 units and currently serve a customer base of greater than 280,000 tenants.

Our properties are generally situated in convenient, highly visible locations clustered around large population centers such as Atlanta, Baltimore/Washington, D.C., Boston, Chicago, Dallas, Las Vegas, Los Angeles, Miami, New York City, Orlando, Philadelphia, Phoenix, St. Petersburg/Tampa and San Francisco. These areas all enjoy above average population growth and income levels. The clustering of our assets around these population centers, which has intensified following the SUSA acquisition, enables us to reduce our operating costs through economies of scale. We consider a property to be in the lease-up stage after it has been issued a certificate of occupancy, but before it has achieved stabilization. A property is considered to be stabilized once it has achieved an 80% occupancy rate or has been open for three years.

The SUSA acquisition gave us a national platform upon which to leverage operational, advertising and other economic efficiencies. The acquisition also created a built-in acquisition pipeline through various joint-venture, franchise and third-party management partners from which we have grown and can continue to grow in the future. We also retained several key executives from the SUSA organization, as well as the majority of its field operations team.

To maximize the performance of our properties, we employ a state-of-the-art, proprietary, web-based tracking and yield management technology called STORE. Developed by our management team, STORE enables us to analyze, set and adjust rental rates in real time across our portfolio in order to respond to changing market conditions. As part of the SUSA acquisition, we gained access to SUSA's industry leading revenue management team ("RevMan"), which managed SUSA's rental rate and discount strategies. We believe that the combination of STORE's yield management capabilities and the systematic processes developed by RevMan has allowed us to more proactively manage revenue.

We derive substantially all of our revenues from rents received from tenants under existing leases at each of our self-storage properties and from management fees on the properties we manage for joint-venture partners, franchisees and unaffiliated third parties. This management fee is equal to approximately 6% of total revenues generated by the managed properties.

We operate in competitive markets, often where consumers have multiple self-storage properties from which to choose. Competition has impacted, and will continue to impact our property results. We experience minor seasonal fluctuations in occupancy levels, with occupancy levels generally higher in the summer months due to increased moving activity. Our operating results, therefore, depend materially on our ability to lease available self-storage units, to actively manage unit rental rates, and on the ability of our tenants to make required rental payments. We believe that we are able to respond quickly and effectively to changes in local, regional and national economic conditions by adjusting rental rates through the use of STORE, and through the use of the processes developed by RevMan.

We continue to evaluate and implement a range of new initiatives and opportunities in order to enable us to maximize stockholder value. Our strategies to maximize stockholder value include:

- ***Maximize the performance of properties through strategic, efficient and proactive management.*** We plan to pursue revenue generating and expense minimizing opportunities in our operations. Our revenue management team will seek to maximize revenue by responding to changing market conditions through STORE's ability to provide real-time, interactive rental rate and discount management. Our size allows us greater ability than the majority of our competitors to implement national, regional and local marketing programs, which we believe will attract more customers to our stores at a lower net cost.
- ***Focus on the acquisition of self-storage properties from strategic partners and third parties.*** Our acquisitions team will continue to pursue the acquisition of single properties and multi-property portfolios that we believe can provide stockholder value. Our July 2005 acquisition of Storage USA has bolstered our reputation as a reliable, ethical buyer, which we believe enhances our ability to negotiate and close non-brokered, private deals. In addition, our status as an umbrella partnership real estate investment trust enables flexibility when structuring deals.
- ***Develop new self-storage properties.*** We have several joint venture and wholly-owned development properties and will continue to develop new self-storage properties in our core markets. Our development pipeline through 2009 includes 27 projects. The majority of the projects will be developed on a wholly-owned basis by the Company.
- ***Expand the Company's management business.*** We see the management business as a future acquisition pipeline and expect to pursue strategic relationships with owners that should strengthen our acquisition pipeline through agreements which give us first right of refusal to purchase the managed property in the event of a potential sale. Twelve of our 2006 acquisitions came from this channel.

During 2006 we acquired 25 wholly-owned properties and minority equity interests in one additional property. We completed the development of eleven properties in our core markets and four expansions of wholly-owned properties. Of the properties completed, three are wholly-owned, two are owned by us in a joint venture, and the other six properties are owned by Extra Space Development, an entity in which we do not have any ownership interest, but which is owned by certain members of senior management. These joint venture and third party development properties provide us with a potential acquisition pipeline in the future. Four properties are scheduled for completion in 2007, three of which are wholly-owned and one of which will be owned by us in a joint venture.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our financial statements have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates and assumptions, including those that impact our most critical accounting policies. We base our estimates and assumptions on historical experience and on various other factors that we believe are reasonable under the circumstances. Actual results may differ from these estimates. We believe the following are our most critical accounting policies:

CONSOLIDATION: We follow FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities" ("FIN 46R"), which addresses the consolidation of variable interest entities ("VIEs"). Under FIN 46R, arrangements that are not controlled through voting or similar rights are accounted for as VIEs. An enterprise is required to consolidate a VIE if it is the primary beneficiary of the VIE.

Under FIN 46R, a VIE is created when (i) the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or (ii) the entity's equity holders as a group either: (a) lack direct or indirect ability to make decisions about the entity through voting or similar rights, (b) are not obligated to absorb expected losses of the entity if they occur, or (c) do not have the right to receive expected residual returns of the entity if they occur. If an entity is deemed to be a VIE pursuant to FIN 46R, the enterprise that is deemed to absorb a majority of the expected losses or receive a majority of expected residual returns of the VIE is considered the primary beneficiary and must consolidate the VIE.

Based on the provisions of FIN 46R, we have concluded that under certain circumstances when we (i) enter into option agreements for the purchase of land or facilities from an entity and pay a non-refundable deposit, or (ii) enter into arrangements for the formation of joint ventures, a VIE may be created under condition (ii) (b) or (c) of the previous paragraph. For each VIE created, we have considered expected losses and residual returns based on the

probability of future cash flows as outlined in FIN 46R. If we are determined to be the primary beneficiary of the VIE, the assets, liabilities and operations of the VIE are consolidated with our financial statements.

REAL ESTATE ASSETS: Real estate assets are stated at cost, less accumulated depreciation. Direct and allowable internal costs associated with the development, construction, renovation, and improvement of real estate assets are capitalized. Interest, property taxes, and other costs associated with development incurred during the construction period are capitalized.

Expenditures for maintenance and repairs are charged to expense as incurred. Major replacements and betterments that improve or extend the life of the asset are capitalized and depreciated over their estimated useful lives. Depreciation is computed using the straight-line method over the estimated useful lives of the buildings and improvements, which are generally between five and 39 years.

In connection with our acquisition of properties, the purchase price is allocated to the tangible and intangible assets and liabilities acquired based on their estimated fair values. The value of the tangible assets, consisting of land and buildings, are determined as if vacant, that is, at replacement cost. Intangible assets, which represent the value of existing tenant relationships, are recorded at their estimated fair values. We measure the value of tenant relationships based on our historical experience with turnover in our facilities. We amortize to expense the tenant relationships on a straight-line basis over the average period that a tenant is expected to utilize the facility (currently estimated to be 18 months).

Intangible lease rights represent purchase price amounts allocated to leases on two properties that cannot be classified as ground or building leases. These rights are amortized to expense over the life of the leases.

EVALUATION OF ASSET IMPAIRMENT: We evaluate long-lived assets which are held for use for impairment when events or circumstances indicate that there may be an impairment. If such events occur, we compare the carrying value of these long-lived assets to the undiscounted future net operating cash flows attributable to the assets. An impairment loss is recorded if the net carrying value of the asset exceeds the undiscounted future net operating cash flows attributable to the asset. The impairment loss recognized equals the excess of net carrying value over the related fair value of the asset.

When real estate assets are identified by management as held for sale, we discontinue depreciating the assets and estimate the fair value, net of selling costs. If the estimated fair value, net of selling costs, of the assets that have been identified for sale are less than the net carrying value of the assets, then a valuation allowance is established. The operations of assets held for sale or sold during the period are presented as discontinued operations for all periods presented.

INVESTMENTS IN REAL ESTATE VENTURES: Our investments in real estate joint ventures, where we have significant influence, but not control and joint ventures which are VIEs in which we are not the primary beneficiary are recorded under the equity method of accounting on the accompanying consolidated financial statements.

Under the equity method, our investment in real estate ventures is stated at cost and adjusted for our share of net earnings or losses and reduced by distributions. Equity in earnings of real estate ventures is generally recognized based on our ownership interest in the earnings of each of the unconsolidated real estate ventures. For the purposes of presentation in the statement of cash flows, we follow the "look through" approach for classification of distributions from joint ventures. Under this approach, distributions are reported under operating cash flow unless the facts and circumstances of a specific distribution clearly indicate that it is a return of capital (e.g., a liquidating dividend or distribution of the proceeds from the joint venture's sale of assets) in which case it is reported as an investing activity.

Our management assesses whether there are any indicators that the value of our investments in unconsolidated real estate ventures may be impaired when events or circumstances indicate that there may be an impairment. An investment is impaired if management's estimate of the fair value of the investment is less than its carrying value. To the extent impairment has occurred, and it is considered to be other than temporary, the loss is measured as the excess of the carrying amount of the investment over the fair value of the investment.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES: Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted, establishes accounting and reporting standards for derivative instruments and hedging activities. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability or firm commitment attributable to a particular risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

For derivatives designated as fair value hedges, changes in the fair value of the derivative and the hedged item related to the hedged risk are recognized in earnings. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (loss), outside of earnings and subsequently reclassified to earnings when the hedged transaction affects earnings.

CONVERSION OF OPERATING PARTNERSHIP UNITS: Conversions of Operating Partnership units to common stock, when converted under the original provisions of the agreement, are accounted for by reclassifying the underlying net book value of the units from minority interest to equity in accordance

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with Emerging Issues Task Force Issue No. 95-7, "Implementation Issues Related to the Treatment of Minority Interest in Certain Real Estate Investment Trusts."

REVENUE AND EXPENSE RECOGNITION: Rental revenues are recognized as earned based upon amounts that are currently due from tenants. Leases are generally on month-to-month terms. Prepaid rents are recognized on a straight-line basis over the term of the leases. Promotional discounts are recognized as a reduction to rental income over the promotional period. Late charges, administrative fees, merchandise sales and truck rentals are recognized in income when earned. Management and franchise fee revenue are recognized when earned. Tenant insurance premiums are recognized as revenue over the period of insurance coverage. Development and acquisition fee revenue is recognized as development costs are incurred. Equity in earnings of real estate entities is recognized based on our ownership interest in the earnings of each of the unconsolidated real estate entities. Interest income is recognized as earned.

Property expenses, including utilities, property taxes, repairs and maintenance and other costs to manage the facilities are recognized as incurred. We accrue for property tax expense based upon estimates and historical trends. If these estimates are incorrect, the timing of expense recognition could be affected.

REAL ESTATE SALES: We evaluate real estate sales for both sale recognition and profit recognition in accordance with the provisions of SFAS No. 66, "Accounting for Sales of Real Estate." In general, sales of real estate and related profits/losses are recognized when all consideration has changed hands and risks and rewards of ownership have been transferred. Certain types of continuing involvement preclude sale treatment and related profit recognition; other forms of continuing involvement allow for sale recognition but require deferral of profit recognition.

INCOME TAXES: We have elected to be treated as a REIT under Sections 856 through 860 of the Internal Revenue Code. In order to maintain our qualification as a REIT, among other things, we are required to distribute at least 90% of our REIT taxable income to our stockholders and meet certain tests regarding the nature of our income and assets. As a REIT, we are not subject to federal income tax with respect to that portion of our income which meets certain criteria and is distributed annually to our stockholders. We plan to continue to operate so that we meet the requirements for taxation as a REIT. Many of these requirements, however, are highly technical and complex. If we were to fail to meet these requirements, we would be subject to federal income tax. We are subject to certain state and local taxes. Provision for such taxes has been included in property operating expenses in our consolidated statement of operations.

We have elected to treat one of our corporate subsidiaries as a taxable REIT subsidiary ("TRS"). In general, our TRS may perform additional services for tenants and generally may engage in any real estate or non-real estate related business (except for the operation or management of health care facilities or lodging facilities or the provision to any person, under a franchise, license or otherwise, of rights to any brand name under which any lodging facility or health care facility is operated). A TRS is subject to corporate federal income tax.

STOCK-BASED COMPENSATION: Effective January 1, 2006, we adopted SFAS No. 123 (revised 2004), "Share-Based Payment," ("SFAS 123R"), which requires the measurement and recognition of compensation expense for all share-based payment awards to employees and directors based on estimated fair values. SFAS 123R supersedes SFAS No. 123, "Accounting for Stock-Based Compensation" and Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). We adopted SFAS 123R using the modified prospective application method of adoption which requires us to record compensation cost related to non-vested stock awards as of December 31, 2005 by recognizing the unamortized grant date fair value of these awards over their remaining service period with no change in historical reported earnings. Awards granted after December 31, 2005 are valued at fair value in accordance with provisions of SFAS 123R and recognized on a straight line basis over the service periods of each award.

RESULTS OF OPERATIONS

Comparison of the Year Ended December 31, 2006 to the Year Ended December 31, 2005

Overview

Results for the year ended December 31, 2006 included the operations of 567 properties (219 of which were consolidated and 348 of which were in joint ventures accounted for using the equity method) compared to the results for the year ended December 31, 2005, which included operations of 546 properties (192 of which were consolidated and 354 of which were in joint ventures accounted for using the equity method). Results for both periods also included equity in earnings of real estate ventures, third-party management and franchise fees, acquisition fees and development fees.

Revenues

The following table sets forth information on revenues earned for the years indicated:

	Year ended December 31, 2006	Year ended December 31, 2005	$ Change	% Change
Revenues:				
Property rental	$ 170,993	$ 120,640	$ 50,353	41.7%
Management and franchise fees	20,883	10,650	10,233	96.1%
Tenant insurance	4,318	1,882	2,436	129.4%
Acquisition and development fees	272	992	(720)	(72.6)%
Other income	798	564	234	41.5%
Total revenues	$ 197,264	$ 134,728	$ 62,536	46.4%

Property Rental—The increase in property rental revenues consists of $30,481 associated with the acquisition of 61 wholly-owned properties in conjunction with the SUSA acquisition in July 2005, $12,170 associated with other acquisitions, and $1,922 from increases in occupancy at lease-up properties. The remainder of the increase was due to increases in rental rates at our stabilized properties.

Management and Franchise Fees—Our taxable REIT subsidiary, Extra Space Management, Inc., manages properties owned by our joint venture franchisees and third parties. Management fees generally represent 6.0% of cash collected from properties owned by third party franchisees and unconsolidated joint ventures. The increase in management fees is due mainly to fees associated with the SUSA acquisition which occurred in July 2005. Through this acquisition we obtained equity interests in joint ventures which owned over 330 properties. We obtained management contracts for these new joint venture properties, and also obtained over 50 new third party and franchise management contracts in conjunction with the SUSA acquisition.

Tenant Insurance—Tenant insurance revenue relates to a new tenant insurance program adopted in July 2005. This program was started in conjunction with the SUSA acquisition to replace SUSA's tenant insurance program. Insurance revenues are higher in 2006 as the program was in place for a full year in 2006 compared to a partial year in 2005.

Acquisition and Development Fees—The decrease in acquisition and development fee revenue was due to the decreased volume of development relating to joint ventures in 2006 compared to prior years.

Expenses

The following table sets forth information on expenses for the years indicated:

	Year ended December 31, 2006	2005	$ Change	% Change
Expenses:				
Property operations	$ 62,243	$ 45,963	$ 16,280	35.4%
Tenant insurance	2,328	1,023	1,305	127.6%
Unrecovered development and acquisition costs	269	302	(33)	(10.9)%
General and administrative	35,600	24,081	11,519	47.8%
Depreciation and amortization	37,172	31,005	6,167	19.9%
Total expenses	$ 137,612	$ 102,374	$ 35,238	34.4%

Property Operations—The increase in property operations expense in 2006 was primarily due to increases of $10,560 associated with the SUSA acquisition in July 2005 and $4,664 related to the 25 properties acquired throughout 2006 and other properties acquired in 2005. There were also increases in expenses of $1,056 at existing properties primarily due to increases in utilities, repairs and maintenance and property taxes.

Tenant Insurance—Tenant insurance expense for 2006 relates to a new tenant insurance program adopted in July 2005. This program was started in conjunction with the SUSA acquisition to replace SUSA's tenant insurance program. Tenant insurance expense is higher in 2006 as the tenant insurance program was in place for a full year in 2006, compared to a partial year in 2005.

General and Administrative—The significant increase in general and administrative expenses was due primarily to the increased costs associated with the management of the additional properties that have been added through acquisitions and new joint venture arrangements entered into in 2005 and 2006.

Depreciation and Amortization—The increase in depreciation and amortization expense is a result of additional properties acquired from the SUSA acquisition and other acquisitions completed throughout 2005 and 2006.

Other Income and Expenses

The following table sets forth information on other income and expenses for the years indicated:

	Year ended December 31, 2006	2005	$ Change	% Change
Interest expense	$ (50,953)	$ (42,549)	$ (8,404)	19.8%
Interest income	2,469	1,625	844	51.9%
Minority interest—Operating Partnership	(985)	434	(1,419)	(327.0)%
Equity in earnings of real estate ventures	4,693	3,170	1,523	48.0%
Total other expense	$ (44,776)	$ (37,320)	$ (7,456)	20.0%

Interest Expense—The increase in interest expense for the year ended December 31, 2006 was due primarily to $9,469 of interest expense on the mortgage loans on the 61 properties acquired in connection with the SUSA acquisition. The increase was offset by lower interest costs on corporate borrowings and existing property debt. Capitalized interest during the years ended December 31, 2006 and 2005 was $3,232 and $459, respectively.

Interest Income—Interest income earned in 2006 was mainly the result of the interest earned on the gross proceeds of $205,275 received from the sale of stock. The interest income earned in 2005 was

primarily earned on the notes receivable that were obtained as part of the SUSA acquisition. These notes receivable were paid down to $0 as of December 31, 2006.

Minority Interest—Operating Partnership—Income allocated to the Operating Partnership represents 6.21% of the net income for the year ended December 31, 2006. The amount allocated to minority interest was higher than in the prior year due mainly to the fact that the Company recorded net income in 2006, and recored a net loss in 2005.

Equity in Earnings of Real Estate Ventures—The increase in equity in earnings of real estate ventures is due primarily to our purchase of new equity interests in joint ventures in July 2005.

Comparison of the Year Ended December 31, 2005 to the Year Ended December 31, 2004

In the Results of Operations discussion below, we will compare the results of our operations for the year ended December 31, 2005 with historical results of operations for the Predecessor for the period from January 1, 2004 through August 16, 2004 and with our historical results of operations for the period from August 17, 2004 through December 31, 2004. Comparisons to any prior periods are to the historical results of the operations of the Predecessor.

Overview

Results for the year ended December 31, 2005 included the operations of 546 properties (192 of which were consolidated and 354 of which were in joint ventures accounted for using the equity method) compared to the results for the year ended December 31, 2004, which included operations of 147 properties, seven of which were deconsolidated during 2004 (128 of which were consolidated and 19 of which were in joint ventures accounted for using the equity method). Results for the year ended December 31, 2004 include the results of six properties in which we did not own any interest and one where we sold our joint venture interest in 2004. These six properties were consolidated as a result of guarantees and/or puts for which we were liable. Five of the six properties were deconsolidated on August 16, 2004 upon the release of all guarantees and puts, and the other property was deconsolidated on December 31, 2004. Results for both periods also included equity in earnings of real estate ventures, third-party management and franchise fees, acquisition fees and development fees.

Revenues

The following table sets forth information on revenues earned for the years indicated:

	Year Ended December 31, 2005	Year Ended December 31, 2004	$ Change	% Change
Property rental	$ 120,640	$ 62,656	$ 57,984	92.5%
Management and franchise fees	10,650	1,651	8,999	545.1%
Tenant insurance	1,882	—	1,882	100.0%
Acquisition and development fees	992	1,200	(208)	(17.3)%
Other income	564	213	351	164.8%
Total revenues	$ 134,728	$ 65,720	$ 69,008	105.0%

Property Rental—The increase in property rental revenues consists of $24,703 associated with the acquisition of 61 wholly-owned properties in conjunction with the SUSA acquisition in July 2005, $23,827 associated with other acquisitions, $6,953 from the buyout of certain joint venture interests previously accounted for using the equity method of accounting, and $2,880 from increases in occupancy at lease-up properties. These increases were offset by a decrease of $379 due primarily to the deconsolidation of certain properties in 2004.

Management and Franchise Fees—Our taxable REIT subsidiary, Extra Space Management, Inc., manages properties owned by our joint ventures and third parties. Management fees generally represent 6.0% of cash collected from properties owned by third parties and unconsolidated joint ventures. The increase in management fees is due mainly to new fees associated with the SUSA acquisition which occurred in July 2005. Through this acquisition we obtained equity interests in joint ventures which own a total of 336 properties. We obtained management contracts for these new joint venture properties, and also obtained over 50 new third party and franchise management contracts in conjunction with the SUSA acquisition.

Tenant Insurance—Tenant insurance revenue relates to a new tenant insurance program adopted in 2005. This program was started in conjunction with the SUSA acquisition to replace SUSA's tenant insurance program.

Acquisition and Development Fees—The decrease in acquisition and development fee revenue was due to the decreased volume of development relating to joint ventures in 2005 compared to prior years.

Other Income—Other income represents primarily income from truck rentals. The increase in other income is associated with the SUSA acquisition and other acquisitions made in 2005.

Expenses

The following table sets forth information on expenses for the years indicated:

	Year Ended December 31, 2005	Year Ended December 31, 2004	$ Change	% Change
Property operations	$ 45,963	$ 26,066	$ 19,897	76.3%
Tenant insurance	1,023	—	1,023	100.0%
Unrecovered development and acquisition costs	302	739	(437)	(59.1)%
General and administrative	24,081	12,465	11,616	93.2%
Depreciation and amortization	31,005	15,552	15,453	99.4%
Total expenses	$ 102,374	$ 54,822	$ 47,552	86.7%

Property Operations—The increase in property operations expense in 2005 was primarily due to increases of $9,045 associated with the SUSA acquisition, $8,852 associated with other acquisitions, and $1,873 from the buyout of certain joint venture interests (previously accounted for using the equity method of accounting). There were also increases in expenses of $733 at existing properties due to increases in utilities, repairs and maintenance and property taxes, which was partially offset by the decrease of $606 of property operating expenses due to the deconsolidation of certain properties in 2004. During the year ended December 31, 2004, we and the Predecessor opened five new properties and acquired 44 new properties. During the year ended December 31, 2005, we acquired 61 properties in connection with the SUSA acquisition, and nine properties in other acquisitions.

Tenant Insurance—Tenant insurance expense for 2005 relates to a new tenant insurance program adopted in 2005. This program was started in conjunction with the SUSA acquisition to replace SUSA's tenant insurance program.

Unrecovered Development and Acquisition Costs—Unrecovered development costs for 2005 decreased when compared to 2004 due to lower level of development activity.

General and Administrative—The significant increase in general and administrative expenses during the year ended December 31, 2005 was due mainly to the increased costs associated with the management of the additional properties that have been added through acquisitions and new joint venture arrangements entered into during 2005. We incurred approximately $1,500 of additional general and administrative

expenses during 2005 relating to the integration of the SUSA properties and administrative systems and $601 of amortization of deferred compensation expense related to stock grants.

Depreciation and Amortization—The increase in depreciation and amortization expense results from more properties being open during the year ended December 31, 2005 than were open during the year ended December 31, 2004 due mainly to acquisitions of new properties. We acquired 70 properties during 2005, 61 of which were acquired in connection with the SUSA acquisition.

Other Income and Expenses

The following table sets forth information on other income and expenses for the years indicated:

	Year ended December 31,			
	2005	2004	$ Change	% Change
Interest expense	$ (42,549)	$ (28,491)	$ (14,058)	49.3%
Interest income	1,625	251	1,374	547.4%
Loss on debt extinguishments	—	(3,523)	3,523	(100.0)%
Minority interest—Fidelity preferred return	—	(3,136)	3,136	(100.0)%
Minority interest—Operating Partnership	434	113	321	284.1%
Loss allocated to other minority interests	—	2,290	(2,290)	(100.0)%
Equity in earnings of real estate ventures	3,170	1,387	1,783	128.6%
Gain on sale of real estate assets	—	1,749	(1,749)	(100.0)%
Total other expense	$ (37,320)	$ (29,360)	$ (7,960)	27.1%

Interest Expense and Loss on Debt Extinguishments—The increase in interest expense for the year ended December 31, 2005 was due primarily to $4,312 of interest incurred on the new trust preferred debt and $7,977 of interest expense on the mortgage loans on the 61 properties acquired in connection with the SUSA acquisition. The remainder of the increase was due mainly to other new loans obtained in 2005 related to the SUSA acquisition and other acquisitions. During the year ended December 31, 2004, there was $3,523 paid to extinguish debt. There was no debt extinguishment expense in 2005. Capitalized interest during the years ended December 31, 2005 and 2004 was $459 and $1,213, respectively. During 2005, we acquired 70 new properties, which increased outstanding debt by $206,198 as of December 31, 2005.

Interest Income—The significant increase in interest income for the year ended December 31, 2005 when compared to the prior year was mainly the result of the interest earned on the $37,667 of notes receivable that we acquired in connection with the SUSA acquisition. These notes receivable were paid down to $12,109 by December 31, 2005.

Minority interest—Fidelity Preferred Return—Minority interest—Fidelity preferred return was $0 for the year ended December 31, 2005 as the Fidelity minority interest was redeemed September 9, 2004.

Minority Interest—Operating Partnership—Loss allocated to the Operating Partnership represents 8.04% of the net loss for the year ended December 31, 2005. The amount allocated to minority interest was higher than in the prior year due mainly to the fact that the Operating Partnership was in place for a full year in 2005, compared to only the period subsequent to the IPO in 2004.

Loss Allocated to Other Minority Interests—There were no losses allocated to other minority interests during the year ended December 31, 2005 because we redeemed or deconsolidated all other minority interests in operating properties during the year ended December 31, 2004. The only other minority interest in place as of December 31, 2005 is an interest in a development property which has not yet begun operations.

Equity in Earnings of Real Estate Ventures—The increase in equity in earnings of real estate ventures is due primarily to our purchase of new equity interests in joint ventures. As a result of the SUSA acquisition we own joint venture interests in an additional 336 new properties.

Gain on Sale of Real Estate Assets—The gain on sale of real estate assets was $0 for the year ended December 31, 2005 as there were no significant gains on the sale of assets during 2005. The gain on sale of real estate assets for the year ended December 31, 2004 was due primarily to a gain of $1,920 on the sale of our joint venture interest in a property in Laguna Hills, California in August 2004.

FUNDS FROM OPERATIONS

FFO provides relevant and meaningful information about our operating performance that is necessary, along with net income (loss) and cash flows, for an understanding of our operating results. We believe FFO is a meaningful disclosure as a supplement to net earnings because net earnings assume that the values of real estate assets diminish predictably over time as reflected through depreciation and amortization expenses. We believe that the values of real estate assets fluctuate due to market conditions and FFO more accurately reflects the value of our real estate assets. FFO is defined by the National Association of Real Estate Investment Trusts, Inc. (“NAREIT”) as net income (loss) computed in accordance with U.S. generally accepted accounting principles (“GAAP”), excluding gains or losses on sales of operating properties, plus depreciation and amortization and after adjustments to record unconsolidated partnerships and joint ventures on the same basis. We believe that to further understand our performance, FFO should be considered along with the reported net income (loss) and cash flows in accordance with GAAP, as presented in the consolidated financial statements.

The computation of FFO may not be comparable to FFO reported by other REITs or real estate companies that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently. FFO does not represent cash generated from operating activities determined in accordance with GAAP, and should not be considered as an alternative to net income (loss) as an indication of our performance, as an alternative to net cash flow from operating activities as a measure of our liquidity, or as an indicator of our ability to make cash distributions. The following table sets forth the calculation of FFO (dollars are in thousands, except for share data):

	For the Year Ended December 31,	
	2006	2005
Net income (loss)	$ 14,876	$ (4,966)
Plus:		
Real estate depreciation	27,331	20,105
Amortization of intangibles	8,371	10,345
Joint venture real estate depreciation and amortization	4,773	2,186
Income allocated to Operating Partnership minority interest	985	—
Less:		
Loss allocated to Operating Partnership minority interest	—	(434)
Funds from operations	$ 56,336	$ 27,236
Weighted average number of shares—basic		
Common stock (excluding restricted shares)	54,998,935	35,481,538
OP units	3,799,442	3,283,059

Total	58,798,377	38,764,597
Weighted average number of shares—diluted		
Common stock	55,492,307	35,481,538
OP units	3,799,442	3,283,059
Total	59,291,749	38,764,597

SAME-STORE STABILIZED PROPERTY RESULTS

We consider same-store stabilized portfolio to consist of only those properties owned wholly at the beginning and at the end of the applicable periods presented and that have achieved stabilization as of the first day of such period. The following table sets forth operating data for our same store portfolio. We consider the following same-store presentation to be meaningful in regards to the properties shown below. These results provide information relating to property-level operating changes without the effects of acquisitions or completed developments.

	Three Months Ended December 31,		Percent	Year Ended December 31,		Percent	Year Ended December 31,		Percent
	2006	2005	Change	2006	2005	Change	2005	2004	Change
Same-store rental revenues	$ 21,397	$ 20,135	6.3%	$ 83,911	$ 78,683	6.6%	$ 28,010	$ 26,974	3.8%
Same-store operating expenses	6,868	6,927	-0.9%	28,596	27,435	4.2%	9,578	8,993	6.5%
Same-store net operating income	14,529	13,208	10.0%	55,315	51,248	7.9%	18,432	17,981	2.5%
Non same-store rental revenues	23,719	18,219	30.2%	87,082	41,957	107.6%	92,630	35,682	159.6%
Non same-store operating expenses	8,772	7,751	13.2%	33,647	18,528	81.6%	36,385	17,073	113.1%
Total rental revenues	45,116	38,354	17.6%	170,993	120,640	41.7%	120,640	62,656	92.5%
Total operating expenses	15,640	14,678	6.6%	62,243	45,963	35.4%	45,963	26,066	76.3%
Same-store square foot occupancy as of quarter end	85.5%	85.4%		85.5%	85.4%		85.6%	86.2%	
Properties included in same-store	103	103		103	103		38	38	

Comparison of the Year Ended December 31, 2006 to the Year Ended December 31, 2005

The increase in same-store rental revenues was primarily due to increased rental rates to new and existing tenants and our ability to maintain occupancy. The increase in same-store operating expenses was primarily due to an increase in property taxes and utilities.

Comparison of the Year Ended December 31, 2005 to the Year Ended December 31, 2004

The increase in same-store rental revenues was primarily due to increased rental rates to new and existing tenants and our ability to maintain occupancy. The increase in same-store operating expenses was primarily due to an increase in repairs and maintenance, snow removal and property taxes.

CCS and CCU Property Performance:

As described in our prospectus for our IPO, upon the achievement of certain levels of net operating income with respect to 14 of our pre-stabilized properties, our CCSs and our Operating Partnership’s CCUs will convert into additional shares of common stock and OP units, respectively, beginning with the quarter ending March 31, 2006. No CCSs or CCUs have been converted as of December 31, 2006. Based on the performance of the properties as of December 31, 2006, 52,349 CCSs became eligible for conversion. The board of directors approved the conversion of these CCSs on February 1, 2007 as per the Company’s Articles of Incorporation, and the shares were issued on February 5, 2007. The table below outlines the performance of the properties for the three months and years ended December 31, 2006 and 2005, respectively and for the years ended December 31, 2005 and 2004.

	Three Months Ended December 31,		Percent	Year Ended December 31,		Percent	Year Ended December 31,		Percent
	2006	2005	Change	2006	2005	Change	2005	2004	Change
CCS/CCU rental revenues	$ 2,860	$ 2,382	20.1%	$ 10,602	$ 8,432	25.7%	$ 8,432	$ 6,043	39.5%
CCS/CCU operating expenses	1,244	1,369	-9.1%	5,440	5,478	-0.7%	5,478	4,606	18.9%
CCS/CCU net operating income	1,616	1,013	59.5%	5,162	2,954	74.7%	2,954	1,437	105.5%
Non CCS/CCU rental revenues	42,256	35,972	17.5%	160,391	112,208	42.9%	112,208	56,613	98.2%
Non CCS/CCU operating expenses	14,396	13,309	8.2%	56,803	40,485	40.3%	40,485	21,460	88.7%
Total rental revenues	45,116	38,354	17.6%	170,993	120,640	41.7%	120,640	62,656	92.5%
Total operating expenses	15,640	14,678	6.6%	62,243	45,963	35.4%	45,963	26,066	76.3%
CCS/CCU square foot occupancy as of quarter end	74.1%	69.9%		74.1%	69.9%		69.9%	57.2%	
Properties included in CCS/CCU	14	14		14	14		14	14	

The increase in CCS/CCU rental revenues in 2006 and 2005 was primarily due to increased occupancy.

CASH FLOWS

Comparison of the Year Ended December 31, 2006 to the Year Ended December 31, 2005

Cash flows provided by operating activities were $74,520 and $14,771 for the years ended December 31, 2006 and 2005, respectively. The increase in cash provided by operating activities was due to the addition of new stabilized properties including properties added as a result of the SUSA acquisition. In addition, the increase was also a result of the collection of receivables from affiliated joint ventures and related parties as a result of normal operations.

Cash used in investing activities was $239,778 and $614,834 for the years ended December 31, 2006 and 2005, respectively. The decrease in 2006 is primarily the result of the $530,972 of cash paid in the acquisition of Storage USA in 2005 offset by the increase in the acquisition of other real estate assets in 2006 versus 2005.

Cash provided by financing activities was $207,406 and $604,387 for the years ended December 31, 2006 and 2005, respectively. The decrease consisted primarily of additional borrowings in 2006 of $165,666 versus $808,936 in 2005, and net proceeds from share issuances of $197,474 in 2006 versus $271,537 in 2005. This was offset by repayments on borrowings of $98,866 in 2006, compared to $431,255 in 2005. In addition, the Company also paid $50,005 in dividends to common stockholders in 2006, compared to $34,585 in 2005.

Comparison of the Year Ended December 31, 2005 to the Year Ended December 31, 2004

Cash flows provided by (used in) operating activities were $14,771 and ($6,158) for the years ended December 31, 2005 and 2004, respectively. The increase in cash provided by operating activities was due to the addition of new stabilized properties through the SUSA acquisition and other acquisitions. There have also been lower cash funding requirements relating to our lease-up properties as occupancy has increased.

Cash used in investing activities was ($614,834) and ($261,298) for the years ended December 31, 2005 and 2004, respectively. The increase in 2005 is primarily the result of the $530,972 of cash paid in the acquisition of Storage USA. This increase was offset by the fact that we acquired fewer other properties and had fewer development projects during 2005 compared to 2004. We also received principal payments of $25,938 related to the notes receivable acquired in conjunction with the SUSA transaction during 2005.

Cash provided by financing activities was $604,387 and $280,039 for the years ended December 31, 2005 and 2004, respectively. The 2005 financing activities consisted primarily of net proceeds from share issuances of $271,537, additional borrowings of $808,936, including borrowings to fund the SUSA acquisition, offset by the repayment of $431,255 of line of credit and notes payable. The 2004 financial activities consisted primarily of net proceeds from share issuances of $264,475, additional borrowings of $418,154, including borrowings to fund the purchase of 44 stabilized properties and the development of existing projects, offset by the repayment of $325,917 of borrowings.

2006 OPERATIONAL SUMMARY

Our 2006 operating results reflected a continuation of solid self-storage fundamentals as well as positive operational momentum. Our acquisition of Storage USA and the integration of its business processes had a positive impact on our results, particularly in the areas of revenue management and technology. Revenue increases in 2006 were driven mostly by rate growth, as year-end same-store occupancy was 85.5% compared with 85.4% as of year-end 2005. Expense growth was driven by property taxes, utility costs and normal increases in employee-related expenses. Snow removal expenses, which adversely affected our 2005 results were less of an impact during 2006 due to the decreased snowfall in the Midwest and Northeastern United States.

Northern California, Phoenix and South Florida were our strongest performing markets. Atlanta, Chicago, Dallas and Houston also performed well. Weaker performing markets were Detroit, Philadelphia and Southern New Jersey. Southern California, which has been a leading market for several years, softened somewhat and performed in-line with the portfolio average.

Integration efforts arising from the SUSA acquisition continued throughout the year, and focused on the capital improvement of the SUSA properties. These improvements, we believe, will have a positive effect on the properties in the future by making them more marketable to new and existing customers. The majority of the work was completed during 2006, and a residual number of projects will continue into 2007. We consider the integration of the two companies now complete. The benefits of scale from being the second largest operator of self-storage in the United States began to be felt in the areas of marketing and site management.

OUTLOOK

We anticipate continued strength in self-storage fundamentals due to positive overall economic conditions in many of our core markets. We believe that the ability to increase revenues in 2007 over levels achieved in 2006 exists. We anticipate continued competition from all operators, both public and private, in all of the markets in which we operate. However, we believe that the quality and location of our property portfolio, our revenue management systems, and the strength of self-storage fundamentals will provide opportunities to grow revenues in 2007.

Our discounting strategies continue to evolve. Higher levels of discounting were felt in 2006 due to several promotional tests executed throughout the year. We will continue to selectively discount certain sites and units based on occupancy, availability, and competitive parameters that are controlled through our centralized, real-time technology systems and revenue management team.

Property taxes and utility expenses are once again seen as the primary drivers of expenses in the coming year. As we continue to acquire existing self-storage facilities, tax reassessments will continue to occur. Snow removal may also contribute to a higher level of expenses.

LIQUIDITY AND CAPITAL RESOURCES

As of December 31, 2006, we had approximately $70.8 million available in cash and cash equivalents. We intend to use this cash to purchase additional self-storage properties in the first two quarters of 2007. We are required to distribute at least 90% of our net taxable income, excluding net capital gains, to our stockholders on an annual basis to maintain our qualification as a REIT. Therefore, it is unlikely that we will have any substantial cash balances that could be used to meet our liquidity needs. Instead, these needs must be met from cash generated from operations and external sources of capital.

On September 9, 2004, we, as guarantor, and our Operating Partnership entered into a $100.0 million revolving line of credit (“Credit Facility”), which includes a $10.0 million swingline sub-facility. The Credit Facility is collateralized by self-storage properties. The Operating Partnership intends to use the proceeds of the Credit Facility for general corporate purposes and acquisitions. As of December 31, 2006, the Credit Facility had approximately $81.0 million of available capacity based on the assets collateralizing the Credit Facility. There was no principal balance outstanding under the Credit Facility as of December 31, 2006.

On October 4, 2004, we entered into a reverse interest rate swap with U.S. Bank National Association, relating to our existing $61.8 million fixed rate mortgage with Wachovia Bank, which is due in 2009. Pursuant to the swap agreement, we will receive fixed interest payments of 4.3% and pay variable interest payments based on the one-month LIBOR plus 0.7% on a notional amount of $61.8 million. There were no origination fees or other up front costs incurred by us in connection with the swap agreement.

As of December 31, 2006, we had approximately $948.2 million of debt, resulting in a debt to total capitalization ratio of 43.3%. As of December 31, 2006, the ratio of total fixed rate debt and other instruments to total debt was 91.0%. The weighted average interest rate of the total of fixed and variable rate debt at December 31, 2006 was 5.5%.

We expect to fund our short-term liquidity requirements, including operating expenses, recurring capital expenditures, dividends to stockholders, distributions to holders of OP units and interest on our outstanding indebtedness out of our operating cash flow, cash on hand and borrowings under our Credit Facility.

Long-Term Liquidity Needs

Our long-term liquidity needs consist primarily of distributions to stockholders, new facility development, property acquisitions, principal payments under our borrowings and non-recurring capital expenditures. We do not expect that our operating cash flow will be sufficient to fund our long term liquidity needs and instead expect to fund such needs out of additional borrowings, joint ventures with third parties, and from the proceeds of public and private offerings of equity and debt. We may also use OP Units as currency to fund acquisitions from self-storage owners who desire tax-deferral in their exiting transactions.

OFF-BALANCE SHEET ARRANGEMENTS

Except as disclosed in the notes to our financial statements, we do not currently have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purposes entities, which typically are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Further, except as disclosed in the notes to our financial statements, we have not guaranteed any obligations of unconsolidated entities nor do we have any commitments or intent to provide funding to any such entities. Accordingly, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in these relationships.

CONTRACTUAL OBLIGATIONS

The following table sets forth information on payments due by period at December 31, 2006:

	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Operating leases	$ 41,929	$ 4,634	$ 8,801	$ 7,863	$ 20,631
Notes payable and notes payable to trusts					
Interest	274,048	51,683	97,670	53,673	71,022
Principal	948,174	9,471	301,959	301,390	335,354
Total contractual obligations	$ 1,264,151	$ 65,788	$ 408,430	$ 362,926	$ 427,007

As of December 31, 2006, the weighted average interest rate for all fixed rate loans was 5.4%, and the weighted average interest rate on all variable rate loans was 6.6%.

FINANCING STRATEGY

We will continue to employ leverage in our capital structure in amounts determined from time to time by our board of directors. Although our board of directors has not adopted a policy which limits the total amount of indebtedness that we may incur, we will consider a number of factors in evaluating our level of indebtedness from time to time, as well as the amount of such indebtedness that will be either fixed or variable rate. In making financing decisions, our board of directors will consider factors including but not limited to:

- the interest rate of the proposed financing;
- the extent to which the financing impacts flexibility in managing our properties;
- prepayment penalties and restrictions on refinancing;
- the purchase price of properties acquired with debt financing;
- long-term objectives with respect to the financing;
- target investment returns;
- the ability of particular properties, and the Company as a whole, to generate cash flow sufficient to cover expected debt service payments;
- overall level of consolidated indebtedness;
- timing of debt and lease maturities;
- provisions that require recourse and cross-collateralization;

- corporate credit ratios including debt service coverage, debt to total capitalization and debt to undepreciated assets; and
- the overall ratio of fixed and variable rate debt.

Our indebtedness may be recourse, non-recourse or cross-collateralized. If the indebtedness is non-recourse, the collateral will be limited to the particular properties to which the indebtedness relates. In addition, we may invest in properties subject to existing loans collateralized by mortgages or similar liens on our properties, or may refinance properties acquired on a leveraged basis. We may use the proceeds from any borrowings to refinance existing indebtedness, to refinance investments, including the redevelopment of existing properties, for general working capital or to purchase additional interests in partnerships or joint ventures or for other purposes when we believe it is advisable.

SEASONALITY

The self-storage business is subject to seasonal fluctuations. A greater portion of revenues and profits are realized from May through September. Historically, our highest level of occupancy has been at the end of July, while our lowest level of occupancy has been in late February and early March. Results for any quarter may not be indicative of the results that may be achieved for the full fiscal year.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on the related de-recognition, classification, interest and penalties, accounting for interim periods, disclosure and transition of uncertain tax positions. FIN 48 is effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We have evaluated the impact of this new pronouncement and anticipate that there will be no material effect on our consolidated financial statements.

Item 7a. Quantitative and Qualitative Disclosures About Market Risk

Market Risk

Market risk refers to the risk of loss from adverse changes in market prices and interest rates. Our future income, cash flows and fair values of financial instruments are dependent upon prevailing market interest rates.

Interest Rate Risk

Interest rate risk is highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control.

As of December 31, 2006, we had approximately $948.2 million in total debt of which $85.1 million was subject to variable interest rates (including the $61.8 million on which we have the reverse interest rate swap). If LIBOR were to increase or decrease by 100 basis points, the increase or decrease in interest expense on the variable rate debt would increase or decrease future earnings and cash flows by approximately $0.9 million annually.

Interest rate risk amounts were determined by considering the impact of hypothetical interest rates on our financial instruments. These analyses do not consider the effect of any change in overall economic

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activity that could occur. Further, in the event of a change of that magnitude, we may take actions to further mitigate our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, these analyses assume no changes in our financial structure.

The fair value of fixed rate notes payable and notes payable to trusts at December 31, 2006 was $835,667. The carrying value of these fixed rate notes payable at December 31, 2006 was $863,101.

Item 8. Financial Statements and Supplementary Data

EXTRA SPACE STORAGE INC.
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AND SCHEDULES

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All other schedules have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or notes thereto.

Reports of Independent Registered Public Accounting Firms

To the Board of Directors and Stockholders of Extra Space Storage Inc.

We have audited the accompanying consolidated balance sheets of Extra Space Storage Inc. and subsidiaries ("the Company") as of December 31, 2006 and 2005, and the related consolidated statements of operations, redeemable units and members' and stockholders' equity (deficit), and cash flows for each of the two years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the Index at Item 8. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements in 2006, the Company changed its method of accounting for stock-based compensation in accordance with the guidance provided in Statements of Financial Accounting Standards No. 123(R) "Share-Based Payments."

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness the Company's internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Salt Lake City, Utah
February 26, 2007

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders
Extra Space Storage, Inc.

In our opinion, the accompanying consolidated statements of operations, of redeemable units and members' and stockholders' equity (deficit) and of cash flows for the year ended December 31, 2004 present fairly, in all material respects, the results of operations and cash flows of Extra Space Storage, Inc. and its subsidiaries (the "Company") for the year ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the summary of activity in real estate facilities set forth in the financial statement schedule for the year ended December 31, 2004 presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audit. We conducted our audit of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Salt Lake City, Utah
March 10, 2005

Extra Space Storage Inc.

Consolidated Balance Sheets

(Dollars in thousands, except share data)

	December 31, 2006	December 31, 2005
Assets:		
Real estate assets:		
Net operating real estate assets	$ 1,382,055	$ 1,201,959
Real estate under development	35,336	10,719
Net real estate assets	1,417,391	1,212,678
Investments in real estate ventures	88,115	90,898
Cash and cash equivalents	70,801	28,653
Restricted cash	44,282	18,373
Receivables from related parties and affiliated real estate joint ventures	15,880	23,683
Notes receivable	—	12,109

Other assets, net	33,356	33,798
Total assets	$ 1,669,825	$ 1,420,192
Liabilities, Minority Interests, and Stockholders' Equity:		
Notes payable	$ 828,584	$ 747,193
Notes payable to trusts	119,590	119,590
Line of credit	—	—
Accounts payable and accrued expenses	10,840	13,261
Other liabilities	32,098	23,785
Total liabilities	991,112	903,829
Minority interest in Operating Partnership	34,841	36,010
Other minority interests	317	225
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock, $0.01 par value, 200,000,000 shares authorized, 64,167,098 and 51,765,795 shares issued and outstanding at December 31, 2006 and December 31, 2005, respectively	642	518
Paid-in capital	822,181	626,123
Deferred stock compensation	—	(2,374)
Accumulated deficit	(179,268)	(144,139)
Total stockholders' equity	643,555	480,128
Total liabilities, minority interests, and stockholders' equity	$ 1,669,825	$ 1,420,192

See accompanying notes.

Extra Space Storage Inc.

Consolidated Statements of Operations

(Dollars in thousands, except share and per share data)

	For the Year Ended December 31,		
	2006	2005	2004
Revenues:			
Property rental	$ 170,993	$ 120,640	$ 62,656
Management and franchise fees	20,883	10,650	1,651
Tenant insurance	4,318	1,882	—
Acquisition and development fees	272	992	1,200
Other income	798	564	213
Total revenues	197,264	134,728	65,720
Expenses:			
Property operations	62,243	45,963	26,066
Tenant insurance	2,328	1,023	—
Unrecovered development and acquisition costs	269	302	739
General and administrative	35,600	24,081	12,465
Depreciation and amortization	37,172	31,005	15,552
Total expenses	137,612	102,374	54,822
Income before interest, loss on debt extinguishments, minority interests, equity in earnings of real estate ventures, and gain on sale of real estate assets	59,652	32,354	10,898
Interest expense	(50,953)	(42,549)	(28,491)
Interest income	2,469	1,625	251
Loss on debt extinguishments	—	—	(3,523)
Minority interest—Fidelity preferred return	—	—	(3,136)
Minority interest—Operating Partnership	(985)	434	113
Loss allocated to other minority interests	—	—	2,290
Equity in earnings of real estate ventures	4,693	3,170	1,387
Net income (loss) before gain on sale of real estate assets	14,876	(4,966)	(20,211)
Gain on sale of real estate assets	—	—	1,749
Net income (loss)	14,876	(4,966)	(18,462)
Preferred return on Class B, C, and E units	—	—	(5,758)
Loss on early redemption of Fidelity minority interest	—	—	(1,478)
Net income (loss) attributable to common stockholders	$ 14,876	$ (4,966)	$ (25,698)
Net income (loss) per common share			
Basic(1)	$ 0.27	$ (0.14)	$ (1.68)
Diluted(1)	$ 0.27	$ (0.14)	$ (1.68)
Weighted average number of shares			

Basic	54,998,935	35,481,538	15,282,725
Diluted	59,291,749	35,481,538	15,282,725
Cash dividends paid per common share	$ 0.91	$ 0.91	$ 0.34

(1) The basic and diluted income (loss) per share does not include the potential effects of the CCSs and CCUs as such securities would not have participated in earnings for any of the periods presented. These securities will not participate in distributions until they are converted. No CCSs or CCUs had been converted as of December 31, 2006.

See accompanying notes.

Extra Space Storage Inc.

Consolidated Statements of Redeemable Units and Members' and Stockholders' Equity (Deficit)

(Dollars in thousands, except unit and share data)

	Redeemable Units	Members' and Stockholders' Equity							
	Class C and E Units	Class A and B Units	Note Receivable from Centershift	Common Stock Shares	Common Stock Par Value	Paid-in Capital	Deferred Compensation	Accumulated Deficit	Total Stockholders' Equity
Predecessor									
Balances at December 31, 2003	$ 26,108	$ 53,500	$ (4,493)	—	$ —	$ —	$ —	$ (53,414)	$ (4,407)
Member units issued in acquisition of real estate assets: C units (2,467,715 units), A units (1,593,665 units) and B units (241,513 units)	2,468	720	—	—	—	—	—	—	720
Member units issued in exchange for receivables: C units (944,370 units) and A units (6,666,667 units)	944	2,000	—	—	—	—	—	—	2,000
Members units issued to repay notes and related party payables: C units (1,466,250 units) and A units (862,500 units)	1,466	259		—			—		259
Member units granted to employees: A units (4,016,838 units)	—	1,205	—	—	—	—	—	—	1,205
Member contributions: C units (14,985,500 units), A units (10,015,000 units) and B units (1,700,000 units)	14,986	4,705	—	—	—	—	—	—	4,705
Redemption of units: C units (20,835 units) and B units (222,500 units)	(21)	(223)	—	—	—	—	—	—	(223)
Redempion of units in exchange for note payable: A units (3,000,000 units) and B units (1,141,064 units)	—	(3,700)	—	—	—	—	—	—	(3,700)
Redempion of units in exchange for land: C units (846,396 units)	(846)	—	—	—	—	—	—	—	—
Distribution of equity ownership in Extra Space Development	—	—		—	—	—	—	(9,000)	(9,000)
Distribution of note receivable from Centershift	—	—	4,493	—	—	—	—	(4,493)	—
Return earned on Class B, C and E units	—	—	—	—	—	—	—	(7,181)	(7,181)
Net loss	—	—	—	—	—	—	—	(17,181)	(17,181)
Balances at August 16, 2004	45,105	58,466	—	—	—	—	—	(91,269)	(32,803)

See accompanying notes.

	Redeemable Units	Members' and Stockholders' Equity							
	Class C and E Units	Class A and B Units	Note Receivable from Centershift	Common Stock Shares	Common Stock Par Value	Paid-in Capital	Deferred Compensation	Accumulated Deficit	Total Stockholders' Equity
Company									
Issuance of common stock and CCSs (3,888,843 shares) in exchange for units: C units (25,832,407), E units (14,900,000), A units (77,474,775) and B units (34,339,370 units)	(40,733)	(43,953)	—	7,939,950	80	84,606	—	—	40,733
Redemption of units: C units (4,372,358), A units (70,000 units) and B units (14,735,162 units)	(4,372)	(14,513)	—	—	—	—	—	—	(14,513)
Adjustment to establish minority interest in Operating Partnership	—	—	—	—	—	(8,481)	—	—	(8,481)
Deconsolidation of Extra Space Development real estate ventures	—	—	—	—	—	7,515	—	—	7,515
Issuance of common stock in initial public offering, net of offering costs	—	—	—	23,230,000	232	264,243	—	—	264,475
Net loss	—	—	—	—	—	—	—	(1,281)	(1,281)
Loss on early redemption of minority interest—Fidelity	—	—	—	—	—	—	—	(1,478)	(1,478)
Dividends paid on common stock at $0.34 per share	—	—	—	—	—	—	—	(10,560)	(10,560)
Balances at December 31, 2004	—	—	—	31,169,950	312	347,883	—	(104,588)	243,607
Issuance of common stock, net of offering costs	—	—	—	20,000,000	200	271,337	—	—	271,537
Conversion of Operating Partnership units to common stock	—	—	—	400,000	4	3,923	—	—	3,927
Issuance of common stock upon the exercise of options	—	—	—	5,845	—	7	—	—	7
Restricted stock grants	—	—	—	190,000	2	2,973	(2,975)	—	—
Amortization of deferred stock compensation	—	—	—	—	—	—	601	—	601
Net loss	—	—	—	—	—	—	—	(4,966)	(4,966)
Dividends paid on common stock at $0.91 per share	—	—	—	—	—	—	—	(34,585)	(34,585)
Balances at December 31, 2005	—	—	—	51,765,795	518	626,123	(2,374)	(144,139)	480,128
Reclassification of deferred compensation upon adoption of SFAS 123R	—	—	—	—	—	(2,374)	2,374	—	—
Issuance of common stock, net of offering costs	—	—	—	12,075,000	121	194,780	—	—	194,901
Issuance of common stock upon the exercise of options	—	—	—	98,003	1	545	—	—	546
Issuance of common stock to board members	—	—	—	12,000	—	—	—	—	—
Restricted stock grants issued	—	—	—	49,800	—	—	—	—	—

Restricted stock grants cancelled	—	—	—	(33,500)	—	—	—	—	—
Compensation expense related to stock—based awards	—	—	—	—	—	1,725	—	—	1,725
Conversion of Operating Partnership units to common stock	—	—	—	200,000	2	1,809	—	—	1,811
Other adjustments	—	—	—	—	—	(427)	—	—	(427)
Net income	—	—	—	—	—	—	—	14,876	14,876
Dividends paid on common stock at $0.91 per share	—	—	—	—	—	—	—	(50,005)	(50,005)
Balances at December 31, 2006	$ —	$ —	$ —	64,167,098	$ 642	$ 822,181	$ —	$ (179,268)	$ 643,555

See accompanying notes.

Extra Space Storage Inc.

Consolidated Statements of Cash Flows

(Dollars in thousands, except unit and share data)

	For the Year Ended December 31,		
	2006	2005	2004
Cash flows from operating activities:			
Net income (loss)	$ 14,876	$ (4,966)	$ (18,462)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	37,172	31,005	15,552
Amortization of discount on putable preferred interests in consolidated joint ventures	—	—	1,088
Minority interest—Fidelity preferred return	—	—	3,136
Stock compensation expense	1,725	601	—
Member units granted to employees	—	—	1,205
Gain on sale of real estate assets	—	—	(1,749)
Gain (loss) allocated to minority interests	985	(434)	(2,403)
Distributions from real estate ventures in excess of earnings	5,559	6,356	493
Changes in operating assets and liabilities:			
Receivables from related parties	7,803	(18,691)	(2,573)
Other assets	3,029	(1,129)	1,330
Accounts payable	(2,421)	2,309	2,020
Other liabilities	5,792	(280)	(5,795)
Net cash provided by (used in) operating activities	74,520	14,771	(6,158)
Cash flows from investing activities:			
Acquisition of real estate assets	(174,305)	(79,227)	(245,717)
Investments in trust preferred securities	—	(3,590)	—
Acquisition of Storage USA	—	(530,972)	—
Development and construction of real estate assets	(34,782)	(20,204)	(19,487)
Proceeds from sale of real estate assets	728	—	7,896
Investments in real estate ventures	(5,660)	(395)	(793)
Increase in cash resulting from de-consolidation of real estate assets and distribution of equity ownership in Extra Space Development and other properties	—	—	424
Change in restricted cash	(25,876)	(4,110)	(5,608)
Payments from Centershift and Extra Space Development	—	—	3,562
Principal payments received on notes receivable	1,811	25,938	—
Purchase of equipment and fixtures	(1,694)	(2,274)	(1,575)
Net cash used in investing activities	(239,778)	(614,834)	(261,298)

See accompanying notes.

Extra Space Storage Inc.

Consolidated Statements of Cash Flows (Continued)

(Dollars in thousands, except unit and share data)

	For the Year Ended December 31,		
	2006	2005	2004
Cash flows from financing activities:			
Proceeds from notes payable, notes payable to trusts and line of credit	165,666	808,936	418,154
Principal payments on notes payable and line of credit	(98,866)	(431,255)	(325,917)
Deferred financing costs	(1,028)	(6,575)	(8,393)
Payments on other liabilities	—	—	(15)
Net payments to related parties and putable preferred interests in consolidated joint ventures	—	—	(35,627)
Member contributions	—	—	19,691

Return paid on Class B, C and E member units	—	—	(7,181)
Redemption of units	—	—	(19,129)
Minority interest investments	92	225	8,086
Minority interest distributions	—	—	(30)
Redemption of Operating Partnership units held by minority interest	—	(895)	(935)
Minority interest redemption by Fidelity	—	—	(15,558)
Preferred return paid to Fidelity	—	—	(7,022)
Proceeds from issuance of common shares, net	194,474	271,537	264,475
Net proceeds from exercise of stock options	546	7	—
Dividends paid on common stock	(50,005)	(34,585)	(10,560)
Distributions to Operating Partnership units held by minority interests	(3,473)	(3,008)	—
Net cash provided by financing activities	207,406	604,387	280,039
Net increase in cash and cash equivalents	42,148	4,324	12,583
Cash and cash equivalents, beginning of the year	28,653	24,329	11,746
Cash and cash equivalents, end of the year	$ 70,801	$ 28,653	$ 24,329
Supplemental schedule of cash flow information			
Interest paid, net of amounts capitalized	$ 47,683	$ 37,645	$ 30,610
Supplemental schedule of noncash investing and financing activities:			
Acquisitions:			
Real estate assets	$ 27,091	$ 54,761	$ 59,740
Payables to related parties	—	—	(21,827)
Notes payable	(10,878)	(10,260)	(18,565)
Notes receivable	(10,298)	(21,680)	—
Accounts payable and other liabilities	—	—	(2,139)
Investment in real estate ventures	(2,785)	—	—
Minority interest in Operating Partnership	(3,130)	(22,821)	(14,021)
Member units	—	—	(3,188)
Member units issued in exchange for receivables	—	—	2,944
Member units issued to repay notes and related party payables	—	—	1,190
Redemption of units in exchange for note payable	—	—	3,700
Adjustment to establish minority interest in Operating Partnership	—	—	8,481
Redemption of units in exchange for land	—	—	846
Restricted stock grants to employees	—	2,975	—
Conversion of Operating Partnership units held by minority interests for common stock	1,811	3,927	—

See accompanying notes.

Extra Space Storage Inc.

Notes to Consolidated Financial Statements

December 31, 2006

(Dollars in thousands, except share and per share data)

1. DESCRIPTION OF BUSINESS

Business

Extra Space Storage Inc. (the "Company") is a self-administered and self-managed real estate investment trust ("REIT"), formed as a Maryland Corporation on April 30, 2004 to own, operate, manage, acquire and develop self-storage facilities located throughout the United States. The Company continues the business of Extra Space Storage LLC and its subsidiaries (the "Predecessor"), which had engaged in the self-storage business since 1977. The Company's interest in its properties is held through its operating partnership, Extra Space Storage LP (the "Operating Partnership"), which was formed on May 5, 2004. The Company's primary assets are general partner and limited partner interests in the Operating Partnership. This structure is commonly referred to as an umbrella partnership REIT, or UPREIT. The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). To the extent the Company continues to qualify as a REIT, it will not be subject to tax, with certain limited exceptions, on the taxable income that is distributed to its stockholders.

The Company invests in self-storage facilities by acquiring or developing wholly-owned facilities or by acquiring an equity interest in real estate entities. At December 31, 2006, the Company had direct and indirect equity interests in 567 storage facilities located in 32 states, and Washington, D.C. In addition, the Company managed 74 properties for franchisees or third parties bringing the total number of properties which it owns and/or manages to 641.

The Company operates in two distinct segments: (1) property management and development; and (2) rental operations. The Company's property management and development activities include acquiring, managing, developing and selling self-storage facilities. The rental operations activities include rental operations of self-storage facilities. No single tenant accounts for more than 5% of rental income.

Initial Public Offering

On August 17, 2004, the Company completed its initial public offering (the "Offering") of 20,200,000 shares of common stock, with proceeds to the Company of $234,825, net of offering costs of $17,675. As part of the offering, the Company granted the underwriters the right to purchase an additional 3,030,000 shares within 30 days after the Offering to cover over-allotments. On September 1, 2004, the underwriters exercised their right and purchased 3,030,000 shares of common stock with proceeds to the Company of $35,224, net of offering costs of $2,651. The Company also paid additional offering costs of $5,574 as part of the Offering.

In connection with the Offering, the existing holders of Class A, Class B, Class C and Class E Units in the Predecessor exchanged these units for an aggregate of 7,939,950 shares of common stock, 1,608,437 Operating Partnership ("OP") units, 3,888,843 contingent conversion shares ("CCSs"), 200,046 contingent conversion units ("CCUs") and $18,885 in cash. As a result of this exchange, the Predecessor became a wholly-owned subsidiary of the Operating

Partnership. As of December 31, 2006, the Operating Partnership was a 94.40% subsidiary of the Company. The transaction did not result in a change in the carrying value of the Predecessor's assets and liabilities because the exchange was accounted for at historical cost as a transfer of assets between companies under common control.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the results of operations of the Predecessor for the period from January 1, 2004 through August 16, 2004 and the results of operations and financial condition of the Company subsequent to the Offering.

The consolidated financial statements are presented on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles and include the accounts of the Company and its wholly or majority owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

The Company follows FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities" ("FIN 46R"), which addresses the consolidation of variable interest entities ("VIEs"). Under FIN 46R, arrangements that are not controlled through voting or similar rights are accounted for as VIEs. An enterprise is required to consolidate a VIE if it is the primary beneficiary of the VIE.

Under FIN 46R, a VIE is created when (i) the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or (ii) the entity's equity holders as a group either: (a) lack direct or indirect ability to make decisions about the entity through voting or similar rights, (b) are not obligated to absorb expected losses of the entity if they occur, or (c) do not have the right to receive expected residual returns of the entity if they occur. If an entity is deemed to be a VIE pursuant to FIN 46R, the enterprise that is deemed to absorb a majority of the expected losses or receive a majority of expected residual returns of the VIE is considered the primary beneficiary and must consolidate the VIE.

Based on the provisions of FIN 46R, the Company has concluded that under certain circumstances when the Company (i) enters into option agreements for the purchase of land or facilities from an entity and pays a non-refundable deposit, or (ii) enters into arrangements for the formation of joint ventures, a VIE may be created under condition (ii) (b) or (c) of the previous paragraph. For each VIE created, the Company has considered expected losses and residual returns based on the probability of future cash flows as outlined in FIN 46R. If the Company is determined to be the primary beneficiary of the VIE, the assets, liabilities and operations of the VIE are consolidated with the Company's financial statements.

The Company's investments in real estate joint ventures, where the Company has significant influence, but not control and joint ventures which are VIEs in which the Company is not the primary beneficiary, are recorded under the equity method of accounting on the accompanying consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Real Estate Assets

Real estate assets are stated at cost, less accumulated depreciation. Direct and allowable internal costs associated with the development, construction, renovation, and improvement of real estate assets are capitalized. Interest, property taxes, and other costs associated with development incurred during the

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construction period are capitalized. Capitalized interest during the years ended December 31, 2006, 2005 and 2004 was $3,232, $460, and $1,213, respectively.

Expenditures for maintenance and repairs are charged to expense as incurred. Major replacements and betterments that improve or extend the life of the asset are capitalized and depreciated over their estimated useful lives. Depreciation is computed using the straight-line method over the estimated useful lives of the buildings and improvements, which are generally between five and 39 years.

In connection with the Company's acquisition of properties, the purchase price is allocated to the tangible and intangible assets and liabilities acquired based on their estimated fair values. The value of the tangible assets, consisting of land and buildings, are determined as if vacant, that is, at replacement cost. Intangible assets, which represent the value of existing tenant relationships, are recorded at their estimated fair values. The Company measures the value of tenant relationships based on the Company's historical experience with turnover in its facilities. The Company amortizes to expense the tenant relationships on a straight-line basis over the average period that a tenant is expected to utilize the facility (currently estimated to be 18 months).

Intangible lease rights represent purchase price amounts allocated to leases on two properties that cannot be classified as ground or building leases. These rights are amortized to expense over the life of the leases.

Evaluation of Asset Impairment

Long lived assets held for use are evaluated by the Company for impairment when events or circumstances indicate that there may be an impairment. When such an event occurs, the Company compares the carrying value of these long-lived assets to the undiscounted future net operating cash flows attributable to the assets. An impairment loss is recorded if the net carrying value of the asset exceeds the undiscounted future net operating cash flows attributable to the asset. The impairment loss recognized equals the excess of net carrying value over the related fair value of the asset. Management has determined no property was impaired and no impairment charges have been recognized for the years ended December 31, 2006, 2005 and 2004.

When real estate assets are identified by management as held for sale, the Company discontinues depreciating the assets and estimates the fair value, net of selling costs. If the estimated fair value, net of selling costs, of the assets that have been identified for sale is less than the net carrying value of the assets,

then a valuation allowance is established. The operations of assets held for sale or sold during the period are presented as discontinued operations for all periods presented. Management has determined no property was held for sale at December 31, 2006.

Investments in Real Estate Ventures

The Company's investments in real estate joint ventures, where the Company has significant influence, but not control and joint ventures which are VIEs in which the Company is not the primary beneficiary, are recorded under the equity method of accounting on the accompanying consolidated financial statements.

Under the equity method, the Company's investment in real estate ventures is stated at cost and adjusted for the Company's share of net earnings or losses and reduced by distributions. Equity in earnings of real estate ventures is generally recognized based on the Company's ownership interest in the earnings of each of the unconsolidated real estate ventures. For the purposes of presentation in the statement of cash flows, the Company follows the "look through" approach for classification of distributions from joint ventures. Under this approach, distributions are reported under operating cash flow unless the facts and circumstances of a specific distribution clearly indicate that it is a return of capital (e.g., a liquidating

dividend or distribution of the proceeds from the joint venture's sale of assets) in which case it is reported as an investing activity.

Management assesses whether there are any indicators that the value of the Company's investments in unconsolidated real estate ventures may be impaired when events or circumstances indicate that there may be an impairment. An investment is impaired if management's estimate of the fair value of the investment is less than its carrying value. To the extent impairment has occurred, and is considered to be other than temporary, the loss is measured as the excess of the carrying amount of the investment over the fair value of the investment. No impairment charges were recognized for the years ended December 31, 2006, 2005 and 2004.

Cash and Cash Equivalents

The Company's cash is deposited with financial institutions located throughout the United States of America and at times may exceed federally insured limits. The Company considers all highly liquid debt instruments with a maturity date of three months or less to be cash equivalents.

Restricted Cash

Restricted cash is comprised of escrowed funds deposited with financial institutions located in various states relating to earnest money deposits on potential acquisitions, real estate taxes, insurance, capital expenditures and lease liabilities.

Other Assets

Other assets consist primarily of equipment and fixtures, deferred financing costs, customer accounts receivable, investments in trusts, and prepaid expenses. Depreciation of equipment and fixtures is computed on a straight-line basis over three to seven years. Deferred financing costs are amortized to interest expense using the effective interest method over the terms of the respective debt agreements.

Derivative Instruments and Hedging Activities

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted, establishes accounting and reporting standards for derivative instruments and hedging activities. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability or firm commitment attributable to a particular risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

For derivatives designated as fair value hedges, changes in the fair value of the derivative and the hedged item related to the hedged risk are recognized in the statements of operations. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (loss), outside of earnings and subsequently reclassified to earnings when the hedged transaction affects earnings.

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, receivables, other financial instruments included in other assets, accounts payable and accrued expenses, variable rate notes payable and other liabilities reflected in the consolidated balance sheets at December 31, 2006 and 2005 approximate fair value. The fair value of fixed rate notes payable and notes payable to trusts at December 31, 2006 and 2005 was

$835,667 and $750,527, respectively. The carrying value of these fixed rate notes payable and notes payable to trusts at December 31, 2006 and 2005 was $863,101 and $772,570, respectively.

Risk Management And Use Of Financial Instruments

In the normal course of its on-going business operations, the Company encounters economic risk. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Company is subject to interest rate risk on its interest-bearing liabilities. Credit risk is the risk of inability or unwillingness of tenants to make contractually required payments. Market risk is the risk of declines in the value of properties due to changes in rental rates, interest rates or other market factors affecting the value of properties held by the Company. As disclosed in Note 9, the Company has entered into a Swap Agreement to manage its interest rate risk.

Conversion of Operating Partnership Units

Conversions of Operating Partnership units to common stock, when converted under the original provisions of the agreement, are accounted for by reclassifying the underlying net book value of the units from minority interest to equity in accordance with Emerging Issues Task Force Issue No. 95-7, "Implementation Issues Related to the Treatment of Minority Interest in Certain Real Estate Investment Trusts."

Revenue and Expense Recognition

Rental revenues are recognized as earned based upon amounts that are currently due from tenants. Leases are generally on month-to-month terms. Prepaid rents are recognized on a straight-line basis over the term of the leases. Promotional discounts are recognized as a reduction to rental income over the promotional period. Late charges, administrative fees, merchandise sales and truck rentals are recognized in income when earned. Management and franchise fee revenue are recognized when earned. Tenant insurance premiums are recognized as revenue over the period of insurance coverage. Development and acquisition fee revenue is recognized as development costs are incurred. Equity in earnings of real estate entities is recognized based on our ownership interest in the earnings of each of the unconsolidated real estate entities. Interest income is recognized as earned.

Property expenses, including utilities, property taxes, repairs and maintenance and other costs to manage the facilities are recognized as incurred. We accrue for property tax expense based upon estimates and historical trends. If these estimates are incorrect, the timing of expense recognition could be affected.

Real Estate Sales

The Company evaluates real estate sales for both sale recognition and profit recognition in accordance with the provisions of SFAS No. 66, "Accounting for Sales of Real Estate." In general, sales of real estate and related profits/losses are recognized when all consideration has changed hands and risks and rewards of ownership have been transferred. Certain types of continuing involvement preclude sale treatment and related profit recognition; other forms of continuing involvement allow for sale recognition but require deferral of profit recognition.

The Predecessor periodically sold properties into real estate joint ventures or identified properties for acquisition by newly formed joint ventures in which it retained an interest. In connection with certain of these transactions, the Predecessor and/or a significant unit holder provided certain financial guarantees to the lender; or to support a put right on a portion of the joint venture partner's interest that effectively provided for a return on and of their investment. These arrangements preclude sale accounting under SFAS No. 66 and, accordingly, the Predecessor has reflected these transactions using the financing method set forth in SFAS No. 66. Under this method, the putable portions of these joint ventures partners'

interests are reflected as liabilities; the initial fair value of the joint venture partners' non-putable residual interests are reflected as minority interests with offsetting discounts attributed to the liabilities associated with the putable interests, "putable preferred interests in consolidated joint ventures." These discounts are amortized using the effective interest method over the period until the relevant put first becomes exercisable (generally a period of three to five years depending on the terms of the individual transaction). The preferred return on the putable interest liabilities, plus the amortization of the discounts, is reflected as interest expense in the consolidated statements of operations. The joint venture partners are allocated their proportionate share of any profits, except that losses may not be allocated in excess of the originally ascribed basis. Concurrent with the Offering, the Company redeemed all putable interest liabilities by purchasing 100% of its partners' interest in these properties.

Advertising Costs

The Company incurs advertising costs primarily attributable to directory, direct mail, internet and other advertising. Direct response advertising costs are deferred and amortized over the expected benefit period determinded to be 12 months. All other advertising costs are expensed as incurred. The Company recognized $4,960, $4,374, and $2,950 in advertising expense for the years ended December 31, 2006, 2005 and 2004, respectively.

Income Taxes

The Company has elected to be treated as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"). In order to maintain its qualification as a REIT, among other things, the Company is required to distribute at least 90% of its REIT taxable income to its stockholders and meet certain tests regarding the nature of its income and assets. As a REIT, the Company is not subject to federal income tax with respect to that portion of its income which meets certain criteria and is distributed annually to the stockholders. The Company plans to continue to operate so that it meets the requirements for taxation as a REIT. Many of these requirements, however, are highly technical and complex. If the Company were to fail to meet these requirements, the Company would be subject to federal income tax. The Company is subject to certain state and local taxes. Provision for such taxes has been included in the Company's property operations expense in the consolidated statements of operations. For the year ended December 31, 2006, 58.4% (unaudited) of all distributions to stockholders qualify as a return of capital.

The Company has elected to treat one of its existing corporate subsidiaries as a taxable REIT subsidiary ("TRS"). In general, a TRS of the Company may perform additional services for tenants of the Company and generally may engage in any real estate or non-real estate related business (except for the operation or management of health care facilities or lodging facilities or the provision to any person, under a franchise, license or otherwise, of rights to any brand name under which any lodging facility or health care facility is operated). A TRS is subject to corporate federal income tax.

The TRS has minimal book and tax income and has not recorded tax amounts under SFAS No. 109, "Accounting for Income Taxes," due to the amounts not being material.

Prior to August 17, 2004, the Company elected to be treated as a partnership for tax purposes. The tax effects of the Company's operations were passed directly to members. Therefore, no provisions for income taxes were recorded in the accompanying consolidated financial statements for the Predecessor.

Stock-Based Compensation

Effective January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), "Share-Based Payment," ("SFAS 123R"), which requires the measurement and recognition of compensation expense for all share-based payment awards to employees and directors based on estimated fair values. SFAS 123R

supersedes SFAS No. 123, “Accounting for Stock-Based Compensation” and Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (“APB 25”). The Company adopted SFAS 123R using the modified prospective application method of adoption which requires the Company to record compensation cost related to non-vested stock awards as of December 31, 2005 by recognizing the unamortized grant date fair value of these awards over their remaining service period with no change in historical reported earnings. Awards granted after December 31, 2005 are valued at fair value in accordance with provisions of SFAS 123R and recognized on a straight line basis over the service periods of each award. The forfeiture rate, which is estimated at a weighted average of 14.8% of unvested options outstanding as of December 31, 2006, is adjusted periodically based on the extent to which actual forfeitures differ, or are expected to differ, from the previous estimate.

Prior to 2006, the Company accounted for stock-based compensation in accordance with APB 25 using the intrinsic value method, which did not require that compensation cost be recognized for the Company’s stock options provided the option exercise price was established at 100% of the common stock fair value on the date of grant. Under APB 25, the Company was required to record expense over the vesting period for the value of restricted common stock granted. Prior to 2006, the Company provided pro forma disclosure amounts in accordance with SFAS No. 148, “Accounting for Stock-Based Compensation —Transition and Disclosure” (“SFAS 148”), as if the fair value method defined by SFAS 123 had been applied to its stock-based compensation.

Net Income (Loss) Per Share

Basic income (loss) per common share is computed by dividing the net income (loss) by the weighted average common shares outstanding, less unvested restricted stock. Diluted income (loss) per common share measures the performance of the Company over the reporting period while giving effect to all potential common shares that were dilutive and outstanding during the period. The denominator includes the number of additional common shares that would have been outstanding if the potential common shares that were dilutive had been issued and is calculated using the treasury stock method. Potential common shares are securities (such as options, warrants, convertible debt, and convertible OP units) that do not have a current right to participate in income but could do so in the future by virtue of their option or conversion right. In computing the dilutive effect of convertible securities, the numerator (i.e. net income or loss) is adjusted to add back any changes in income in the period associated with the convertible security. The numerator also is adjusted for the effects of any other non-discretionary changes in income or loss that would result from the assumed conversion of those potential common shares. In computing diluted income (loss) per share, only potential common shares that are dilutive, those that reduce income (loss) per share, are included. Excluded from the December 31, 2006 computation of diluted common shares outstanding are: 118,086 shares of restricted stock grants, and 24,273 stock options as their impact was not dilutive.

For the periods prior to the Offering, the weighted average number of common shares outstanding includes Class A units as if the Class A units had been converted to common stock using the initial public offering conversion ratio of one Class A unit to 0.08 shares of common stock. Basic and diluted loss per share were calculated by dividing the net loss attributable to common stockholders by the weighted average shares outstanding. The net loss attributable to common stockholders represents the net loss, less the preferred return payable by the Predecessor on Class B, C and E units, less the loss on early redemption of Fidelity minority interest. The loss on early redemption of Fidelity minority interest represents additional preferred return paid to Fidelity for the period between the redemption date of September 9, 2004 and November 25, 2004. The amount was paid based on the agreement whereby Fidelity was entitled to a preferred return through November 25, 2004, regardless of the redemption date.

Recently Issued Accounting Standards

In June 2006, the Financial Accounting Standards Board (“FASB”) issued FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company’s financial statements in accordance with SFAS No. 109, “Accounting for Income Taxes.” FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on the related de-recognition, classification, interest and penalties, accounting for interim periods, disclosure and transition of uncertain tax positions. FIN 48 is effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company has evaluated the impact of this new pronouncement on its consolidated financial statements and does not expect the impact of FIN 48 to be material.

3. REAL ESTATE ASSETS

Real estate assets at December 31, 2006 and 2005 are summarized as follows:

	2006	2005
Land	$ 361,569	$ 304,892
Buildings and improvements	1,085,269	929,745
Intangible assets—tenant relationships	25,436	22,174
Intangible lease rights	3,400	3,400
	1,475,674	1,260,211
Less: accumulated depreciation and amortization	(93,619)	(58,252)
Net operating real estate assets	1,382,055	1,201,959
Real estate under development	35,336	10,719
Net real estate assets	$ 1,417,391	$ 1,212,678

The Company amortizes to expense intangible assets—tenant relationships on a straight-line basis over the average period that a tenant utilizes the facility (18 months). The Company amortizes to expense the intangible lease rights over the terms of the related leases. Amortization related to the tenant relationships and lease rights was $8,371 and $10,345 for 2006 and 2005, respectively. The majority balance of the unamortized tenant relationship intangible assets at December 31, 2006 will be amortized in 2007. The remaining balance of the unamortized lease rights will be amortized over the next 11 to 22 years.

4. BUSINESS ACQUISITION

To expand its business, on July 14, 2005, the Company, through its subsidiary Extra Space Storage LLC (“ESS LLC”) and the Operating Partnership, closed the acquisition (the “Transaction”) of various entities that collectively comprise the Storage USA self-storage business pursuant to the Purchase and Sale Agreement (the “Agreement”), dated May 5, 2005, between ESS LLC, the Operating Partnership, Security Capital Self Storage Incorporated, a Delaware corporation, PRISA Self Storage LLC, a Delaware limited liability company (“PRISA”), PRISA II Self Storage LLC, a Delaware limited liability company

("PRISA II"), PRISA III Self Storage LLC, a Delaware limited liability company ("PRISA III"), VRS Self Storage LLC, a Delaware limited liability company ("VRS"), WCOT Self Storage LLC, a Delaware limited liability company ("WCOT"), and the Prudential Insurance Company of America, a New Jersey corporation (together with its affiliates, "Prudential").

In connection with the Transaction, the Company acquired 61 wholly-owned self storage properties, acquired Storage USA ("SUSA") Partnership, L.P.'s equity interest in joint ventures which collectively owned 78 properties and assumed the management of 60 franchises and third party owned properties. In

addition, 259 self-storage properties were acquired in the Transaction by five separate limited liability companies owned by five subsidiaries of the Company (each, a "Company Sub") and Prudential. The limited liability company agreements govern the rights and responsibilities of each such limited liability company. The Company also acquired $37.7 million of notes receivable due from franchisees.

The total purchase cost for SUSA of approximately $585.7 million consists of the following:

Cash	$ 530,972
Operating Partnership units issued (1,470,149 units)	22,821
Liabilities assumed	31,940
Total purchase price	$ 585,733

The total purchase price for the acquisition of SUSA has been allocated to tangible and intangible assets and liabilities based on their estimated fair values. The value of the tangible assets, consisting of land and buildings, are determined as if vacant, that is, at replacement cost. Other tangible assets and liabilities and intangible assets, which represent the value of existing tenant relationships, are recorded at their estimated fair value. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed:

Tangible assets:	
Land	$ 86,234
Building	342,634
Intangibles assets:	
Tenant relationships	9,009
Investment in real estate ventures	90,677
Other assets and liabilities, net	57,179
Total assets acquired	$ 585,733

Intangible assets—tenant relationships are amortized on a straight-line basis over the average period that the Company's tenants utilized the facility (18 months).

The results of operations from this acquisition are reflected in the Company's 2006 financial statements. The following table reflects the results of the Company's operations on a pro forma basis as if the SUSA acquisition had been completed on January 1, 2004. The pro forma financial information is not necessarily indicative of the operating results that would have occurred had the acquisition been consummated on January 1, 2004, nor is it necessarily indicative of future operating results.

	Years ending December 31,	
	2005	2004
Revenues	$ 176,591	$ 137,808
Net loss	$ (5,582)	$ (25,694)
Loss per share	$ (0.16)	$ (1.68)

5. PROPERTY ACQUISITIONS

The following table shows the Company's acquisition of operating properties for the past two years and does not include purchases of raw land, improvements made to existing assets or the properties acquired as part of the SUSA acquisition:

Property Location(s)	Number of Properties	Date of Acquisition	Total Consideration	Cash Paid	Loans Receivable Settled	Loan Assumed	Other Liabilities Assumed	Value of OP Units Issued	Number of OP Units Issued	Source of Acquisition	Notes
Florida and Texas	4	11/21/06	22,928	22,507			421	—	—	Unrelated third party	
New Jersey	1	11/2/06	13,338	13,129			209	—	—	Unrelated third party	
Colorado	1	9/1/06	5,419	5,360	—	—	59	—	—	Unrelated third party	
Maryland	1	9/1/06	16,340	13,094	—	—	116	3,130	182,828	Unrelated franchisee	
Texas	1	8/10/06	3,764	3,715	—	—	49	—	—	Unrelated third party	
Georgia	1	8/8/06	5,137	2,123	—	2,952	62	—	—	Unrelated franchisee	
California	1	7/28/06	7,260	7,260	—	—	—	—	—	Unrelated third party	
Arizona	1	6/30/06	4,100	4,100	—	—	—	—	—	Unrelated third party	
Texas	1	5/4/06	14,521	14,521	—	—	—	—	—	Unrelated franchisee	
California	1	5/1/06	12,500	12,403	—	—	97	—	—	Related party	(1)
Kansas, Tennessee, and Texas	5	4/12/06	21,584	3,020	10,298	7,926	340	—	—	Related joint venture	(2)
Pennsylvania	1	3/30/06	3,814	3,814	—	—	—	—	—	Unrelated third party	
Washington	3	2/15/06	17,866	17,866	—	—	—	—	—	Unrelated third party	
Georgia	1	1/17/06	5,148	5,148	—	—	—	—	—	Unrelated franchisee	
Florida	1	1/13/06	8,003	8,003	—	—	—	—	—	Unrelated franchisee	
Florida	1	1/6/06	5,414	5,414	—	—	—	—	—	Unrelated franchisee	
Kentucky	1	12/20/05	3,659	3,659	—	—	—	—	—	Unrelated franchisee	
Florida	1	3/28/05	4,702	4,702	—	—	—	—	—	Unrelated third party	
Florida	4	3/8/05	29,575	29,575	—	—	—	—	—	Unrelated third party	
Georgia	1	2/28/05	11,751	11,751	—	—	—	—	—	Unrelated third party	
New Jersey	1	1/18/05	9,788	5,564	—	4,142	82	—	—	Unrelated third party	

California	1	1/1/05	6,707	3,321	—	3,342	44	—	—	Related party	(3)
Total	34		$ 233,318	$ 200,049	$ 10,298	$ 18,362	$ 1,479	$ 3,130	182,828		
Other:											
Arizona	1	5/18/06	$ 1,071	$ 1,071	—	—	—	—	—	Related joint venture	(4)

Notes:

(1) This property was purchased from a related party that is owned by certain members of the Company's management team and a director. The independent members of the Company's board of directors approved this acquisition after obtaining independent appraisals.

(2) These properties were purchased from joint venture entities in which the Company held partnership interests. The joint ventures were dissolved and proceeds were distributed to joint venture partners. No gain or loss was recognized on this transaction.

(3) This property was purchased from a related party that is owned by certain members of the Company's management team and a director. The independent members of the Company's board of directors approved this acquisition after obtaining independent appraisals.

(4) The Company acquired its partner's joint venture interest at investment value in this development property.

6. INVESTMENTS IN REAL ESTATE VENTURES

Investments in real estate ventures at December 31, 2006 and 2005 consist of the following:

	Excess Profit Participation %	Equity Ownership %	Investment balance at December 31, 2006	Investment balance at December 31, 2005
Extra Space West One LLC ("ESW")	40%	5%	$ 1,918	$ 2,070
Extra Space Northern Properties Six, LLC ("ESNPS")	35%	10%	1,757	1,929
PRISA Self Storage LLC ("PRISA")	17%	2%	13,393	13,824
PRISA II Self Storage LLC ("PRISA II")	17%	2%	10,821	11,187
PRISA III Self Storage LLC ("PRISA III")	20%	5%	4,534	4,954
VRS Self Storage LLC ("VRS")	20%	5%	4,547	4,740
WCOT Self Storage LLC ("WCOT")	20%	5%	5,287	5,052
Storage Portfolio I, LLC ("SP I")	40%	25%	19,260	20,346
Storage Portfolio Bravo II ("SPB II")	45%	20%	15,264	15,753
Other minority owned properties	10-50%	10-50%	11,334	11,043
			$ 88,115	$ 90,898

In these joint ventures, the Company and the joint venture partner generally receive a preferred return on their invested capital. To the extent that cash/profits in excess of these preferred returns are generated through operations or capital transactions, the Company would receive a higher percentage of the excess cash/profits than its equity interest.

During the first and second quarter 2004, the Predecessor held a minority investment in Extra Space East One LLC ("ESE"). The Predecessor acquired its joint venture partner's interest in ESE on May 4, 2004. Subsequent to the acquisition of its partner's joint venture interest in ESE, the Company has consolidated the properties previously owned by ESE.

Equity in earnings of real estate ventures for the years ended December 31, 2006, 2005, and 2004 consists of the following:

	2006	2005	2004
Equity in earnings of ESW	$ 1,351	$ 1,171	$ 935
Equity in earnings of ESE	—	—	19
Equity in earnings of ESNPS	166	135	3
Equity in earnings of PRISA	528	265	—
Equity in earnings of PRISA II	448	210	—
Equity in earnings of PRISA III	124	70	—
Equity in earnings of VRS	158	79	—
Equity in earnings of WCOT	151	68	—
Equity in earnings of SP I	949	413	—
Equity in earnings of SPB II	786	319	—
Equity in earnings of other minority owned properties	32	440	430
	$ 4,693	$ 3,170	$ 1,387

Equity in earnings of SP I and SPB II includes the amortization of the Company's excess purchase price of approximately $22 million of these equity investments over its original basis. The excess basis is amortized over 40 years.

Combined, condensed unaudited financial information of ESE, ESW, ESNPS, PRISA, PRISA II, PRISA III, VRS, WCOT, SP I and SPB II as of December 31, 2006 and 2005 and for the years ended December 31, 2006, 2005, and 2004, follows:

Balance Sheets:	December 31, 2006	December 31, 2005
Assets:		

Net real estate assets	$ 2,142,970	$ 1,971,972
Other	53,140	77,037
	$ 2,196,110	$ 2,049,009
Liabilities and members' equity:		
Borrowings	$ 522,790	$ 434,539
Other liabilities	52,776	43,007
Members' equity	1,620,544	1,571,463
	$ 2,196,110	$ 2,049,009

	Years ended December 31,		
Statements of Income:	**2006**	**2005**	**2004**
Rents and other income	$ 282,212	$ 157,558	$ 34,821
Expenses	210,222	99,211	13,112
Net income	$ 71,990	$ 58,347	$ 21,709

Information (unaudited) related to the real estate ventures' debt at December 31, 2006 is set forth below:

	Loan Amount	Current Interest Rate	Debt Maturity
ESW—Fixed	$ 16,650	4.59%	July 2010
ESNPS—Fixed	34,500	5.27%	June 2015
PRISA III—Fixed	145,000	4.97%	August 2012
VRS—Fixed	52,100	4.76%	August 2012
WCOT—Fixed	92,140	4.76%	August 2012
SPB II—Fixed	67,400	4.83%	July 2009
SP I—Fixed	115,000	4.62%	April 2011
Other	84,136	various	various

7. NOTES RECEIVABLE

Notes receivable relate to construction advances SUSA had offered to certain franchisees. The notes were collateralized by the franchised properties and had terms up to five years. Interest payments were generally due monthly on the notes during the first two years of the term, with amortization of principal generally commencing in the third year based upon a 25-year schedule with the balance due at the due date. The loans bore interest based on a spread over the prime interest rate of 0.5% to 1.0%. Typically, advances represented 70% - 90% of the anticipated cost of the project.

Management periodically assessed historical payment history, payment status, prevailing economic and business conditions, specific loan terms and other relevant factors to determine whether any notes receivable should be placed on non-accrual status or otherwise adjusted for impairment. At December 31, 2006, all of these notes receivable had been repaid.

8. OTHER ASSETS

Other assets at December 31, 2006 and 2005 are summarized as follows:

	2006	2005
Equipment and fixtures	$ 11,083	$ 9,389
Less: accumulated depreciation	(6,564)	(4,977)
Deferred financing costs, net	10,511	12,151
Prepaid expenses and escrow deposits	5,139	5,114
Accounts receivable, net	9,373	8,179
Investments in Trusts	3,590	3,590
Other	224	352
	$ 33,356	$ 33,798

9. NOTES PAYABLE

Notes payable at December 31, 2006 and 2005 are summarized as follows:

	2006	2005
Mortgage and construction loans with banks bearing interest at fixed rates between 4.65% and 7.50%. The loans are collateralized by mortgages on real estate assets and the assignment of rents. Principal and interest payments are made monthly with all outstanding principal and interest due between March 1, 2008 and September 1, 2016.	$ 743,511	$ 652,980

Mortgage and construction loans with banks bearing floating interest rates (including loans subject to interest rate swaps) based on LIBOR. Interest rates based on LIBOR are between LIBOR plus 0.66% (6.01% and 5.05% at December 31, 2006 and December 31, 2005, respectively) and LIBOR plus 2.75% (8.10% and 7.14% at December 31, 2006 and December 31, 2005, respectively). The loans are collateralized by mortgages on real estate assets and the assignment of rents. Principal and interest payments are made monthly with all outstanding principal and interest due between August 2, 2007 and October 31, 2009.	25,073	47,213
	$ 828,584	$ 794,193

The following table summarizes the scheduled maturities of notes payable at December 31, 2006:

1/1/07 - 12/31/07	$ 9,471
1/1/08 - 12/31/08	12,316
1/1/09 - 12/31/09	289,644
1/1/10 - 12/31/10	113,400
1/1/11 - 12/31/11	68,400
Thereafter	335,353
	$ 828,584

Real estate assets are pledged as collateral for the notes payable. The Company is subject to certain restrictive covenants relating to the outstanding notes payable. The Company was in compliance with all covenants at December 31, 2006.

In October 2004, the Company entered into a reverse interest rate swap agreement (“Swap Agreement”) to float $61,770 of 4.30% fixed interest rate secured notes due in June 2009. Under this Swap Agreement, the Company will receive interest at a fixed rate of 4.30% and pay interest at a variable rate equal to LIBOR plus 0.655%. The Swap Agreement matures at the same time the notes are due. This Swap Agreement is a fair value hedge, as defined by SFAS No. 133, and the fair value of the Swap Agreement is recorded as an asset or liability, with an offsetting adjustment to the carrying value of the related note payable. Monthly variable interest payments are recognized as an increase or decrease in interest expense.

The estimated fair value of the Swap Agreement at December 31, 2006 and 2005 was reflected as an other liability of $1,925 and $2,151, respectively. For the year ended December 31, 2006 interest expense has been increased by $802 as a result of the Swap Agreement. For the year ended December 31, 2005, interest expense has been reduced by $70 as a result of the Swap Agreement.

10. NOTES PAYABLE TO TRUSTS

During July 2005, ESS Statutory Trust III (the “Trust III”), a newly formed Delaware statutory trust and a wholly-owned, unconsolidated subsidiary of the Operating Partnership, issued an aggregate of $40.0 million of preferred securities which mature on July 31, 2035. In addition, the Trust III issued 1,238 of Trust common securities to the Operating Partnership for a purchase price of $1.2 million. On July 27, 2005, the proceeds from the sale of the preferred and common securities of $41.2 million were loaned in the form of a note to the Operating Partnership (“Note 3”). Note 3 has a fixed rate of 6.91% through July 31, 2010, and then will be payable at a variable rate equal to the three-month LIBOR plus 2.40% per annum. The interest on Note 3, payable quarterly, will be used by the Trust III to pay dividends on the trust preferred securities. The trust preferred securities may be redeemed by the Trust with no prepayment premium after July 27, 2010.

During May 2005, ESS Statutory Trust II (the “Trust II”), a newly formed Delaware statutory trust and a wholly-owned, unconsolidated subsidiary of the Operating Partnership of the Company, issued an aggregate of $41.0 million of preferred securities which mature on June 30, 2035. In addition, the Trust II issued 1,269 of Trust common securities to the Operating Partnership for a purchase price of $1.3 million. On May 24, 2005, the proceeds from the sale of the preferred and common securities of $42.3 million were loaned in the form of a note to the Operating Partnership (“Note 2”). Note 2 has a fixed rate of 6.67% through June 30, 2010, and then will be payable at a variable rate equal to the three-month LIBOR plus 2.40% per annum. The interest on Note 2, payable quarterly, will be used by the Trust II to pay dividends on the trust preferred securities. The trust preferred securities may be redeemed by the Trust with no prepayment premium after June 30, 2010.

During April 2005, ESS Statutory Trust I (the “Trust”), a newly formed Delaware statutory trust and a wholly-owned, unconsolidated subsidiary of the Operating Partnership of the Company issued an aggregate of $35.0 million of trust preferred securities which mature on June 30, 2035. In addition, the Trust issued 1,083 of Trust common securities to the Operating Partnership for a purchase price of $1.1 million. On April 8, 2005, the proceeds from the sale of the trust preferred and common securities of $36.1 million were loaned in the form of a note to the Operating Partnership (the “Note”). The Note has a variable rate equal to the three-month LIBOR plus 2.25% per annum. The interest on the Note, payable quarterly, will be used by the Trust to pay dividends on the trust preferred securities. The trust preferred securities may be redeemed by the Trust with no prepayment premium after June 30, 2010.

Under FIN 46R, Trust, Trust II and Trust III are VIEs that are not consolidated because the Company is not the primary beneficiary. A debt obligation has been recorded in the form of notes as discussed above for the proceeds, which are owed to the Trust, Trust II, and Trust III by the Company.

11. LINE OF CREDIT

The Company, as guarantor, and its Operating Partnership have entered into a $100.0 million revolving line of credit, which includes a $10.0 million swingline sub-facility (the “Credit Facility”).

The Credit Facility has an interest rate of 175 basis points over LIBOR (7.10% and 6.14% at December 31, 2006 and 2005, respectively). The Operating Partnership intends to use the proceeds of the Credit Facility for general corporate purposes. As of December 31, 2006, the Credit Facility had approximately $81.0 million of capacity based on the assets collateralizing the Credit Facility. The outstanding principal balance on the line of credit at December 31, 2006 and 2005 was $0. The maturity date on the line of credit is September 2007. The Credit Facility is collateralized by mortgages on certain real estate assets.

12. PUTABLE PREFERRED INTERESTS IN CONSOLIDATED JOINT VENTURES AND OTHER MINORITY INTERESTS

On August 17, 2004, the Company purchased its joint venture partner's 49.5% interest in Extra Space Properties Three, LLC. Prior to the purchase of its joint venture partner's interest, the Predecessor owned a 50.5% interest in Extra Space Properties Three, LLC. This arrangement provided for a preferred return of 12% on certain capital provided by both the Predecessor and the joint venture partner, and thereafter returns were split based upon percentage residual interests.

The Company also purchased its joint venture partner's interests in 15 other self-storage facilities on August 17, 2004. The Predecessor had entered into these joint venture agreements with other entities controlled by Equibase Mini Warehouse. These arrangements provided for a preferred return of either 10% or 12%, depending on the specific agreement, on certain capital provided by the joint venture partner and thereafter returns were split based on the indicated percentage interests (generally 40% to the Predecessor and 60% to the investors).

Prior to the buyout of the Predecessor's joint venture partners (entities controlled by Equibase Mini Warehouse), the Predecessor and/or a significant unit holder provided certain financial guarantees to the secured lender (generally providing for performance under the loan, including principal and interest payments), or to support a put right on a portion of the joint venture partner's interest after a fixed period (generally either three or five years), that effectively provided for a return on and of the preferred portion of their investment. In addition, after a fixed period (generally either three or five years), the joint venture had the right to redeem the preferred capital at an amount equal to its unreturned contribution plus any accrued preferred return. Upon exercise of the put or call on the preferred portion of their investment, the joint venture investors would continue to hold their residual equity interests. As a result of the put rights and guarantees, the Predecessor consolidated the properties and related debt until the put rights and guarantees were satisfied or have expired. The financial guarantees to the secured lender would generally expire upon satisfaction of the related loan at maturity or refinancing. The put rights and related guarantees had no stated maturity and would only expire upon exercise or through redemption of the preferred interests through a capital event.

On August 17, 2004, the Company completed the acquisition of joint venture interests held by Equibase Mini Warehouse and its affiliates in seven joint ventures, which owned an aggregate of 30 self-storage properties, for an aggregate of approximately $35,800 in cash and 114,928 OP units issued by the Operating Partnership valued at $1,437.

Upon completion of the Offering, the Company was released from all puts and guarantees relating to the remaining Equibase joint ventures. These guarantees and puts were transferred to Extra Space Development and a stockholder of the Company. Accordingly, these properties were deconsolidated as of August 17, 2004. The operating results through August 16, 2004 relating to the properties that were deconsolidated are included in the consolidated statements of operations.

During the year ended December 31, 2004, the Company reflected interest expense on the putable preferred interests of $4,227, including amortization of discounts ascribed at issuance of $1,043. No interest expense related to putable preferred interests was recorded during the years ended December 31, 2006 or 2005.

13. OTHER LIABILITIES

Other liabilities at December 31, 2006 and 2005 are summarized as follows:

	2006	2005
Deferred rental income	$ 9,224	$ 7,322
Accrued interest	3,990	3,413
Accrued taxes and security deposits	2,847	1,618
Fair value of interest rate swap	1,925	2,151
SUSA lease obligation liability	2,838	3,068
Property insurance payable	3,123	2,299
Other liabilities	8,151	3,914
	$ 32,098	$ 23,785

As a result of the acquisition of SUSA in 2005, the Company recorded restructuring liabilities of $4,638 relating to the assumption of a lease for a facility that will no longer be used in the Company's operations and $2,441 for severance costs related to terminated employees of the prior business.

The following table sets forth the restructuring activity during the year ended December 31, 2006:

	Accrued restructuring liabilities at December 31, 2005	Cash Paid	Adjustments	Accrued restructuring liabilities at December 31, 2006
Facility exit costs	$ 3,068	$ (230)	$ —	$ 2,838
Severance costs	380	(1,547)	1,167	—
Total	$ 3,448	$ (1,777)	$ 1,167	$ 2,838
Allocated to:				
Continuing operations	$ 3,448	$ (1,777)	$ 1,671	$ 2,838
Discontinued operations	—	—	—	—
	$ 3,448	$ (1,777)	$ 1,167	$ 2,838

14. RELATED PARTY AND AFFILIATED REAL ESTATE JOINT VENTURE TRANSACTIONS

The Company provides management and development services for certain joint ventures, franchise, third party and other related party properties. Management agreements provide generally for management fees of 6% of gross rental revenues for the management of operations at the self-storage facilities. The Company earns development fees of 4%-6% of budgeted costs on developmental projects and acquisition fees of 1% of the gross purchase price or the completed costs of development of acquired properties. As discussed in Note 5, the Company has purchased self-storage properties from related parties and affiliated entities.

Management fee revenue for related party and affiliated real estate joint ventures for the years ended December 31, 2006, 2005 and 2004 is summarized as follows:

Entity	Type	2006	2005	2004
ESE	Affiliated real estate joint ventures	$ —	$ —	$ 95
ESW	Affiliated real estate joint ventures	413	374	511
ESNPS	Affiliated real estate joint ventures	422	397	382
PRISA	Affiliated real estate joint ventures	5,057	2,391	—
PRISA II	Affiliated real estate joint ventures	4,081	1,913	—
PRISA III	Affiliated real estate joint ventures	1,843	871	—
VRS	Affiliated real estate joint ventures	1,118	514	—
WCOT	Affiliated real estate joint ventures	1,464	688	—
SP I	Affiliated real estate joint ventures	1,221	548	—
SPB II	Affiliated real estate joint ventures	1,032	477	—
ESD	Related party	518	292	26
	Franchisees, third parties and other	3,714	2,185	637
		$ 20,883	$ 10,650	$ 1,651

Acquisition and development fee revenue for related party and affiliated real estate joint ventures for the years ended December 31, 2006, 2005 and 2004 is summarized as follows:

Entity	Type	2006	2005	2004
ESW	Affiliated real estate joint ventures	$ —	$ —	$ 161
Everest	Affiliated real estate joint ventures	114	260	235
Yancy	Affiliated real estate joint ventures	49	444	—
ESD	Related party	109	288	804
		$272	$992	$ 1,200

During the year ended December 31, 2004, management fee expense of $2,775 was recorded for services provided to support the Company's and the Predecessor's self-storage facilities by Extra Space Management, Inc. ("ESMI"), a corporation that shared common ownership with the Predecessor, including stockholders who were officers of the Predecessor. Under this agreement, ESMI provided employees who supported the operations of existing self-storage facilities and the acquisition and development of new self-storage facilities by the Predecessor. On March 31, 2004, the Predecessor purchased all of the outstanding common stock of ESMI for its net book value of $184. ESMI had equipment and fixtures of $256, other assets of $736 and liabilities of $808.

Receivables from related parties and affiliated real estate joint ventures balances as of December 31, 2006 and 2005 are summarized as follows:

	2006	2005
Receivables:		
Development fees	$ 2,633	$ 2,552
Other receivables from properties	13,247	16,418
Receivables from Prudential relating to SUSA acquisition	—	4,713
	$ 15,880	$ 23,683

Development fees receivable consist of amounts due for development services from third parties and unconsolidated joint ventures. Other receivables from properties consist of amounts due for expenses paid on behalf of the properties that the Company manages and management fees. Receivables from Prudential relating to SUSA acquisition represented amounts receivable from Prudential for general and

administrative expenses, severance paid, and lease expenses paid relating to the SUSA acquisition. The Company believes that all of these related party and affiliated real estate joint venture receivables are fully collectible. The Company does not have any payables to related parties at December 31, 2006 and 2005.

On January 1, 2004, the Predecessor distributed its equity ownership in Extra Space Development LLC ("ESD"), a consolidated subsidiary, to its Class A members. ESD owned 13 early-stage development properties, two parcels of undeveloped land, and a note receivable. The net book value of the distributed properties and related liabilities was approximately $15,000. The Predecessor retained a receivable of $6,212 from ESD and recorded a net distribution of $9,000. In September 2004, ESD repaid the amounts due the Company using funds obtained through new loans on unencumbered properties. The Predecessor was required to continue consolidating certain properties due to financial guarantees. Concurrent with the initial public offering, the Company was released from all guarantees, and the properties were deconsolidated as of August 16, 2004.

The Company has determined that it has a variable interest in properties in which ESD owns or has an ownership interest. The Company does not have an equity investment or interest, and it is not the primary beneficiary. This variable interest is a result of management and development contracts that are held by the Company. The variable interest is limited to the management and development fees and there is not any additional loss that can be attributed to the

Company. The Company has determined that it is not the primary beneficiary in these agreements. Accordingly, these properties have not been consolidated subsequent to August 16, 2004.

On January 1, 2004, the Predecessor distributed the $4,493 (including accrued interest of $438) note receivable from Centershift, related party software service provider, which is partially owned by a certain director and members of management of the Company, to its Class A members. Effective January 1, 2004, the Company entered into a license agreement with Centershift which secures a perpetual right for continued use of STORE (the site management software used at all sites operated by the Company) in all aspects of the Company's property acquisition, development, redevelopment and operational activities. During the years ended December 31, 2006, 2005 and 2004, the Company paid Centershift $824, $739 and $441, respectively, relating to the purchase of software and to license agreements.

15. MINORITY INTEREST IN OPERATING PARTNERSHIP

The Company's interest in its properties is held through the Operating Partnership. ESS Holding Business Trust I, a wholly-owned subsidiary of the Company, is the sole general partner of the Operating Partnership. The Company through ESS Business Trust II, a wholly-owned subsidiary of the Company, is also a limited partner of the Operating Partnership. Between its general partner and limited partner interests, the Company held a 94.40% majority ownership interest therein as of December 31, 2006. The remaining ownership interests in the Operating Partnership of 5.60% are held by certain former owners of assets acquired by the Operating Partnership, which include a director and officers of the Company. The Company and Operating Partnership were formed to continue to operate and expand the business of the Predecessor.

The minority interest in the Operating Partnership represents OP units that are not owned by the Company. In conjunction with the formation of the Company and as a result of subsequent acquisitions, certain persons and entities contributing interests in properties to the Operating Partnership received limited partnership units. Limited partners who received OP units in the formation transactions have the right to require the Operating Partnership to redeem part or all of their OP units for cash based upon the fair market value of an equivalent number of shares of common stock at the time of the redemption. Alternatively, the Company may, at its option, elect to acquire those OP units in exchange for shares of its common stock on a one-for-one basis, subject to anti-dilution adjustments provided in the Operating Partnership agreement.

During September 2006, the Company issued 182,828 Operating Partnership units valued at $3.1 million in conjunction with the acquisition of a property in Rockville, Maryland. During July 2006, 200,000 Operating Partnership units were redeemed in exchange for common stock. As of December 31, 2006, the Operating Partnership had 3,808,615 and 200,046 OP units and CCUs outstanding, respectively.

On July 14, 2005, the Company issued 1,470,149 OP units valued at $21.6 million in conjunction with the SUSA acquisition. On September 9, 2005 and November 2, 2005, 350,000 and 50,000 OP units were redeemed in exchange for common stock, respectively.

Unlike the OP units, CCUs do not carry any voting rights. Upon the achievement of certain performance thresholds relating to 14 early-stage lease-up properties, all or a portion of the CCUs will be automatically converted into OP Units. Initially, each CCU will be convertible on a one-for-one basis into OP Units, subject to customary anti-dilution adjustments. Beginning with the quarter ended March 31, 2006, and ending with the quarter ending December 31, 2008, the Company calculates the net operating income from the 14 wholly-owned early-stage lease-up properties over the 12-month period ending in such quarter. Within 35 days following the end of each quarter referred to above, some or all of the CCUs will be converted so that the total percentage (not to exceed 100%) of CCUs issued in connection with the formation transactions that have been converted to OP units will be equal to the percentage determined by dividing the net operating income for such period in excess of $5.1 million by $4.6 million. If any CCU remains unconverted through the calculation made in respect of the 12-month period ending December 31, 2008, such outstanding CCUs will be cancelled.

While any CCUs remain outstanding, a majority of the Company's independent directors must review and approve the net operating income calculation for each measurement period and also must approve the sale of any of the 14 wholly-owned early-stage lease-up properties.

No CCUs had been converted as of December 31, 2006. Based on the performance of the properties as of December 31, 2006, 2,693 CCUs became eligible for conversion. The board of directors approved the conversion of these CCUs on February 1, 2007 as per the Company's Articles of Incorporation, and the units were issued on February 5, 2007.

16. REDEEMABLE MINORITY INTEREST—FIDELITY

Through December 31, 2003, the Predecessor, through a consolidated subsidiary, Extra Space Properties Four, LLC, had received net cash proceeds of $14,156 (net of transaction costs of $1,403) from FREAM No. 39, LLC and Fidelity Pension Fund Real Estate Investments (collectively, "Fidelity"). The Predecessor was accreting the discount related to the transaction costs over the five-year period ended November 25, 2006, the first date the investment was redeemable by Fidelity.

This investment earned a 22% preferred return, of which 9% was payable quarterly with the remainder payable upon redemption. The earliest date at which the investment could be repaid without penalty at the option of the Predecessor was November 25, 2004. The investment was redeemable November 25, 2006 at the option of Fidelity.

On September 9, 2004, the Operating Partnership completed its acquisition of the preferred equity interest held by Fidelity in Extra Space Properties Four LLC. This interest was acquired for approximately $21,530 in cash, which included the preferred return through November 25, 2004. The Company recorded a loss on early redemption of $1,478.

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17. STOCKHOLDERS' AND MEMBERS' EQUITY

Stockholders' Equity

On September 25, 2006, the Company closed a public common stock offering of 12,075,000 shares at an offering price of $17.00 per share, for aggregate gross proceeds of $205,275. Transaction costs were $10,374, resulting in net proceeds of $194,901.

On December 9, 2005, the Company closed a public common stock offering of 13,800,000 shares at an offering price of $14.57 per share, for aggregate gross proceeds of $201.1 million. Transaction costs were $10.9 million, resulting in net proceeds of $190.2 million. The proceeds were used to repay outstanding bridge and other loans and for general corporate purposes, including potential acquisitions and debt repayment.

On June 20, 2005, the Company completed a private placement of 6,200,000 shares of its common stock at an offering price of $13.47 per share, for aggregate gross proceeds of $83.5 million. Transaction costs were $2.2 million, resulting in net proceeds of $81.3 million. The shares were issued pursuant to an exemption from the registration requirements of Section 5 of the Securities Act of 1933, as amended. Pursuant to the terms of the registration rights agreement, the Company filed a registration statement covering the shares on September 22, 2005. The registration statement was deemed effective on November 14, 2005.

The Company's charter provides that it can issue up to 200,000,000 shares of common stock, $0.01 par value per share, 4,100,000 CCSs, $.01 par value per share, and 50,000,000 shares of preferred stock, $0.01 par value per share. As of December 31, 2006, 64,167,098 shares of common stock were issued and outstanding, 3,888,843 CCSs were issued and outstanding and no shares of preferred stock were issued or outstanding.

All stockholders of the Company's common stock are entitled to receive dividends and to one vote on all matters submitted to a vote of stockholders. The transfer agent and registrar for the Company's common stock is American Stock Transfer & Trust Company.

Unlike the Company's shares of common stock, CCSs do not carry any voting rights. Upon the achievement of certain performance thresholds relating to 14 early-stage lease-up properties, all or a portion of the CCSs will be automatically converted into shares of the Company's common stock. Initially, each CCS will be convertible on a one-for-one basis into shares of common stock, subject to customary anti-dilution adjustments. Beginning with the quarter ended March 31, 2006, and ending with the quarter ending December 31, 2008, the Company calculates the net operating income from the 14 wholly-owned early-stage lease-up properties over the 12-month period ending in such quarter. Within 35 days following the end of each quarter referred to above, some or all of the CCSs will be converted so that the total percentage (not to exceed 100%) of CCSs issued in connection with the formation transactions that have been converted to common stock will be equal to the percentage determined by dividing the net operating income for such period in excess of $5.1 million by $4.6 million. If any CCS remains unconverted through the calculation made in respect of the 12-month period ending December 31, 2008, such outstanding CCSs will be cancelled and restored to the status of authorized but unissued shares of common stock.

While any CCSs remain outstanding, a majority of the Company's independent directors must review and approve the net operating income calculation for each measurement period and also must approve the sale of any of the 14 wholly-owned early-stage lease-up properties.

No CCSs had been converted as of December 31, 2006. Based on the performance of the properties as of December 31, 2006, 52,349 CCSs became eligible for conversion. The board of directors approved the conversion of these CCSs on February 1, 2007 as per the Company's Articles of Incorporation, and the shares were issued on February 5, 2007.

Members' Equity

Members' profits, losses and distributions of the Predecessor were allocated in accordance with the terms of the Predecessor's operating agreement, as amended. Member unit holders included members of management. Member interests were divided into four classes of units.

Class A units were common units with voting rights and no par value. There were also non-voting Class A units held by certain employees. During April 2004, the Predecessor granted 4,019,837 Class A Units, valued at $0.30 per unit, to certain employees, resulting in a compensation charge of $1,205. All Class A units were redeemed or converted to common stock as of August 17, 2004 at the option of the holder.

Class B units were preferred units with a par value of $1.00. These units were non-convertible, non-voting and earned a 9% preferred return (non-compounding) with no current dividend paid. The 9% preferred return was paid based upon available funds, including upon liquidation or termination. All Class B units were redeemed or converted to common stock as of August 17, 2004 at the option of the holder.

Class C units were preferred units with a par value of $1.00. These units were non-convertible, non-voting and earned a 9% preferred return with current dividends paid quarterly. All Class C units were redeemed or converted to common stock as of August 17, 2004 at the option of the holder.

Class E units were preferred units with a par value of $1.00. These units were non-convertible, non-voting and earned a 7% preferred return with current dividends paid quarterly. These units were redeemable after July 1, 2004 at the option of the holder. All E units were redeemed or converted to common stock as of August 17, 2004 at the option of the holder.

Class B, C and E units did not participate in the distribution of profits after payment of the preferred return.

18. STOCK-BASED COMPENSATION

As of December 31, 2006, the Company had authorized 8,800,000 shares of common stock for issuance under the Company's two stock compensation plans: (1) the 2004 Long-Term Incentive Compensation Plan, and (2) the 2004 Non-Employee Directors' Share Plan.

Under the terms of the Plans, the exercise price of an option shall be determined by the Compensation, Nominating and Governance Committee and reflected in the applicable award agreement. All option grants have been issued at the five day average close price prior to the date of the grant. Each option will be exercisable after the period or periods specified in the award agreement (typically four years), which will generally not exceed 10 years from the date of grant. Options will be exercisable at such times and subject to such terms as determined by the Compensation, Nominating and Governance Committee, but under no circumstances may be exercised if such exercise would cause a violation of the ownership limit in the Company's charter. Unless otherwise determined by the Compensation, Nominating and Governance Committee at the time of grant, such stock options shall vest ratably over a four-year period beginning on the date of grant.

Also as defined under the terms of the Plans, restricted stock grants may be awarded. The stock grants are subject to a performance or vesting period over which the restrictions are lifted and the stock certificates are given to the grantee. During the performance or vesting period, the grantee is not permitted to sell, transfer, pledge, encumber or assign shares of restricted stock granted under the plan, however, has the ability to vote the shares and receive the dividends paid on the shares. The forfeiture and transfer restriction on the shares lapse over a two to four year period beginning on the date of grant.

Option Grants to Employees

As of December 31, 2006, 5,143,286 shares were available for issuance under the 2004 Long-Term Incentive Compensation Plan. A summary of stock option activity for the years ended December 31, 2006, 2005 and 2004 is as follows:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value as of December 31, 2006
Outstanding at January 1, 2004	—	$ 0.00		
Granted	1,680,000	12.50		
Forfeited	(112,000)	12.50		
Outstanding at December 31, 2004	1,568,000	12.50		
Granted	1,659,049	15.17		
Exercised	(35,651)	12.50		
Forfeited	(144,875)	13.66		
Outstanding at December 31, 2005	3,046,523	13.89		
Granted	161,914	15.48		
Exercised	(259,700)	13.11		
Forfeited	(384,174)	14.92		
Outstanding at December 31, 2006	2,564,563	$ 13.92	8.00	$ 11,140,085
Vested and Expected to Vest	2,321,346	$ 13.87	0.85	$ 10,184,741
Ending Exercisable	797,217	$ 13.43	7.82	$ 3,849,063

The weighted average fair value of stock options granted in 2006, 2005 and 2004 was $1.78, $1.25 and $1.09, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions for 2006, 2005 and 2004:

	2006	2005	2004
Expected volatility	24%	21%	22%
Dividend yield	5.5%	6.9%	7.3%
Risk-free interest rate	4.7%	3.7%	3.5%
Average expected term (years)	5	5	5

A summary of stock options outstanding and exercisable as of December 31, 2006 is as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
12.50 - 13.50	1,286,899	7.65	$ 12.53	536,274	$ 12.51
13.51 - 14.50	179,000	8.47	14.05	34,625	14.03
14.51 - 15.50	293,125	8.85	15.04	42,000	14.99
15.51 - 16.50	773,625	8.09	15.65	184,318	15.64
16.51 - 17.50	31,914	9.27	16.70	—	—
	2,564,563	8.00	$ 13.92	797,217	$ 13.43

Total compensation expense of $798 was recorded relating to outstanding options for the year ended December 31, 2006. The total compensation cost related to non-vested stock options not yet recognized was approximately $1.8 million and the weighted-average period over which the total compensation cost

related to non-vested stock options is expected to be realized is 2.22 years. Total cash received in 2006 related to option exercises was $934.

The following pro-forma information as required by SFAS No. 148, “Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of FASB Statement No. 123,” is presented for comparative purposes and illustrates the effect on net loss and net loss per common share for the years ended December 31, 2005 and 2004, as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation prior to January 1, 2006:

	Year ended December 31, 2005	Year ended December 31, 2004
Net loss attributable to common stockholders as reported	$ (4,966)	$ (25,698)
Add: Stock-based compensation expense included in reported net loss attributable to common stockholders	601	—
Deduct: Stock-based compensation expense determined under fair value method for all awards	(1,261)	(129)
Pro forma net loss	$ (5,626)	$ (25,827)
Loss per common share		
Basic and diluted—as reported	$ (0.14)	$ (1.68)
Basic and diluted—pro forma	$ (0.16)	$ (1.69)

Common Stock Granted to Employees and Directors

Throughout 2006 and in July 2005, the Company granted 50,300 and 190,000 shares respectively of common stock to certain employees, without monetary consideration under the Company's 2004 Long-Term Incentive Compensation Plan.

On May 15, 2006, the Company's Board of Directors approved the issuance of 12,000 shares of common stock without monetary consideration under the Company's 2004 Non-Employee Directors' Share Plan to certain of its directors for services performed.

The Company recorded $927 of expense in general and administrative expense in its statement of operations related to outstanding shares of common stock granted to employees and directors for the year ended December 31, 2006. For the year ended December 31, 2005, the Company recorded $601 of expense in general and administrative expense related to outstanding shares of common stock granted to employees.

The fair value of common stock awards is determined based on the closing trading price of the Company's common stock on the grant date. A summary of the Company's employee and director share grant activity for the years ended December 31, 2006 and 2005 is as follows:

Restricted Stock Grants	Shares	Weighted-Average Grant-Date Fair Value
Unreleased at January 1, 2005	—	$ —
Granted	190,000	15.66
Released	(16,250)	15.66
Unreleased at December 31, 2005	173,750	15.66
Granted	62,300	16.42
Released	(46,250)	15.68
Cancelled	(33,500)	15.71
Unreleased at December 31, 2006	156,300	$ 15.94

19. EMPLOYEE BENEFIT PLAN

The Company has a retirement savings plan under Section 401(k) of the Internal Revenue Code under which eligible employees can contribute up to 15% of their annual salary, subject to a statutory prescribed annual limit. For 2006, the Company made matching contributions to the plan of $772 based on 100% of the first 3% and up to 50% of the next 2% of an employee's compensation.

20. GAIN ON SALE OF REAL ESTATE ASSETS

On January 30, 2006, the Company sold an excess parcel of vacant land in Lanham, Pennsylvania for its book value of $728. There was no gain or loss recognized on the sale.

On August 12, 2004, the Predecessor sold its minority equity interest in a storage facility in Laguna Hills, California to its joint venture partner for cash of $1,490 and repayment of a $2,000 related party payable for a total of $3,490, resulting in a gain of $1,920.

During January 2004, the Company sold a self-storage facility in Walnut, California for $6,406 to ESW. The Company recognized a loss on the sale of $171.

21. SEGMENT INFORMATION

The Company operates in two distinct segments; (1) property management and development and (2) rental operations. Financial information for the Company's business segments are set forth below:

	For the Year Ended December 31,		
	2006	2005	2004
Statement of Operations			
Total revenues			
Property management and development	$ 26,271	$ 14,088	$ 3,064
Rental operations	170,993	120,640	62,656
	$ 197,264	$ 134,728	$ 65,720
Operating expenses, including depreciation and amortization			
Property management and development	$ 39,055	$ 25,762	$ 13,519
Rental operations	98,557	76,612	41,303
	$ 137,612	$ 102,374	$ 54,822
Income (loss) before interest, minority interests, equity in earnings of real estate ventures and gain on sale of real estate assets			
Property management and development	$ (12,784)	$ (11,674)	$ (10,455)
Rental operations	72,436	44,028	21,353
	$ 59,652	$ 32,354	$ 10,898
Interest expense			
Property management and development	$ (829)	$ (911)	$ 329
Rental operations	(50,124)	(41,638)	31,685
	$ (50,953)	$ (42,549)	$ 32,014
Interest income			
Property management and development	$ 2,469	$ 1,625	$ 251
Minority interest—Operating Partnership and other			

Property management and development	$ (985)	$ 434	$ (733)
Gain on sale of real estate assets			
Property management and development	$ —	$ —	$ 1,749
Equity in earnings of real estate ventures			
Rental operations	$ 4,693	$ 3,170	$ 1,387
Net income (loss)			
Property management and development	$ (12,129)	$ (10,526)	$ (9,517)
Rental operations	27,005	5,560	(8,945)
	$ 14,876	$ (4,966)	$ (18,462)
Depreciation and amortization expense			
Property management and development	$ 858	$ 356	$ 315
Rental operations	36,314	30,649	15,237
	$ 37,172	$ 31,005	$ 15,552
Statement of Cash Flows			
Acquisition of real estate assets			
Property management and development	$ (174,305)	$ (79,227)	$ (245,717)
Acquisition of Storage USA			
Property management and development	$ —	$ (530,972)	$ —
Development and construction of real estate assets			
Property management and development	$ (34,782)	$ (20,204)	$ (19,487)

Balance Sheet	December 31, 2006	December 31, 2005
Investment in real estate ventures		
Rental operations	$ 88,115	$ 90,898
Total assets		
Property management and development	$ 223,402	$ 179,770
Property operations	1,446,423	1,240,422
	$ 1,669,825	$ 1,420,192

22. COMMITMENTS AND CONTINGENCIES

The Company has an operating lease on its corporate offices and owns nine self-storage facilities that are subject to ground leases. At December 31, 2006, future minimum rental payments under these non-cancelable operating leases are as follows:

2007	$ 4,634
2008	4,459
2009	4,342
2010	4,266
2011	3,597
Thereafter	20,631
	$ 41,929

The monthly rental amount for one of the ground leases is the greater of a minimum amount or a percentage of gross monthly receipts. The Company recorded rent expense of $2,641, $2,591, and $1,332 related to these leases in the years ended December 31, 2006, 2005 and 2004, respectively.

The Company has guaranteed two construction loans for unconsolidated partnerships that own development properties in Baltimore, Maryland, and Chicago, Illinois. These properties are owned by joint ventures in which the Company has 10% equity interests. These guarantees were entered into in November 2004 and July 2005, respectively. At December 31, 2006, the total amount of guaranteed mortgage debt relating to these joint ventures was $13,022 (unaudited). These mortgage loans mature December 1, 2007 and July 28, 2008, respectively. If the joint ventures default on the loans, the Company may be forced to repay the loans. Repossessing and/or selling the self-storage facilities and land that collateralize the loans could provide funds sufficient to reimburse the Company. The estimated fair market value of the encumbered assets at December 31, 2006 is $16,656 (unaudited). The Company has recorded no liability in relation to this guarantee as of December 31, 2006. The fair value of the guarantee is not material. To date, the joint ventures have not defaulted on their mortgage debt. The Company believes the risk of having to perform on the guarantee is remote.

The Company has been involved in routine litigation arising in the ordinary course of business. As of December 31, 2006, the Company is not presently involved in any material litigation nor, to its knowledge, is any material litigation threatened against its properties.

23. SUPPLEMENTARY QUARTERLY FINANCIAL DATA (UNAUDITED)

	Three months ended			
	March 31, 2006	June 30, 2006	September 30, 2006	December 31, 2006
Total revenues	$ 45,370	$ 48,531	$ 51,188	$ 52,175
Total expenses	$ 34,214	$ 33,665	$ 34,661	$ 35,072

Net income	$ 738	$ 3,092	$ 4,307	$ 6,739
Net income attributable to common stockholders	$ 738	$ 3,092	$ 4,307	$ 6,739
Net income—basic	$ 0.01	$ 0.06	$ 0.08	$ 0.11
Net income—diluted	$ 0.01	$ 0.06	$ 0.07	$ 0.10

	Three months ended			
	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005
Total revenues	$ 22,908	$ 24,551	$ 42,346	$ 44,923
Total expenses	$ 17,692	$ 18,742	$ 33,014	$ 32,926
Net loss	$ (640)	$ (1,220)	$ (2,859)	$ (247)
Net loss attributable to common stockholders	$ (640)	$ (1,220)	$ (2,859)	$ (247)
Net loss—basic and diluted	$ (0.02)	$ (0.04)	$ (0.08)	$ (0.00)

24. SUBSEQUENT EVENTS

On January 11, 2007, the Company purchased one self-storage facility located in Maryland from an unrelated franchisee for cash of $14,297.

On January 5, 2007, the Company purchased one self-storage facility located in Tennessee from an unrelated franchisee for cash of $3,607.

On January 2, 2007, the Company purchased one self-storage facility located in Arizona from a related joint venture for cash of $4,299.

Extra Space Storage Inc.

Schedule III

Real Estate and Accumulated Depreciation

(Dollars in thousands)

											Gross carrying amount at December 31, 2006				
Property Name	State	Debt	Land initial cost	Building and improvements initial cost	Land costs subsequent to acquisition	Building costs subsequent to acquisition	Land Adjustment	Notes	Building Adjustment	Notes	Land	Building and improvements	Total	Accumulated depreciation	Date acquired or development completed
Mesa	AZ	$ 1,507	$ 849	$ 2,547	$ —	$ 28	$ —		$ —		$ 849	$ 2,575	$ 3,424	$ 160	Aug-04
Phoenix	AZ	7,400	1,441	7,982	—	88	—		—		1,441	8,070	9,511	311	Jul-05
Peoria	AZ	3,691	652	—	—	4,099	—		—		652	4,099	4,751	55	Apr-06
Phoenix	AZ	—	552	3,530	—	7	—		—		552	3,537	4,089	48	Jun-06
Casitas	CA	4,499	1,431	2,976	—	23	180	(a)	374	(a)	1,611	3,373	4,984	545	Mar-00
Oakland	CA	4,383	—	3,777	—	130	—		494	(a)	—	4,401	4,401	729	Apr-00
Inglewood	CA	4,342	1,379	3,343	—	203	150	(a)	377	(a)	1,529	3,923	5,452	635	Aug-00
Burbank	CA	8,630	3,199	5,082	—	103	419	(a)	672	(a)	3,618	5,857	9,475	908	Aug-00
Pico Rivera	CA	4,513	1,150	3,450	—	20	—		—		1,150	3,470	4,620	453	Aug-00
Stockton	CA	3,240	649	3,272	—	30	—		—		649	3,302	3,951	396	May-02
Whittier	CA	2,544	—	2,985	—	8	—		—		—	2,993	2,993	346	Jun-02
Fontana	CA	3,440	961	3,846	—	59	39	(a)	158	(a)	1,000	4,063	5,063	440	Sep-02
Tracy D	CA	—	778	2,638	—	38	133	(a)	447	(a)	911	3,123	4,034	273	Jul-03
Fontana	CA	—	1,246	3,356	—	97	54	(a)	146	(a)	1,300	3,599	4,899	292	Oct-03
Manteca	CA	3,777	848	2,543	—	34	—		—		848	2,577	3,425	200	Jan-04
Tracy A	CA	—	946	1,937	—	10	—		—		946	1,947	2,893	183	Apr-04
Claremont	CA	2,624	1,472	2,012	—	16	—		—		1,472	2,028	3,500	135	Jun-04
San Bernardino	CA	3,376	1,213	3,061	—	40	—		—		1,213	3,101	4,314	206	Jun-04
Torrance	CA	6,960	3,710	6,271	—	90	—		—		3,710	6,361	10,071	430	Jun-04
Livermore	CA	4,920	1,134	4,615	—	9	—		—		1,134	4,624	5,758	307	Jun-04
Richmond	CA	4,696	953	4,635	—	124	—		—		953	4,759	5,712	315	Jun-04
Hawthorne	CA	3,840	1,532	3,871	—	71	—		—		1,532	3,942	5,474	268	Jun-04
Glendale	CA	4,480	—	6,084	—	45	—		—		—	6,129	6,129	408	Jun-04
Riverside	CA	2,681	1,075	4,042	—	114	—		—		1,075	4,156	5,231	252	Aug-04
Sherman Oaks	CA	17,204	4,051	12,152	—	70	—		—		4,051	12,222	16,273	716	Aug-04
Venice	CA	7,122	2,803	8,410	—	33	—		—		2,803	8,443	11,246	496	Aug-04
Palmdale	CA	—	1,225	5,379	—	65	—		—		1,225	5,444	6,669	271	Jan-05
Marina Del Rey	CA	18,400	4,248	23,549	—	126	—		—		4,248	23,675	27,923	867	Jul-05
Watsonville	CA	3,400	1,699	3,056	—	78	—		—		1,699	3,134	4,833	116	Jul-05
Hemet	CA	5,300	1,146	6,369	—	60	—		—		1,146	6,429	7,575	240	Jul-05
Chatsworth	CA	11,200	3,594	11,166	—	296	—		—		3,594	11,462	15,056	427	Jul-05
Sacramento	CA	4,200	852	4,720	—	201	—		—		852	4,921	5,773	183	Jul-05
Long Beach	CA	6,200	1,403	7,595	—	219	—		—		1,403	7,814	9,217	288	Jul-05
N Highlands	CA	2,200	696	2,806	—	358	—		—		696	3,164	3,860	123	Jul-05
Oceanside	CA	9,700	3,241	11,361	—	184	—		—		3,241	11,545	14,786	427	Jul-05
North Hollywood	CA	—	3,125	9,257	—	10	—		—		3,125	9,267	12,392	145	May-06

Extra Space Storage Inc.

Schedule III (Continued)

Real Estate and Accumulated Depreciation

(Dollars in thousands)

											Gross carrying amount at December 31, 2006				
Property Name	State	Debt	Land initial cost	Building and improvements initial cost	Land costs subsequent to acquisition	Building costs subsequent to acquisition	Land Adjustment	Notes	Building Adjustment	Notes	Land	Building and improvements	Total	Accumulated depreciation	Date acquired or development completed
San Bernardino	CA	4,112	750	—	—	5,126	—		—		750	5,126	5,876	16	Jun-06
Lancaster	CA	—	1,347	5,827	—	72	—		—		1,347	5,899	7,246	67	Jul-06

Arvada	CO	—	286	1,521	—	219	—		—		286	1,740	2,026	321	Sep-00
Denver	CO	—	602	2,052	—	148	143	(a)	512	(a)	745	2,712	3,457	409	Sep-00
Thornton	CO	—	212	2,044	—	285	36	(a)	389	(a)	248	2,718	2,966	438	Sep-00
Westminister	CO	—	291	1,586	—	247	8	(a)	48	(a)	299	1,881	2,180	314	Sep-00
Denver	CO	2,250	368	1,574	—	40	—		—		368	1,614	1,982	65	Jul-05
Parker	CO	—	800	4,549	—	2	—		—		800	4,551	5,351	33	Sep-06
Wethersfield	CT	—	709	4,205	—	52	—		—		709	4,257	4,966	476	Aug-02
Groton	CT	2,946	1,277	3,992	—	215	—		—		1,277	4,207	5,484	285	Jan-04
N. Lauderdale	FL	2,387	428	3,516	—	173	31	(a)	260	(a)	459	3,949	4,408	649	Aug-00
Forest Hill	FL	2,426	1,164	2,511	—	141	82	(a)	180	(a)	1,246	2,832	4,078	462	Aug-00
Fountainbleau	FL	4,416	1,325	4,395	—	184	114	(a)	388	(a)	1,439	4,967	6,406	823	Aug-00
Kendall	FL	8,089	5,315	4,305	—	106	544	(a)	447	(a)	5,859	4,858	10,717	774	Aug-00
Margate	FL	2,806	430	3,139	—	187	39	(a)	287	(a)	469	3,613	4,082	563	Aug-00
Military Trail	FL	2,602	1,312	2,511	—	139	104	(a)	204	(a)	1,416	2,854	4,270	471	Aug-00
North Miami	FL	5,848	1,256	6,535	—	113	—		—		1,256	6,648	7,904	444	Jun-04
Fort Myers	FL	5,082	1,691	4,711	—	38	—		—		1,691	4,749	6,440	290	Aug-04
Ft Lauderdale	FL	4,457	1,587	4,205	—	143	—		—		1,587	4,348	5,935	257	Aug-04
Madeira Beach	FL	4,857	1,686	5,163	—	24	—		—		1,686	5,187	6,873	313	Aug-04
Orlando	FL	5,290	1,216	5,008	—	36	—		—		1,216	5,044	6,260	308	Aug-04
Port Charlotte	FL	4,481	1,389	4,632	—	35	—		—		1,389	4,667	6,056	285	Aug-04
Riverview	FL	3,591	654	2,953	—	25	—		—		654	2,978	3,632	180	Aug-04
Valrico	FL	4,272	1,197	4,411	—	16	—		—		1,197	4,427	5,624	269	Aug-04
Hunters Creek	FL	8,200	2,233	9,223	—	28	—		—		2,233	9,251	11,484	428	Mar-05
Metro West	FL	6,400	1,474	6,101	—	8	—		—		1,474	6,109	7,583	285	Mar-05
Ocoee	FL	3,750	872	3,642	—	9	—		—		872	3,651	4,523	173	Mar-05
Waterford Lakes	FL	4,600	1,166	4,816	—	13	—		—		1,166	4,829	5,995	225	Mar-05
Greenacres	FL	—	1,463	3,244	—	15	—		—		1,463	3,259	4,722	152	Mar-05
Fort Myers	FL	4,400	1,985	4,983	—	259	—		—		1,985	5,242	7,227	195	Jul-05
Naples	FL	5,400	2,570	5,102	—	54	—		—		2,570	5,156	7,726	198	Jul-05
Tamiami	FL	6,100	2,979	5,351	—	144	—		—		2,979	5,495	8,474	204	Jul-05
West Palm Bch	FL	2,600	1,449	2,586	—	186	—		—		1,449	2,772	4,221	107	Jul-05
WPB	FL	4,000	1,752	4,909	—	171	—		—		1,752	5,080	6,832	193	Jul-05
Deland	FL	—	1,318	3,971	—	69	—		—		1,318	4,040	5,358	96	Jan-06
Venice	FL	7,096	1,969	5,903	—	96	—		—		1,969	5,999	7,968	143	Jan-06

Extra Space Storage Inc.

Schedule III (Continued)

Real Estate and Accumulated Depreciation

(Dollars in thousands)

											Gross carrying amount at December 31, 2006				
Property Name	State	Debt	Land initial cost	Building and improvements initial cost	Land costs subsequent to acquisition	Building costs subsequent to acquisition	Land Adjustment	Notes	Building Adjustment	Notes	Land	Building and improvements	Total	Accumulated depreciation	Date acquired or development completed
Tampa	FL	—	883	3,533	—	3	—		—		883	3,536	4,419	11	Nov-06
Cheshire	GA	8,169	3,737	8,333	—	45	—		—		3,737	8,378	12,115	510	Aug-04
Roswell	GA	2,813	1,665	2,028	—	22	—		—		1,665	2,050	3,715	124	Aug-04
Snellville	GA	5,210	2,691	4,026	—	62	—		—		2,691	4,088	6,779	249	Aug-04
Stone Mountain	GA	4,256	1,817	4,382	—	86	—		—		1,817	4,468	6,285	271	Aug-04
Meridian	GA	9,600	3,319	8,325	—	47	—		—		3,319	8,372	11,691	405	Feb-05
Stone Mountain	GA	2,097	925	3,505	—	49	—		—		925	3,554	4,479	134	Jul-05
Dacula	GA	3,879	1,993	3,001	—	42	—		—		1,993	3,043	5,036	72	Jan-06
Alpharetta	GA	2,938	1,893	3,161	—	55	—		—		1,893	3,216	5,109	31	Aug-06
Holcomb Bridge	GL	2,445	1,973	1,587	—	29	—		—		1,973	1,616	3,589	99	Aug-04
South Holland	IL	3,175	839	2,879	—	50	26	(a)	89	(a)	865	3,018	3,883	341	Oct-02
Crest Hill	IL	—	847	2,946	—	36	121	(a)	424	(a)	968	3,406	4,374	293	Jul-03
Chicago	IL	3,200	449	2,471	—	148	—		—		449	2,619	3,068	96	Jul-05
Chicago	IL	2,900	472	2,582	—	75	—		—		472	2,657	3,129	99	Jul-05
Chicago	IL	4,400	621	3,428	—	123	—		—		621	3,551	4,172	133	Jul-05
Wichita	KS	—	366	1,897	—	92	—		—		366	1,989	2,355	35	Apr-06
Louisville	KY	3,000	586	3,244	—	79	—		—		586	3,323	3,909	131	Jul-05
Louisville	KY	2,911	1,217	4,611	—	46	—		—		1,217	4,657	5,874	176	Jul-05
Louisville	KY	—	892	2,677	—	61	—		—		892	2,738	3,630	71	Dec-05
Metairie	LA	5,419	2,056	4,216	—	46	—		—		2,056	4,262	6,318	259	Aug-04
New Orleans	LA	7,927	4,058	4,325	—	88	—		—		4,058	4,413	8,471	267	Aug-04
Norwood	MA	—	2,160	2,336	—	1,207	61	(a)	95	(a)	2,221	3,638	5,859	431	Aug-99
Oxford	MA	1,608	482	1,762	—	76	46	(a)	168	(a)	528	2,006	2,534	364	Oct-99
Raynham	MA	3,640	588	2,270	—	72	82	(a)	323	(a)	670	2,665	3,335	310	May-00
Weymouth	MA	4,640	2,806	3,129	—	10	—		—		2,806	3,139	5,945	536	Sep-00
Northboro	MA	2,608	280	2,715	—	205	—		—		280	2,920	3,200	446	Feb-01
Somerville	MA	—	1,728	6,570	—	72	3	(a)	13	(a)	1,731	6,655	8,386	845	Jun-01
Lynn	MA	2,480	1,703	3,237	—	87	—		—		1,703	3,324	5,027	500	Jun-01
Dedham	MA	—	2,127	3,041	—	315	—		—		2,127	3,356	5,483	421	Mar-02
Kingston	MA	—	555	2,491	—	24	—		—		555	2,515	3,070	293	Oct-02
Milton	MA	6,459	2,838	3,979	—	315	—		—		2,838	4,294	7,132	439	Nov-02
Ashland	MA	—	474	3,324	—	129	—		—		474	3,453	3,927	382	Jun-03
Saugus	MA	—	1,725	5,514	—	225	—		—		1,725	5,739	7,464	552	Jun-03
North Bergen	MA	—	2,100	6,606	—	20	—		—		2,100	6,626	8,726	618	Jul-03
Quincy	MA	—	1,359	4,078	—	139	—		—		1,359	4,217	5,576	337	Feb-04
Dedham II	MA	—	2,443	7,328	—	190	—		—		2,443	7,518	9,961	572	Feb-04

Extra Space Storage Inc.

Schedule III (Continued)

Real Estate and Accumulated Depreciation

(Dollars in thousands)

Property Name	State	Debt	Land initial cost	Building and improvements initial cost	Land costs subsequent to acquisition	Building costs subsequent to acquisition	Land Adjustment	Notes	Building Adjustment	Notes	Gross carrying amount at December 31, 2006 Land	Building and improvements	Total	Accumulated depreciation	Date acquired or development completed
Waltham	MA	—	3,770	11,310	—	165	—		—		3,770	11,475	15,245	853	Feb-04
Woburn	MA	—	—	—	—	126	—		—		—	126	126	312	Feb-04
Cambridge	MA	—	—	—	—	78	—		—		—	78	78	178	Feb-04
Marshfield	MA	—	1,039	4,155	—	33	—		—		1,039	4,188	5,227	291	Mar-04
Foxboro	MA	3,680	759	4,158	—	41	—		—		759	4,199	4,958	779	May-04
Hudson	MA	2,800	806	3,122	—	72	—		—		806	3,194	4,000	594	May-04
Worcester	MA	1,784	896	4,377	—	1,693	—		—		896	6,070	6,966	733	May-04
Auburn	MA	3,680	918	3,728	—	24	—		—		918	3,752	4,670	601	May-04
Brockton	MA	2,440	647	2,762	—	19	—		—		647	2,781	3,428	373	May-04
Stoughton	MA	3,080	1,754	2,769	—	52	—		—		1,754	2,821	4,575	417	May-04
Plainville	MA	5,400	2,223	4,430	—	71	—		—		2,223	4,501	6,724	195	Jul-05
Everett	MA	3,750	692	2,129	—	75	—		—		692	2,204	2,896	82	Jul-05
Stoneham	MA	5,400	944	5,241	—	41	—		—		944	5,282	6,226	197	Jul-05
Worcester/Ararat	MA	52	1,350	—	—	4,363	—		—		1,350	4,363	5,713	14	Dec-06
Lanham	MD	—	3,346	10,079	—	541	(728)	(b)	—		2,618	10,620	13,238	784	Feb-04
Towson	MD	4,100	861	4,742	—	69	—		—		861	4,811	5,672	178	Jul-05
Bethesda	MD	12,800	—	18,331	—	92	—		—		—	18,423	18,423	677	Jul-05
Arnold	MD	9,500	2,558	9,446	—	36	—		—		2,558	9,482	12,040	354	Jul-05
Columbia	MD	8,400	1,736	9,632	—	83	—		—		1,736	9,715	11,451	359	Jul-05
Park Lawn	MD	12,680	4,596	11,328	—	89	—		—		4,596	11,417	16,013	84	Sep-06
Grandville	MI	1,700	726	1,298	—	84	—		—		726	1,382	2,108	53	Jul-05
Mt Clemens	MI	2,100	798	1,796	—	70	—		—		798	1,866	2,664	70	Jul-05
Halls Ferry	MO	2,342	631	2,159	—	109	59	(a)	205	(a)	690	2,473	3,163	408	Jun-00
Forest Park	MO	1,186	156	1,313	—	118	17	(a)	151	(a)	173	1,582	1,755	281	Jun-00
Grandview	MO	1,100	612	1,770	—	114	—		—		612	1,884	2,496	74	Jul-05
Merrimack	NH	3,752	754	3,299	—	40	63	(a)	279	(a)	817	3,618	4,435	390	Apr-99
Nashua	NH	—	—	755	—	14	—		—		—	769	769	29	Jul-05
Glen Rock	NJ	4,080	1,109	2,401	—	43	113	(a)	246	(a)	1,222	2,690	3,912	290	Mar-01
Lyndhurst	NJ	6,944	2,679	4,644	—	69	250	(a)	437	(a)	2,929	5,150	8,079	556	Mar-01
Metuchen	NJ	—	1,153	4,462	—	64	—		—		1,153	4,526	5,679	582	Dec-01
Edison	NJ	6,830	2,519	8,547	—	194	—		—		2,519	8,741	11,260	1,146	Dec-01
Egg Harbor	NJ	5,635	1,724	5,001	—	248	—		—		1,724	5,249	6,973	703	Dec-01
Hazlet	NJ	10,560	1,362	10,262	—	199	—		—		1,362	10,461	11,823	1,361	Dec-01
Howell	NJ	3,110	2,440	3,407	—	128	—		—		2,440	3,535	5,975	478	Dec-01
Old Bridge	NJ	5,862	2,758	6,450	—	264	—		—		2,758	6,714	9,472	901	Dec-01
Woodbridge	NJ	4,011	505	4,524	—	180	—		—		505	4,704	5,209	647	Dec-01

Property Name	State	Debt	Land initial cost	Building and improvements initial cost	Land costs subsequent to acquisition	Building costs subsequent to acquisition	Land Adjustment	Notes	Building Adjustment	Notes	Gross carrying amount at December 31, 2006 Land	Building and improvements	Total	Accumulated depreciation	Date acquired or development completed
Hoboken	NJ	8,206	2,687	6,092	—	59	—		—		2,687	6,151	8,838	709	Jul-02
Lawrenceville	NJ	11,946	3,402	10,230	—	170	—		—		3,402	10,400	13,802	782	Feb-04
Morrisville	NJ	—	2,487	7,494	—	985	—		—		2,487	8,479	10,966	642	Feb-04
Parlin	NJ	4,240	—	5,273	—	43	—		—		—	5,316	5,316	887	May-04
Lumberton	NJ	4,925	831	4,060	—	29	—		—		831	4,089	4,920	227	Dec-04
Bayville	NJ	5,300	1,193	5,312	—	79	—		—		1,193	5,391	6,584	286	Dec-04
Union	NJ	—	1,754	6,237	—	75	—		—		1,754	6,312	8,066	338	Dec-04
Avenel	NJ	8,080	1,518	8,037	—	22	—		—		1,518	8,059	9,577	400	Jan-05
Hackensack	NJ	9,500	2,283	11,234	—	290	—		—		2,283	11,524	13,807	418	Jul-05
Tom’s River	NJ	8,300	1,790	9,935	—	100	—		—		1,790	10,035	11,825	385	Jul-05
Linden	NJ	6,700	1,517	8,384	—	73	—		—		1,517	8,457	9,974	315	Jul-05
North Bergen	NJ	11,000	2,299	12,728	—	86	—		—		2,299	12,814	15,113	474	Jul-05
Parlin	NJ	6,700	2,517	4,516	—	252	—		—		2,517	4,768	7,285	194	Jul-05
Neptune	NJ	—	4,204	8,906	—	6	—		—		4,204	8,912	13,116	28	Nov-06
Lamont St.	NV	1,041	251	717	—	157	27	(a)	87	(a)	278	961	1,239	155	Feb-00
Las Vegas	NV	3,900	748	4,131	—	240	—		—		748	4,371	5,119	175	Jul-05
Plainview	NY	—	4,287	3,710	—	115	—		—		4,287	3,825	8,112	608	Dec-00
Nanuet	NY	3,792	2,072	4,644	—	67	—		—		2,072	4,711	6,783	593	Feb-02
Mt Vernon	NY	6,525	1,926	7,622	—	385	—		—		1,926	8,007	9,933	788	Nov-02
Fordham	NY	9,817	3,995	11,870	—	334	—		—		3,995	12,204	16,199	772	Aug-04
New Paltz	NY	5,000	2,059	3,715	—	54	—		—		2,059	3,769	5,828	150	Jul-05
Mt Vernon	NY	5,100	1,585	6,025	—	384	—		—		1,585	6,409	7,994	232	Jul-05
New York	NY	16,400	3,060	16,978	—	329	—		—		3,060	17,307	20,367	641	Jul-05
Kent	OH	1,500	220	1,206	—	86	—		—		220	1,292	1,512	55	Jul-05
Columbus	OH	2,900	483	2,654	—	265	—		—		483	2,919	3,402	116	Jul-05
Columbus	OH	1,500	374	2,059	—	35	—		—		374	2,094	2,468	85	Jul-05
Columbus	OH	3,800	601	3,336	—	52	—		—		601	3,388	3,989	129	Jul-05
Aloha	OR	6,200	1,221	6,262	—	32	—		—		1,221	6,294	7,515	241	Jul-05
Doylestown	PA	3,824	220	3,442	—	122	24	(a)	384	(a)	244	3,948	4,192	419	Nov-99
Banksville	PA	2,092	991	1,990	—	228	91	(a)	199	(a)	1,082	2,417	3,499	372	Aug-00
Philadelphia	PA	—	1,965	5,925	—	672	—		—		1,965	6,597	8,562	481	Feb-04
Penn Ave	PA	2,960	889	4,117	—	34	—		—		889	4,151	5,040	634	May-04
Kennedy	PA	2,544	736	3,173	—	27	—		—		736	3,200	3,936	514	May-04
Bensalem	PA	—	1,131	4,525	—	60	—		—		1,131	4,585	5,716	247	Dec-04
Philadelphia	PA	9,000	1,470	8,162	—	395	—		—		1,470	8,557	10,027	309	Jul-05
Bensalem	PA	—	750	3,015	—	57	—		—		750	3,072	3,822	61	Mar-06

											Gross carrying amount at December 31, 2006				
Property Name	State	Debt	Land initial cost	Building and improvements initial cost	Land costs subsequent to acquisition	Building costs subsequent to acquisition	Land Adjustment	Notes	Building Adjustment	Notes	Land	Building and improvements	Total	Accumulated depreciation	Date acquired or development completed
Johnston	RI	7,100	2,658	4,799	—	102	—		—		2,658	4,901	7,559	190	Jul-05
Charleston	SC	3,791	1,279	4,171	—	16	—		—		1,279	4,187	5,466	257	Aug-04
Columbia	SC	3,182	838	3,312	—	5	—		—		838	3,317	4,155	202	Aug-04
Goose Creek	SC	4,184	1,683	4,372	—	10	—		—		1,683	4,382	6,065	266	Aug-04
Summerville	SC	3,591	450	4,454	—	51	—		—		450	4,505	4,955	274	Aug-04
Memphis	TN	2,100	976	1,725	—	139	—		—		976	1,864	2,840	78	Jul-05
Memphis	TN	3,100	814	2,766	—	36	—		—		814	2,802	3,616	115	Jul-05
Cordova	TN	2,700	852	2,720	—	69	—		—		852	2,789	3,641	111	Jul-05
Cordova	TN	6,900	1,351	7,476	—	103	—		—		1,351	7,579	8,930	292	Jul-05
Nashville	TN	—	390	2,598	—	80	—		—		390	2,678	3,068	47	Apr-06
Arlington	TX	2,020	534	2,525	—	76	—		—		534	2,601	3,135	161	Aug-04
Austin	TX	3,944	870	4,455	—	40	—		—		870	4,495	5,365	278	Aug-04
Culebra	TX	2,068	1,269	1,816	—	49	—		—		1,269	1,865	3,134	115	Aug-04
Dallas	TX	6,332	4,432	6,181	—	63	—		—		4,432	6,244	10,676	384	Aug-04
Fort. Worth	TX	3,880	631	5,794	—	35	—		—		631	5,829	6,460	357	Aug-04
Grand Prairie	TX	2,204	551	2,330	—	23	—		—		551	2,353	2,904	144	Aug-04
Westchase	TX	1,812	253	1,496	—	26	—		—		253	1,522	1,775	95	Aug-04
Houston	TX	3,400	749	4,122	—	97	—		—		749	4,219	4,968	165	Jul-05
Austin	TX	2,400	1,105	2,313	—	69	—		—		1,105	2,382	3,487	106	Jul-05
Plano	TX	3,300	1,613	2,871	—	71	—		—		1,613	2,942	4,555	140	Jul-05
Dallas	TX	4,400	1,010	5,547	—	111	—		—		1,010	5,658	6,668	213	Jul-05
South Houston	TX	2,762	478	4,069	—	68	—		—		478	4,137	4,615	73	Apr-06
Dallas	TX	—	337	2,216	—	50	—		—		337	2,266	2,603	40	Apr-06
Houston	TX	5,047	2,596	8,735	—	74	—		—		2,596	8,809	11,405	155	Apr-06
Dallas	TX	—	1,980	12,501	—	62	—		—		1,980	12,563	14,543	196	May-06
Rowlette	TX	—	1,002	2,601	—	11	—		—		1,002	2,612	3,614	25	Aug-06
Allen	TX	—	901	5,553	—	2	—		—		901	5,555	6,456	17	Nov-06
Plano	TX	—	1,010	6,203	—	2	—		—		1,010	6,205	7,215	19	Nov-06
Plano	TX	—	614	3,775	—	2	—		—		614	3,777	4,391	12	Nov-06
Kearns	UT	2,520	642	2,607	—	103	—		—		642	2,710	3,352	178	Jun-04
Wethersfield	UT	4,000	1,349	4,372	—	47	—		—		1,349	4,419	5,768	167	Jul-05
West Valley City	UT	2,000	461	1,722	—	43	—		—		461	1,765	2,226	67	Jul-05
West Broad	VA	5,723	2,305	5,467	—	40	—		—		2,305	5,507	7,812	333	Aug-04
Falls Church	VA	6,200	1,259	6,975	—	73	—		—		1,259	7,048	8,307	262	Jul-05
Fred Oaks Rd	VA	5,100	2,067	4,261	—	52	—		—		2,067	4,313	6,380	169	Jul-05
Seattle	WA	7,400	2,727	7,241	—	95	—		—		2,727	7,336	10,063	272	Jul-05

											Gross carrying amount at December 31, 2006				
Property Name	State	Debt	Land initial cost	Building and improvements initial cost	Land costs subsequent to acquisition	Building costs subsequent to acquisition	Land Adjustment	Notes	Building Adjustment	Notes	Land	Building and improvements	Total	Accumulated depreciation	Date acquired or development completed
Lakewood	WA	4,600	1,917	5,256	—	43	—		—		1,917	5,299	7,216	117	Feb-06
Lakewood	WA	4,597	1,389	4,780	—	70	—		—		1,389	4,850	6,239	106	Feb-06
Tacoma	WA	—	1,031	3,103	—	53	—		—		1,031	3,156	4,187	70	Feb-06
Belmont	CA	4,557	3,500	—	—	—	—		—		3,500	—	3,500	—	
Antelope	CA	—	1,525	—	—	—	—		—		1,525	—	1,525	—	
LA Central Ave	CA	98	2,200	—	—	—	—		—		2,200	—	2,200	—	
LA Pico/Union	CA	—	3,075	—	—	—	(75)	(c)	—		3,000	—	3,000	—	
Thousand Oaks	CA	—	4,500	—	—	—	—		—		4,500	—	4,500	—	
Pacoima	CA	—	3,050	—	—	—	—		—		3,050	—	3,050	—	
Compton	CA	—	1,426	—	—	—	—		—		1,426	—	1,426	—	
Santa Clara	CA	—	4,750	—	—	—	—		—		4,750	—	4,750	—	
Simi Valley	CA	—	5,535	—	—	—	—		—		5,535	—	5,535	—	
Lancaster	CA	—	1,425	—	—	—	—		—		1,425	—	1,425	—	
Hialeah	FL	—	2,800	—	—	—	—		—		2,800	—	2,800	—	
Gurnee	IL	108	1,374	—	—	—	—		—		1,374	—	1,374	—	
Naperville	IL	—	2,800	—	—	—	—		—		2,800	—	2,800	—	
Baltimore	MD	—	800	—	—	—	—		—		800	—	800	—	
Edgewood	MD	—	1,000	—	—	—	—		—		1,000	—	1,000	—	
Ewing	NJ	—	1,552	—	—	—	—		—		1,552	—	1,552	—	
Miscellaneous other		3,138	849	2,202	—	738	—		—		849	2,940	3,789	291	
Construction in progress		(1,925)	—	—	—	35,336	—		—		—	35,336	35,336	—	
Intangible tenant relationships and lease rights		—	—	28,836	—	—	—		—		—	28,836	28,836	22,817	
		$ 828,584	$ 359,313	$ 1,066,249	$ —	$ 74,709	$ 2,256		$ 8,483		$ 361,569	$ 1,149,441	$ 1,511,010	$ 93,619	

(a) Adjustments relate to the acquistion of joint venture partners interests

(b) Adjustment relates to partial disposition of land

(c) Adjustment relates to non-refundable deposit on potential sale

Extra Space Storage Inc.

Schedule III (Continued)

Real Estate and Accumulated Depreciation

(Dollars in thousands)

Activity in real estate facilities during the years ended December 31, 2006, 2005 and 2004 is as follows:

	2006	2005	2004
Operating facilities			
Balance at beginning of year	$ 1,260,211	$ 723,275	$ 286,718
Acquisitions	189,725	521,510	424,730
Improvements	12,445	3,977	3,285
Transfers from construction in progress	14,096	11,449	8,542
Dispositions and other	(803)	—	—
Balance at end of year	$ 1,475,674	$ 1,260,211	$ 723,275
Accumulated depreciation:			
Balance at beginning of year	$ 58,252	$ 28,339	$ 12,284
Depreciation expense	35,367	29,913	12,454
Dispositions and other	—	—	3,601
Balance at end of year	$ 93,619	$ 58,252	$ 28,339
Construction in progress			
Balance at beginning of year	$ 10,719	$ 1,963	$ 79,940
Current developent	38,915	22,005	19,487
Transfers to operating facilities	(14,096)	(11,449)	(8,542)
Dispositions and other	(202)	(1,800)	(88,922)
Balance at end of year	$ 35,336	$ 10,719	$ 1,963
Net real estate assets	$ 1,417,391	$ 1,212,678	$ 696,899

The aggregate cost of real estate for U.S. federal income tax purposes is $1,475,674.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None in 2006.

As previously reported in our report on Form 8-K filed with the Securities and Exchange Commission on April 22, 2005, on April 18, 2005, we dismissed our auditors, PricewaterhouseCoopers LLP and appointed Ernst & Young LLP as our new independent auditors, effective April 19, 2005.

Item 9A. Controls and Procedures

(i) Disclosure Controls and Procedures

We maintain disclosure controls and procedures to ensure that information required to be disclosed in the reports we file pursuant to the Securities Exchange Act of 1934, as amended (the “Exchange Act”), are recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based on the definition of “disclosure controls and procedures” in Rule 13a-15(e) of the Exchange Act. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can only provide a reasonable assurance of achieving the desired control objectives, and in reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We have formed a disclosure committee that is responsible for considering the materiality of information and determining the disclosure obligations of the Company on a timely basis. The disclosure committee reports directly to our Chief Executive Officer and Chief Financial Officer.

We carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Annual Report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

(ii) Internal Control over Financial Reporting

(a) Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, our management concluded that our internal conrol over financial reporting was effective as of December 31, 2006.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included herein.

(b) Attestation Report of the Registered Public Accounting Firm

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Extra Space Storage Inc.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Extra Space Storage Inc. (the "Company") maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2006, and the related consolidated statement of operations, redeemable units and members' and stockholders' equity, and cash

flows for the year ended December 31, 2006 of Extra Space Storage Inc. and our report dated February 26, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Salt Lake City, Utah
February 26, 2007

(c) Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as such term is defined in Exchange Act Rule 13a- 15(f)) that occurred during our most recent quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

As required by Section 303A.12(a) of the NYSE Listed Company Manual, our Chief Executive Officer made his annual certification to the NYSE stating that he was not aware of any violation by our Company of the corporate governance listing standards of the NYSE. In addition, we have filed, as exhibits to this Annual Report on Form 10-K, the certifications of our Chief Executive Officer and Chief Financial Officer required under Section 302 of the Sarbanes-Oxley Act of 2002 to be filed with the Securities and Exchange Commission regarding the quality of our public disclosure.

Information required by this item is incorporated by reference to the information set forth under the captions "Item 1—Election of Directors," "Executive Officers," "Information about the Board of Directors and its Committees," and "Section 16(a) Beneficial Ownership Reporting Compliance" in our definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after December 31, 2006.

We have adopted a Code of Business Conduct and Ethics in compliance with rules of the Securities and Exchange Commission that applies to all of our personnel, including our Board of Directors, Chief Executive Officer, Chief Financial Officer and principal accounting officer. The Code of Business Conduct and Ethics is available free of charge on the "Investor Info—Corporate Governance" section of our web site at www.extraspace.com. We intend to satisfy any disclosure requirements under Item 5.05 of Form 8-K regarding amendment to, or waiver from, a provision of this Code of Business Conduct and Ethics by posting such information on our web site at the address and location specified above.

The Board of Directors has adopted Corporate Governance Guidelines and charters for our Audit Committee and Compensation, Nominating and Governance Committee, each of which is posted on our website at the address and location specified above. Investors may obtain a free copy of the Code of Business Conduct and Ethics, the Corporate Governance Guidelines and the committee charters by contacting the Investor Relations Department at 2795 East Cottonwood Parkway, Suite 400, Salt Lake City, Utah 84121, Attn: James Overturf or by telephoning (801) 562-5556.

Item 11. Executive Compensation

Information with respect to executive compensation is incorporated by reference to the information set forth under the caption "Executive Compensation" in our definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after December 31, 2006.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information with respect to security ownership of certain beneficial owners and management and related stockholder matters is incorporated by reference to the information set forth under the captions "Voting—Principal Stockholders," "Security Ownership of Directors and Officers" and "Equity Compensation Plan Information" in our definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after December 31, 2006.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Information with respect to certain relationship and related transactions is incorporated by reference to the information set forth under the captions "Information about the Board of Directors and its Committees": and "Certain Relationships and Related Transactions" in our Proxy Statement to be filed

with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after December 31, 2006.

Item 14. Principal Accountant Fees and Services

Information with respect to principal accountant fees and services is incorporated by reference to the information set forth under the caption "Item 2. Ratifications of Appointment of Independent Registered Public Accounting Firm" in our Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after December 31, 2006.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of this report:

(1) and (2). All Financial Statements and Financial Statement Schedules filed as part of this Annual Report on 10-K are included in Item 8 —"Financial Statements and Supplementary Data" of this Annual Report on 10-K and reference is made thereto.

(3) The following documents are filed or incorporated by references as exhibits to this report:

Exhibit Number	Description
2.1	Purchase and Sale Agreement, dated May 5, 2005 by and among Security Capital Self Storage Incorporated, as seller and Extra Space Storage LLC, PRISA Self Storage LLC, PRISA II Self Storage LLC, PRISA III Self Storage LLC, VRS Self Storage LLC, WCOT Self Storage LLC and Extra Space Storage LP, as purchaser parties and The Prudential Insurance Company of America (incorporated by reference from Exhibit 2.1 of Form 8-K filed on May 11, 2005).
3.1	Amended and Restated Articles of Incorporation of Extra Space Storage Inc.(1)
3.2	Bylaws of Extra Space Storage Inc.(1)
3.3	Amended and Restated Agreement of Limited Partnership of Extra Space Storage LP.(1)
3.4	Declaration of Trust of ESS Holdings Business Trust I.(1)
3.5	Declaration of Trust of ESS Holdings Business Trust II.(1)
4.1	Junior Subordinated Indenture dated as of July 27, 2005, between Extra Space Storage LP and JPMorgan Chase Bank, National Association, as trustee (incorporated by reference from Exhibit 4.1 of Form 8-K filed on August 2, 2005).

4.2	Amended and Restated Trust Agreement, dated as of July 27, 2005, among Extra Space Storage LP, as depositor and JPMorgan Chase Bank, National Association, as property trustee, Chase Bank USA, National Association, as Delaware trustee, the Administrative Trustees named therein and the holders of undivided beneficial interest in the assets of ESS Statutory Trust III (incorporated by reference from Exhibit 4.2 of Form 8-K filed on August 2, 2005).
4.3	Form of Junior Subordinated Note—included in Exhibit 4.1 hereto (incorporated by reference from Exhibit 4.2 of Form 8-K filed on August 2, 2005).
4.4	Form of Trust Preferred Security Certificate—included in Exhibit 4.2 hereto (incorporated by reference from Exhibit 4.2 of Form 8-K filed on August 2, 2005).
10.1	Registration Rights Agreement, by and among Extra Space Storage Inc. and the parties listed on Schedule I thereto.(1)
10.2	License between Centershift Inc. and Extra Space Storage LP.(1)
10.3	Loan Agreement, dated as of March 8, 2004, by and between General Electric Capital Corporation and Extra Space Properties Eight LLC.(1)
10.4	Loan Agreement, dated as of March 8, 2004, by and between General Electric Capital Corporation and Extra Space Properties Three LLC.(1)
10.5	Loan Agreement, dated as of March 8, 2004, by and between General Electric Capital Corporation and Extra Space of New Jersey, L.L.C.(1)
10.6	Loan Agreement, dated as of May 4, 2004, by and between Extra Space of Northborough LLC, Extra Space of Whittier LLC, Extra Space of Stockton LLC, Extra Space of Weymouth LLC, and Extra Space of Lynn LLC, and Bank of America, N.A.(1)
10.7	Loan Agreement, dated as of May 4, 2004, by and between Extra Space Properties Ten LLC and Bank of America, N.A.(1)

10.8	Loan Agreement, dated as of May 4, 2004, by and between Extra Space of Raynham LLC, Extra Space of Doylestown LLC, Extra Space of Glen Rock LLC, Extra Space of Fontana One LLC, and Extra Space of Merrimack LLC, and Bank of America, N.A.(1)
10.9	2004 Long-Term Compensation Incentive Plan.(1)
10.10	Extra Space Storage Performance Bonus Plan.(1)
10.11	Employment Agreement, dated July 27, 2004, by and between Extra Space Storage Inc. and Kenneth M. Woolley.(1)
10.12	Employment Agreement, dated July 27, 2004, by and between Extra Space Storage Inc. and Kent W. Christensen.(1)
10.13	Employment Agreement, dated July 27, 2004, by and between Extra Space Storage Inc. and Charles L. Allen.(1)
10.14	Form of 2004 Long Term Incentive Compensation Plan Option Award Agreement for Employees with employment agreements. (Incorporated by reference from Exhibit 10.14 of Form 10-K filed on March 15, 2005).
10.15	Form of 2004 Long Term Incentive Compensation Plan Option Award Agreement for employees without employment agreements. (Incorporated by reference from Exhibit 10.15 of Form 10-K filed on March 15, 2005).
10.16	Form of 2004 Non-Employee Directors Share Plan Option Award Agreement for Directors. (Incorporated by reference from Exhibit 10.16 of Form 10-K filed on March 15, 2005).
10.17	Joint Venture Agreement, dated June 1, 2004, by and between Extra Space Storage LLC and Prudential Financial, Inc.(1)
10.18	Purchase Agreement, by and between Extra Space Storage LLC and Fidelity Management Trust Company.(1)
10.19	Membership Interest Purchase Agreement, dated April 27, 2004, by and between Extra Space Storage LLC and Strategic Performance Fund-II, Inc.(1)
10.20	Promissory Note dated April 28, 2004 from Extra Space Storage payable to Strategic Performance Fund-II, Inc.(1)
10.21	Purchase and Sale Agreement, by and between Extra Space Storage LLC and Extra Space West One LLC.(1)
10.22	Extra Space Storage Non-Employee Director Plan.(1)
10.23	Purchase Agreement, dated June 20, 2005, among Extra Space Storage Inc. and the investors named therein (incorporated by reference from Exhibit 10.1 of Form 8-K filed on June 24, 2005).
10.24	Registration Rights Agreement, dated June 20, 2005, among Extra Space Storage Inc. and the investors named therein (incorporated by reference from Exhibit 10.1 of Form 8-K filed on June 24, 2005).
10.25	Purchase Agreement, dated as of July 27, 2005, among Extra Space Storage LP, ESS Statutory Trust III and the Purchaser named therein (incorporated by reference from Exhibit 10.1 of Form 8-K filed on August 2, 2005).
10.26	Purchase Agreement, dated as of July 27, 2005, among Extra Space Storage LP, ESS Statutory Trust III and the Purchaser named therein (incorporated by reference from Exhibit 10.1 of Form 8-K filed on August 2, 2005).
10.27	Purchase and Sale Agreement, dated as of December 8, 2006 between Extra Space Storage LLC (Purchaser) and various limited partnerships affiliated with AAAAA Rent-A-Space (collectively, Sellers).
14.0	Code of Business Conduct and Ethics (incorporated by reference from our Annual Report on Form 10-K filed on March 15, 2005).

16.1	PWC's letter to the SEC on the Changes in Registrant's Certifying Accountant (incorporated by reference from Exhibit 16.1 of Form 8-K filed on April 22, 2005).
21.1	Subsidiaries of the Company(1)
23.1	Consent of Ernst & Young LLP
23.2	Consent of PricewaterhouseCoopers LLP
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) Incorporated by reference from our Registration Statement on Form S-11 (File No. 333-115436 dated August 11, 2004).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 28, 2007

EXTRA SPACE STORAGE INC.

By: /s/ Kenneth M. Woolley
Kenneth M. Woolley
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: February 28, 2007	By: /s/ Kenneth M. Woolley Kenneth M. Woolley *Chairman and Chief Executive Officer* *(Principal Executive Officer)*
Date: February 28, 2007	By: /s/ Kent W. Christensen Kent W. Christensen *Executive Vice President and Chief Financial Officer* *(Principal Financial Officer)*
Date: February 28, 2007	By: /s/ P. Scott Stubbs P. Scott Stubbs *Senior Vice President Finance and Accounting* *(Principal Accounting Officer)*
Date: February 28, 2007	By: /s/ Joseph D. Margolis Joseph D. Margolis *Director*
Date: February 28, 2007	By: /s/ Spencer F. Kirk Spencer F. Kirk *Director*
Date: February 28, 2007	By: /s/ Roger B. Porter Roger B. Porter *Director*
Date: February 28, 2007	By: /s/ K. Fred Skousen K. Fred Skousen *Director*

Exhibit 10.27

PURCHASE AND SALE AGREEMENT
(AAAAA Rent-A-Space)

THIS PURCHASE AND SALE AGREEMENT ("**Agreement**") is made and entered into the 8th day of December, 2006 (hereinafter the "**Effective Date**"), by, between, and among those entities identified as sellers on the signature pages of this Agreement, (each a "**Seller**", and collectively "**Sellers**") and **EXTRA SPACE STORAGE LLC**, a Delaware limited liability company ("**Purchaser**").

R E C I T A L S:

A. Each of the Sellers operates and owns either fee title to, or a leasehold estate pursuant to the Ground Leases (hereinbelow defined) in, one or more of the following self storage facilities listed on **Exhibit "A"** (each a "**Property**" and collectively the "**Properties**"). Each of the Properties are more fully described on **Exhibit "A-1"** through **"A-14"**, inclusive**".**

B. Purchaser desires to purchase all of Sellers' right, title, and interest in and to the Properties from Sellers in their as-is, where-is condition and subject to the terms and conditions of this Agreement, Sellers are willing to sell to Purchaser all of Sellers' right, title, and interest in and to the Properties.

NOW, THEREFORE, for and in consideration of the mutual covenants set forth in this Agreement, the receipt and sufficiency of which are hereby acknowledged by the parties to this Agreement, the parties to this Agreement do hereby agree as follows:

1. **Agreement of Sale**. Subject to, and on the terms and conditions herein set forth, Sellers hereby agree to sell to Purchaser all of Sellers' right, title, and interest in and to the Properties and Purchaser agrees to purchase from Sellers all of Sellers' right, title, and interest in and to the Properties. Subject to any provision contained herein that expressly permits the termination of this Agreement as to a particular Property, Purchaser expressly acknowledges and agrees that Purchaser has no right to purchase and Sellers have no obligation to sell, less than all of the Properties, it being the express agreement and understanding of Purchaser and Sellers that, as a material inducement to Purchaser and Sellers to enter into this Agreement, Purchaser has agreed to purchase, and Sellers have agreed to sell, all of the Properties in accordance with the terms and conditions hereof.

2. **Property Description**.

A. Subject to the provisions of this Section 2, each Property includes all of the right, title and interest of the applicable Seller in and to (i) all buildings, structures, fixtures, easements, rights of way and improvements located thereon or appurtenant thereto (collectively, the "**Improvements**"), (ii) the Personal Property (hereinafter defined), (ii) the Intangible Personal (hereinafter defined), (iii) the Leases (hereinafter defined), (iv) the Designated Contracts (hereinafter defined), (v) the Security Deposits (hereinafter defined) and the Ground Leases (hereinafter defined). In addition, the Kapolei Property (as defined on **Exhibit "A"** also includes all of the right, title, and interest of AAAAA Maui in and to that certain loan described more fully in the Kapolei Ground Lease (as defined on **Exhibit "A"**) and the letter agreement attached hereto as **Exhibit "B"** (hereinafter the "**Kapolei Loan**"). Notwithstanding anything to the contrary in the preceding sentence, the term "Property" shall not include any of the Excluded Property (hereinafter defined) with respect to any of the Properties.

B. For purposes of this Agreement "**Personal Property** " means, as to each Property, all fixtures, furniture, carpeting, draperies, appliances, building supplies, equipment, machinery, inventory and other tangible items of personal property which are owned by the Seller of such Property and presently

affixed, attached to, placed or situated upon such Property and/or used exclusively in connection with the ownership, operation and occupancy of such Property.

C. For purposes of this Agreement, "**Intangible Property**" means, as to each Property, all assignable intangible personal property, if any, now or through the date of Closing owned by the Seller of such Property and arising out of or in connection with such Seller's ownership of such Property and the Personal Property, including (to the extent any such items exist): (i) such Seller's rights to use all plans, specifications and drawings relating to the Improvements located on such Property (subject to the rights of the parties who prepared the same), (ii) transferable licenses, permits and certificates of occupancy issued by governmental authorities relating to the use, maintenance, occupancy and/or operation of such Property and the Personal Property, and (iii) any presently effective and assignable warranties and guaranties with respect to such Property.

D. For purposes of this Agreement, "**Leases**" means, as to each Property, all leases and rental agreements (other than the Ground Leases) now or hereafter entered into for occupancy of space within the improvements or other portions of such Property.

E. For purposes of this Agreement, "**Designated Contracts**" means, as to each Property, all Contracts (hereinafter defined) which Purchaser chooses to have assigned to Purchaser pursuant to Section 8.D, below. Designated Contracts also includes any such contracts hereafter approved by Purchaser pursuant to the provisions of Section 12.C below.

F. For purposes of this Agreement, "**Security Deposits**" means, as to each Property, all security deposits of tenants under Leases ("**Tenants**"), if any, which as of the Closing Date have not been applied by Seller in accordance with the terms of the applicable Leases.

G. For purposes of this Agreement, "**Ground Leases**" means: the Berkeley II Ground Lease, the Castro Valley Ground Lease, the Kapolei Ground Lease, and the San Pablo Ground Lease, each as defined on **Exhibit "A".**

H. For purposes of this Agreement, "**Excluded Property**" means: (i) any bank accounts of any Seller, (ii) any motor vehicles or aircraft owned by any Seller, (iii) any business forms, employee training manuals, proprietary Seller software and other intellectual property owned and used by any of the Sellers in the operation of a self storage business at any of the Properties, (iv) except as provided in Section 22 below, the right to use the name "AAAAA Rent-A-Space", (v) any operating accounts, replacement or reserve accounts or other accounts maintained by or on behalf of Seller or Seller's affiliates with respect to the Properties, excepting however, reserve accounts under the Third Party Loans that are assumed by Purchaser, which reserve accounts shall be assigned by Seller to Purchaser at closing of the applicable Property; (vi) any refundable cash or other security deposits or any bonds posted by or on behalf of Seller with any governmental authorities, utilities or other parties, other than those for which an adjustment is made pursuant to Section 11, below; (vii) subject to any obligation of Seller to remit such refunds to Tenants, any refunds of real estate taxes and assessments, personal property taxes and similar payments attributable to the period prior to the applicable Closing (provided, however, any refunds for the fiscal tax year in which the Closing occurs shall be prorated in accordance with Section 11, below); (viii) subject to Section 13, below, any claims under Seller's insurance policies; and (ix) Seller's agreements with any of Seller's on-site property managers.

3. __Purchase Price__. The "**Purchase Price**" to be paid by Purchaser to Sellers for the Properties shall be a sum equal to the aggregate of **ONE HUNDRED FIFTY MILLION TWO HUNDRED THOUSAND AND NO/100 DOLLARS** ($150,200,000.00). The portion of the Purchase Price allocated to each Property, which shall be paid at Closing to the Seller of such Property pursuant to Section 11.A, below,

is set forth on **Exhibit "C"** attached hereto (with respect to each Property, such portion of the Purchase Price so allocated to such Property as aforesaid, shall hereinafter be referred to as the "**Allocated Purchase Price**"). The Purchase Price shall be paid by Purchaser at Closing (defined below) as follows: (i) Assumption of the aggregate outstanding balance of unpaid principal on the Third Party Loans (defined below) owing as of the Closing Date (which amount shall be credited to the Purchase Price at Closing), the current balances owing with respect to the Third Party Loans are estimated to be approximately $16,580,243.00; plus (ii) Payment of the aggregate outstanding balance of the Prepaid Loans (defined below) (including unpaid principal and interest and any related charges and other fees and expenses, but specifically not including any prepayment fees or penalties payable with respect to the any Prepaid Loan) owing as of the Closing (which aggregate amount shall be credited to the Purchase Price at Closing; provided, however, that any prepayment fees or penalties payable with respect to the prepayment of an Prepaid Loan shall not be a credit towards the Purchase Price), the current balances owing with respect to the Third Party Loans are estimated to be approximately $2,785,030; plus (iii) cash or other immediately available funds for the balance of the Purchase Price, which amount is estimated to be approximately $130,834,727. At the Closing, Purchaser shall, subject to the requirements of Section 4 below, assume the Third Party Loans. As used herein, the terms "**Third Party Loans**" and "**Prepaid Loans**" shall mean the loans identified as such on the attached **Exhibit "D"**. Each Property that is security for a Third Party Loan is hereinafter referred to as a "**Third Party Loan Property**" and all of the Properties that are security for a Third Party Loan are hereinafter collectively referred to as the "**Third Party Loan Properties**".

4. __Assumption of Third Party Loans__.

A. The obligations of Sellers and Purchaser under this Agreement shall be subject to the following:

(i) Purchaser's approval of each of the Third Party Loans, including, but not limited to, Purchaser's approval of the amount, interest rate, payment schedule, repayment term and other terms of each Third Party Loan and the form of the documents evidencing and or securing each Third Party Loan, including, but not limited to, any guarantees of each Third Party Loan (hereinafter collectively the "**Third Party Loan Documents**"), which approvals shall be in Purchaser's sole and absolute discretion. If Purchaser delivers the Approval Notice (hereinbelow defined), Purchaser will be deemed to have irrevocably approved each Third Party Loan and the Third Party Loan Documents.

(ii) Each Third Party Lender and each loan servicer of a Third Party Loan (if any) consenting to the transaction which is the subject of this Agreement and Purchaser's assumption of each Third Party Loan, all on terms that are reasonably acceptable to Purchaser (the "**Lender Conditions**"). Seller has informed Purchaser that KN Productions, Inc. (hereinafter the "**Seller Guarantor**") has executed an Indemnity and Guaranty Agreement with respect to each of the Third Party Loans and that each such Third Party Lender may require Purchaser to provide a financially responsible person to provide a similar guaranty and indemnity with respect to such Third Party Lender's Third Party Loan (hereinafter a "**Replacement Guarantor**"). Purchaser agrees to offer a Replacement Guarantor who shall, in Purchaser's reasonable determination, satisfy the financial conditions required to be maintained by the applicable Seller Guarantor pursuant to the Third Party Loan Documents; provided, however, that the parties acknowledge that Purchaser may, at Purchaser's option, require that the assumption and/or guaranties of the Third Party Loans be provided by, one or more affiliates of Purchaser who satisfy the foregoing criteria. In the event that the Third Party Loan Documents do not specify financial conditions required to be maintained by the applicable Seller Guarantor, then, in the event so required by the applicable Third Party Lender, Purchaser agrees to offer a Replacement Guarantor who shall have a minimum net worth of at least $100,000,000.00. Notwithstanding the foregoing, in no event shall Purchaser be required to approve any Lender Conditions which require Purchaser or any affiliate of Purchaser to execute any guaranties or to incur any obligations with respect to a Third Party Loan which are materially more onerous or burdensome than the guaranties and/or obligations

undertaken by the applicable Seller or such Seller's affiliates (including, but not limited to, the Seller Guarantor) under the applicable Third Party Loan.

B. Promptly after the Effective Date, Purchaser and Sellers shall apply to each Third Party Lender and servicer of a Third Party Loan for such Third Party Lender and servicer's consent to the transaction which is the subject of this Agreement and Purchaser's assumption of such Third Party Loan in accordance with Lender Conditions that area reasonably acceptable to Purchaser. Sellers and Purchaser each agree to use commercially reasonable efforts to cooperate with each other and with each Third Party Lender and servicer in seeking such approval and consent and in responding to the reasonable requests of such Third Party Lender and/or servicer. Notwithstanding anything to the contrary contained herein, provided that Sellers and Purchaser shall

have satisfied their respective obligations under this Section, the failure of a Third Party Lender to approve the assignment and assumption of a Third Party Loan by the expiration of the Due Diligence Period shall not constitute a default by either Seller or Purchaser.

C. Notwithstanding anything to the contrary in this Agreement, if at the expiration of the Due Diligence Period (1) any Third Party Lender and/or the servicer of such Third Party Lender's Third Party Loan has not consented to the transaction which is the subject of this Agreement and to Purchaser's assumption of such Third Party Loan in accordance with Lender Conditions that are reasonably acceptable to Purchaser and (2) Purchaser gives Sellers an Approval Notice in accordance with the provisions of Section 8.H below, the following provisions of this Section 4.C shall apply:

(i) Purchaser may, by written notice to Sellers given either concurrently with the giving of the Approval Notice or at any time after the giving of a notice pursuant to Section 4.C(ii) below with respect to such Third Party Loan, elect to waive the condition that such Third Party Lender and servicer consent to the transaction which is the subject of this Agreement and to Purchaser's assumption of the such Third Party Loan and proceed to Closing, in which event, the provisions of Section 16.C below shall apply to such Third Party Loan, or

(ii) Purchaser may, by written notice to Sellers given concurrently with the giving of the Approval Notice, elect to proceed to the Closing with respect to all of the Properties other than one or more of the Third Party Loan Properties with respect to which Purchaser has not received such consent, in which event, Purchaser and Seller shall continue to seek the consent of such Third Party Lender and/or the servicer of such Third Party Lender's Third Party Loan to the transaction which is the subject of this Agreement and Purchaser's assumption of such Third Party Loan in accordance with the provisions of Section 4.B above and the provisions of Sections 4.D and 11.H below shall apply to the Third Party Loan Property which secures such Third Party Loan.

If at the expiration of the Due Diligence Period more than one Third Party Lender and/or the servicer of such Third Party Lender's Third Party Loan have not consented to the transaction which is the subject of this Agreement and Purchaser's assumption of such Third Party Loan, Purchaser may, in Purchaser's sole discretion, make a different election with respect to each such Third Party Loan.

D. As to each Third Party Loan with respect to which Purchaser has made an election pursuant to Section 4.C(ii) above, upon Third Party Lender's approval of Purchaser's assumption of the Third Party Loan in accordance with Lender Conditions which are reasonably acceptable to Purchaser, Seller and Purchaser agree to execute such documentation as may be reasonably required by Third Party Lender pursuant to and in accordance with the terms of the Third Party Loan Documents and such Lender Conditions and to take all other steps reasonably necessary to promptly Close the loan assumption and Purchaser's acquisition of the Third Party Loan Property which secures such Third Party Loan as soon as reasonably possible, but in no event later than the tenth (10th) business day after the Lender shall have approved such

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loan assumption, the completion of which shall include such Third Party Lender's release of Seller and each Seller Guarantor from future liability with respect to the Third Party Loan.

E. If Purchaser initially makes an election pursuant to Section 4.C(ii) above with respect to a Third Party Loan and thereafter makes an election pursuant to Section 4.C(i) above with respect to such Third Party Loan, the Closing with respect to Purchaser's acquisition of the Third Party Loan Property that secures such Third Party Loan shall occur as soon as reasonably possible after the date on which Purchaser gives Sellers written notice of Purchaser's election pursuant to Section 4.C(i) above with respect to such Third Party Loan, but in no event later than ten (10) business days after the giving of such written notice.

F. Concurrently with the Closing of the assumption of the Third Party Loan and provided the applicable Third Party Lender shall agree, all reserve accounts maintained by such Third Party Lender on behalf of Seller in connection with the Third Party Loan, if any, shall be assigned by the applicable Seller to Purchaser at the Closing of the applicable Third Party Loan Property and such Seller shall receive a credit at Closing equal the amounts so assigned. If the applicable Third Party Lender shall not agree to the assignment and assumption of existing reserves at Closing as aforesaid, such Seller shall not receive a credit therefor at Closing, and, if required by such Third Party Lender, Purchaser shall establish replacement reserves in the amounts required by the Third Party Lender, and Purchaser shall upon such Seller's request, reasonably cooperate with such Seller's efforts to recover such Seller reserves from Lender.

G. Purchaser shall be responsible for and pay all fees, costs, expenses, and other charges charged by any Third Party Lender with respect to its consenting to the transaction which is the subject of this Agreement and the assumption of any Third Party Loan in accordance with the provisions of this Section 4 including, without limitation, any loan assumption fees.

5. <u>Earnest Money Deposit</u>.

A. Within three (3) business days after the Effective Date, Purchaser shall deposit with Chicago Title Insurance Company, National Office, at 171 N. Clark Street, 3rd Floor, Chicago, IL 60601, Attention: Ronald K. Szopa, as the "**Escrow Agent**" and "**Title Company**," an earnest money deposit in cash in the amount of FOURTEEN MILLION NINE HUNDRED THOUSAND AND NO/100 DOLLARS ($14,900,000.00) ("**Earnest Money Deposit**"). The Earnest Money Deposit shall be refundable during the Due Diligence Period (as defined in Section 8) and as otherwise set forth in this Agreement and shall be credited to the Purchase Price upon the Closing as set forth herein.

B. Purchaser acknowledges time is of the essence with respect to the delivery of the Earnest Money Deposit and the balance of that portion of the Purchase Price due and owing at the Closing. If Purchaser fails to timely deliver the Earnest Money Deposit and/or the balance of the Purchase Price when due, such failure shall constitute a material default by Purchaser hereunder and in addition to Sellers' other remedies hereunder, Sellers may terminate this Agreement by delivering written notice to Purchaser and Escrow Agent.

C. Upon receipt, Escrow Agent shall deposit the Earnest Money Deposit into an interest bearing money market account maintained at a bank customarily used by Escrow Agent for such purposes. All interest earned on the Earnest Money Deposit while held by Escrow Agent shall be added to and increase the amount of Earnest Money Deposit and shall be reported to the Internal Revenue Service as income of Purchaser. Purchaser and Sellers agree to provide Escrow Agent with their respective tax identification numbers upon execution of this Agreement and Purchaser and Sellers shall promptly

execute all forms reasonably requested by Escrow Agent in connection with depositing the Earnest Money Deposit in an interest-bearing account as provided above.

D. A portion of the Earnest Money Deposit shall be applied to the satisfaction of the Allocated Purchase Price for each Property, with such portion of the Earnest Money Deposit being determined in accordance with the following provisions of this Section 5.D:

(i) With respect to the Closing for each of the Properties other than the last three (3) Properties to Close, the portion of the Earnest Money Deposit to be applied to the Allocated Purchase Price for each such Property shall be equal to the product of $7,400,000.00 multiplied by a fraction the numerator of which is the Allocated Purchase Price for such Property and the denominator of which is the aggregate Allocated Purchase Prices for all of the Properties other than the last three (3) Properties to Close.

(ii) $2,500,000.00 of the Earnest Money Deposit shall be allocated to each of the last three (3) Properties to Close; provided, however, that at the Closing of the last Property, the entire remaining balance of the Earnest Money Deposit (including interest) shall be applied to the Allocated Purchase Price for such Property

Except for a disbursement to Sellers as part of the Allocated Purchase Price upon the Closing of a Property as provided above, if either Purchaser or any Seller makes a written demand upon Escrow Agent for payment of the Earnest Money Deposit (or a portion thereof), Escrow Agent shall give written notice to the other party of such demand. If Escrow Agent does not receive a written objection from the other party to the proposed payment of the Earnest Money Deposit (or a portion thereof) within three (3) business days after that party's receipt of such notice, Escrow Agent shall make the payment of the Earnest Money Deposit (or a portion thereof) pursuant to the demand. If Escrow Agent does receive such written objection within such three (3) business day period, Escrow Agent shall continue to hold the Earnest Money Deposit (or a portion thereof) as provided in Section 5.C until otherwise directed by joint written instructions from Purchaser and Sellers or a final, non-appealable judgment of a court of competent jurisdiction. However, Escrow Agent shall have the right to deposit the Earnest Money Deposit with the clerk of the Superior Court of Alameda County, California. If Escrow Agent so deposits the Earnest Money Deposit with the clerk of the court, Escrow Agent shall give written notice thereof to Sellers and Purchaser and, upon such deposit and notice, Escrow Agent shall be relieved and discharged of all further obligations hereunder.

6. Items from Sellers.

A. Documents. To the extent not already provided to Purchaser, within three (3) business days after the Effective Date, each Seller shall, with respect to each Property owned by such Seller, make available to Purchaser at such Seller's principal place of business during normal business hours, all of the following (collectively, the "**Documents**"), to the extent that they exist and are within the control of any of the Sellers or any of their respective affiliates, employees or agents and to the extent the same do not constitute Excluded Documents, as defined below:

(i) All inspections, studies, assessments, reports, audits, and surveys affecting or relating to such Property, including, but not limited to, all title reports, title policies, land surveys, environmental, mechanical, electrical, structural, soils, and similar reports, assessments, and/or audits, traffic studies, and appraisals. (Purchaser acknowledges that a substantial number of such title reports, surveys, engineering reports and environmental reports have already been received).

(ii) All site plans, as-built plans, drawings, environmental, mechanical, electrical, structural, soils, and similar plans and specifications relating to such Property.

(iii) All certificates, inspections, permits, compliance letters, and certificates of occupancy relating to such Property or Seller's business on such Property.

(iv) A rent roll for such Property (each hereinafter a "**Rent Roll**) together with a copy of the standard form of lease agreement, amendments, and side agreements and tenant insurance sales materials used in connection with the operation of such Property, and a true and correct copy of each non-self storage lease affecting such Property,

(v) A list of all real estate contracts, including service contracts, license agreements, warranties, management, maintenance, leasing commission or other agreements affecting such Property, if any, together with copies of the same. The contracts which are included on the lists delivered to Purchaser pursuant to this Section 6.A(v) are hereinafter collectively referred to as the "**Contracts**".

(vi) Copies of all real and personal property tax statements relating to such Property, or any part thereof, for each of the two years prior to the current year and, if available, for the current year.

(vii) A schedule of all litigation affecting such Property or such Seller during the past twelve (12) months, together with a "loss run" of all claims submitted to the Seller's insurance carriers for the past five (5) years.

(viii) Copies of financial statements for such Property for 2004, 2005, and year to date 2006, together with copies of monthly delinquency reports, unit mix/occupancy statistics report, monthly management reports, non-rented unit reports (collectively the "**Financial Reports**"). Prior

to the Closing, each Seller shall provide Purchaser with monthly updates to Seller's Financial Reports within five (5) business days after the end of each month.

(ix) Copies of the organizational documents for such Seller.

(x) Copies of all Third Party Loan Documents and all documents evidencing and/or securing the Prepaid Loans.

(xi) Copies of all Ground Lease agreements and amendments.

(xii) Copies of the Kapolei Loan and all related documents.

The parties acknowledge that Purchaser may require other documents in connection with its review of the Properties and Sellers' business thereon. Purchaser will provide Sellers with a checklist requesting such other documents, and Sellers will use commercially reasonable efforts to make the documents identified thereon available within ten (10) days of Purchaser's request, to the extent that such documents exist and are within the control of Sellers or their affiliates, employees or agents.

B. Excluded Documents. As used herein, "**Excluded Documents**" shall mean (i) any purchase and escrow agreements and correspondence pertaining to Seller's acquisition of the Property, (ii) any agreements and/or letters of intent pertaining to the potential acquisition of the Property by any past or prospective purchasers, (iii) any third party purchase inquiries and correspondence, appraisals or economic evaluations of the Property, (iv) any personnel records and files maintained by or on behalf of Seller with respect to individuals, if any, employed at or in connection with a Property which Seller is obligated by law to keep confidential, and (v) any documents or materials which are subject to the attorney/client privilege or which are the subject of a confidentiality obligation; provided, however, that prior to the expiration of the Due Diligence Period, Seller shall give Purchaser written notification if Seller is claiming that any Document requested by Purchaser is an Excluded Documents pursuant to the provisions of this Section 6.B(v).

C. Return of Documents. As to each Property, at such time as this Agreement is terminated for any reason, Purchaser shall return to Sellers the copies and/or originals of all of the Documents delivered or made available to Purchaser by or on behalf of any Seller with respect to such Property.

D. No Representations. Purchaser acknowledges that with the exception of the Documents described in Sections 6.A(iv), 6.A(v), 6.A(vii), 6.A(viii), 6.A(ix), 6.A(x), 6.A(xi), and 6.A(xii), many of the Documents were prepared by third parties other than Sellers, and in some instances, may have been prepared prior to Sellers' ownership of the Properties. Purchaser further acknowledges and agrees that, except as expressly set forth in Section 17 below, (i) neither Sellers nor any of Sellers' respective agents, employees or contractors has made any warranty or representation regarding the truth, accuracy or completeness of the Documents or the source(s), and (ii) Seller has not undertaken any independent investigation as to the truth, accuracy or completeness of the Documents and Seller is providing the Documents or making the Documents available to Purchaser solely as an accommodation to Purchaser. To the extent such Documents exist and are in the possession or reasonable control of any of the Sellers or any of their respective affiliates, employees or agents, Sellers agree to cause the Documents described in Sections 6.A(iv), 6.A(v), 6.A(vii), 6.A(viii), 6.A(ix), 6.A(x), 6.A(xi), and 6.A(xii) to be true and accurate in all material respects and, to the extent such documents do not exist or are not within the reasonable control of any of the Sellers or any of their respective affiliates, employees or agents, Sellers agree to provide reasonable cooperation with Purchaser to provide Purchaser with access to such Documents.

E. Survival of Obligations. The obligations of Section 6.C shall survive any termination of this Agreement. In addition to any other remedies available to Sellers, Sellers shall have the right to seek equitable relief (including specific performance and injunctive relief) against Purchaser and Purchaser's representatives to enforce the provisions of Section 6.C.

7. Rule 3-14 Audit. Sellers acknowledge that under Rule 3-14 of Regulation S-X, Purchaser is required to obtain certain information in connection with reports Purchaser is required to file with the Securities and Exchange Commission. Accordingly, provided that Purchaser provides a certificate executed by an executive officer of Purchaser that Purchaser is obligated to complete a Rule 3-14 Audit (hereinbelow defined) Sellers agree to (a) allow Purchaser and Purchaser's representatives, at Purchaser's sole cost and expense, to perform an audit of Sellers' respective operations at the Properties to the extent required under Rule 3-14 of Regulation S-X (hereinafter a "**Rule 3-14 Audit**"), and (b) make available to Purchaser and Purchaser's representatives for inspection and audit at Sellers' respective offices all of Sellers' books and records reasonably requested by Purchaser for the full calendar year 2005 and the full calendar year 2006 and relating to the operations of each Seller on the Properties, including, but not limited to, income, expense, occupancy, and other financial and occupancy information relating to the Properties. In connection with the foregoing, Purchaser shall give Sellers no less than ten (10) business days' prior written notice of Purchaser's plans to inspect and audit such books and records. Sellers acknowledge that Rule 3-14 may require Purchaser to perform a Rule 3-14 Audit both after the expiration of the Due Diligence Period and after the Closing and Sellers agree that Sellers' respective obligations under this Section 7 shall survive the Closing and delivery of documents contemplated by this Agreement. Any Rule 3-14 Audit shall be completed as soon as reasonably possible and Purchaser and Purchaser's representatives shall use commercially reasonable best efforts not to interfere with Sellers' ability to conduct its business. Copies of all Rule 3-14 Audits shall be promptly provided to each Seller at no cost to Seller. Purchaser expressly acknowledges and agrees that all Rule 3-14 Audits, together with the books and records made available to Purchaser in connection therewith, shall be subject to the terms and conditions of Section 24, below.

8. Due Diligence Period

A. Due Diligence Period. Purchaser shall have until the earlier of either (1) sixty (60) days after the Effective Date, or (2) the date on which Purchaser gives Sellers written notice of Purchaser's

intent to proceed with the purchase of the Properties (the "**Approval Notice**") pursuant to Section 8.H below ("**Due Diligence Period**") to conduct, at Purchaser's sole cost and expense, its due diligence to determine, in Purchaser's sole discretion, that all of the Properties (including any related Ground Leases and Third Party Loans) are suitable and satisfactory for Purchaser's intended use of such Property. Purchaser's inspection shall include the following:

B. Property Evaluation. Purchaser shall have the right to inspect and examine the Properties, during regular business hours, to the extent Purchaser deems necessary in its sole discretion, to determine the condition of each Property; provided, however, Purchaser shall not undertake any invasive or destructive testing without the prior written consent of Seller, which consent shall not be unreasonably withheld or delayed. In connection with Purchaser's inspection of the Properties, Sellers shall make available to Purchaser and Purchaser's representatives for inspection and review at the address to which notices to Seller are to be sent pursuant to Section 28 below or, at Sellers' option, at Sellers' respective offices, all of Sellers' books and records (other than the Excluded Documents) relating to the acquisition, construction, development, entitlement, permitting, operation, maintenance or ownership, of each of the Properties. Purchaser and Purchaser's representatives shall have the right, at Purchaser's sole expense, to copy any of such documents and records and, to the extent to copied, such documents and records shall become Documents. Purchaser and its agents shall schedule all on-site inspections with Sellers in advance. Purchaser and Purchaser's representatives, consultants, agents and employees shall, during regular business hours, (a) have the right to cause complete non-invasive environmental reviews and site assessments and inspections of each Property to be made, (b) have access to all buildings, improvements, storage areas (not under the control of Tenants and, subject to each Tenant's rights), other spaces, equipment and Personal Property, (c) conduct all other necessary feasibility studies, title reports, surveys, engineering studies, examination of zoning status, building and use permits, sign permits and all other permits required for each Property. While conducting such investigations, tests and studies, Purchaser and Purchaser's agents and representatives shall be obligated to: (I) use commercially reasonable efforts not to unduly disturb the Tenants or unreasonably interfere with the Tenants' right of quiet enjoyment or use of the Property pursuant to their respective Leases; (II) use commercially reasonable efforts to not unreasonably interfere with the operation, use and maintenance of the Property; (III) use commercially reasonable efforts not damage any part of the Property or any personal property owned or held by any Tenant or any third party; (IV) use commercially reasonable efforts not injure or otherwise cause bodily harm to Seller, any Tenant or any of their respective agents, contractors and employees, or any other third party; (IV) maintain commercial general liability (occurrence) insurance with minimum limits of $2,000,000 per occurrence and in the aggregate, from an insurer reasonably satisfactory to Sellers covering any accident arising in connection with the presence of Purchaser and Purchaser's agents and representatives on the Properties and to deliver a certificate of insurance verifying such coverage to Seller prior to any entry upon any of the Properties; (V) promptly pay when due the costs of all tests, investigations, studies and examinations done by Purchaser with regard to the Properties; (VII) not to permit any liens to attach to the Property by reason of the exercise of Purchaser's rights hereunder; (VIII) promptly remove or cause to be removed (by bonding or otherwise) any such liens which attach to the Property; (IX) fully restore the Properties and the Personal Property to the condition in which the same was found before any such inspections, tests or studies were undertaken, subject to reasonable wear and tear; (X) comply with the confidentiality standards set forth in Section 24, below; and (k) comply with the terms and provisions of Section 8.F, below.

C. Evaluation of Business. In addition to Purchaser's inspection of the Documents provided by or made available by Sellers pursuant to Section 6, Purchaser, and its agents and accountants, shall have the right, during regular business hours and upon not less than three (3) business days prior written notice, to inspect and examine all business and service records, Tenant files, Leases, accounts receivable, accounts payable, books and records of account, computer records, bank deposit receipts, Ground Leases, and Third Party Loan Documents, and all other such documents relating to the management, operation, income and expense of each Property for all of 2004 and all subsequent months to date. Purchaser shall have the right

to make photocopies of all records and documents at Purchaser's sole cost and expense. Purchaser will use any such information made available by Sellers solely to evaluate the business conducted from the Property and acknowledges that all such information shall be subject to the terms and conditions of Section 24, below. Purchaser shall also have the right to seek commercially reasonable estoppel certificates and commercially reasonable non-disturbance and attornment agreements from each non-self storage tenant and from the lessor of each Ground Lease; provided, however, that any estoppel from the lessor under the Ground Lease shall be in the form attached hereto as **Exhibit "E"** and any estoppel from each non-self storage tenant shall be subject to the prior approval of Sellers, which approval shall not be unreasonably withheld, conditioned or delayed. In the event that this transaction does not close for any reason, other than the default of any Seller, Purchaser will return and/or deliver to Sellers, at no cost to Sellers, all Documents and reports, studies, surveys or other materials that Purchaser has obtained from Sellers or any other source, including the items provided pursuant to Section 6.

D. Assumption or Termination of Contracts. During the Due Diligence Period, Purchaser shall review the Contracts. On or before the expiration of the Due Diligence Period, Purchaser shall designate, as to each Property, by written notice to Sellers (the "**Purchaser's Designated Contract Notice**") all Contracts which Purchaser chooses to have assigned to Purchaser (the "**Designated Contracts**"). The failure of Purchaser to give Purchaser's Designated Contract Notice with respect to any Property shall be deemed to constitute Purchaser's election to assume all Contracts with respect to such Property. Seller shall be responsible for cancellation of Contracts which are not Designated Contracts and shall be responsible for the payment of all cancellation fees associated with the termination of those Contracts. Notwithstanding anything to the contrary contained herein, Seller shall cause the termination of all property management agreements with respecting each Property. Seller's cancellation of Contracts which are not Designated Contracts shall be effective upon the Closing.

E. Extensions of Due Diligence Period. If during the Due Diligence Period, any third party investigation obtained by Purchaser recommends a Phase II environmental study ("Phase II Study") and, except as provided otherwise in this Section, Purchaser otherwise approves the Properties prior to expiration of the Due Diligence Period, Purchaser shall have the right to extend the Due Diligence Period for the applicable Property or Properties only for an additional twenty-one (21) days solely to complete the Phase II Study and to otherwise continue Purchaser's investigation of the environmental condition of the Property for which such Phase II Study is recommended. Purchaser may only exercise this right to extend the Due Diligence Period by giving Seller written notice at any time prior to the expiration of the Due Diligence Period and by delivering the Approval Notice (subject only to the provisions of this Section 8.E, Section 8.F below and Section 15 below).

F. Tenant, Ground Lessor and Governmental Authority Inquiries. Purchaser shall have the right, as part of Purchaser's due diligence investigation, to contact Sellers' Tenants, on-site property managers, and, except as provided below in this Section 8.F with respect to the City of Berkeley, California, governmental authorities about various aspects of the Properties; provided, however, that except as provided below with respect to storage unit

Tenants, Purchaser shall not contact or make inquiries of any Tenants or any Seller's on-site property managers without Purchaser first providing Sellers with written notice thereof, which notice shall include the general subject matter of such inquiry, interview, contact or meeting. Purchaser shall provide at least two (2) business days prior written notice of each such inquiry, contact, interview and meeting and Seller shall have the right to be present and otherwise participate in all such inquiries, contacts, interviews and meetings. Prior to the date on which Sellers give the lessors under the Ground Leases written notice of Sellers' intent to assign the Ground Leases to Purchaser (hereinafter the "**Ground Lease Notification Date**"), Purchaser shall not contact any of the lessors under the Ground Leases without the prior written consent of Sellers which consent may, prior to the Ground Lease Notification Date, be withheld by Sellers in Sellers' sole and absolute discretion; provided, however, that if the Ground Lease Notification Date has not occurred at least thirty-five (35) days prior to the expiration of the Due Diligence Period and provided

that Purchaser gives Sellers an Approval Notice (subject only to the provisions of Section 8.E above, this Section 8.F and Section 15 below), the Due Diligence Period shall, for the sole purpose of Purchaser approving the Ground Leases, be extended until the date which is thirty-five (35) days after the Ground Lease Notification Date. After the Ground Lease Notification Date, Purchaser shall not contact or make inquiries of any lessors under the Ground Leases without Purchaser first providing Sellers with written notice thereof, which notice shall include the general subject matter of such inquiry, interview, contact or meeting. Purchaser shall provide at least two (2) business days prior written notice of each such inquiry, contact, interview and meeting and Seller shall have the right to be present and otherwise participate in all such inquiries, contacts, interviews and meetings. Notwithstanding anything to the contrary in this Agreement, Purchaser expressly acknowledges and agrees that prior to the Closing, Purchaser shall have no right to discuss the modification or any potential change or amendment of any Ground Leases with any lessor under a Ground Lease. Notwithstanding anything to the contrary in this Section 8.F, Purchaser shall not contact in any manner the City of Berkeley, California, or any employee or agent thereof without the prior written consent of Sellers, which consent shall not be unreasonably withheld or delayed; provided, however, that if Seller has not given such consent at least thirty (30) days prior to the expiration of the Due Diligence Period and provided that Purchaser gives Sellers an Approval Notice (subject only to the provisions of Section 8.E above, this Section 8.F and Section 15 below), the Due Diligence Period shall, for the sole purpose of allowing Purchaser to approve the zoning and entitlements for the Berkeley Property, be extended until the date which is thirty (30) days after the date on which Sellers give such consent. Furthermore, notwithstanding anything to the contrary in this Section 8.F, upon Purchaser's review of the Rent Roll for each Property, Purchaser will have the right to identify, by written notice to Sellers, a sample of not more than ten percent (10%) of the storage unit Tenants at each Property that will be audited in connection with Purchaser's inspection of such Property. That sample will include a brief survey, the script of which is attached to this Agreement as **Exhibit "F"** and by this reference made a part hereof. Within two (2) business days of Sellers' receipt of Purchaser's written notice identifying the storage unit Tenants to be included in the sample, Seller shall provide to Purchaser copies of the leases and contact information for each of the storage unit tenants in the sample. Notwithstanding anything to the contrary in this Agreement, any extensions of the Due Diligence Period pursuant to either Section 8.E above or this Section 8.F shall run concurrently and not consecutively.

G. Purchaser's Indemnification. Purchaser shall indemnify, defend, protect and hold Sellers and the Properties harmless from and against any and all liens, costs, expenses, losses, attorneys' fees and liabilities resulting directly from the activities of Purchaser and Purchaser's agents upon any of the Properties under this Agreement or Purchaser and/or Purchaser's agents breach of this Section 8. The provisions of this Section 8.G shall survive the Closing or earlier termination of the Agreement.

H. Purchaser's Approval. If Purchaser is satisfied with Purchaser's inspection of the Properties, Purchaser will deliver the Approval Notice to Seller and Escrow Agent on or before the last day of the Due Diligence Period, that Purchaser intends to proceed with the purchase of all of the Properties. Purchaser's failure to deliver the Approval Notice in a timely manner shall be deemed to be disapproval of the Properties, in which case, this Agreement shall automatically terminate, the Earnest Money Deposit shall be promptly returned to Purchaser and the parties shall have no further rights or obligations to one another hereunder except as expressly stated otherwise herein.

9. Engineering Report. On or before the last day of the Due Diligence Period, Purchaser may, at Purchaser's election, obtain at Purchaser's sole cost and expense an engineering report (each an "**Engineering Report**" and, collectively, the "**Engineering Reports**") on each Property and all structures thereon, as applicable, issued either internally or by a licensed company reasonably acceptable to Purchaser and Sellers and issued for the benefit of Purchaser, at Purchaser's sole cost and expense. Purchaser shall promptly provide a copy of each Engineering Report to Sellers at no cost to Sellers.

10. Survey and Title Matters.

A. Title Insurance. Purchaser, at its sole cost and expense, will order from the Title Company with respect to each Property a current title insurance commitment for a policy (CLTA for those Properties located in California and ALTA for the Properties in Hawaii) of owner's extended coverage title insurance ("**Title Commitment**") accompanied by true, complete, and legible copies of all documents referred to in the Title Commitment ("**Title Documents**"). The Title Commitment for each Property shall irrevocably obligate the Title Company to issue an extended coverage title insurance policy (on the CLTA or ALTA form, as applicable) in the full amount of the Allocated Purchase Price with respect to such Property (each individually a "**Title Policy**" and all collectively the "**Title Policies**"), which Title Policy shall insure either Purchaser's fee simple title to or leasehold estate in such Property. Purchaser shall cause Title Company to deliver copies of each Title Commitment and related Title Documents to Sellers' counsel concurrent with its delivery of the same to Purchaser. Notwithstanding anything to the contrary contained herein, Purchaser, at its sole cost, may obtain title insurance coverage in addition to the Title Policy (including, without limitation, any endorsements Purchaser may desire to obtain), provided that obtaining such additional coverage shall not be a condition to or otherwise delay the Closing hereunder. Sellers agree to provide such affidavits as the Title Company may reasonable require as a condition to the issuance of the Title Policies.

B. Survey. Purchaser may order, at its sole option and expense, an ALTA survey of each Property in a form sufficient to enable Title Company to delete the survey exceptions from the Title Policies (each individually a "**Survey**" and all collectively the "**Surveys**"). Purchaser shall promptly deliver copies of any Surveys Purchaser obtains to Sellers.

C. Zoning. Subject to the limitations stated in Section 8.F above with respect to the City of Berkeley, California, Purchaser may order, at its sole option and expense, a zoning report for one or more of the Properties (each hereinafter a "**Zoning Report**" and collectively the "**Zoning Reports**"). Seller agrees to reasonably cooperate with Purchaser and its agents in efforts to obtain information, including execution of written requests and releases to third-parties and municipal authorities for such information.

D. Title, Survey, and Zoning Objection. No later than fifteen (15) days prior to the expiration of the Due Diligence Period, Purchaser shall provide Sellers with written notice of any matters set forth in the Title Commitments, Surveys or Zoning Reports to which Purchaser objects ("**Objections**"). Any matters (i) set forth in the Title Commitments or Surveys, other than "Monetary Encumbrances" as defined below, to which Purchaser does not object to within the time period set forth above or which have been waived or cured, (ii) any tenants in possession as tenants only under the Leases without any option to purchase the Property, (iii) any matters created by or with the written consent of Purchaser; and (iv) all governmental laws, codes, ordinances and restrictions now or hereafter in effect as they may affect the Property shall be referred to collectively herein as the "**Permitted Exceptions**." Sellers shall have ten (10) days from the date of receiving such notice of Purchaser's Objections from Purchaser within which Sellers may elect to have such Objections removed from the Title Commitments and/or Zoning Reports or cured to the reasonable satisfaction of the Title Company. In the event Sellers, at Sellers' sole discretion, fail or determine not to cure any of Purchaser's Objections within such ten (10) day period, then Purchaser shall have until the expiration of the Due Diligence Period five to elect either to (y) waive Purchaser's Objections and consider them to be Permitted Exceptions or (z) terminate this Agreement, in which event the Earnest Money Deposit shall be immediately refunded by Escrow Agent to Purchaser. Purchaser's delivery of the Approval Notice shall be deemed to constitute Purchaser's election to proceed under (y), above. Sellers and Purchaser agree that with the exception of the Third Party Mortgages (as defined in **Exhibit "D"**), "Monetary Encumbrances" (hereinafter defined) shall not constitute Permitted Exceptions and Sellers shall have the obligation, at or prior to the Closing, to remove all Monetary Encumbrances other than the Third Party Mortgages being assumed or being taken subject to by Purchaser at Closing. As used herein, the term "**Monetary Encumbrances**" shall mean mortgages, deeds of trust, and other encumbrances securing an obligation to pay money that were voluntarily created by Sellers; provided, however, that Monetary

Encumbrances shall not include property taxes or assessments for the year in which the Closing occurs and common area maintenance charges, if any, which are not yet due and payable. Sellers and Purchaser agree that property taxes and assessments for the year in which the Closing occurs and common area maintenance charges, if any, which are not yet due and payable shall be prorated in accordance with the provisions of 11.E below. Sellers shall use good faith efforts to provide Purchaser with a "pay-off" letter from each lender holding a debt secured by a lien or other security interest in a Property within ten (10) days of the Effective Date.

E. So long as such failure is not a result of a default by any Seller under this Agreement, Sellers' inability to deliver title to any of the Properties in the condition necessary for the Title Company to issue the Title Policies for any reason shall constitute a failure of a condition and shall not constitute a breach of Sellers' obligations under this Agreement.

11. Proration Date, Closing Date and Closing Procedures and Requirements.

A. Closing Date. Subject to the provisions of Section 4.C(ii) above and Section 11.I below below, the "**Closing Date**" or "**Closing**" of this Agreement and the completion of the purchase of the Properties by Purchaser shall be on or before ten (10) business days from the end of the Due Diligence Period (hereinafter the "**Initial Scheduled Closing Date**"). Closing shall be coordinated and conducted through the Title Company's office and neither party shall be required to personally attend the Closing. The "**Closing Date**" with respect to any Property shall be the date on which the "**Closing**" with respect to such Property occurs. The "**Closing**" with respect to any Property shall be deemed to have occurred when all of the conditions to Closing with respect to such Property (as set forth in this Agreement) have either been satisfied or waived, the Escrow Agent holds a separate settlement statement signed by the Seller of such Property with respect to such Property, separate settlement statements signed by Purchaser with respect to Property, and all of the funds and all of the other documents required by this Agreement, and Sellers and Purchaser have authorized Escrow Agent to disburse the Purchase Price and deliver such documents in accordance with the provisions of this Agreement. The Closing of a Property shall not occur unless each condition to Purchaser's obligations, and Sellers' obligations more specifically set out and otherwise enumerated in Section 15 below, have been satisfied or waived with respect to such Property.

B. Transitional Walk-Through. Within approximately ten (10) days prior to Closing, Purchaser's operational staff shall have the right to conduct a general walk-through of all buildings, improvements, storage areas (not under the control of Tenants) and, subject to each Tenant's rights, other spaces, equipment and Personal Property with representatives of Sellers in order to prepare for and assist in the transition of management at Closing.

C. Conveyance of Properties and Delivery of Closing Documents. Each Seller shall convey such Seller's Property to Purchaser pursuant to a "**Deed**" or "**Assignment**", as applicable, and the other documents which are more particularly described on **Exhibit "G"** attached hereto and by this reference made a part hereof. At the Closing with respect to the Alameda Property, the Seller of the Alameda Property and each of such Seller's affiliates will provide Purchaser with an additional separate assignment of all of such Seller's rights, claims, and causes of action arising from or relating to the environmental condition of the Alameda Property against all prior owners and other potentially responsible parties (other than such Seller and any of such Seller's affiliates); provided, however, that such Seller shall retain the right to assert any and all defenses that are now or hereafter available to such Seller with respect to any claims that might hereafter be asserted against such Seller and relating to the environmental condition of the Alameda Property. The Seller of the Alameda Property agrees to cooperate with Purchaser (at Purchaser's expense) in the assertion of such claims by Purchaser. By the Closing Date, each Seller shall deliver to the Title Company each of the documents identified on Exhibit "G" as a document to be delivered by such Seller (with each such document having been duly executed, in recordable form where applicable). By the Closing Date, Purchaser shall

deliver to the Title Company each of the documents identified on Exhibit "G" as a document to be delivered by Purchaser (with each such document having been duly executed, in recordable form where applicable). Promptly after the Closing Date, the Title Company shall record and/or deliver the Deeds, Assignments and other documents identified on Exhibit "G" in the manner specified on Exhibit "G".

D. Payment of Purchase Price at Closing. On the Closing Date, the Earnest Money Deposit, including any additional deposits made pursuant to this Agreement, shall be credited towards payment of the Purchase Price in accordance with Section 5.D, above. Purchaser shall pay the portion of the Allocated Purchase Price to be paid in cash at Closing to Escrow Agent by certified funds or by wire transfer.

E. Prorations.

(i) All real property ad valorem taxes and general and special assessments applicable to each Property for the year in which the Closing occurs shall be prorated between Sellers and Purchaser as of 12:01 a.m. on the third day prior to the Closing Date for such Property (the "**Proration Date**"), said proration to be based upon the most recently available tax or assessment rate and valuation with respect to such Property. Notwithstanding the foregoing, any taxes or assessments levied against any Property with respect to any period of time prior to the Proration Date shall remain and be the obligation of Sellers, if not provided for in the prorations, and Sellers shall promptly pay, or reimburse Purchaser, as applicable, all such taxes or assessments prior to their delinquency. At or prior to the Closing, Sellers shall pay all real property ad valorem taxes and all general and special assessments applicable to the Properties which are due and payable for any period prior to the year in which the Closing occurs. Purchaser shall be responsible for the payment of any taxes or assessments levied against any Property with respect to any period of time after the Closing Date. Any refund for real estate taxes or assessments applicable to the period preceding the Closing, whether paid before or after the Closing, shall be paid to Seller, and Purchaser shall have no claim or right whatsoever thereto, provided, however, any refund applicable to the pro-rated tax year for which Purchaser paid a portion shall be prorated. The remaining principal amount (after the application of the prorated portion of any installment applicable to the period prior to the Closing Date) of any and all assessments and/or bonds which encumber the Properties or any part thereof shall not be prorated or apportioned but shall be assumed in full by Purchaser at Close of Escrow (and Purchaser shall not be entitled to a credit from Seller against the Purchase Price in the amount of such assessments and/or bonds). The obligations under this subsection shall survive Closing.

(ii) Subject to the Proration Review (as defined in **Exhibit "H"**), all income and operating expense items, including, but not limited to, utilities, yellow page advertisements, prepaid insurance premiums (but only to the extent that Sellers' insurance policies are assigned to Purchaser at Closing pursuant to Section 17.A(xiv) below), Ground Lease rents, and all amounts due under any Designated Contracts, shall be prorated as of the Proration Date. For any deposit with a utility company for which the utility company accepts the Purchaser as assignee and permits the retention of the deposit, Purchaser shall give Sellers a credit at Closing for each such retained deposit with a utility company serving a Property in which case Sellers shall assign their rights to each such deposit to Purchaser at the Closing; or, at Sellers' option, Sellers shall be entitled to receive a refund of each such deposit from the utility company, and Purchaser shall post its own deposits.

(iii) For purposes of this Agreement, "**Rentals**" means, collectively, all amounts paid or payable by Tenants under their respective Leases in connection with their occupancy of the Property, including prepaid rents. "Rentals" shall not include the Security Deposits. At the Closing with respect to each Property, Rentals for such Property shall be allocated in accordance with the following provisions of this Section 11.E(iii):

(a) As to each Property, at the Closing, the Seller of such Property shall retain the amount of any Rentals which have been prepaid for any period after the month in which the Proration Date with respect to such Property occurs and Purchaser shall receive a credit toward the Allocated Purchase Price for such Property for such prepaid Rentals.

(b) If the Proration Date occurs on a date that is after the tenth (10th) day of any calendar month, the Seller of such Property shall provide Purchaser and Escrow Agent with a list of those Rentals that have actually been collected with respect to such Property as of the Proration Date, and Escrow Holder shall make appropriate debits and credits to the accounts of Purchaser and Seller to reflect such prorations.

(c) If the Proration Date occurs on a date that is on or between the first (1st) and tenth (10th) day of any calendar month, Rentals for such Property for such calendar month shall be deemed received based on the average historical collection rate for such Property during the first ten (10) days of each of the three (3) calendar months immediately preceding the calendar month in which the Proration Date with respect to such Property shall occur. For purposes of proration of Rentals at Closing, (I) the Seller of such Property shall provide Purchaser and Escrow Agent with the amount of those Rentals that have been deemed received by such Seller as of the Proration Date pursuant to the first sentence of this Section, (II) the Seller of such Property shall provide Purchaser and Escrow Agent with a list of the Rentals actually received by such Seller for such month, and (III) Escrow Holder shall make appropriate debits and credits to the accounts of Purchaser and such Seller to reflect such prorations. By way of example only, assume that as of the Proration Date, Seller has actually received $20,000 in Rentals for the month in which the Proration Date occurs and that scheduled monthly Rentals for the Property are in the aggregate $50,000. If the Proration Date occurs on the fifth (5th) day of a 30-day calendar month and historically, 85% of the Rentals are collected by the tenth (10th) day of a month, then for purposes of prorating Rentals, Escrow Agent shall (x) assume that $42,500 of the Rentals will be collected during the first ten (10) days of the calendar month in which the Closing shall occur, (y) then allocate five/thirtieths (5/30) of the amount of the Rentals deemed collected (i.e. $7,083.33) to Seller and the remainder to Purchaser, and (z) credit Purchaser at Closing with an amount equal to the difference in Rentals actually collected by Seller and the amount allocated to Seller at Closing pursuant to clause (y) above (i.e. $12,916.67).

(d) If the Proration Date shall occur on a date that is (i) after the tenth (10th) day of any calendar month, those Rentals which have not been collected as of the Proration Date shall be deemed "**Delinquent Rentals**" and (ii) on a date that is on or between the first (1st) and tenth (10th) day of any calendar month, those Rentals not deemed collected pursuant Section 11.E(iii)(c) above, shall be deemed "**Delinquent Rentals.**" At the Closing with respect to each Property, the unpaid Delinquent Rentals for such Property shall be treated as though received by Purchaser and prorated as follows: (x) Delinquent Rentals that are unpaid for no more than 30 days shall be allocated 75% to the Seller of such Property and 25% to Purchaser; (y) Delinquent Rentals that are unpaid in excess of 30 days but no more than 60 days shall be allocated to 50% to the Seller of such Property and 50% to Purchaser; and (z) Delinquent Rentals that are unpaid for more than 60 days shall be allocated 100% to Purchaser. If a Tenant has any Rentals that are

delinquent, all Rentals for that tenant (regardless of whether delinquent or not) shall be included in the longest delinquency category for which that tenant is delinquent as of the Proration Date. As an example, if a Tenant has Rentals that are 61-days delinquent, all of the Rentals of that Tenant shall be entirely in the over 60-day category. Upon the Closing, Escrow Agent shall credit to the account of the Seller of each Property the aggregate amount of the Delinquent Rentals allocated to such Seller for such Property pursuant to clauses (x) and (y) above. After Closing, Purchaser shall be entitled to retain all Delinquent Rentals actually received as to such Property and Sellers shall have no interest therein, as Sellers shall have received at Closing a credit for and payment of its agreed-upon share of such Delinquent Rentals. Accordingly, there shall be no post-Closing reconciliation or adjustment with respect to Delinquent Rentals, other than as may be necessary to determine the actual amounts of Delinquent Rentals as of the Proration Date.

(iv) As to each Property, at the Closing, the Seller of such Property shall retain the amount of any Security Deposits and Purchaser shall receive a credit toward the Allocated Purchase Price for such Security Deposits.

(v) Other customary adjustments, if any, made in connection with the sale of similar type of storage properties shall be prorated between Purchaser and Seller at the Closing.

(vi) Subject to the terms and conditions hereof, within sixty (60) days after the Closing, Purchaser and Sellers shall review the prorations in accordance with the provisions of **Exhibit "H"** attached hereto and by this reference made a part hereof.

F. Closing Costs. Sellers shall pay all filing and recording fees relating to documents required to clear title to the Properties, specifically including the payment and release of the liens of the Prepaid Loans. Purchaser shall pay any taxes (including, but not limited to, transfer taxes, transfer fees, documentary and intangible taxes) relating to the transfer of title to the Properties and sales tax and surtax to state or local entities with reference to the sale of the Properties, and the cost of the Title Policies. Purchaser shall pay the closing fees charged by the Escrow Agent and Title Company. Purchaser shall pay any intangible taxes, fees or other costs charged by the lenders on the assumption of the Third Party Loans which Purchaser assumes per Section 4 above. Any closing and/or escrow fees or costs not specifically enumerated above shall be paid by Purchaser. Purchaser and Seller shall each pay their own attorneys' fees in connection with the preparation and negotiation of this Agreement.

G. Transfer of Possession and Risk of Loss. Operational control of the Properties shall be transferred to Purchaser at the start of business on the Closing Date, subject to the supervision of the Sellers. Legal possession and all risks of loss with respect to the Properties shall be borne by Sellers until the delivery of the applicable Deed at Closing.

H. Third Party Loan Outside Closing Date. Notwithstanding anything to the contrary contained in this Agreement, if (1) the Income Tax Condition (hereinafter defined) has been satisfied, (2) Purchaser made an election pursuant to Section 4.C(ii) above with respect to one or more of the Third Party Loan Properties, and (3) the Closing with respect to each such Property has not occurred by April 15, 2007, the following provisions of this Section 11.H shall apply:

(i) Provided that none of the Sellers is in default in the performance of the obligations of any Seller under this Agreement and provided that no event has occurred which, with the giving of notice or lapse of time, or both, would constitute such a default by any of the Sellers, Seller shall have the right to thereafter terminate this Agreement with respect to any of the Properties for which a Closing has not occurred by written notice to Purchaser.

(ii) Provided that Purchaser is not in default in the performance of Purchaser's obligations under this Agreement and provided that no event has occurred which, with the giving of notice or lapse of time, or both, would constitute such a default Purchaser shall have the right to thereafter terminate this Agreement with respect to any of the Properties for which a Closing has not occurred by written notice to Sellers.

(iii) Upon a termination of this Agreement pursuant to either Section 11.H(i) or Section 11.H(ii) above, Escrow Agent shall return the applicable portion of the Earnest Money Deposit to Purchaser and the parties shall have no further liability to one another hereunder with respect to the Properties for which a Closing has not occurred except to the extent expressly stated otherwise herein.

I. Income Tax Condition. Pursuant Section 16.E below, Sellers' obligations under this Agreement are conditioned upon Sellers receiving a favorable determination regarding certain income tax matters affecting Sellers and Sellers' principals in the manner specified in Section 16.E below (referred to herein as the "**Income Tax Condition**"). Sellers agree to use commercially reasonable efforts to cause the Income Tax Condition to be satisfied as quickly as is reasonably possible. If the Income Tax Condition has not been satisfied by the date which is ten (10) business days prior to the Initial Scheduled Closing Date, the Closing shall be extended until the date which is no later than the date which is thirty (30) days after the date on which the Income Tax Condition is satisfied; provided, however, that if the Income Tax Condition has not been satisfied by April 30, 2007, the following provisions of this Section 11.I shall apply:

(i) Provided that none of the Sellers is in default in the performance of the obligations of any Seller under this Agreement and provided that no event has occurred which, with the giving of notice or lapse of time, or both, would constitute such a default by any of the Sellers, Sellers shall have the right to terminate this Agreement at any time after (but not prior to) the date which is six months from the Initial Scheduled Closing Date by written notice to Purchaser.

(ii) Provided that Purchaser is not in default in the performance of Purchaser's obligations under this Agreement and provided that no event has occurred which, with the giving of notice or lapse of time, or both, would constitute such a default Purchaser shall have the right to terminate this Agreement at any time after (but not prior to) April 30, 2007, by written notice to Sellers.

(iii) Upon a termination of this Agreement pursuant to either Section 11.I(i) or Section 11.I(ii) above, Escrow Agent shall return the entire Earnest Money Deposit to Purchaser and the parties shall have no further liability to one another hereunder except to the extent expressly stated otherwise herein.

12. Covenants of Sellers. Sellers agree and covenant as follows:

A. Conduct of Business. Up to the earlier of the Closing with respect to the Properties of such Seller or the earlier termination of this Agreement, each Seller shall (i) operate the business conducted at each of such Seller's Properties in the manner in which such Seller has operated and maintained such Properties during the twelve (12) month period prior to the Effective Date, (ii) use commercially reasonable efforts to preserve intact each of such Seller's Properties and the good will and advantageous relationships of such Seller with customers, suppliers, independent contractors, employees and other persons or entities material to the operation of the businesses conducted on such Properties, (iii) perform such Sellers' material obligations under all Leases, Ground Leases, and other agreements affecting any of such Seller's Properties, and (iv) not knowingly take any action or omit to take any action which would cause any of the representations or warranties of any Seller contained herein to become inaccurate or any of the covenants of any Seller to be breached. No Seller will engage in any practice, take any action, or enter into any transaction outside of the ordinary and usual course of business. Notwithstanding anything to the contrary in this Section, no Seller shall, without Purchaser's written consent (which consent shall not be unreasonably withheld, conditioned or delayed prior to the expiration of the Due Diligence Period and which consent may be withheld in Purchaser's sole and absolute discretion after the delivery of the Approval Notice), enter into any lease agreements with tenants or modify or extend existing Leases other than Leases for storage space in the ordinary course of business and in no event: (1) for a term greater than one (1) year; (2) at rental rates less than the rate in effect for like units; or (3) which allow rent concessions unless such rent concessions are made in such Seller's ordinary and usual course of business and are consistent with the terms disclosed to Purchaser. Sellers hereby disclose to Purchaser that Sellers are currently offering rental concessions which are more particularly described on **Exhibit "I"** attached hereto and by this reference made a part hereof.

B. Existing Notes, Mortgages, and Ground Leases. Until the earlier of the Closing with respect to such Properties or termination of this Agreement, no Seller shall modify, alter or amend any existing note or mortgage encumbering any of such Seller's Properties or further encumber any of such Seller's Properties without the prior written consent of Purchaser, or allow any existing note or mortgage encumbering any of such Seller's Properties to be in default in any material respect. Until the earlier of the Closing with respect to such Ground Lease or termination of this Agreement, Sellers will not modify, alter or amend any of the Ground Leases, or allow any of the Ground Leases to be in default in any material respect.

C. Further Contracts. Up to the earlier of the Closing with respect to such Property or the termination of this Agreement, no Seller shall, without Purchaser's prior written approval (which approval may be withheld in Purchaser's sole and absolute discretion) and except as provided in Section 12.A above with respect to Leases for storage space, enter into any further Contracts or leases relating to such Seller's Properties, which cannot be terminated upon thirty (30) days notice without cost to Purchaser. Any Contracts which are approved by Purchaser pursuant to the provisions of this Section 12.C shall be deemed a Designated Contract hereunder and Purchaser shall assume at Closing the obligations of Seller arising thereunder to the extent that such obligations arise from and after the Closing Date.

D. Warranties and Guaranties. No Seller shall, before or after the Closing Date with respect to such Seller's Properties or earlier termination of this Agreement, release or materially and adversely modify any warranties or guarantees, if any, of manufacturers, suppliers and installers related to such Seller's Properties or any part thereof, except with the prior written consent of Purchaser, which consent may be withheld in Purchaser's sole and absolute discretion after the delivery of the Approval Notice.

E. Change in Facts or Circumstances. If, prior to the Closing has occurred with respect to all of the Properties, any Seller becomes actually aware of any fact or circumstance which would make either any representation or warranty contained in this Agreement or any of the documents or other materials provided to Purchaser pursuant to this Agreement inaccurate, such Seller shall promptly notify Purchaser in writing of such fact or circumstance; provided, however, that in no event shall any Seller have any liability, obligation or responsibility with respect to any representation or warranty which was true and accurate when made by such Seller upon the execution and delivery of this Agreement, but which subsequently becomes untrue or inaccurate merely by the passage of time or by an action which such Seller is authorized or permitted to take under this Agreement (e.g. any new Leases, Contracts) or for any reason which is not a breach or default by such Seller of the covenants made by such Seller in this Section 12.

F. Telephone Listing. After delivery of the Approval Notice but prior to Closing, Sellers will provide Purchaser with the addresses and telephone numbers of each telephone company business office that serves a Property and will execute and deliver to Purchaser all documents required by the telephone company, including supersedure papers, to transfer the telephone number, telephone listing, and yellow page advertisements of Sellers to Purchaser.

G. Termination of Employees, Management and Service Contracts, and Rights to Occupy Apartment. Purchaser shall have no obligation to hire the employees of any of the Sellers (if any) and no duty or other obligation with respect to the termination of any such employees. Except to the extent directed otherwise by Purchaser in writing prior to the expiration of the Due Diligence Period, Sellers shall terminate the rights of any person to occupy any residential apartment on any of the Properties effective as of the Closing and without cost or liability to Purchaser. None of the Sellers nor any of their respective managing agents will, between the date hereof and the date of Closing, enter into any new employment contracts or agreements or hire any new employees except in the ordinary course of such Seller's business. Purchaser shall not have any liability under any pension or profit sharing plan that any Seller or its managing agent may have established with respect to the Property or its employees.

H. Completion of Construction at Colma Property. The parties acknowledge that the Seller of the Colma Property is currently in the process of constructing certain on-site and off-site improvements to the Colma Property which improvements are more particularly described on **Exhibit "J"** attached hereto and by this reference made a part hereof. To the extent that such improvements are not completed prior to the Closing with respect to the Colma Property, the Seller of the Colma Property shall, in good faith, use reasonably diligent efforts to cause such construction to be completed as soon as possible after the Closing Date for the Colma Property at such Seller's expense, on a lien free basis and in accordance with applicable governmental requirements. The Seller of the Colma Property shall indemnify, defend and hold Purchaser harmless of and from any and all liens or expenses arising from such Seller's construction of such improvements. The obligations of such Seller pursuant to the provisions of this Section 12.H shall survive the Closing with respect to the Colma Property.

13. Damage to Properties. If before the Closing with respect to all of the Properties any of the Properties with respect to which a Closing has not yet occurred is materially or adversely affected in any way as a result of any fire, flood, earthquake, similar acts of nature or other acts of destruction which involves damage requiring repair and restoration costs of less than or equal to Two Million Dollars ($2,000,000), Sellers and Purchaser shall be obligated to proceed with the Closing with respect to such Property and each of the other Properties. In that event, the Allocated Purchase Price for such Property shall be reduced by the cost of repairing and restoring each such Property. If such material or adverse change involves damage requiring repair and restoration costs in excess of Two Million Dollars ($2,000,000) for any one Property, or in excess of Ten Million Dollars ($10,000,000) in the aggregate for all Properties, Purchaser shall have the option to (a) proceed with the Closing with respect to all of the Properties, taking each such Property in its un-restored condition together with any insurance proceeds or the right to receive such insurance proceeds, and the rights to any other claims arising as a result of such material or adverse , in which event, the Allocated Purchase Price for each such Property shall be reduced by the difference between (1) the cost of repairing and restoring each such Property and (2) the total amount of insurance proceeds payable with respect to such material adverse change, or (b) terminate this Agreement with respect to each of the Properties for which a Closing has not occurred. Upon a termination of this Agreement pursuant to this Section 13, Escrow Agent shall return the applicable portion of the Earnest Money Deposit to Purchaser and the parties shall have no further liability to one another hereunder with respect to the Properties for which a Closing has not occurred except to the extent expressly stated otherwise herein.

14. Eminent Domain. If before Closing with respect to all of the Properties, proceedings are commenced or threatened for the taking by exercise of the power of eminent domain of all or a material part of any of the Properties which, as reasonably determined by Purchaser, would render such Property unacceptable to Purchaser as a self-storage facility, Purchaser shall have the right, by giving written notice to Sellers within five (5) days after Sellers give written notice to Purchaser of the commencement of such proceedings to terminate this Agreement with respect to any of the Properties for which a Closing has not occurred. If before the Closing with respect to all of the Properties, proceedings are commenced or threatened for the taking by exercise of the power of eminent domain of less than such a material part of any of the Properties, or if Purchaser has the right to terminate this Agreement pursuant to the preceding sentence but Purchaser does not exercise such right, then this Agreement shall remain in full force and effect and, on the Closing with respect to such Properties, the condemnation award (or, if not therefore received, the right to receive such portion of the award) payable on account of each such taking shall be transferred by Seller to Purchaser as part of the Intangible Property and Purchaser and Seller shall proceed to Closing in accordance with the terms of this Agreement without a reduction in the Purchase Price. Sellers shall give notice to Purchaser within ten (10) days after Sellers receive notice of the commencement of any proceedings for the taking by exercise of the power of eminent domain of all or any part of any of the Properties. Upon a termination of this Agreement pursuant to this Section 13, Escrow Agent shall return the applicable portion of the Earnest Money Deposit to Purchaser and the parties shall have no further liability to one another

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hereunder with respect to the Properties for which a Closing has not occurred except to the extent expressly stated otherwise herein.

15. Conditions to Purchaser's Obligations. Purchaser's obligation to purchase the Properties or otherwise perform any obligations provided for in this Agreement is conditioned upon the occurrence of the following conditions on or before the Closing Date:

A. The representations, warranties and covenants of Sellers contained in this Agreement shall be materially true and correct as of the Closing Date.

B. Each of the Sellers shall have performed and complied with all material covenants and agreements contained herein which are to be performed and materially complied with by such Seller at or prior to the Closing Date.

C. The Title Company shall be irrevocably committed to issuing the Title Policies upon Closing insuring ownership of the Properties in the name of Purchaser or its nominee or assignee in the amount of the Allocated Purchase Price, subject only to the Permitted Exceptions; provided, however, that this condition shall be deemed to be satisfied with respect to any Property if prior to the expiration of the Due Diligence Period Purchaser has not provided the Title Company with a Survey for such Property (in a form which is acceptable to the Title Company) and the Title Company is never the less willing to issue a standard coverage policy of title insurance with respect to such Property (subject only to the Permitted Exceptions for such Property).

D. None of the Properties shall have been materially affected by any legislative or regulatory change occurring after the expiration of the Due Diligence Period that would prohibit Purchaser from using each of the Properties as a self-storage facility in a manner which is consistent with Sellers' historical use of that Property.

E. Except as disclosed in writing by Sellers to Purchaser and approved by Purchaser prior to the end of the Due Diligence Period, there shall be no pending actions, suits or proceedings of any kind or nature whatsoever, legal or equitable, affecting any of the Properties in any material way, or relating to or arising out of the ownership or operation of any of the Properties, and continuing after the date of this Agreement in any court or before or by a federal, state, county, municipal department, commission, board, bureau, or agency or other governmental instrumentality.

F. Except as provided otherwise in Section 4.C above, each Third Party Lender and each servicer of a Third Party Loan (if any) shall have approved the transaction which is the subject of this Agreement and the Lender Conditions are acceptable to Purchaser in accordance with the terms and conditions hereof.

G. The lessor of each Ground Lease shall have received any required notice of assignment to the Purchaser, and consented to such assignment (when required by the Ground Lease). The lessor of each Ground Lease shall have also executed an estoppel certificate which acknowledges, to the best of the ground lessor's knowledge, that rents are current, that there are no material defaults by lessee beyond all applicable cure and notice provisions, and confirming the completeness of Purchaser's copy of the Ground Lease.

H. No material default by any lessee under a Ground Lease shall have occurred and be then continuing and no event shall have occurred and be then continuing which, with the giving of notice or lapse of time, or both, shall constitute such a default.

I. No material default shall have occurred and be then continuing under any of the Third Party Loan Documents and no event shall have occurred and be then continuing which, with the giving of notice or lapse of time, or both, shall constitute such a default.

J. In the event any of the foregoing conditions or other conditions to this Agreement are not fulfilled, and are not waived by Purchaser on or before the Closing with respect to a Property, Purchaser may terminate this Agreement with respect to all, but not less than all, of the Properties for which a Closing has not yet occurred. Upon a termination of this Agreement pursuant to this Section 15.J, Escrow Agent shall return the applicable portion of the Earnest Money Deposit to Purchaser and the parties shall have no further liability to one another hereunder with respect to the Properties for which a Closing has not occurred except to the extent expressly stated otherwise herein.

K. Neither Purchaser nor Seller shall willfully or in bad faith act or fail to act for the purpose of permitting any of Purchaser's Conditions in this Section 15 to fail.

L. Purchaser shall have the right to waive, in its sole and absolute discretion, any of the conditions precedent set forth in this Section 15, and the election by Purchaser to proceed with the Closing as to a particular Property with the actual knowledge that a condition precedent has not been satisfied, shall be deemed Purchaser's waiver of such condition precedent for such Property to the extent any such Purchaser condition precedent has not been previously satisfied or waived.

16. **Conditions to Sellers' Obligations**. Sellers' obligation to sell the Properties or otherwise perform any obligations provided for in this Agreement is conditioned upon the occurrence of the following conditions on or before the Closing Date:

A. The representations, warranties and covenants of Purchaser contained in this Agreement shall be materially true and correct as of the Closing Date.

B. Purchaser shall have performed and complied with all material covenants and agreements contained herein which are to be performed and materially complied with by Purchaser at or prior to the Closing Date.

C. As to each Third Party Loan , the Third Party Lender shall have agreed to release the applicable Seller and each Seller Guarantor from future liability with respect to such Third Party Loan; provided, however, that Sellers shall be deemed to have waived the condition specified in this Section 16.C with respect to such Third Party Loan if:

(i) Purchaser has made an election pursuant to Section 4.C(i) above with respect to such Third Party Loan; and

(ii) At the Closing with respect to the Third Party Loan Property which secures such Third Party Loan, Purchaser agrees to indemnify, defend, and hold the Seller of such Third Party Loan Property and the Seller Guarantor harmless of and from any and all claims arising from or relating to such Third Party Loan from and after such Closing. Such indemnification shall be in a form which is reasonably acceptable to such Seller and such Seller's counsel.

D. The lessor of each Ground Lease shall have consented to the assignment of the Ground Lease to Purchaser when required by the Ground Lease.

E. Sellers shall have determined in good faith that the US tax effects of the Hastings Bass ruling by the Jersey Court (with respect to the invalidity of a prior sale by RAS I to Butterfield

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Investments Ltd. in 1996) have been accepted by the IRS; provided, however, that notwithstanding anything contained herein to the contrary, the Seller shall not be obligated to consummate this sale prior to the date on which James Knuppe is satisfied, in his sole and absolute discretion, that his positions regarding the US tax effects of the Hastings Bass ruling by the Jersey Court (with respect to the invalidity of a prior sale by RAS I to Butterfield Investments Ltd. in 1996) have been accepted by the applicable IRS officials with whom James Knuppe's tax attorneys are dealing, so that there is no material question remaining as to James Knuppe's right to report any such sale at his individual level (rather than as a sales transaction by Butterfield Investments Ltd, and the US income tax costs of the IRS agreeing to the acceptance of said position are at levels that James Knuppe deems reasonable, in his sole and absolute discretion, in light of the overall benefits of the IRS accepting said Hastings Bass ruling as constituting a retroactive voiding of the original 1996 sale by RAS I to Butterfield Investments Ltd.; provided further, however, that the terms of this Section 16.E shall be deemed met if James Knuppe, in fact, determines to disclose his

identity to the IRS via his tax attorneys and pursues the previously agreed terms of a closing agreement on said issues. Promptly after such determination is made, Sellers agree to give Purchaser written notice of such determination.

F. In the event any of the foregoing conditions or other conditions to this Agreement are not fulfilled, and are not waived by Sellers on or before the Closing with respect to a Property, Sellers may terminate this Agreement with respect to all of the Properties for which a Closing has not occurred. Upon a termination of this Agreement pursuant to this Section 16.F, Escrow Agent shall return the applicable portion of the Earnest Money Deposit to Purchaser and the parties shall have no further liability to one another hereunder with respect to the Properties for which a Closing has not occurred except to the extent expressly stated otherwise herein.

G. Neither Purchaser nor Seller shall willfully or in bad faith act or fail to act for the purpose of permitting any of Purchaser's Conditions in this Section 16 to fail.

H. Seller shall have the right to waive, in its sole and absolute discretion, any of the conditions precedent set forth in this Section 16, and the election by Seller to proceed with the Closing as to a particular Property with the actual knowledge that a condition precedent has not been satisfied, shall be deemed Seller's waiver of such condition precedent for such Property to the extent any such Seller condition precedent has not been previously satisfied or waived.

17. Sellers' Representations and Warranties.

A. For purposes of this Section 17, as to each Property, "Seller" shall mean and refer only to the entity that owns such Property. The representations and warranties set forth herein shall be separate for each Seller and shall be made solely as to itself and the Property it owns. There shall be no joint liability to Purchaser among or between the several Seller entities. Purchaser understands and agrees that Purchaser shall look solely to the separate and specific Seller entity and the separate and specific Property it owns with respect to each representation and warranty set forth in this Agreement. Subject to the foregoing, as to each Property, respectively, Seller represents and warrants to Purchaser that the following matters are true and correct as of the Effective Date and, subject to this Section, will also be true and correct as of the Closing.

(i) Seller is a limited partnership duly formed, validly existing and in good standing in the state of its organization and, on or before the Closing, Seller will be qualified to do business in each state in which Seller operates a self storage business.

(ii) Seller has the full power and authority necessary to enter into, deliver and perform this Agreement, the other agreements contemplated hereby and any other documents or instruments to be executed and delivered by Seller at Closing. The execution and delivery of this Agreement by Seller

and the consummation by Seller of the transactions contemplated by this Agreement have been duly authorized by all necessary action on the part of Seller and will not, with or without the giving of notice, lapse of time or both, violate, conflict with, result in a breach of, or constitute a default under or give to others any right of termination or cancellation of, (1) the organizational documents, including the bylaws and charter, if any, of Seller, (2) any agreement, document, instrument or other undertaking to which Seller is a party or by which Seller, its interests or any of its assets or properties are bound, or (3) to the Actual Knowledge of Seller , any applicable law, or any judgment, writ, injunction, decree, statute, order, rule or regulation applicable to Seller or by which its interests or any of its assets or properties are bound, or (4) result in the creation of any lien upon any Property owned by Seller. This Agreement has been duly executed and delivered by Seller and constitutes a valid and legally binding obligation of Seller, enforceable against Seller in accordance with and subject to its respective terms, subject to applicable bankruptcy, insolvency, moratorium or other similar laws relating to creditors' rights and general principles of equity. The signatures on this Agreement for and on behalf of Seller are genuine, and the signatory for Seller has been duly authorized to execute the same on behalf of such Seller.

(iii) With the exception of the Berkeley II Property, the Castro Valley Property, the Kapolei Property, and the San Pablo II Property (hereinafter collectively the "**Ground Lease Properties**"), to the Actual Knowledge of Seller, either Seller or Seller's predecessor in interest owns fee simple title to each Property for which Seller is designated as the "owner" on Exhibit "A"; provided, however, that the provisions of this Section 17.A(iii) as applied to each Property shall, at the Closing for such Property, be merged into the Deed for such Property and shall not survive the Closing for such Property. Seller's predecessor in interest, if any, is owned and controlled, directly or indirectly through one or more intermediate entities, by the same individuals who own and control Seller.

(iv) To the Actual Knowledge of Seller, either Seller or Seller's predecessor in interest owns all of the interest of the lessee under each Ground Lease for which Seller is designated as the "owner" on Exhibit "A"; provided, however, that the provisions of this sentence as applied to each Property shall not survive the Closing for such Property. Seller's predecessor in interest, if any, is owned and controlled, directly or indirectly through one or more intermediate entities, by the same individuals who own and control Seller. Seller has provided Purchaser with a true, correct and complete copy of each Ground Lease and all amendments to each Ground Lease. The copy of each Ground Lease (including any amendments thereto) delivered to Purchaser by Sellers constitutes the entire agreement between the lessor under such Ground Lease and the Seller of the leasehold estate which is the subject of such Ground Lease with respect to the property which is the subject of such Ground Lease. Except as set forth in the copy of each Ground Lease delivered by Sellers to Purchaser, no such Ground Lease has been modified, changed, altered, assigned, supplemented, or amended. To the Actual Knowledge of Sellers, none of the Ground Leases is in default beyond all applicable cure and notice periods and no event has occurred which, with the giving of notice or lapse of time, or both, would constitute such a default. To the Actual Knowledge of Sellers, each Ground Lease is in full force and effect according to its terms and is valid and binding upon each lessor thereunder.

(v) To the Actual Knowledge of Seller, Seller has not received any written notice that Seller is in default under any of the Leases or under any of the Contracts or that any event has occurred which, with the giving of notice or lapse of time, or both, would constitute such a default.

(vi) AAAAA Maui owns the Kapolei Loan and owns all of the right, title, and interest thereunder free and clear of any and all liens, claims, interests or encumbrances. Sellers have provided Purchaser with a true, correct and complete copy of all documents in its possession or control

regarding the Kapolei Loan. Except as set forth in the copy of the documents delivered by Sellers to Purchaser, the Kapolei Loan has not been modified, changed, altered, assigned, supplemented, or amended.

(vii) To the Actual Knowledge of Seller, and except as disclosed to Purchaser in writing, Seller has not received written notice of any municipal violation which have not been corrected.

(viii) To the Actual Knowledge of Seller, the Financial Reports will fairly represent in all material respects the financial condition and operating results of the Property for the periods indicated, subject to normal year end adjustments. To the Actual Knowledge of Seller, since the date of the last financial statement included in the information provided to Purchaser pursuant to this Agreement, there has been no material adverse change in the financial condition or in the operations of any Property.

(ix) No lease commission or similar fee is due or unpaid by Seller with respect to any Lease, and there are no written or oral agreements that will obligate Purchaser, as Seller's assignee, to pay any such commission or fee under any Lease or extension, expansion or renewal thereof. Except as set forth on the Rent Roll, the Leases and any guarantees thereof are in full force and effect, and, to Seller's Actual Knowledge, are subject to no defenses, setoffs or counterclaims for the benefit of the Tenants. Except as noted in the Rent Roll, neither the landlord under the Leases nor, to Seller's Actual Knowledge, any Tenant is in default under its Lease beyond all applicable notice and cure periods. Except as disclosed on the Rent Roll, no rents or security deposits or other payments have been collected in advance for more than one (1) month. Except as disclosed on the Rent Roll, each rental concession, rental abatement or other benefit granted to Tenants under the Leases will have been fully utilized prior to the Closing.

(x) The right of any person to occupy the manager's apartment on each Property (if any) is a month to month tenancy that can be terminated on not more than thirty (30) days notice to such person

(xi) To the Actual Knowledge of Seller, Seller has not received any written notice of (A) a pending or overtly threatened in writing condemnation or eminent domain proceeding relating to the Property, or (B) pending or overtly threatened in writing actions, suits, legal or other proceedings with reference to the Property.

(xii) To Seller's Actual Knowledge, Seller has not received written notice of any present default or breach under any mortgage or other encumbrance encumbering the Property or any covenants, conditions, restrictions, rights-of-way or easements which may affect the Property or any portion or portions thereof.

(xiii) Except as set forth on the Schedule 17.A(xiii) attached hereto and incorporated herein, to the Actual Knowledge of Seller, Seller has not received written notice of any existing, pending, or threatened investigation, inquiry or proceeding by any governmental authority or any other entity or person or to any remedial obligations under any Environmental Law, as defined herein.

(xiv) To the Actual Knowledge of Sellers all of Sellers' insurance policies are in full force and effect, all premiums for such policies were paid when due and all future premiums for such policies (and any replacements thereof) shall be paid by Sellers on or before the due date therefore. Until the Closing, Seller shall pay the premiums on, and shall not cancel or voluntarily allow to expire, any of Seller's insurance policies unless such policy is replaced, without any lapse of coverage, by another policy or policies providing coverage at least as extensive as the policy or policies being replaced. To the extent permitted under such policy, Seller agrees to assign on a non-exclusive basis to Purchaser at Closing such of Seller's current policies as Purchaser may request in writing and will use commercially reasonable efforts to cause Purchaser to be named as an additional insured under each of such policies on or before the expiration of the Due Diligence Period. At Closing, Seller shall, provided that Purchaser has been named as an additional insured on such policies, provide Purchaser with a Certificate of Insurance on Acord Form 25 or Form 27, as applicable, as evidence that Purchaser has been named as an additional insured under each such policy and

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with evidence reasonably satisfactory to Purchaser that each such policy has been assigned to Purchaser. In the event of such an assignment, the premiums on any of such policies that Purchaser elects to have assigned to it shall be prorated between Seller and Purchaser as of the Proration Date.

(xv) To the Actual Knowledge of Seller and except as disclosed in the Documents, there are no labor disputes pending or overtly threatened in writing concerning the operation or maintenance of any of the Properties. Sellers are not a party to any union or other collective bargaining agreement with employees employed in connection with the ownership, operation or maintenance of any of the Properties.

(xvi) No act of bankruptcy, voluntary or involuntary has occurred with respect to Seller or any of its affiliates.

(xvii) Neither Seller, nor to Seller's Actual Knowledge, any member, partner or shareholder of Seller, nor, to Seller's actual knowledge, any person or entity with actual authority to direct the actions of any member, partner or shareholder of Seller, nor, to Seller's actual knowledge, any other person or entity holding any legal or beneficial interest whatsoever in Seller, (a) are named on any list of persons, entities and governments issued by the Office of Foreign Assets Control of the United States Department of the Treasury ("**OFAC**") pursuant to Executive Order 13224 — Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit, or Support Terrorism ("**Executive Order 13224**"), as in effect on the Effective Date, or any similar list known to Seller or publicly issued by OFAC or any other department or agency of the United States of America (collectively, the "**OFAC Lists**"), (b) are included in, owned by, controlled by, knowingly acting for or on behalf of, knowingly providing assistance, support, sponsorship, or services of any kind to, or otherwise knowingly associated with any of the persons, entities or governments referred to or described in the OFAC Lists, or (c)

has knowingly conducted business with or knowingly engaged in any transaction with any of the persons, entities or governments named on any of the OFAC Lists or any of the persons, entities or governments included in, owned by, controlled by, acting for or on behalf of, providing assistance, support, sponsorship, or services of any kind to, or, to Seller's knowledge, otherwise associated with any of the persons, entities or governments referred to or described in the OFAC Lists.

B. As used in this Section 17, the term "**Actual Knowledge**" (or words of similar import) shall, when used with respect to any Seller, mean the present, current, actual, conscious (and not constructive, imputed or implied) knowledge of H. James Knuppe, Barbara Knuppe or Michael J. Knuppe, without having made independent inquiry. No such person shall have any personal liability or obligation whatsoever with respect to any of the matters set forth in this Agreement and any other documents, agreements or instruments related thereto or any of the representations made by Seller being or becoming untrue, inaccurate or incomplete in any respect and Purchaser shall look solely to the assets of the Seller entity with respect to a breach of a representation and warranty hereunder as to any Seller or Property. Under no circumstances whatsoever shall information possessed by or known to any person or entity (including any of Sellers' consultants, agents or advisors or their respective employees or representatives, or another Seller), other than H. James Knuppe, Barbara Knuppe, or Michael J. Knuppe, be imputed or attributed to any Seller.

C. All representations, warranties and covenants of each Seller contained in this Agreement shall survive the Closing and shall inure to the benefit of Purchaser and its legal representatives, heirs, successors or assigns for a period of six (6) months after the Closing of the applicable Property and shall automatically expire unless Purchaser prior thereto has given such Seller written notice of any alleged breach and Purchaser commences and serves an action against Seller within ninety (90) days after Purchaser gives such notice to Seller (and, in the event any such suit is timely commenced by Purchaser and served against Seller, shall survive thereafter only insofar as the subject matter of the alleged breach specified in such

suit is concerned). If notice is not timely given and suit is not timely commenced and served by Purchaser, Seller's representations and warranties shall thereafter be void and no force or effect as to such Property.

D. Notwithstanding anything to the contrary contained in this Agreement, no Seller shall have any liability, obligation or responsibility of any kind to Purchaser or any party claiming by, under or through Purchaser with respect to any of the representations and warranties contained in Section 17 above if, prior to the Closing with respect to a Property, Purchaser obtains knowledge from any source (including the Documents) that any of the foregoing representations and warranties are untrue or incorrect with respect to such Property, and Purchaser nevertheless Closes Purchaser's acquisition of such Property pursuant to this Agreement. Purchaser further agrees to provide Sellers with written notice (a "**Representation Notice**") promptly upon Purchaser's learning that any representation or warranty of any Seller in this Agreement is untrue or incorrect or has been breached by such Seller. In the event Purchaser gives one or more Representation Notices with respect to the warranties and representations of a Seller and such Seller fails to correct each inaccuracy or cure all such breaches of any representation or warranty, then Purchaser's sole remedy in respect to a change in facts or circumstances which do not otherwise constitute a default of such Seller of such Property pursuant to this Agreement, shall be to elect, in Purchaser's sole discretion, to (a) if such breach(es) relate(s) to one or more of the Properties, remove such Properties from the Properties being conveyed pursuant to this Agreement and receive a reduction in the Purchase Price in the amount of the Allocated Purchase Price of such Property or Properties, in which event no party hereto shall have any further obligation or liability to any other party hereto with respect to such Property or Properties except for those provisions of this Agreement which expressly survive the termination of this Agreement or (b) if such breach(es) relate to a Property or to Properties having, in the aggregate, an Allocated Purchase Price equal to or greater than $50,000,000.00, terminate this Agreement, in which event the undisbursed portion of the Earnest Money Deposit shall be returned to Purchaser within five (5) days of such termination and, following the return of such Earnest Money Deposit, no party hereto shall have any further obligation or liability to any other party hereto with respect to any Properties for which a Closing has not occurred except with respect to those provisions of this Agreement which expressly survive the termination of this Agreement.

18. <u>Purchaser's Representations and Warranties</u>. Purchaser makes the following representations and warranties, each of which is material and is being relied upon by Sellers:

A. Purchaser is a limited liability company, duly formed, validly existing and in good standing in the state of Delaware and, on or before the Closing, Purchaser, or Purchaser's affiliated company taking title at Closing, will be qualified to do business in the state in which the Property is located.

B. Purchaser has the full power and authority necessary to enter into, deliver and perform this Agreement, the other agreements contemplated hereby and any other documents or instruments to be executed and delivered by Purchaser at Closing. The execution and delivery of this Agreement by Purchaser and the consummation by Purchaser of the transactions contemplated by this Agreement have been duly authorized by all necessary action on the part of Purchaser and will not, with or without the giving of notice, lapse of time or both, violate, conflict with, result in a breach of, or constitute a default under or give to others any right of termination or cancellation of, (1) the organizational documents, including the bylaws and charter, if any, of Purchaser, (2) any agreement, document, instrument or other undertaking to which Purchaser is a party or by which Purchaser, its interests or any of its assets or properties are bound, or (3) to Purchaser's Actual Knowledge, any applicable law, or any judgment, writ, injunction, decree, statute, order, rule or regulation applicable to Purchaser or by which its interests or any of its assets or properties are bound.. This Agreement has been duly executed and delivered by Purchaser and constitutes a valid and legally binding obligation of Purchaser, enforceable against Purchaser in accordance with and subject to its respective terms, subject to applicable bankruptcy, insolvency, moratorium or other similar laws relating to creditors' rights and general principles of equity. The signatures on this Agreement for and on behalf of Purchaser are

genuine, and the signatory for Purchaser has been duly authorized to execute the same on behalf of such Seller.

C. Neither Purchaser, nor any member or manager of Purchaser, nor, to Purchaser's Actual Knowledge, any person or entity with actual authority to direct the actions of any member or manager of Purchaser without the vote, consent, or approval of any other person, (i) are named on any list of persons, entities and governments issued by OFAC pursuant to Executive Order 13224, as in effect on the date hereof, or any OFAC Lists, (ii) are included in, owned by, controlled by, knowingly acting for or on behalf of, knowingly providing assistance, support, sponsorship, or services of any kind to, or otherwise knowingly associated with any of the persons, entities or governments referred to or described in the OFAC Lists, or (iii) has knowingly conducted business with or knowingly engaged in any transaction with any of the persons, entities or governments named on any of the OFAC Lists or any of the persons, entities or governments included in, owned by, controlled by, acting for or on behalf of, providing assistance, support, sponsorship, or services of any kind to, or, to Purchaser's knowledge, otherwise associated with any of the persons, entities or governments referred to or described in the OFAC Lists.

D. Each and every one of the foregoing representations and warranties is true and correct as of the Effective Date and will be true and correct as of the Closing Date.

E. As used in this Agreement, the term "**Actual Knowledge**" (or words of similar import) shall, when used with respect to Purchaser, mean the present, current, actual, conscious (and not constructive, imputed or implied) knowledge of Kenneth M. Woolley, Kent W. Christensen, Charles L. Allen, or David L. Rasmussen, without having made independent inquiry. No such person shall have any personal liability or obligation whatsoever with respect to any of the matters set forth in this Agreement and any other documents, agreements or instruments related thereto or any of the representations made by Purchaser being or becoming untrue, inaccurate or incomplete in any respect and Sellers shall look solely to the assets of the Purchaser with respect to a breach of a representation and warranty hereunder as to Purchaser. Under no circumstances whatsoever shall information possessed by or known to any person or entity (including any of Purchaser's consultants, agents or advisors or their respective employees or representatives), other than Kenneth M. Woolley, Kent W. Christensen, Charles L. Allen, or David L. Rasmussen, be imputed or attributed to Purchaser.

F. All representations, warranties and covenants of Purchaser contained in this Agreement shall survive the Closing and shall inure to the benefit of Sellers and their respective legal representatives, heirs, successors or assigns for a period of six (6) months after the last Closing of Purchaser's acquisition of a Property under this Agreement and shall automatically expire unless Sellers prior thereto have given such Purchaser written notice of any alleged breach and Purchaser commence and serve an action against Purchaser within ninety (90) days after Sellers give such notice to Purchaser (and, in the event any such suit is timely commenced by Sellers and served against Purchaser, shall survive thereafter only insofar as the subject matter of the alleged breach specified in such suit is concerned). If notice is not timely given and suit is not timely commenced and served by Sellers, Purchaser's representations and warranties shall thereafter be void and no force or effect as to such Property.

19. **<u>Indemnification</u>**.

A. Subject to the limitations contained in Sections 17, 20 and 23, each Seller agrees to indemnify, defend and hold harmless Purchaser and its nominees, successors, assigns, officers, directors, members, managers, partners, agents, and employees from and against any and all liabilities, claims, causes of action, penalties, costs and expenses, of any kind or nature whatsoever, to the extent arising out of, resulting from, relating to, or incident to a breach of the express representations and warranties of such Seller.

B. Each Seller agrees to indemnify, defend and hold Purchaser harmless from and against any and all claims, costs, penalties, damages, losses, liabilities and expenses, including attorneys' fees, related to or arising from any claim related to the transactions contemplated herein by any person holding a direct or indirect interest in Seller, including but not limited to any claim for the breach of any fiduciary duty or the terms, conditions, representations and warranties of this Agreement generally.

C. Subject to the provisions of Section 17 above, Purchaser agrees to indemnify, defend and hold harmless Sellers and Sellers' respective nominees, successors, assigns, officers, directors, members, managers, partners, agents, and employees from and against any and all liabilities, claims, causes of action, penalties, costs and expenses, of any kind or nature whatsoever, arising out of, resulting from, relating to, or incident to (i) Purchaser's ownership or use of the Properties after the Closing Date, (ii) the Designated Contracts, (iii) the Leases, or (iv) the Ground Leases.

D. The provisions of this Section 19 shall survive the Closing.

20. **<u>Purchase "As-Is"</u>**.

A. NOTWITHSTANDING ANYTHING CONTAINED IN THIS AGREEMENT TO THE CONTRARY, EXCEPT FOR THOSE REPRESENTATIONS AND WARRANTIES EXPRESSLY MADE BY A SELLER IN SECTION 17 ABOVE OR OTHERWISE EXPRESSLY MADE BY A SELLER IN THIS AGREEMENT OR BY A SELLER IN THE DOCUMENTS OR INSTRUMENTS DELIVERED BY SUCH SELLER AT THE CLOSING, IF ANY, IT IS UNDERSTOOD AND AGREED THAT NEITHER SUCH SELLER NOR ANY OF ITS AGENTS, EMPLOYEES OR CONTRACTORS HAS MADE, AND IS NOT NOW MAKING, AND PURCHASER HAS NOT RELIED UPON AND WILL NOT RELY UPON (DIRECTLY OR INDIRECTLY), ANY WARRANTIES OR REPRESENTATIONS OF ANY KIND OR CHARACTER, EXPRESS OR IMPLIED, ORAL OR WRITTEN WITH RESPECT TO THE PROPERTIES, INCLUDING WARRANTIES OR REPRESENTATIONS AS TO (I) MATTERS OF TITLE, (II) ENVIRONMENTAL MATTERS RELATING TO ANY OF THE PROPERTIES OR ANY PORTION THEREOF, (III) GEOLOGICAL CONDITIONS, (IV) FLOODING OR DRAINAGE, (V) SOIL CONDITIONS, (VI) THE AVAILABILITY OF ANY UTILITIES TO ANY OF THE PROPERTIES, (VII) USAGES OF ADJOINING PROPERTY, (VIII) ACCESS TO ANY OF THE PROPERTIES OR ANY PORTION THEREOF, (IX) THE VALUE, COMPLIANCE WITH THE PLANS AND SPECIFICATIONS, SIZE, LOCATION, AGE, USE, DESIGN, QUALITY, DESCRIPTIONS, SUITABILITY, SEISMIC OR OTHER STRUCTURAL INTEGRITY, OPERATION, TITLE TO, OR PHYSICAL OR FINANCIAL CONDITION OF THE IMPROVEMENTS OR ANY OTHER PORTION OF ANY OF THE PROPERTIES, (X) ANY INCOME, EXPENSES, CHARGES, LIENS, ENCUMBRANCES, RIGHTS OR CLAIMS ON OR AFFECTING OR PERTAINING TO ANY OF THE PROPERTIES OR ANY PART THEREOF, (XI) THE PRESENCE OF HAZARDOUS SUBSTANCES (HEREINBELOW DEFINED) IN OR ON, UNDER OR IN THE VICINITY OF ANY OF THE PROPERTIES, (XII) THE CONDITION OR USE OF ANY OF THE PROPERTIES OR COMPLIANCE OF ANY OF THE PROPERTIES WITH ANY OR ALL PAST, PRESENT OR FUTURE FEDERAL, STATE OR LOCAL ORDINANCES, RULES, REGULATIONS OR LAWS, BUILDING, FIRE OR ZONING ORDINANCES, CODES OR OTHER SIMILAR LAWS, (XIII) THE EXISTENCE OR NON-EXISTENCE OF UNDERGROUND STORAGE TANKS, (XIV) THE POTENTIAL FOR FURTHER DEVELOPMENT OF ANY OF THE PROPERTIES, (XV) ZONING, OR THE EXISTENCE OF

VESTED LAND USE, ZONING OR BUILDING ENTITLEMENTS AFFECTING ANY OF THE PROPERTIES, (XVI) THE MERCHANTABILITY OF ANY OF THE PROPERTIES OR FITNESS OF ANY OF THE PROPERTIES FOR ANY PARTICULAR PURPOSE, (XVII) TAX CONSEQUENCES (INCLUDING THE AMOUNT, USE OR PROVISIONS RELATING TO ANY TAX CREDITS), (XVIII) MARKETPLACE CONDITIONS SUCH AS SELF STORAGE SATURATION, (XIX) OCCUPANCY LEVELS, OR (XX) CURRENT INCOME STREAMS. PURCHASER FURTHER ACKNOWLEDGES THAT, EXCEPT FOR THOSE REPRESENTATIONS AND WARRANTIES

EXPRESSLY MADE BY A SELLER IN SECTION 17 ABOVE OR OTHERWISE EXPRESSLY MADE BY A SELLER IN THIS AGREEMENT OR BY A SELLER IN THE DOCUMENTS OR INSTRUMENTS DELIVERED BY SUCH SELLER AT THE CLOSING, ANY INFORMATION OF ANY TYPE WHICH PURCHASER HAS RECEIVED OR MAY RECEIVE FROM SELLER OR ITS AGENTS, EMPLOYEES OR CONTRACTORS, INCLUDING ANY ENVIRONMENTAL REPORTS AND SURVEYS, IS FURNISHED ON THE EXPRESS CONDITION THAT PURCHASER SHALL NOT RELY THEREON, ALL SUCH INFORMATION BEING FURNISHED WITHOUT ANY REPRESENTATION OR WARRANTY WHATSOEVER.

B. PURCHASER REPRESENTS AND WARRANTS THAT PURCHASER IS A KNOWLEDGEABLE, EXPERIENCED AND SOPHISTICATED PURCHASER OF REAL ESTATE AND THAT PURCHASER HAS RELIED AND SHALL RELY SOLELY ON (I) PURCHASER'S OWN EXPERTISE AND THAT OF PURCHASER'S CONSULTANTS IN PURCHASING THE PROPERTIES, (II) PURCHASER'S OWN KNOWLEDGE OF THE PROPERTIES BASED ON PURCHASER'S INVESTIGATIONS AND INSPECTIONS OF THE PROPERTIES AND (III) THOSE REPRESENTATIONS AND WARRANTIES EXPRESSLY MADE BY A SELLER IN SECTION 17 ABOVE OR OTHERWISE EXPRESSLY MADE BY A SELLER IN THIS AGREEMENT OR BY A SELLER IN THE DOCUMENTS OR INSTRUMENTS DELIVERED BY SUCH SELLER AT THE CLOSING. EXCEPT FOR THOSE REPRESENTATIONS AND WARRANTIES EXPRESSLY MADE BY A SELLER IN SECTION 17 ABOVE OR OTHERWISE EXPRESSLY MADE BY A SELLER IN THIS AGREEMENT OR BY A SELLER IN THE DOCUMENTS OR INSTRUMENTS DELIVERED BY SUCH SELLER AT THE CLOSING: (W) PURCHASER HAS CONDUCTED SUCH INSPECTIONS AND INVESTIGATIONS OF THE PROPERTIES AS PURCHASER DEEMS NECESSARY, INCLUDING THE PHYSICAL AND ENVIRONMENTAL CONDITIONS THEREOF, AND SHALL RELY UPON THE SAME, (X) UPON CLOSING, PURCHASER SHALL ASSUME THE RISK THAT ADVERSE MATTERS, INCLUDING ADVERSE PHYSICAL AND ENVIRONMENTAL CONDITIONS, MAY NOT HAVE BEEN REVEALED BY PURCHASER'S INSPECTIONS AND INVESTIGATIONS, (Y) PURCHASER ACKNOWLEDGES AND AGREES THAT UPON CLOSING, EACH SELLER SHALL SELL AND CONVEY TO PURCHASER AND PURCHASER SHALL ACCEPT SUCH SELLER'S PROPERTY "AS IS, WHERE IS," WITH ALL FAULTS AND DEFECTS (LATENT AND APPARENT), AND (Z). PURCHASER FURTHER ACKNOWLEDGES AND AGREES THAT THERE ARE NO ORAL AGREEMENTS, WARRANTIES OR REPRESENTATIONS WITH RESPECT TO THE PROPERTY MADE BY SELLER, OR ANY AGENT, EMPLOYEE OR CONTRACTOR OF SELLER.

C. PURCHASER ACKNOWLEDGES AND AGREES SELLER WOULD NOT HAVE AGREED TO SELL THE PROPERTY TO PURCHASER WITHOUT THE DISCLAIMERS AND OTHER AGREEMENTS SET FORTH HEREIN. PURCHASER ACKNOWLEDGES THAT THE PURCHASE PRICE REFLECTS THE NATURE OF THE TRANSACTION CONTEMPLATED BY THIS AGREEMENT, AS LIMITED BY THE WAIVERS AND DISCLAIMERS CONTAINED IN THIS AGREEMENT. PURCHASER HAS FULLY REVIEWED THE DISCLAIMERS AND WAIVERS SET FORTH IN THIS AGREEMENT WITH PURCHASER'S COUNSEL AND UNDERSTANDS THE SIGNIFICANCE AND EFFECT THEREOF.

D. THE TERMS AND CONDITIONS OF SECTIONS 20.A, 20.B, AND 20.C SHALL EXPRESSLY SURVIVE THE CLOSING, NOT MERGE WITH THE PROVISIONS OF THE DEED OR ANY OTHER CLOSING DOCUMENTS.

KMW
PURCHASER'S INITIALS

E. Except with respect to any representations, warranties and indemnities expressly set forth in this Agreement and except with respect to any representations, warranties, indemnities, covenants or agreements set forth in any document or instrument delivered by a Seller at Closing, and except as otherwise expressly provided in this Section, as to each Seller and the Property owned by such Seller, subject only to Section 23.D, below and those obligations of such Seller hereunder which this Agreement specifically provides shall survive the Closing, Purchaser and anyone claiming by, through or under Purchaser hereby waives its right to recover from and fully and irrevocably releases each Seller and such Seller's partners, members, employees, officers, directors, parent, subsidiaries, successors and assigns (the "**Released Parties**") from any and all claims, responsibility and/or liability that Purchaser may now have or hereafter acquire against any of the Released Parties for any costs, loss, liability, damage, expenses, demand, action or cause of action arising from or related to (a) the condition (including any construction defects, errors, omissions or other conditions, latent or otherwise), valuation, salability or utility of any of the Properties, or its suitability for any purpose whatsoever, (b) any other claims under Environmental Laws, and (c) any information furnished by the Released Parties under or in connection with this Agreement. This release includes claims of which Purchaser is presently unaware or which Purchaser does not presently suspect to exist which, if known by Purchaser, would materially affect Purchaser's release of the Released Parties. Purchaser specifically waives the provision of any statute or principle of law, which provides otherwise including, with respect to those Properties in California, California Civil Code 1542 which provides in pertinent part:

> "A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor."

In this connection and to the extent permitted by law, Purchaser agrees, represents and warrants that Purchaser realizes and acknowledges that factual matters now unknown to Purchaser may have given or may hereafter give rise to causes of action, claims, demands, debts, controversies, damages, costs, losses and expenses which are presently unknown, unanticipated and unsuspected, and Purchaser further agrees, represents and warrants that the waivers and releases herein have been negotiated and agreed upon in light of that realization and that Purchaser nevertheless hereby intends to release, discharge and acquit Seller from any such unknown causes of action, claims, demands, debts, controversies, damages, costs, losses and expenses.

F. As used herein, (a) "**Environmental Laws**" means the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (42 U.S.C. Section 9601 et seq.), as amended, or the Resource Conservation and Recovery Act (42 U.S.C. Section 6902 et seq.), as amended, or any other federal, state or local law, ordinance, rule or regulation relating to Hazardous Substances and applicable to the Property (but specifically excluding any principles of common law or common law theories); and (b) "**Hazardous Substances**" means any hazardous, toxic or dangerous waste, substance or material, any pollutant or contaminant, or any substance or organism which is toxic, explosive, corrosive, flammable, infectious, radioactive, carcinogenic, mutagenic or otherwise hazardous, or any substance which contains gasoline, diesel fuel or other petroleum hydrocarbons, polychlorinated biphenyls (PCBs), radon gas, urea formaldehyde or asbestos.

G. As to each Property, the foregoing provisions of this Section 20, including the waivers and releases by Purchaser, shall survive the Closing and the recordation of the Deed, and shall not be deemed merged into the Deed or other documents and instruments delivered at Closing.

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21. **Rights of First Refusal**. Affiliates of Sellers own and operate two additional self storage facilities commonly referred to as the "Moraga Rent-A-Space" facility and the "Lahaina Rent-A-Space" facility (hereinafter collectively the "**ROR Facilities**"). Sellers agree that concurrently with the Closing, Sellers' shall cause the owners of the ROR Facilities to grant Purchaser, for a period of two (2) years from the first Closing, a right of first refusal to purchase each of the ROR Facilities by a Grant of Right of First Refusal, which shall be in a form of **Exhibit "K"** and executed and recorded at Closing. The Grant of Right of First Refusal shall provide, among other things, that if the owner of an ROR Facility (the "**ROR Owner**") receives a bona fide third party offer to purchase the ROR Facility (the "**ROR Offer**") that the ROR Owner is prepared to accept, then Purchaser shall have a period of time not to exceed ten (10) business days in which to agree, in writing, to the terms and conditions of the ROR Offer. Purchaser's failure to exercise its right of first refusal within such ten (10) business day period shall constitute Purchaser's election not to acquire the applicable ROR Facility in accordance with the terms of such ROR Offer and, thereafter, the right of first refusal shall terminate with respect to such ROR Offer and the ROR Owner shall be entitled to sell the ROR Offer in accordance with the provisions of such ROR Offer free and clear of any such right of first refusal. Purchaser agrees to promptly execute any and all commercially reasonable instruments and/or documents to confirm the expiration or earlier termination of the right of first refusal. Notwithstanding anything to the contrary contained herein, the parties agree that the right of first refusal shall not apply to the transfer of any interest in any ROR Facility by an affiliate of Sellers or the immediate family of H. James Knuppe to any lineal descendant of H. James Knuppe; provided that the right of first refusal shall survive such transfer. The right of first refusal granted to Purchaser shall be personal to Purchaser and shall not be assignable (except to an Affiliate of Purchaser) without the express prior written consent of Seller and the ROR Owners, which consent may be withheld in their sole and absolute discretion.

22. **Grant of License to Use Name "Rent-A-Space"**. Concurrently with the Closing, Sellers shall cause the holder of the rights to the names and/or marks "AAAAA" and "Rent-A-Space", and combinations thereof, to license, on a non-exclusive basis, such names and/or marks to Purchaser for a period of time commencing on the Closing Date and expiring with respect to each Property on the second anniversary of the Closing Date for such Property. Purchaser shall not be required to pay any additional consideration with respect to the grant of such license and such grant of license shall be in the form of **Exhibit "L"** attached hereto.

23. **Defaults**.

A. If any Seller hereunder fails to perform its obligations as Seller and such Seller fails to cure such default within five (5) business days after such Seller's receipt of a written notice from Purchaser specifying such default, then Purchase shall elect, as Purchaser's sole remedy, either: (a) specifically enforce this Agreement or seek injunctive relief, (b) if such breach or default relates to one or more Properties, remove such Property or Properties from the Properties being conveyed pursuant to this Agreement, receive a reduction in the Purchase Price in the amount of the Allocated Purchase Price of such Property and the payment to Purchaser of Purchaser's Reimbursable Due Diligence Expenses (as hereinafter defined) allocable to such Properties, (c) if such breach or default relates to Properties having, in the aggregate, an Allocated Purchase Price equal to or greater than $50,000,000.00, terminate this Agreement and receive an immediate refund of the Earnest Money Deposit from Escrow Agent. The foregoing remedies are Purchaser's sole and exclusive remedies with respect to Seller's default, and Purchaser waives any and all other remedies as may be available at law or in equity in connection with Seller's default.

B. IN THE EVENT THE CLOSING AND THE CONSUMMATION OF THE TRANSACTION CONTEMPLATED HEREIN DO NOT OCCUR AS PROVIDED HEREIN BY REASON OF ANY BREACH OF PURCHASER WHICH IS NOT CURED WITHIN FIVE (5) DAYS AFTER WRITTEN NOTICE OF SUCH BREACH IS GIVEN TO PURCHASER BY SELLERS, PURCHASER AND SELLER AGREE THAT IT WOULD BE IMPRACTICAL AND EXTREMELY DIFFICULT TO

ESTIMATE THE DAMAGES WHICH SELLER MAY SUFFER AS A RESULT THEREOF. THEREFORE, PURCHASER AND SELLER DO HEREBY AGREE THAT A REASONABLE ESTIMATE OF THE TOTAL NET DETRIMENT THAT SELLER WOULD SUFFER IN THE EVENT THAT PURCHASER BREACHES THIS AGREEMENT AND FAILS TO COMPLETE THE PURCHASE OF EACH SITE IS AND SHALL BE, AS SELLER'S SOLE AND EXCLUSIVE REMEDY THE RIGHT TO TERMINATE THIS AGREEMENT AND TO RETAIN THE UNDISBURSED PORTION OF THE EARNEST MONEY DEPOSIT AS LIQUIDATED DAMAGES, AND FOLLOWING SUCH TERMINATION NO PARTY HERETO SHALL HAVE ANY FURTHER OBLIGATION OR LIABILITY TO ANY OTHER PARTY HERETO EXCEPT WITH RESPECT TO THOSE PROVISIONS OF THIS AGREEMENT WHICH EXPRESSLY SURVIVE THE TERMINATION OF THIS AGREEMENT. UPON ANY SUCH BREACH BY PURCHASER, UNLESS OTHERWISE SPECIFIED, THIS AGREEMENT SHALL BE TERMINATED WITH RESPECT TO EACH PROPERTY FOR WHICH A CLOSING HAS NOT OCCURRED AND NEITHER PARTY SHALL HAVE ANY FURTHER RIGHTS OR OBLIGATIONS HEREUNDER, EACH TO THE OTHER, EXCEPT FOR THE RIGHT OF SELLER TO RECEIVE THE UNDISBURSED PORTION OF THE EARNEST MONEY DEPOSIT FROM ESCROW AGENT AS AFORESAID AND RETAIN THE UNDISBURSED PORTION OF THE EARNEST MONEY DEPOSIT AS LIQUIDATED DAMAGES FROM PURCHASER AND THE OBLIGATION OF PURCHASER TO DELIVER TO SELLER THE DOCUMENTS PURSUANT TO SECTION 6.C, ABOVE; PROVIDED, HOWEVER, THAT THIS LIQUIDATED DAMAGES PROVISION SHALL NOT LIMIT SELLER'S RIGHT TO (A) RECEIVE REIMBURSEMENT FOR OR RECOVER DAMAGES IN CONNECTION WITH PURCHASER'S INDEMNITY OF SELLER AND/OR BREACH OF PURCHASER'S OBLIGATIONS PURSUANT TO SECTION 8.C, ABOVE, OR (B) INJUNCTIVE RELIEF DUE TO PURCHASER'S BREACH OF PURCHASER'S OBLIGATIONS UNDER SECTION 24 ABOVE. THE PARTIES ACKNOWLEDGE THAT SUCH PAYMENT OF THE EARNEST MONEY DEPOSIT IS NOT INTENDED AS A FORFEITURE OR PENALTY, BUT IS INTENDED TO CONSTITUTE LIQUIDATED DAMAGES TO SELLER.

INTIALS:

MJK
AAAAA RENT-A-SPACE, ALAMEDA, LTD., LIMITED PARTNERSHIP, a California limited Partnership

KMW
EXTRA SPACE STORAGE LLC

MJK
AAAAA RENT-A-SPACE, ALAMEDA II, LTD., LIMITED PARTNERSHIP, a California limited Partnership

MJK
AAAAA RENT-A-SPACE, BERKELEY I, LTD., LIMITED PARTNERSHIP, a California limited Partnership

MJK
AAAAA RENT-A-SPACE, BERKELEY II, LTD., LIMITED PARTNERSHIP, a California limited Partnership

MJK
AAAAA RENT-A-SPACE-CASTRO VALLEY, LTD. LIMITED PARTNERSHIP, a California limited partnership

MJK
AAAAA RENT-A-SPACE — COLMA, LTD., LIMITED PARTNERSHIP, a California limited Partnership

MJK
AAAAA RENT-A-SPACE, HAYWARD, LTD., LIMITED PARTNERSHIP, a California limited Partnership

MJK
AAAAA RENT-A-SPACE — MAUI, A LIMITED PARTNERSHIP, a Hawaii limited Partnership

MJK
AAAAA RENT-A-SPACE, SAN LEADRO, LTD.,LIMITED PARTNERSHIP, a California limited partnership

MJK
AAAAA RENT-A-SPACE, SAN PABLO, LTD., LIMITED PARTNERSHIP, a California limited Partnership

MJK
AAAAA RENT-A-SPACE — VALLEJO, LTD., LIMITED PARTNERSHIP, a California limited Partnership

C. Notwithstanding anything to the contrary contained in this Agreement, if the Closing is consummated, as to Purchaser and each Seller hereunder, as to each Property, no party shall have any liability to another party following the Closing of such Property with respect to any breaches of

representations, warranties or covenants under this Agreement (other than the covenants and obligations contained in Section 11.E and Section 11.F unless and until the aggregate amount of the actual general and compensatory damages suffered by the non-defaulting party by reason of any such breach of representations, warranties or covenants exceeds the sum of Ten Thousand Dollars ($10,000.00) for such Property (in which event the defaulting party shall be responsible from the first dollar). Unless and until the amount of the actual damages suffered or incurred by the non-defaulting party by reason of any such breach of representations, warranties or covenants exceeds in the aggregate, the sum of Ten Thousand Dollars ($10,000.00) for such Property, the non-defaulting party shall not be entitled to file an action or lawsuit or undertake any other legal proceeding against the defaulting party by reason of such breach of representations, warranties or covenants. The covenants and the obligations of the parties contained in Section 11.F and Section 11.F shall be excluded from the application of this Section. The provisions of this Section shall survive the Closing and the recordation of the Deed, and shall not be deemed merged into the Deed or other documents or instruments delivered at Closing.

D. The obligations and liabilities of each Seller under this Agreement are and shall be separate from the obligations and liabilities of each other Seller. Furthermore, as to each Property and the Seller of such Property, such Seller's total liability with respect to a breach of any representations, warranties or other obligations of such Seller contained in this Agreement or in any document or instrument executed and delivered at Closing (including any indemnity obligations in this Agreement or in any such document or instrument) shall be limited to an amount equal to two and one-half percent (2 ½%) of the Allocated Purchase Price for such Property. It is expressly understood and agreed that in no event shall any of the direct or indirect partners, shareholders, owners, affiliates, officers, directors, employees or agents of each Seller or any affiliate or controlling person thereof, have any liability for any claim, cause of action or other liability arising out of or relating to this Agreement whether based on contract, common law, statute, equity or otherwise. In no event shall a Seller be liable to Purchaser for consequential, indirect or punitive damages. The foregoing limitations on liability shall survive the Closing or any earlier termination of this Agreement and shall not diminish or otherwise affect Purchaser's waivers and releases in Section 20 of this Agreement.

24. **Confidentiality**.

A. Purchaser agrees that, prior to the Closing, all documents and information obtained from Sellers or Sellers' representatives pursuant to this Agreement including, without limitation, the Documents, shall be kept confidential as provided in this Section 24.A. Prior to the Closing, the property information received from Sellers shall not be disclosed by Purchaser or its representatives, in any manner whatsoever, in whole or in part, except (1) with the prior written consent of Sellers (which consent may be withheld in Sellers' sole and absolute discretion), (2) to the extent that such document or information is publicly available, (3) to Purchaser's representatives who need to know the property information for the purpose of evaluating the Properties and who are informed by the Purchaser of the confidential nature of the property information; (4) as may be necessary for Purchaser or Purchaser's representatives to comply with applicable laws, including, without limitation, governmental regulatory, disclosure, tax and reporting requirements, to comply with other requirements of regulatory and supervisory authorities and self-regulatory organizations having jurisdiction over Purchaser or Purchaser's representatives; or to comply with regulatory or judicial processes; or (5) as may be necessary in order to assume the Third Party Loans. In permitting Purchaser and its representatives to review the Documents to assist Purchaser, Seller has not waived any privilege or claim of confidentiality with respect thereto, and no third party benefits or relationships of any kind, either expressed or implied, have been offered, intended or created by Seller and any such claims are expressly rejected by Seller and waived by Purchaser. The provisions of this Section 24.A shall survive the Closing but shall, notwithstanding any other provision of this Agreement, survive any termination of this Agreement.

B. Sellers and Purchaser agree that the existence and terms of this Agreement shall be kept confidential as provided in this Agreement. The identity of Purchaser and Seller, the existence of this Agreement and the terms of this Agreement shall be kept confidential and shall not be disclosed by Sellers, Purchasers or their respective representatives, in any manner whatsoever, in whole or in part, except (1) with the prior written consent of the non-disclosing party (which consent may be withheld in the non-disclosing party's or parties' sole and absolute discretion), (2) to the extent that such document or information is publicly available, or (3) as may be necessary for Sellers, Purchaser's or any of their respective representatives to comply with applicable laws, including, without limitation, governmental regulatory, disclosure, tax and reporting requirements, to comply with other requirements of regulatory and supervisory authorities and self-regulatory organizations having jurisdiction over any Seller or such Seller's representatives; or to comply with regulatory or judicial processes. Furthermore, except as expressly permitted pursuant to the provisions of subparts (2) or (3) of this Section 24.B, under no circumstances shall Purchaser use the name "Knuppe" or disclose the name "Knuppe" without the express prior written consent of Sellers (which consent may be withheld in Sellers' sole and absolute discretion). Purchaser shall give Sellers advance written notice of Purchaser's use of the name "Knuppe" in accordance with the provision of this Section 24.B, which notice

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shall include a reference to the applicable laws which require such disclosure. Sellers hereby disclose to Purchaser that Seller may have inadvertently disclosed the nature of this Agreement to the property manager(s) of the Hayward Property. Purchaser expressly acknowledges and agrees that the foregoing limited inadvertent disclosure shall not be deemed a default hereof.

25. **Payment of Commissions**. Each party hereto represents and warrants that it has employed no brokers or real estate agencies in the creation of or the negotiations relating to this Agreement, and each party shall indemnify, defend and hold harmless the other party by reason of any breach of such party of its warranty and representation under this section. The provisions of this section shall survive Closing.

26. **Agreement Not to Compete**. Intentionally Deleted.

27. **Successors and Assigns**. Subject to the restrictions on assignment set forth below, this Agreement shall be binding upon and inure to the benefit of Sellers and Purchaser and their respective estates, personal representatives, heirs, devisees, legatees, successors and permitted assigns. Purchaser may not assign any of its rights and/or delegate any of its obligations under this Agreement without first obtaining the prior written consent of the Sellers,

which consent may be withheld by Sellers in their sole and absolute discretion, provided that Sellers' consent shall not be required for an assignment to an "affiliated" company (as defined hereafter). Any assignee as may be consented to by Sellers or which is permitted under this Section shall expressly assume in writing all obligations of Purchaser under this Agreement and shall further acknowledge and agree in writing to be bound by all of the provisions of this Agreement as if the assignee had originally executed this Agreement as purchaser. Notwithstanding any assignment as may be consented to by Sellers or which is permitted under this Section, the named purchaser hereunder shall not be released, and shall remain liable for, all obligations of the party which is the Purchaser under this Agreement. An "affiliated" company shall mean an entity that controls, is controlled by, or is under common control with the Purchaser.

28. **Notices**. Any notice, approval, waiver, objection or other communication required or permitted to be given hereunder or given in regard to this Agreement by one party to the other shall be in writing and the same shall be deemed to have been served and received (a) if hand delivered, when delivered in person to the address set forth hereinafter for the party to whom notice is given; (b) if by overnight delivery when received by the other party; or (c) if by facsimile, when received by the other party at the number hereinafter specified as evidenced by the confirmation receipt of the Sender; provided, however, that if such facsimile is received after 5:00 p.m. Pacific Time, such notice shall be deemed received on the next business day. Any party may change its address for notices by notice theretofore given in accordance with this section:

If to Sellers:

AAAAA Rent-A-Space
Attn: Dr. H. James Knuppe
4545 Crow Canyon Place
Castro Valley, CA 94552
Tel. (510) 727-1800 x 311
Fax. (510) 727-0185
Email. Knuppe@aol.com

With a Copy to:

Miller, Starr & Regalia A
ttn: Eugene Miller & Hans Lapping
1331 N. California Blvd., 5th Flr.
Walnut Creek, CA 94596
Tel. (925) 935-9400
Fax. (925) 933-4126
Email. ehm@msandr.com & hl@msandr.com

If to Purchaser:

Extra Space Storage LLC
Attn: David L. Rasmussen
2795 E. Cottonwood Parkway, #400
Salt Lake City, UT 84121
Tel. 801-365-4473
Fax 801-365-4947
Email: drasmussen@extraspace.com

With a Copy to:

Steven E. Tyler
Holland & Hart LLP
60 East South Temple, Suite 2000
Salt Lake City, Utah 84111
Tel. 801-595-7800
Fax 801-364-9124
Email: setyler@hollandhart.com

29. **Timing**. If any date herein (except the Proration Date) shall fall on a Saturday, Sunday, Monday or national or state holiday ("**Non-business Day**"), the date shall automatically be advanced to the first Tuesday thereafter; but if that day is a Non-business Day, then the date shall be the next business day.

30. **Further Assurances**. From time to time, at either party's reasonable request, whether on or after Closing, and without further consideration, the other party shall execute and deliver any further commercially reasonable instruments of conveyance and take such other commercially reasonable actions as the requesting party may reasonably require to complete the transfer of the Properties to Purchaser.

31. **Counterparts**. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Delivery of the executed Agreement may be accomplished by facsimile transmission, and if so, the facsimile copy shall be deemed an executed original counterpart of the Agreement. All executed counterparts together shall constitute one and the same document, and any signature pages, including facsimile copies thereof, may be assembled to form a single original document.

32. **Attorney's Fees**. Each party shall bear its own attorneys' fees in connection with the preparation and negotiation of this Agreement and any controversy, claim or dispute between or among the parties.

33. **Time of Essence.** Time is of the essence of this Agreement.

34. **Survival**. All provisions that expressly survive the Closing or termination of this Agreement shall survive.

35. **Governing Law**. This Agreement and all transactions contemplated hereby shall be governed by, construed and enforced in accordance with the laws of the State of California with the exception

of issues of title to each Property which will be construed in accordance with the laws of the State in which a particular Property is located. The parties agree that this Agreement has been made in Castro Valley, California and that exclusive jurisdiction for matters arising under this Agreement shall be in the State courts in Alameda County, California. Each party, by signing this Agreement, irrevocably consents to and shall submit to such jurisdiction.

36. **Entire Agreement and Amendments**. This Agreement, together with all exhibits attached hereto or referred to herein, contain all representations and the entire understanding between the parties hereto with respect to the subject matter hereof. Any prior correspondence, memoranda or agreements are replaced in total by this Agreement and exhibits hereto. This Agreement may only be modified or amended upon the written consent of both parties.

37. **No Recordation**. There shall be no recordation of either this Agreement or any memorandum hereof or any affidavit pertaining hereto, and any such recordation of this Agreement or memorandum hereof or affidavit pertaining hereto by any party hereunder shall constitute a material default hereunder by such party, and non-defaulting shall have all rights and remedies expressly available to such party hereunder.

38. **Severability**. If any provision of this Agreement or application to any party or circumstance shall be determined by any court of competent jurisdiction to be invalid and unenforceable to any extent, the remainder of this Agreement or the application of such provision to such person or circumstances, other than those as to which it is so determined invalid or unenforceable, shall not be affected thereby, and each provision hereof shall be valid and shall be enforced to the fullest extent permitted by law.

39. **Participation in Drafting**. The language of this Agreement shall be in all cases construed simply according to its fair meaning and not strictly for or against any of the parties hereto. Sellers and Purchaser each acknowledge that they participated equally in the drafting of this Agreement and, accordingly, no court construing this Agreement shall construe it more stringently against one party than any other.

40. **Exhibits and Schedules**. Exhibit “A” through Exhibit “L”, inclusive, and Schedule 17.A(xiii) are hereby incorporated herein.

41. **Seller’s Access to Records**. For a period of four (4) years subsequent to the Closing Date, Purchaser agrees to reasonably cooperate with Sellers and Sellers’ agents, employees and representatives in the event of Sellers’ need to respond to any legal requirement, including any tax audit, by allowing Sellers and Sellers’ agents, employees and representatives access, upon reasonable advance written notice (which notice shall identify the nature of the information sought by Sellers), at all reasonable times during business hours to examine and make copies of any and all files and records delivered by Sellers to Purchaser. The provisions of this Section shall survive the Closing and the recordation of the Deed for a period of four (4) years and shall not merge into the Deed and the other documents and instruments delivered at Closing.

42. **1031 Exchange**. Purchaser and/or Sellers may desire to effectuate a like-kind exchange pursuant to Section 1031 of the Internal Revenue Code (the “**Code**”) in connection with this purchase or sale of the Properties. Purchaser and Sellers (as applicable, the “**Cooperating Party**”) agree to use reasonable efforts to accommodate the other (as applicable, the “**Electing Party**”) in effectuating a like-kind exchange pursuant to Section 1031 of the Code in connection with the sale of any Property; provided however, that (a) such exchange does not directly or indirectly reduce the Purchase Price, (b) such exchange will not delay or otherwise adversely affect any Closing, (c) there is no additional unreimbursed loss, cost, damage, tax, expense or adverse consequence incurred by the Cooperating Party resulting from, or in connection with, such exchange, (d) the Electing Party indemnifies, defends, and hold harmless the Cooperating Party of, from and against any such loss, cost, damage, tax, expense or adverse consequence (including reasonable attorneys’

fees), (e) all documents to be executed by the Cooperating Party in connection with such exchange shall be subject to the approval of the Cooperating Party, which approval shall not be unreasonably withheld provided that the Electing Party has otherwise fully complied with the terms and provisions of this Section, and shall expressly state, without qualification, that the Cooperating Party (x) is acting solely as an accommodating party to such exchange, (y) shall have no liability with respect thereto, and (z) is making no representation or warranty that the transactions qualify as a tax-free exchange under Section 1031 of the Code or any applicable state or local laws, (f) in no event shall the Cooperating Party be obligated to acquire any property or otherwise be obligated to take title, or appear in the records of title, to any property in connection with such exchange, and (g) the Electing Party shall pay all of the costs and expenses (including, without limitation, reasonable legal fees and expenses) reasonably incurred by the Cooperating Party from and after the date of this Agreement in connection with the consideration and/or consummation of any such exchange. The provisions of this Section shall survive the Closing or any termination of this Agreement.

[*Signatures on Following Pages*]

IN WITNESS WHEREOF, the parties have executed this Purchase and Sale Agreement.

SELLERS:

AAAAA RENT-A-SPACE, ALAMEDA, LTD., LIMITED PARTNERSHIP, a California limited partnership

By: **KN PRODUCTIONS - ALAMEDA, INC.,** a Nevada corporation, its general partner

By: /s/ Michael Knuppe
Name: Michael Knuppe
Title: President
Date: 12-08-06

AAAAA RENT-A-SPACE, ALAMEDA II, LTD. LIMITED PARTNERSHIP, a California limited partnership

By: **KN PRODUCTIONS CO., INC.,** a California corporation, its general partner

By: /s/ Michael Knuppe
Name: Michael Knuppe
Title: President
Date: 12-08-06

AAAAA RENT-A-SPACE, BERKELEY I, LTD., LIMITED PARTNERSHIP, a California limited partnership By:

By: **KN PRODUCTIONS CO., INC.,** a California corporation, its general partner

By: /s/ Michael Knuppe
Name: Michael Knuppe
Title: President
Date: 12-08-06

AAAAA RENT-A-SPACE BERKELEY II, LTD., LIMITED PARTNERSHIP, a California limited partnership

By: **KN PRODUCTIONS CO., INC.,** a California corporation, its general partner

By: /s/ Michael Knuppe
Name: Michael Knuppe
Title: President
Date: 12-08-06

AAAAA RENT-A-SPACE — CASTRO VALLEY, LTD. LIMITED PARTNERSHIP, a California limited partnership

By: **KN PRODUCTIONS CO., INC.,** a California corporation, its general partner

By: /s/ Michael Knuppe
Name: Michael Knuppe
Title: President
Date: 12-08-06

AAAAA RENT-A-SPACE — COLMA, LTD. LIMITED PARTNERSHIP, a California limited partnership

By: **KN PRODUCTIONS - COLMA, INC.,** a Nevada corporation, its general partner

By: /s/ Michael Knuppe
Name: Michael Knuppe
Title: President
Date: 12-08-06

AAAAA RENT-A-SPACE, HAYWARD, LTD., LIMITED PARTNERSHIP, a California limited partnership

By: **KN PRODUCTIONS - HAYWARD, INC.,** a Nevada corporation, its general partner

By: /s/ Michael Knuppe
Name: Michael Knuppe
Title: President
Date: 12-08-06

AAAAA RENT-A-SPACE — MAUI, A LIMITED PARTNERSHIP, a Hawaiian limited partnership

By: **KN PRODUCTIONS CO., INC.,** a California corporation, its general partner

By: /s/ Michael Knuppe
Name: Michael Knuppe
Title: President
Date: 12-08-06

AAAAA RENT-A-SPACE, SAN LEANDRO, LTD., LIMITED PARTNERSHIP, a California limited partnership

By: **KN PRODUCTIONS — SAN LEANDRO, INC.,** a Nevada corporation, its general partner

By: /s/ Michael Knuppe
Name: Michael Knuppe
Title: President
Date: 12-08-06

AAAAA RENT-A-SPACE, SAN PABLO, LTD. LIMITED PARTNERSHIP, a California limited partnership

By: **KN PRODUCTIONS CO., INC.,** a California corporation, its general partner

By: /s/ Michael Knuppe
Name: Michael Knuppe
Title: President
Date: 12-08-06

AAAAA RENT-A-SPACE — VALLEJO, LTD. LIMITED PARTNERSHIP, a California limited partnership

By: **KN PRODUCTIONS CO., INC.,** a California corporation, its general partner

By: /s/ Michael Knuppe
Name: Michael Knuppe
Title: President
Date: 12-08-06

PURCHASER:

EXTRA SPACE STORAGE LLC

By: /s/ Kenneth M. Wolley
Printed Name: Kenneth M. Wolley
Title:
Date:

The foregoing Agreement is approved this day of December, 2006, by the following:

/s/ H. James Knuppe
H. James Knuppe

/s/ Barbara Knuppe
Barbara Knuppe

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-126742) pertaining to the 2004 Non-Employee Directors' Share Plan and 2004 Long Term Incentive Compensation Plan of Extra Space Storage, Inc. and in the Registration Statement (Form S-3 No. 333-128504, 333-128970 and 333-128988) of Extra Space Storage, Inc. and in the related Prospectus of our reports dated February 28, 2007, with respect to the consolidated financial statements and schedule of Extra Space Storage, Inc., management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of Extra Space Storage, Inc., included in this Annual Report (Form 10-K) for the year ended December 31, 2006.

/s/ Ernst & Young LLP

Salt Lake City, Utah
February 26, 2007

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Forms S-3 (Nos. 333-128504, 333-128970 and 333-128988) and on Form S-8 (No. 333-126742) of Extra Space Storage, Inc. of our report dated March 10, 2005 relating to the financial statements and financial statement schedule for the year ended December 31, 2004 which appears in this Form 10-K.

PricewaterhouseCoopers LLP
Salt Lake City, Utah
February 28, 2007

Exhibit 31.1

CERTIFICATION PURSUANT TO RULE 13A-15 OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Kenneth M. Woolley, certify that:

1) I have reviewed this annual report on Form 10-K of Extra Space Storage Inc.;

2) Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15 (f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrants fourth fiscal quarter in the case of an annual report) that has materially

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affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2007

By:	/s/ Kenneth M. Woolley
Name:	Kenneth M. Woolley
Title:	Chairman of the Board and Chief Executive Office

Exhibit 31.2

CERTIFICATION PURSUANT TO RULE 13A-15 OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Kent W. Christensen, certify that:

1) I have reviewed this annual report on Form 10-K of Extra Space Storage Inc.;

2) Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in exchange Act rules 13a-15(f) and 15d-15(f))for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrants fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

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5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2007

By:	/s/ Kent W. Christensen
Name:	Kent W. Christensen
Title:	Executive Vice President and Chief Financial Officer

Exhibit 32

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Kenneth M. Woolley, Chief Executive Officer of Extra Space Storage Inc. (the "Company"), hereby certify as of the date hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of the Company on Form 10-K for the year ended December 31, 2006 (the "Form 10-K") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

	By:	/s/ KENNETH M. WOOLLEY
	Name:	Kenneth M. Woolley
Dated: February 28, 2007	Title:	Chairman of the Board and Chief Executive Office

I, Kent W. Christensen, the Chief Financial Officer of the Company, hereby certify as of the date hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of the Company on Form 10-K for the year ended December 31, 2006 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in the Form 10-K fairly presents in all material respects the financial condition and results of operations of the Company.

	By:	/s/ KENT W. CHRISTENSEN
	Name:	Kent W. Christensen
Dated: February 28, 2007	Title:	Executive Vice President and Chief Financial Officer