

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2019

OR

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

(State or other jurisdiction of
incorporation or organization)

20-1076777

(I.R.S. Employer
Identification No.)

2795 East Cottonwood Parkway, Suite 300
Salt Lake City, Utah 84121
(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: (801) 365-4600

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

<u>Title of each class</u>	<u>Trading symbol</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$0.01 par value	EXR	New York Stock Exchange

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 No

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

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 No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the common stock held by non-affiliates of the registrant was \$13,214,610,280 based upon the closing price on the New York Stock Exchange on June 28, 2019, the last business day of the registrant's most recently completed second fiscal quarter. This calculation does not reflect a determination that persons whose shares are excluded from the computation are affiliates of the registrant for any other purpose.

The number of shares outstanding of the registrant's common stock, \$0.01 par value per share, as of February 19, 2020 was 129,613,332.

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 2020 are incorporated by reference into Part III of this Annual Report on Form 10-K.

Extra Space Storage Inc.
Annual Report on Form 10-K
For the Year Ended December 31, 2019
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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 estimates 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:

- adverse changes in general economic conditions, the real estate industry and in the markets in which we operate;
- failure to close pending acquisitions and developments on expected terms, or at all;
- the effect of competition from new and existing stores or other storage alternatives, which could cause rents and occupancy rates to decline;
- potential liability for uninsured losses and environmental contamination;
- 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 (“REITs”), tenant reinsurance and other aspects of our business, which could adversely affect our results;
- disruptions in credit and financial markets and resulting difficulties in raising capital or obtaining credit at reasonable rates or at all, which could impede our ability to grow;
- increased interest rates;
- reductions in asset valuations and related impairment charges;
- our lack of sole decision-making authority with respect to our joint venture investments;
- the effect of recent or future changes to U.S. tax laws;
- the failure to maintain our REIT status for U.S. federal income tax purposes; and
- economic uncertainty due to the impact of natural disasters, 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 fully integrated, self-administered and self-managed real estate investment trust (“REIT”) formed as a Maryland corporation on April 30, 2004, to own, operate, manage, acquire, develop and redevelop self-storage properties (“stores”). 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, 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, 2019 we owned and/or operated 1,817 stores in 40 states, Washington, D.C. and Puerto Rico, comprising approximately 140 million square feet of net rentable space in approximately 1.3 million units.

We operate in two distinct segments: (1) self-storage operations; and (2) tenant reinsurance. Our self-storage operations activities include rental operations of wholly-owned stores. Tenant reinsurance activities include the reinsurance of risks relating to the loss of goods stored by tenants in our stores. For more information and comparative financial and other information on our reportable business segments, refer to the segment information footnote in the notes to the consolidated financial statements in Item 8 of this Form 10-K.

Substantially all of our business is conducted through Extra Space Storage LP (the “Operating Partnership”). 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 U.S. federal tax, with certain exceptions, on our REIT 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 website at 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 East Cottonwood Parkway, Suite 300, Salt Lake City, Utah 84121, telephone number (801) 365-4600.

Management

Members of our executive management team have significant experience in all aspects of the self-storage industry. Our executive management team and their years of industry experience are as follows: Joseph D. Margolis, Chief Executive Officer, 15 years; Scott Stubbs, Executive Vice President and Chief Financial Officer, 19 years; Samrat Sondhi, Executive Vice President and Chief Operating Officer, 17 years; Gwyn McNeal, Executive Vice President and Chief Legal Officer, 14 years; James Overturf, Executive Vice President and Chief Marketing Officer, 21 years.

Our executive management team and board of directors have an ownership position in the Company with executive officers and directors owning approximately 3,418,462 shares or 2.6% of our outstanding common stock as of February 19, 2020.

Industry & Competition

Stores offer month-to-month rental of storage space for personal or business use. Tenants typically rent fully enclosed spaces that vary in size and typically range from 5 feet by 5 feet to 20 feet by 20 feet, with an interior height of 8 feet to 12 feet. Tenants have responsibility for moving their items into and out of their units. Stores 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 store is determined by a store’s local demographics and often includes people who are experiencing life changes such as downsizing their living space or others who are not yet settled into a permanent residence. Items that tenants place in self-storage are typically furniture, household items

and appliances. Commercial tenants tend to include small business owners who require easy and frequent access to their goods, records, inventory or storage for seasonal goods.

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

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.

Since inception in the early 1970's, the self-storage industry has experienced significant growth. The self-storage industry has also seen increases in occupancy over the past several years. According to the Self-Storage Almanac (the "Almanac"), in 2014, the national average physical occupancy rate was 89.1% of net rentable square feet, compared to an average physical occupancy rate of 91.0% in 2019.

The industry is also characterized by fragmented ownership. According to the Almanac, as of the end of 2019, the top ten self-storage companies in the United States operated approximately 20.6% of the total U.S. stores, and the top 50 self-storage companies operated approximately 26.7% of the total U.S. stores. We believe this fragmentation will contribute to continued consolidation at some level in the future.

We believe that we are well positioned to compete for acquisitions. We have encountered competition when we have sought to acquire existing operating stores, especially for brokered portfolios. Competitive bidding practices have been commonplace between both public and private entities, and this will likely continue.

We are the second largest self-storage operator in the United States. We are one of five public self-storage REITs along with CubeSmart, Life Storage, National Storage Affiliates and Public Storage.

Long-Term 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 both at acceptable levels of risk. We continue to evaluate a range of growth initiatives and opportunities. Our primary strategies include the following:

Maximize the performance of our stores through strategic, efficient and proactive management

We pursue revenue-generating and expense-minimizing opportunities in our operations. Our revenue management team seeks to maximize revenue by responding to changing market conditions through our advanced technology systems' 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 more effective online marketing programs, which we believe will attract more customers to our stores at a lower net cost.

We continually analyze our portfolio to look for long-term value-enhancing opportunities. We proactively redevelop properties to add units or modify existing unit mix to better meet the demand in a given market and to maximize revenue. We also redevelop properties to reduce their effective useful age, increase visual appeal, enhance security and to improve brand consistency across the portfolio.

Acquire self-storage stores

Our acquisitions team continues to pursue the acquisition of multi-store portfolios and single stores that we believe can provide stockholder value. We have established a reputation as a reliable, ethical buyer, which we believe enhances our ability to negotiate and close acquisitions. In addition, we believe our status as an UPREIT enables flexibility when structuring deals. We remain a disciplined buyer and only execute acquisitions that we believe will strengthen our portfolio and increase stockholder value.

In addition to the pursuit of stabilized stores, from time to time we develop stores from the ground up and provide the construction capital. We also purchase stores at the completion of construction from third party developers, who build to our specifications. These stores purchased at completion of construction (a "Certificate of Occupancy store"), create additional long term value for our stockholders. We are typically able to acquire these assets at a lower price than a stabilized store, and

expect greater long term returns on these stores on average. However, in the short term, these acquisitions cause dilution to our earnings during the two-to-four year period required to lease up the Certificate of Occupancy stores. We expect that this trend will continue in 2020 as we continue to acquire Certificate of Occupancy stores.

Expand our management business

Our management business enables us to generate increased revenues through management fees as well as expand our geographic footprint, data sophistication and scale with little capital investment. We believe this expanded footprint enables us to reduce our operating costs through economies of scale. In addition, we see our management business as a future acquisition pipeline. We pursue strategic relationships with owners whose stores would enhance our portfolio in the event an opportunity arises to acquire such stores. To broaden the opportunities available, we have recently implemented a bridge lending program, under which we provide financing to operating properties that we manage. We anticipate that this program will help us increase our management business, create additional future acquisition opportunities, and strengthen our relationships with partners, all while providing interest income. The total balance of bridge loans receivable as of December 31, 2019 was \$43.6 million.

Financing of Our Long-Term Growth Strategies

Acquisition and Development Financing

As a REIT, we are required to distribute at least 90% of our REIT taxable income to our stockholders. Consequently, we require access to additional sources of capital to fund our growth. We expect to maintain a flexible approach to financing growth. We plan to finance future acquisitions through a diverse capital optimization strategy which includes but is not limited to: cash generated from operations, borrowings under our revolving lines of credit (the "Credit Lines"), secured and unsecured financing, equity offerings, joint ventures and the sale of stores.

Credit Lines - We have two credit lines which we primarily use as short term bridge financing until we obtain longer-term financing through either debt or equity. As of December 31, 2019, our Credit Lines had available capacity of \$790.0 million, of which \$632.0 million was undrawn.

Secured and Unsecured Debt - Historically, we had primarily used traditional secured mortgage loans to finance store acquisitions and development efforts. More recently, we obtain unsecured bank term loans and issue unsecured private placement bonds. We will continue to utilize a combination of secured and unsecured financing for future store acquisitions and development. As of December 31, 2019, we had \$2.2 billion of secured notes payable and \$2.7 billion of unsecured notes payable and senior exchangeable notes outstanding compared to \$2.9 billion of secured notes payable and \$1.9 billion of unsecured notes payable and senior exchangeable notes outstanding as of December 31, 2018.

Equity - We have an active "at the market" ("ATM") program for selling stock. We sell stock under the ATM program from time to time to raise capital when we believe conditions are advantageous. During the year ended December 31, 2019, we issued 1,779,200 shares of common stock through our ATM program and received net proceeds of approximately \$198.8 million. During the year ended December 31, 2018, we issued 933,789 shares of common stock through our ATM program and received net proceeds of approximately \$90.2 million.

We view equity interests in our Operating Partnership as another source of capital that can provide an attractive tax planning opportunity to sellers of real estate. We issue common and preferred Operating Partnership units to sellers in certain acquisitions. Common Operating Partnership units receive distributions equal to the dividends on common stock, while preferred Operating Partnership units receive distributions at various negotiated rates. We may issue additional units in the future when circumstances are favorable.

Joint Venture Financing - As of December 31, 2019, we owned 246 of our stores through joint ventures with third parties. Our joint venture partners typically provide most of the equity capital required for the acquisition of stores owned in these joint ventures. Most joint venture agreements include buy-sell rights, as well as rights of first offer in connection with the sale of stores by the joint venture. We generally manage the day-to-day operations of the stores owned in these joint ventures and have the right to participate in major decisions relating to sales of stores or financings by the applicable joint venture, but do not control the joint ventures.

Sale of Properties - We have not historically sold a high volume of stores, as we generally believe we are able to optimize the cash flow from stores through continued operations. However, we may sell more stores or interests in stores in the future in response to changing economic, financial or investment conditions. For the year ended December 31, 2019 we sold one store located in New York for \$11.3 million. For the year ended December 31, 2018, we sold one store located in California for \$40.2 million.

Regulation

Generally, stores are subject to various laws, ordinances and regulations, including regulations relating to lien sale rights and procedures and the Americans with Disabilities Act of 1990. Changes in any of these laws or regulations, as well as changes in laws, such as the Comprehensive Environmental Response and Compensation Liability Act, which increase the potential liability for environmental conditions or circumstances existing or created by tenants or others on stores, or laws affecting development, construction, operation, upkeep, safety and taxation may result in significant unanticipated expenditures, loss of stores or other impairments to operations, which would adversely affect our financial position, results of operations or cash flows. In addition, noncompliance with any of these laws, ordinances or regulations could result in the imposition of fines or an award of damages to private litigants and also could require substantial capital expenditures to ensure compliance.

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. Store management activities may be 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 December 31, 2019, we had 4,048 employees and believe our relationship with our employees is 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 the operation of our stores. There are a number of factors that may adversely affect the income that our stores generate, including the following:

Risks Related to Our Stores and Operations

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 revenues and net operating income can be negatively impacted by general economic factors that lead to a reduction in demand for rental space in the markets in which we operate.

If we are unable to promptly re-let our units or if the rates upon such re-letting are significantly lower than expected, 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 adversely affect our revenues and impede our growth.

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

We maintain comprehensive property and casualty insurance policies, including liability, fire, flood, earthquake, wind (as we deem necessary or as required by our lenders), umbrella coverage and rental loss insurance with respect to our stores. Certain types of losses, however, may be either uninsurable, not economically insurable, or coverage may be excluded on certain policies, such as losses due to earthquakes, hurricanes, tornadoes, riots, acts of war, terrorism, or social engineering. Should an uninsured loss occur, we could lose both our investment in and anticipated profits and cash flow from a store. In addition, if any such loss is insured, we may be required to pay significant amounts 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.

Legal disputes, settlement and defense costs could have an adverse effect on our operating results.

From time to time we have to make monetary settlements or defend actions or arbitration (including class actions) to resolve tenant, employment-related or other claims and disputes. Settling any such liabilities could negatively impact our operating results and cash available for distribution to stockholders, and could also adversely affect our ability to sell, lease, operate or encumber affected properties.

Our tenant reinsurance business is subject to significant governmental regulation, which may adversely affect our results.

Our tenant reinsurance business is subject to significant governmental regulation. The regulatory authorities generally have broad discretion to grant, renew and revoke licenses and approvals, to promulgate, interpret and implement regulations, and to evaluate compliance with regulations through periodic examinations, audits and investigations of the affairs of insurance providers. As a result of regulatory or private action in any jurisdiction, we may be temporarily or permanently suspended from continuing some or all of our reinsurance activities, or otherwise fined or penalized or suffer an adverse judgment, which could adversely affect our business and results of operations.

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

Under various U.S. federal, state and local laws, ordinances and regulations, a current or previous owner, developer or operator of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances, which could be substantial. Such laws often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of such hazardous substances. From time to time, we may acquire properties, or interests in properties, with known adverse environmental conditions for which we believe that the environmental liabilities associated with these conditions are quantifiable and that the acquisition will yield a superior risk-adjusted return.

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

Under the ADA, places of public accommodation are required to meet certain federal requirements related to access and use by disabled persons. A number of additional U.S. federal, state and local laws may also require modifications to our stores, or restrict certain further renovations of the stores, with respect to access thereto by disabled persons. If one or more of our stores 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.

There is significant competition among self-storage operators and from other storage alternatives.

Competition in the local markets in which many of our stores are located is significant and has affected our occupancy levels, rental rates and operating expenses. Development of self-storage facilities has increased in recent years, which has intensified competition, and we expect it will continue to do so as newly developed facilities are opened. Development of self-storage facilities by other operators could continue to increase in the future. Actions by our competitors may decrease or prevent increases in our occupancy and rental rates, while increasing our operating expenses, which could adversely affect our business and results of operations.

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

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 stores 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 stores 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;
- the inability to achieve satisfactory completion of due diligence investigations and other customary closing conditions; and
- we may acquire stores 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 stores and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the stores.

We rely on information technology in our operations, and any material failure, inadequacy, interruption or security failure of that technology could harm our business.

We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information, and to manage or support a variety of business processes, including financial transactions and records, personally identifiable information, and tenant and lease data. We purchase some of our information technology from vendors, on whom our systems depend. We rely on commercially available systems, software, tools and monitoring to provide security for processing, transmission and storage of confidential tenant and other sensitive information. Although we have taken steps to protect the security of our information systems and the data maintained in those systems, it is possible that our safety and security measures will not be able to prevent the systems' improper functioning or damage, or the improper access or disclosure of personally identifiable information such as in the event of cyber-attacks. Security breaches, including physical or electronic break-ins, computer viruses, attacks by hackers and similar breaches, can create system disruptions, shutdowns or unauthorized disclosure of confidential information. While, to date, we have not experienced a material security breach, this risk has generally increased as the number, intensity and sophistication of such breaches and attempted breaches from around the world have increased. Any failure to maintain proper function, security and availability of our information systems could interrupt our operations, damage our reputation, divert significant management attention and resources to remedy any damages that result, subject us to liability claims or regulatory penalties and have a material adverse effect on our business and results of operations.

Our property taxes could increase due to reassessment or property tax rate changes.

Real property taxes on our properties may increase as our properties are reassessed by taxing authorities or as property tax rates change. For example, a current California law commonly referred to as Proposition 13 generally limits annual real estate tax increases on California properties to 2% of assessed value. However, under Proposition 13, property tax reassessment generally occurs as a result of a "change in ownership" of a property, as specially defined for purposes of those rules. Because the property taxing authorities may not determine whether there has been a "change in ownership" or the actual reassessed value of a property for a period of time after a transaction has occurred, we may not know the impact of a potential reassessment for a considerable amount of time following a particular transaction. Therefore, the amount of property taxes we are required to pay could increase substantially from the property taxes we currently pay or have paid in the past, including on a retroactive basis. In addition from time to time voters and lawmakers have announced initiatives to repeal or amend Proposition 13 to eliminate its application to commercial and industrial property and/or introduce split tax roll legislation. Such initiatives, if successful, could increase the assessed value and/or tax rates applicable to commercial property in California, including our stores.

Risks Related to Our Organization and Structure

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

As of December 31, 2019, we held interests in 246 operating stores through joint ventures. Some 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 stores and acquiring existing stores. 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 stores 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 is 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 stores 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.

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; to Spencer F. Kirk, certain of his affiliates, family members and estates and trusts formed for the benefit of the foregoing; and to 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.

Risks Related to Our Debt Financings

Disruptions in the financial markets could affect our ability to obtain debt financing on reasonable terms and have other adverse effects on us.

Uncertainty in the credit markets may negatively impact our ability to access additional debt financing or to refinance existing debt maturities on favorable terms (or at all), which may negatively affect our ability to make acquisitions and fund development projects. A downturn in the credit markets may cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our business plan accordingly. In addition, these factors may make it more difficult for us to sell stores or may adversely affect the price we receive for stores that we do sell, as prospective buyers may experience increased costs of debt financing or difficulties in obtaining debt financing.

Required payments of principal and interest on borrowings may leave us with insufficient cash to operate our stores 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, 2019, we had approximately \$5.1 billion of outstanding indebtedness. We may incur additional debt in connection with future acquisitions and development. We may borrow under our Credit Lines or borrow new funds to finance these future stores. 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 in order to make cash distributions to maintain our qualification as a REIT or to make our expected distributions. To qualify as a REIT, we generally must distribute to our stockholders at least 90% of our REIT taxable income each year, determined without regard to the dividends paid deduction and excluding net capital gains, and we are subject to U.S. federal corporate income tax to the extent that we distribute less than 100% of our REIT taxable income each year, determined without regard to the deduction for dividends paid and including net capital gains.

If we are required to utilize our Credit Lines 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 to continue to make 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 stores, possibly on disadvantageous terms;
- after debt service, the amount available for cash distributions to our stockholders is reduced;
- 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 stores that secure their loans and receive an assignment of rents and leases and/or enforce our guarantees;
- 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 stores.

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

As of December 31, 2019, we had approximately \$5.1 billion of debt outstanding, of which approximately \$1.1 billion, or 21.3% was subject to variable interest rates (excluding debt with interest rate swaps). This variable rate debt had a weighted average interest rate of approximately 3.1% 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 cash distributions.

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 cash distributions to our stockholders.

Uncertainty relating to the LIBOR calculation process and potential phasing out of LIBOR after 2021 may affect our financial results.

In July 2017, the Financial Conduct Authority (the authority that regulates LIBOR) announced it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. The Alternative Reference Rates Committee (“ARRC”) has proposed that the Secured Overnight Financing Rate (“SOFR”) is the rate that represents best practice as the alternative to LIBOR for use in derivatives and other financial contracts that are currently indexed to LIBOR. ARRC has proposed a paced market transition plan to SOFR from LIBOR and organizations are currently working on industry wide and company specific transition plans as it relates to derivatives and cash markets exposed to LIBOR.

We have outstanding debt and hedge contracts indexed to LIBOR. We are monitoring industry transition plans and evaluating the risks related to our debt and hedge contracts indexed to LIBOR. If a published U.S. dollar LIBOR rate is unavailable after 2021, the interest rates on these instruments which are indexed to LIBOR will be determined using alternative methods, which may result in interest obligations which are more than or do not otherwise correlate over time with the payments that would have been made on such debt if U.S. dollar LIBOR was available in its current form. Further, the same costs and risks that may lead to the unavailability of U.S. dollar LIBOR may make one or more of the alternative methods impossible or impracticable to determine. Any of these proposals or consequences could have a material adverse effect on our financing costs, and as a result, our financial condition, operating results and cash flows.

Risks Related to Qualification and Operation as a REIT

Dividends payable by REITs may be taxed at higher rates.

Dividends payable by REITs may be taxed at higher rates than dividends of non-REIT corporations. The maximum U.S. federal income tax rate for qualified dividends paid by domestic non-REIT corporations to U.S. stockholders that are individuals, trust or estates is generally 20%. Dividends paid by REITs to such stockholders are generally not eligible for that rate, but under the 2017 Tax Legislation (defined below), such stockholders may deduct up to 20% of ordinary dividends (i.e., dividends not designated as capital gain dividends or qualified dividend income) received from a REIT for taxable years beginning after December 31, 2017 and before January 1, 2026. Although this deduction reduces the effective tax rate applicable to certain dividends paid by REITs, such tax rate may still be higher than the tax rate applicable to regular corporate qualified dividends. This may cause investors to view REIT investments as less attractive than investments in non-REIT corporations, which in turn may adversely affect the value of stock of REITs, including our stock. 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 stores.

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 Internal Revenue Service ("IRS") and the U.S. Department of the Treasury. Changes to the tax laws, with or without retroactive application, could adversely affect our investors or us in ways we cannot predict. New legislation, Treasury Regulations, administrative interpretations or court decisions could significantly and negatively affect our ability to qualify as a REIT, the U.S. federal income tax consequences of such qualification, or the U.S. federal income tax consequences of an investment in us. Also, the law relating to the tax treatment of other entities, or an investment in other entities, could change, making an investment in such other entities more attractive relative to an investment in a REIT.

The federal tax legislation enacted in December 2017, commonly known as the Tax Cuts and Jobs Act (the "2017 Tax Legislation"), has significantly changed the U.S. federal income taxation of U.S. businesses and their owners, including REITs and their stockholders. The legislation remains unclear in many respects and could still be subject to amendments, technical corrections, interpretations and implementing regulations by the U.S. Department of Treasury and the IRS, any of which could lessen or increase the impact of the legislation.

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

We believe 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 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 corporate income tax on our taxable income;
- we also could be subject to the U.S. federal alternative minimum income tax for taxable years prior to 2018 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. If we fail to qualify as a REIT for U.S. federal income tax purposes and are able to avail ourselves of one or more of the relief provisions under the Internal Revenue Code in order to maintain our REIT status, we may nevertheless be required to pay penalty taxes of \$50,000 or more for each such failure. 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, the sources of our gross income and the owners of our stock. 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. Our ability to satisfy the income tests depends on the sources and amounts of our gross income, which we may not be able to control. Also, we must make distributions to stockholders aggregating annually at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding net capital gains, and we will be subject to U.S. federal corporate income tax to the extent we distribute less than 100% of our REIT taxable income, without regard to the dividends paid deduction and including net capital gains.

We own and may acquire direct or indirect interests in entities that have elected or will elect to be taxed as REITs under the Internal Revenue Code (each, a "Subsidiary REIT"). A Subsidiary REIT is subject to the various REIT qualification requirements and other limitations described herein that are applicable to us. If a Subsidiary REIT were to fail to qualify as a

REIT, then (i) that Subsidiary REIT would become subject to U.S. federal income tax, (ii) shares in such Subsidiary REIT would cease to be qualifying assets for purposes of the asset tests applicable to REITs, and (iii) it is possible that we would fail certain of the asset tests applicable to REITs, in which event we would fail to qualify as a REIT unless we could avail ourselves of certain relief provisions.

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. Although we believe that we have been organized and have operated in a manner that is intended to allow us to qualify for taxation as a REIT, we can give no assurance that we have qualified or will continue to qualify as a REIT for tax purposes. We have not requested and do not plan to request a ruling from the IRS regarding our qualification as a REIT.

We will pay some taxes, reducing cash available for stockholders.

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 stores for our joint ventures and stores owned by third parties. We, jointly with Extra Space Management, Inc., elected to treat Extra Space Management, Inc. as a taxable REIT subsidiary (“TRS”) of our Company for U.S. federal income tax purposes. A TRS is subject to U.S. federal corporate income tax on its taxable income. ESM Reinsurance Limited, a wholly-owned subsidiary of Extra Space Management, Inc., generates income from insurance premiums that are subject to U.S. federal income tax and state insurance premiums tax, and pays certain insurance royalties to us. In addition, we will be subject to a 100% penalty tax on certain amounts if the economic arrangements among our tenants, our TRS and us are not comparable to similar arrangements among unrelated parties. Also, if we sell property as a dealer (i.e., to customers in the ordinary course of our trade or business), we will be subject to a 100% penalty tax on any gain arising from such sales. While we do not intend to sell stores as a dealer, the IRS could take a contrary position. To the extent that we are, or our TRS is, required to pay U.S. federal, state or local taxes, we will have less cash available for distribution to stockholders.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2019, we owned or had ownership interests in 1,171 operating stores. Of these stores, 925 are wholly-owned, five are in consolidated joint ventures, and 241 are in unconsolidated joint ventures. In addition, we managed 646 stores for third parties bringing the total number of stores which we own and/or manage to 1,817. These stores are located in 40 states, Washington, D.C. and Puerto Rico. The majority of our stores are clustered around large population centers. The clustering of assets around these population centers enables us to reduce our operating costs through economies of scale. Our acquisitions have given us an increased scale in many core markets as well as a foothold in many markets where we had no previous presence.



As of December 31, 2019, approximately 1,015,000 tenants were leasing storage units at the operating stores that we own and/or manage, primarily on a month-to-month basis, providing the flexibility to increase rental rates over time as market conditions permit. Existing tenants generally receive rate increases at least annually, for which no direct correlation has been drawn to our vacancy trends. Although leases are short-term in duration, the typical tenant tends to remain at our stores for an extended period of time. For stores that were stabilized as of December 31, 2019, the average length of stay was approximately 15.8 months.

The average annual rent per square foot for our existing customers at stabilized stores, net of discounts and bad debt, was \$16.43 for the year ended December 31, 2019, compared to \$15.92 for the year ended December 31, 2018. Average annual rent per square foot for new leases was \$18.12 for the year ended December 31, 2019, compared to \$17.57 for the year ended December 31, 2018. The average discounts, as a percentage of rental revenues, during these periods were 3.5% and 4.2%, respectively.

Our store portfolio is made up of different types of construction and building configurations. 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 presents additional information regarding net rentable square feet and the number of stores by state:

Location	As of December 31, 2019							
	REIT Owned		JV Owned		Managed		Total	
	Property Count (1)	Net Rentable Square Feet	Property Count	Net Rentable Square Feet	Property Count	Net Rentable Square Feet	Property Count	Net Rentable Square Feet
Alabama	8	557,488	1	75,821	13	910,763	22	1,544,072
Arizona	23	1,624,115	7	467,485	17	1,348,080	47	3,439,680
California	165	12,724,410	41	3,021,716	63	5,964,562	269	21,710,688
Colorado	16	1,074,636	2	186,293	27	1,967,878	45	3,228,807
Connecticut	7	529,905	7	629,759	4	284,342	18	1,444,006
Delaware	—	—	1	76,945	2	137,568	3	214,513
Florida	91	6,997,266	30	2,503,775	83	6,417,322	204	15,918,363
Georgia	63	4,869,815	5	431,377	20	1,526,485	88	6,827,677
Hawaii	13	844,127	—	—	4	209,514	17	1,053,641
Idaho	—	—	—	—	7	711,246	7	711,246
Illinois	37	2,795,505	7	569,741	29	2,106,661	73	5,471,907
Indiana	15	950,589	1	58,166	12	781,075	28	1,789,830
Kansas	1	83,372	2	108,770	2	147,242	5	339,384
Kentucky	11	929,737	1	51,128	4	324,228	16	1,305,093
Louisiana	2	146,935	—	—	4	395,902	6	542,837
Maryland	32	2,591,660	8	618,443	29	2,080,557	69	5,290,660
Massachusetts	46	2,973,377	10	641,413	7	554,311	63	4,169,101
Michigan	7	559,501	4	313,651	2	170,336	13	1,043,488
Minnesota	5	382,342	1	85,098	10	673,538	16	1,140,978
Mississippi	3	216,192	—	—	3	206,275	6	422,467
Missouri	5	333,630	2	119,275	8	538,808	15	991,713
Nebraska	—	—	—	—	2	193,487	2	193,487
Nevada	14	1,038,318	4	473,471	5	533,505	23	2,045,294
New Hampshire	2	136,135	2	83,925	1	61,535	5	281,595
New Jersey	59	4,660,994	17	1,246,404	12	959,394	88	6,866,792
New Mexico	11	722,875	6	349,860	12	891,040	29	1,963,775
New York	27	1,969,347	18	1,510,322	18	1,061,641	63	4,541,310
North Carolina	19	1,412,755	5	373,821	18	1,350,808	42	3,137,384
Ohio	17	1,315,552	5	327,213	7	546,251	29	2,189,016
Oklahoma	—	—	—	—	21	1,726,479	21	1,726,479
Oregon	6	400,071	4	281,679	10	680,262	20	1,362,012
Pennsylvania	18	1,350,202	7	511,948	23	1,719,271	48	3,581,421
Rhode Island	2	130,696	—	—	1	84,665	3	215,361
South Carolina	23	1,758,027	7	497,598	15	1,098,369	45	3,353,994
Tennessee	17	1,418,801	12	804,021	16	1,161,611	45	3,384,433
Texas	100	8,604,658	10	707,779	79	6,405,798	189	15,718,235
Utah	10	710,594	—	—	18	1,343,916	28	2,054,510
Virginia	46	3,683,817	7	566,223	15	1,096,668	68	5,346,708
Washington	8	589,862	1	57,340	7	482,875	16	1,130,077
Washington, DC	1	100,039	1	103,579	4	365,056	6	568,674
Wisconsin	—	—	5	508,221	4	334,900	9	843,121
Puerto Rico	—	—	—	—	8	916,924	8	916,924
Totals	930	71,187,345	241	18,362,260	646	50,471,148	1,817	140,020,753

(1) REIT owned property count includes five stores owned in consolidated joint ventures.

Item 3. Legal Proceedings

We are involved in various legal proceedings and are subject to various claims and complaints arising in the ordinary course of business. Because litigation is inherently unpredictable, the outcome of these matters cannot presently be determined with any degree of certainty. In accordance with applicable accounting guidance, management establishes an accrued liability for litigation when those matters present loss contingencies that are both probable and reasonably estimable. In such cases, there may be an exposure to loss in excess of any amounts accrued. The estimated loss, if any, is based upon currently available information and is subject to significant judgment, a variety of assumptions, and known and unknown uncertainties. We could in the future incur judgments or enter into settlements of claims that could have a material adverse effect on our results of operations in any particular period, notwithstanding the fact that we are currently vigorously defending any legal proceedings against us. For more information on our legal accruals, refer to the Commitments and Contingencies footnote in the notes to the consolidated financial statements in Item 8 of this Form 10-K.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Market Information

Our common stock is traded under the symbol “EXR” on the New York Stock Exchange (“NYSE”) since our IPO on August 17, 2004. On February 19, 2020, the closing price of our common stock as reported by the NYSE was \$107.48. At February 19, 2020, we had 371 holders of record of our common stock. Certain shares of the Company are held in “street” name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number.

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. We have historically made regular quarterly distributions to our stockholders.

Information about our equity compensation plans is incorporated by reference in Item 12 of Part III of this Annual Report on Form 10-K.

Issuer Purchases of Equity Securities

In November 2017, our board of directors authorized a three-year share repurchase program to allow us to acquire shares in aggregate up to \$400.0 million. We have no current plans to repurchase shares. Any acquisition of shares will be through open market or privately negotiated transactions. There have been no repurchases since the inception of this plan.

Unregistered Sales of Equity Securities

All unregistered sales of equity securities during the year ended December 31, 2019 have previously been disclosed in filings with the SEC.

Item 6. Selected Financial Data

The following table presents 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 (amounts in thousands, except share and per share data).

For the Year Ended December 31,

	2019	2018	2017	2016	2015
Operating Data:					
Total revenues	\$ 1,308,454	\$ 1,196,604	\$ 1,105,009	\$ 991,875	\$ 782,270
Income from operations (1)	\$ 634,958	\$ 619,703	\$ 654,394	\$ 458,303	\$ 296,157
Earnings per share - basic	\$ 3.27	\$ 3.29	\$ 3.79	\$ 2.92	\$ 1.58
Earnings per share - diluted	\$ 3.24	\$ 3.27	\$ 3.76	\$ 2.91	\$ 1.56
Cash dividends paid per common share	\$ 3.56	\$ 3.36	\$ 3.12	\$ 2.93	\$ 2.24
Other Data					
Acquisitions - Wholly Owned	\$ 300,379	\$ 457,617	\$ 627,462	\$ 1,086,645	\$ 1,606,509
Acquisitions - Joint Venture	\$ 104,338	\$ 63,723	\$ 15,094	\$ 34,199	\$ 21,529
Total	\$ 404,717	\$ 521,340	\$ 642,556	\$ 1,120,844	\$ 1,628,038

As of December 31,

	2019	2018	2017	2016	2015
Balance Sheet Data					
Total assets (2)	\$ 8,532,377	\$ 7,847,978	\$ 7,460,953	\$ 7,091,446	\$ 6,071,407
Total notes payable, notes payable to trusts, exchangeable senior notes and revolving lines of credit, net (2)(3)	\$ 5,046,486	\$ 4,811,515	\$ 4,554,217	\$ 4,306,223	\$ 3,535,621
Noncontrolling interests	\$ 381,733	\$ 371,698	\$ 373,056	\$ 351,274	\$ 283,527
Total stockholders' equity	\$ 2,539,961	\$ 2,413,724	\$ 2,350,751	\$ 2,244,892	\$ 2,089,077
Other Data					
Net cash provided by operating activities	\$ 707,686	\$ 677,795	\$ 597,375	\$ 539,263	\$ 367,329
Net cash used in investing activities (4)	\$ (621,630)	\$ (443,898)	\$ (353,079)	\$ (1,048,889)	\$ (1,626,946)
Net cash (used in) provided by financing activities	\$ (88,013)	\$ (247,251)	\$ (215,994)	\$ 460,831	\$ 1,286,471

- (1) The adoption of Financial Accounting Standards Board ("FASB") ASU 2017-01 on January 1, 2017, has resulted in a decrease in acquisition related costs as our acquisition of operating stores are considered asset acquisitions rather than business combinations.
- (2) In connection with our adoption of FASB ASU 2016-02, "Leases (Topic 842)" on January 1, 2019, we began recognizing right-of-use assets and lease liabilities associated with our operating leases as of the adoption date.
- (3) In connection with our adoption of FASB ASU 2015-3, "Simplifying the Presentation of Debt Issuance Costs," in fiscal year 2016, debt issuance costs, with the exception of those related to our revolving credit facility, have been reclassified from other assets to a reduction of the carrying amount of the related debt liability. Prior year amounts have been reclassified to conform to the current period's presentation.
- (4) In connection with our adoption of FASB ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash," on January 1, 2018, we began including amounts generally described as restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Prior year amounts have been reclassified to conform to the current period's presentation.

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." Dollar amounts in thousands, except share and per share data.

OVERVIEW

We are a fully integrated, self-administered and self-managed real estate investment trust ("REIT"), formed to own, operate, manage, acquire, develop and redevelop self-storage properties ("stores"). We derive substantially all of our revenues from our two segments: storage operations and tenant reinsurance. Primary sources of revenue for our storage operations

segment include rents received from tenants under leases at each of our wholly-owned stores. Our operating results 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. Consequently, management spends a significant portion of their time maximizing cash flows from our diverse portfolio of stores. Revenue from our tenant reinsurance segment consists of insurance revenues from the reinsurance of risks relating to the loss of goods stored by tenants in our stores.

Our stores are generally situated in highly visible locations clustered around large population centers. The clustering of our assets around these population centers enables us to reduce our operating costs through economies of scale. To maximize the performance of our stores, we employ industry-leading revenue management systems. Developed by our management team, these systems enable us to analyze, set and adjust rental rates in real time across our portfolio in order to respond to changing market conditions. We believe our systems and processes allow us to more pro-actively manage revenues.

We operate in competitive markets, often where consumers have multiple stores from which to choose. Competition has impacted, and will continue to impact, our store results. We experience seasonal fluctuations in occupancy levels, with occupancy levels generally higher in the summer months due to increased moving activity. 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 combination of our revenue management team and our industry-leading technology systems. We consider a store 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 store to be stabilized once it has achieved either an 80% occupancy rate for a full year measured as of January 1 of the current year, or has been open for three years prior to January 1 of the current year.

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. A summary of significant accounting policies is also provided in the notes to our consolidated financial statements (see Note 2 to our consolidated financial statements). Actual results may differ from these estimates. We believe the following are our most critical accounting policies and estimates:

CONSOLIDATION: Arrangements that are not controlled through voting or similar rights are accounted for as variable interest entities (“VIEs”). An enterprise is required to consolidate a VIE if it is the primary beneficiary of the VIE.

Under certain circumstances when we enter into arrangements for the formation of joint ventures, a VIE may be created. The primary factors that require the most judgment in determining whether the joint venture is a VIE are whether the decisions that most significantly impact the entity’s economic performance were controlled by the equity holders as a group, and whether the joint venture has sufficient equity to finance its activities without additional subordinated support.

If the joint venture is determined to be a VIE, we perform a qualitative analysis, including considering which party, if any, has the power to direct the activities most significant to the economic performance of each VIE and whether that party has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could be significant to the VIE. If we are determined to be the primary beneficiary of the VIE, the assets, liabilities and operations of the VIE are consolidated within our financial statements. Otherwise, our investment is generally accounted for under the equity method. Our ability to correctly assess the influence or control over an entity affects the presentation of the investment in our consolidated financial statements.

As of December 31, 2019, we had no consolidated VIEs. As of December 31, 2018, our Operating Partnership had notes payable to one trust that was considered a VIE. Since the Operating Partnership was not the primary beneficiary of the trust, this VIE was not consolidated.

REAL ESTATE ASSETS: We account for the acquisition of stores, including by merger and other acquisitions of real estate, in accordance with ASC 805-10, “*Business Combinations*.” We use our judgment to determine if assets acquired meet the definition of a business or if the acquisition should be considered an asset acquisition subsequent to our January 1, 2017 adoption of ASU 2017-01, “*Business Combinations (Topic 805) - Clarifying the Definition of a Business*.” We must make significant assumptions and estimates in determining the fair value of the tangible and intangible assets and liabilities acquired and consideration transferred. These assumptions and estimates require judgment, and therefore others could come to

materially different conclusions as to the estimated fair values, which could result in differences in depreciation and amortization expense, gains and losses on the sale of real estate assets, and real estate and intangible asset values.

EVALUATION OF ASSET IMPAIRMENT: Long lived assets held for use are evaluated for impairment when events or circumstances indicate that there may be impairment. We review each store at least annually to determine if any such events or circumstances have occurred or exist. We focus on stores where occupancy and/or rental income have decreased by a significant amount. For these stores, we determine whether the decrease is temporary or permanent and whether the store will likely recover the lost occupancy and/or revenue in the short term. In addition, we review stores in the lease-up stage and compare actual operating results to original projections. We may not have identified all material facts and circumstances that affect impairment of our stores. No material impairments were recorded in the year ended December 31, 2019.

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES: We hold a number of derivative instruments which we use to hedge our exposure to variability in expected future cash flows, mainly related to our interest rates on variable interest debt. We do not use derivatives for trading or speculative purposes. We assess our derivatives both at inception, and on an ongoing quarterly basis, for whether the derivatives used in hedging transactions are effective. The rules and interpretations relating to the accounting for derivatives are complex. Failure to apply this guidance correctly may require us to recognize all changes in fair value of the hedged derivative in earnings, which may materially impact our results.

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. For any taxable year that we fail to qualify as a REIT and for which applicable statutory relief provisions did not apply, we would be subject to federal corporate income tax on all of our taxable income for at least that year and the ensuing four years. We could also be subject to penalties and interest, and our net income may be materially different from the amounts reported in our financial statements.

We have elected to treat one of our corporate subsidiaries, Extra Space Management, Inc., as a 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. A TRS is subject to federal corporate income tax. Interest and penalties relating to uncertain tax positions will be recognized in income tax expense when incurred. If tax authorities determine that amounts paid by our TRS to us are not reasonable compared to similar arrangements among unrelated parties, we could be subject to a penalty tax on the excess payments.

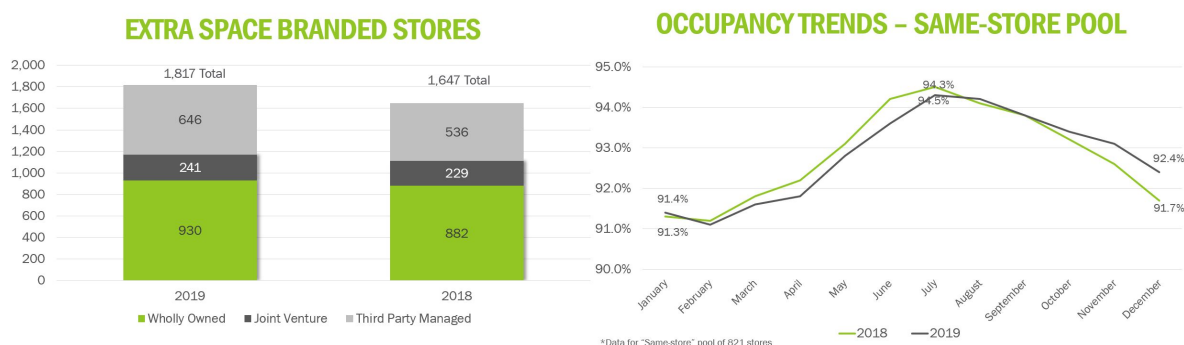
RECENT ACCOUNTING PRONOUNCEMENTS: For a discussion of recent accounting pronouncements affecting our business, see Item 8, “Financial Statements and Supplementary Data—Recently Issued Accounting Standards.”

RESULTS OF OPERATIONS

Comparison of the Year Ended December 31, 2019 to the Year Ended December 31, 2018

Overview

Results for the year ended December 31, 2019 included the operations of 1,171 stores (925 wholly-owned, five in consolidated joint ventures, and 241 in joint ventures accounted for using the equity method) compared to the results for the year ended December 31, 2018, which included the operations of 1,111 stores (878 wholly-owned, four in a consolidated joint venture, and 229 in joint ventures accounted for using the equity method). Material or unusual changes in the results of our operations are discussed below.



Revenues

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

	For the Year Ended December 31,			
	2019	2018	\$ Change	% Change
Revenues:				
Property rental	\$ 1,130,177	\$ 1,039,340	\$ 90,837	8.7%
Tenant reinsurance	128,387	115,507	12,880	11.2%
Management fees and other income	49,890	41,757	8,133	19.5%
Total revenues	\$ 1,308,454	\$ 1,196,604	\$ 111,850	9.3%

Property Rental—The increase in property rental revenues for the year ended December 31, 2019 was primarily the result of an increase of \$53,627 associated with acquisitions completed in 2019 and 2018. We acquired 21 stores and added 27 leased properties (as part of a new net lease agreement) during the year ended December 31, 2019, and acquired 34 stores during the year ended December 31, 2018. Property rental revenue also increased by \$33,654 during the year ended December 31, 2019 as a result of increases in rental rates to new and existing customers at our stabilized stores.

Tenant Reinsurance—The increase in tenant reinsurance revenues was due primarily to an increase in stores operated. We operated 1,817 stores at December 31, 2019, compared to 1,647 stores at December 31, 2018.

Management Fees and Other Income—Management fees and other income represent the fee collected for our management of stores owned by third parties and unconsolidated joint ventures and other transaction fee income. The increase for the year ended December 31, 2019 was primarily due to an increase in the number of stores managed and transaction fees earned in 2019. As of December 31, 2019 we managed 892 stores for third parties and joint ventures compared to 769 stores as of December 31, 2018.

Expenses

The following table presents information on expenses for the years indicated:

	For the Year Ended December 31,			
	2019	2018	\$ Change	% Change
Expenses:				
Property operations	\$ 336,050	\$ 291,695	\$ 44,355	15.2%
Tenant reinsurance	29,376	25,707	3,669	14.3%
General and administrative	89,418	81,256	8,162	10.0%
Depreciation and amortization	219,857	209,050	10,807	5.2%
Total expenses	\$ 674,701	\$ 607,708	\$ 66,993	11.0%

Property Operations—The increase in property operations expense consists primarily of an increase of \$28,463 related to acquisitions completed in 2019 and 2018. We acquired 21 stores and added 27 leased properties (as part of a new net lease agreement) during the year ended December 31, 2019 and acquired 34 stores during the year ended December 31, 2018. There was also an increase of \$14,458 related to increases in property taxes and marketing expenses at stabilized stores.

Tenant Reinsurance—Tenant reinsurance expense represents the costs that are incurred to provide tenant reinsurance. The change was due primarily to the increase in the number of stores we owned and/or managed and an increase in the overall average payout on claims.

General and Administrative—General and administrative expenses primarily include all expenses not directly related to our stores, including corporate payroll, travel and professional fees. These expenses are recognized as incurred. We did not observe any material trends in specific payroll, travel or other expenses that contributed significantly to the increase in general and administrative expenses apart from the increase due to the management of additional stores.

Depreciation and Amortization—Depreciation and amortization expense increased as a result of the acquisition of new stores. We acquired 21 stores and added 27 leased properties (as part of a new net lease agreement) during the year ended December 31, 2019, and acquired 34 operating stores during the year ended December 31, 2018.

Other Income and Expenses

The following table presents information on other revenues and expenses for the years indicated:

	For the Year Ended December 31,		\$ Change	% Change
	2019	2018		
Gain on real estate transactions	\$ 1,205	\$ 30,807	\$ (29,602)	(96.1)%
Interest expense	(186,526)	(178,436)	(8,090)	4.5 %
Non-cash interest expense related to amortization of discount on equity component of exchangeable senior notes	(4,742)	(4,687)	(55)	1.2 %
Interest income	7,467	5,292	2,175	41.1 %
Equity in earnings of unconsolidated real estate ventures	11,274	14,452	(3,178)	(22.0)%
Income tax expense	(11,308)	(9,244)	(2,064)	22.3 %
Total other expense, net	\$ (182,630)	\$ (141,816)	\$ (40,814)	28.8 %

Gain on Real Estate Transactions — The gain of \$1,205 for the year ended December 31, 2019 was a result of the sale of one property in New York for \$11,272. During the year ended December 31, 2018, we recorded a \$30,671 gain on the sale of one property in California.

Interest Expense—The increase in interest expense during the year ended December 31, 2019 was primarily the result of a higher average debt balance when compared to the same period in the prior year. Information on the total face value of debt and the average interest rate for each quarter during the years ended December 31, 2019 and December 31, 2018 is set forth in the following table:

	For the Three Months Ended December 31,		For the Three Months Ended September 30,		For the Three Months Ended June 30,		For the Three Months Ended March 31,	
	2019	2018	2019	2018	2019	2018	2019	2018
Total face value of debt	\$5,076,501	\$4,854,077	\$4,844,620	\$4,803,360	\$5,072,936	\$4,809,483	\$5,039,286	\$4,557,414
Average interest rate	3.3%	3.5%	3.4%	3.5%	3.5%	3.4%	3.5%	3.4%

Non-cash Interest Expense Related to Amortization of Discount on Equity Component of Exchangeable Senior Notes—Represents the amortization of the discounts related to the equity components of the exchangeable senior notes issued by our Operating Partnership. The exchangeable senior notes both had an effective interest rate of 4.0% relative to the carrying amount of the liability.

Interest Income—Interest income represents amounts earned on cash and cash equivalents deposited with financial institutions and interest earned on notes receivable and income earned on notes receivable from preferred and common Operating Partnership unit holders. In late 2018 we began to provide bridge financing on completed properties owned by third parties that we manage. The total principal balance of bridge loans receivable as of December 31, 2019 was \$43,586, compared to \$13,850 as of December 31, 2018. The increase in interest income during the year ended December 31, 2019 was primarily the result of interest earned on these bridge loans.

Equity in Earnings of Unconsolidated Real Estate Ventures—Equity in earnings of unconsolidated real estate ventures represents the income earned through our ownership interests in unconsolidated joint ventures. In these joint ventures, we and our joint venture partners generally receive a preferred return on our invested capital. To the extent that cash or profits in excess of these preferred returns are generated, we receive a higher percentage of the excess cash or profits, as applicable. The decrease in earnings for the year ended December 31, 2019 related primarily to 12 properties that we purchased from joint ventures in January 2019.

Income Tax Expense— For the year ended December 31, 2019, the increase in income tax expense was the result of an increase in income earned by our taxable REIT subsidiary when compared to the same period in the prior year and a decrease in solar tax credits when compared to the year ended December 31, 2018.

Comparison of the Year Ended December 31, 2018 to the Year Ended December 31, 2017

The results of operations for the years ended December 31, 2018 compared to December 31, 2017 was included in our Annual Report on Form 10-K for the year ended December 31, 2018 on page 18, under Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” which was filed with the SEC on February 26, 2019.

FUNDS FROM OPERATIONS

Funds from operations (“FFO”) provides relevant and meaningful information about our operating performance that is necessary, along with net income and cash flows, for an understanding of our operating results. We believe FFO is a meaningful disclosure as a supplement to net earnings. Net earnings assume that the values of real estate assets diminish predictably over time as reflected through depreciation and amortization expenses. The values of real estate assets fluctuate due to market conditions and we believe 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 computed in accordance with U.S. generally accepted accounting principles (“GAAP”), excluding gains or losses on sales of operating stores and impairment write-downs of depreciable real estate assets, plus real estate related 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 and cash flows in accordance with GAAP, as presented in the consolidated financial statements. FFO should not be considered a replacement of net income computed in accordance with GAAP.

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 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 presents the calculation of FFO for the periods indicated:

	For the Year Ended December 31,		
	2019	2018	2017
Net income attributable to common stockholders	\$ 419,967	\$ 415,289	\$ 479,013
Adjustments:			
Real estate depreciation	206,257	193,587	172,660
Amortization of intangibles	5,957	8,340	13,591
Gain on real estate transactions and impairment of real estate	(1,205)	(30,807)	(112,789)
Unconsolidated joint venture real estate depreciation and amortization	8,044	7,064	5,489
Distributions paid on Series A Preferred Operating Partnership units	(2,288)	(2,288)	(3,119)
Income allocated to Operating Partnership noncontrolling interests	31,156	31,791	35,306
Funds from operations attributable to common stockholders and unit holders	<u>\$ 667,888</u>	<u>\$ 622,976</u>	<u>\$ 590,151</u>

SAME-STORE RESULTS

Comparison of the Year Ended December 31, 2019 to the Year Ended December 31, 2018

Our same-store pool for the periods presented consists of 821 stores that are wholly-owned and operated and that were stabilized by the first day of the earliest calendar year presented. We consider a store to be stabilized once it has been open for three years or has sustained average square foot occupancy of 80% or more for one calendar year. We believe that by providing same-store results from a stabilized pool of stores, with accompanying operating metrics including, but not limited to: occupancy, rental revenue growth, operating expense growth, net operating income growth, etc., stockholders and potential investors are able to evaluate operating performance without the effects of non-stabilized occupancy levels, rent levels, expense levels, acquisitions or completed developments. Same-store results should not be used as a basis for future same-store performance or for the performance of our stores as a whole. The following table presents operating data for our same-store portfolio:

	For the Year Ended December 31,		Percent Change
	2019	2018	
Same-store rental revenues	\$ 1,032,821	\$ 998,224	3.5%
Same-store operating expenses	289,986	276,467	4.9%
Same-store net operating income	<u>\$ 742,835</u>	<u>\$ 721,757</u>	<u>2.9%</u>
Same-store square foot occupancy as of quarter end	92.4%	91.7%	
Properties included in same-store	821	821	

Same-store revenues for the year ended December 31, 2019 increased due to higher rental rates for both new and existing customers. Expenses were higher for the year ended December 31, 2019, primarily due to increases in marketing expenses and property taxes.

The following table presents a reconciliation of same-store net operating income to net income as presented on our condensed consolidated statements of operations for the periods indicated:

	For the Year Ended December 31,	
	2019	2018
Net Income	\$ 451,123	\$ 447,080
Adjusted to exclude:		
(Gain) on real estate transactions	(1,205)	(30,807)
Equity in earnings of unconsolidated joint ventures	(11,274)	(14,452)
Interest expense	191,268	183,123
Depreciation and amortization	219,857	209,050
Income tax expense	11,308	9,244
General and administrative	89,418	81,256
Management fees, other income and interest income	(57,357)	(47,049)
Net tenant insurance	(99,011)	(89,800)
Non same-store rental revenues	(97,356)	(41,116)
Non same-store operating expenses	46,064	15,228
Total same-store net operating income	\$ 742,835	\$ 721,757

Comparison of the Year Ended December 31, 2018 to the Year Ended December 31, 2017

The same store results for the years ended December 31, 2018 compared to December 31, 2017 was included in our Annual Report on Form 10-K for the year ended December 31, 2018 on page 25, under Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," which was filed with the SEC on February 26, 2019.

CASH FLOWS

Cash flows from operating activities increased as expected from our continued growth in revenues through rates along with the increase in the number of properties we own and operate. Cash flows used in investing activities relate primarily to our acquisition, development, sales of stores, investments in unconsolidated real estate entities and bridge loans, and fluctuate depending on our actions in those areas. Cash flows from financing activities depend primarily on our debt and equity financing activities. A summary of cash flows along with significant components are as follows:

	For the Year Ended December 31,		
	2019	2018	2017
Net cash provided by operating activities	\$ 707,686	\$ 677,795	\$ 597,375
Net cash used in investing activities	\$ (621,630)	\$ (443,898)	\$ (353,079)
Net cash used in financing activities	\$ (88,013)	\$ (247,251)	\$ (215,994)

Significant components of net cash flow included:

Net income	\$ 451,123	\$ 447,080	\$ 514,222
Depreciation and amortization	\$ 219,857	\$ 209,050	\$ 193,296
Acquisition and development of new stores	\$ (403,211)	\$ (487,065)	\$ (684,931)
Gain on real estate transactions and impairment of real estate	\$ (1,205)	\$ (30,807)	\$ (112,789)
Investment in unconsolidated real estate entities	\$ (197,759)	\$ (65,500)	\$ (17,944)
Proceeds from the sale of common stock, net of offering costs	\$ 198,827	\$ 90,231	\$ —
Net proceeds from our debt financing and repayment activities	\$ 205,267	\$ 134,244	\$ 217,028
Dividends paid on common stock	\$ (458,114)	\$ (424,907)	\$ (393,040)

We believe that cash flows generated by operations, along with our existing cash and cash equivalents, the availability of funds under our existing lines of credit, and our access to capital markets will be sufficient to meet all of our reasonably anticipated cash needs during the next twelve months. These cash needs include operating expenses, monthly debt service payments, recurring capital expenditures, acquisitions, building redevelopments and expansions, distributions to unit holders and dividends to stockholders necessary to maintain our REIT qualification.

We expect to generate positive cash flow from operations in 2020, and we consider these projected cash flows in our sources and uses of cash. These cash flows are principally derived from rents paid by our tenants. A significant deterioration in projected cash flows from operations could cause us to increase our reliance on available funds under our existing lines of credit, curtail planned capital expenditures, or seek other additional sources of financing.

LIQUIDITY AND CAPITAL RESOURCES

Financing Strategy

We will continue to employ leverage in our capital structure in amounts reviewed 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, we 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 stores;
- prepayment penalties and restrictions on refinancing;
- the purchase price of stores acquired with debt financing;
- long-term objectives with respect to the financing;
- target investment returns;
- the ability of particular stores, and our company as a whole, to generate cash flow sufficient to cover expected debt service payments;
- overall level of consolidated indebtedness;
- timing of debt maturities;
- provisions that require recourse and cross-collateralization; and
- corporate credit ratios including fixed charge coverage ratio and max secured/unsecured indebtedness.

Our indebtedness may be recourse, non-recourse, cross-collateralized, cross-defaulted, secured or unsecured. In addition, we may invest in stores subject to existing loans collateralized by mortgages or similar liens, or may refinance stores 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 stores, for general working capital or to purchase additional interests in partnerships or joint ventures or for other purposes when we believe it is advisable.

As of December 31, 2019, we had \$65,746 available in cash and cash equivalents. Our cash and cash equivalents are held in accounts managed by third party financial institutions and consist of invested cash and cash in our operating accounts. During 2019 and 2018, we experienced no loss or lack of access to our cash or cash equivalents; however, there can be no assurance that access to our cash and cash equivalents will not be impacted by adverse conditions in the financial markets.

As of December 31, 2019, we had \$5,076,501 face value of debt, resulting in a debt to total enterprise value ratio of 25.9%. As of December 31, 2018, we had \$4,854,077 face value of debt, resulting in a debt total enterprise value ratio of 28.4%. As of December 31, 2019, the ratio of total fixed-rate debt and other instruments to total debt was 78.7% (including \$2,290,356 on which we have interest rate swaps that have been included as fixed-rate debt). As of December 31, 2018, the ratio of total fixed-rate debt and other instruments to total debt was 74.1% (including \$2,192,550 on which we have interest rate swaps that have been included as fixed-rate debt). The weighted average interest rate of the total of fixed- and variable-rate debt at December 31, 2019 and 2018 was 3.3% and 3.5%, respectively.

In July 2019, we obtained a BBB/Stable rating from S&P and intend to manage our balance sheet to preserve such rating. Certain of our real estate assets are pledged as collateral for our debt. We are subject to certain restrictive covenants relating to our outstanding debt. We were in compliance with all financial covenants at December 31, 2019.

We expect to fund our short-term liquidity requirements, including operating expenses, recurring capital expenditures, dividends to stockholders, distributions to holders of Operating Partnership units and interest on our outstanding indebtedness, out of our operating cash flow, cash on hand and borrowings under our revolving lines of credit. In addition, we are pursuing additional sources of financing based on anticipated funding needs.

Our liquidity needs consist primarily of operating expenses, monthly debt service payments, recurring capital expenditures, dividends to stockholders and distributions to unit holders necessary to maintain our REIT qualification. We may from time to time seek to repurchase our outstanding debt, shares of common stock or other securities in open market purchases, privately negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. In addition, we evaluate, on an ongoing basis, the merits of strategic acquisitions and other relationships, which may require us to raise additional funds. We may also use Operating Partnership 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 presents information on future payments due by period as of December 31, 2019:

	Payments due by Period:				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating leases	\$ 367,376	\$ 28,369	\$ 57,279	\$ 57,905	\$ 223,823
Notes payable, unsecured term loans, notes payable to trusts and revolving lines of credit					
Interest	742,201	158,086	246,233	178,503	159,379
Principal	5,076,501	1,143,431	440,848	1,600,378	1,891,844
Total contractual obligations	\$ 6,186,078	\$ 1,329,886	\$ 744,360	\$ 1,836,786	\$ 2,275,046

The operating leases above include undiscounted lease payments on leases for 48 of our operating stores as well as leases of our corporate offices and division offices. Three ground leases include additional contingent rental payments based on the level of revenue achieved at the store.

As of December 31, 2019, the weighted average interest rate for all fixed rate loans was 3.4%, and the weighted average interest rate on all variable rate loans was 3.1%.

For more information on our contractual obligations related to real estate acquisitions, refer to our commitments and contingencies footnote in the notes to the consolidated financial statements in Item 8 of this Form 10-K.

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.

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, 2019, we had approximately \$5.1 billion in total face value debt, of which approximately \$1.1 billion was subject to variable interest rates (excluding debt with interest rate swaps). 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 \$10.8 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 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.

Derivative Instruments

We use derivative instruments to help manage interest rate risk using designated hedge relationships. Interest rate swaps involve the exchange of fixed-rate and variable-rate interest payments between two parties based on a contractual underlying notional amount, but do not involve the exchange of the underlying notional amounts. See our Derivatives footnote in our Notes to consolidated financial statements in Item 8 for additional information about our use of derivative contracts.

Item 8. Financial Statements and Supplementary Data

**EXTRA SPACE STORAGE INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS
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.

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Extra Space Storage, Inc. (the Company) as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and financial statement schedule listed in the Index at Item 8 (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 25, 2020 expressed an unqualified opinion thereon.

Adoption of ASU No. 2016-02

As discussed in Note 13 to the consolidated financial statements, the Company changed its method of accounting for leases in the year ended December 31, 2019 due to the adoption of ASU No. 2016-02, "Leases (Topic 842)."

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosure to which it relates.

Accounting treatment of investments in real estate ventures

Description of the Matter

At December 31, 2019, the Company's investments in unconsolidated real estate ventures was \$292.8 million. As explained in Note 5 to the consolidated financial statements, the Company enters into real estate ventures and performs an assessment to determine whether the equity or consolidation method of accounting is appropriate.

Application and auditing of the accounting treatment of the Company's real estate ventures, including the process of evaluating the criteria for consolidation based on the variable interest entity (VIE) model or a voting interest entity (VOE) model, is complex and requires significant judgment. This evaluation and analysis include the determination of which party, if any, has power to direct the activities most significant to the economic performance of each real estate venture and whether the venture has sufficient equity to finance its activities without additional subordinated support.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of relevant controls over the Company's qualitative analysis that determines whether the Company has control over the venture through voting interest or through the presence of a variable interest in a real estate venture (thus requiring consolidation if the Company is the primary beneficiary of the VIE).

For each new investment in a real estate venture, our procedures included reading the real estate venture agreement, and reviewing management's evaluation of the applicability of the variable interest model as compared to the voting interest model. As such, we assessed whether each investee has sufficient equity to finance its activities without additional subordinated financial support and whether the equity holders, as a group, lack the characteristics of a controlling financial interest. Our testing included examining all contributions made by the Company as part of the initial formation of the real estate venture to support management's conclusions about the sufficiency of equity to finance the venture's activities. We also performed procedures to determine whether the Company correctly identified terms that would result in the equity holders, as a group, lacking the characteristics of a controlling financial interest, which would lead to the classification of the real estate venture as a variable interest entity. Specifically, for each new real estate venture entered into during the year, we inspected the agreement to determine whether the decisions that most significantly impact the entity's economic performance were controlled by the equity holders as a group. In the case that the venture has sufficient equity at risk and the equity holders, as a group, do not lack the characteristics of a controlling financial interest, we evaluated whether the Company properly accounted for the investment under the voting interest model. underlying data, including the participant data provided to management's actuarial specialists.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2005.

Salt Lake City, Utah
February 25, 2020

Extra Space Storage Inc.
Consolidated Balance Sheets
(dollars in thousands, except share data)

	December 31, 2019	December 31, 2018
Assets:		
Real estate assets, net	\$ 7,696,864	\$ 7,491,831
Real estate assets - operating lease right-of-use assets	264,643	—
Investments in unconsolidated real estate entities	338,054	125,326
Cash and cash equivalents	65,746	57,496
Restricted cash	4,987	15,194
Other assets, net	162,083	158,131
Total assets	\$ 8,532,377	\$ 7,847,978
Liabilities, Noncontrolling Interests and Equity:		
Notes payable, net	\$ 4,318,973	\$ 4,137,213
Exchangeable senior notes, net	569,513	562,374
Notes payable to trusts	—	30,928
Revolving lines of credit	158,000	81,000
Operating lease liabilities	274,783	—
Cash distributions in unconsolidated real estate ventures	45,264	45,197
Accounts payable and accrued expenses	111,382	101,461
Other liabilities	132,768	104,383
Total liabilities	5,610,683	5,062,556
Commitments and contingencies		
Noncontrolling Interests and Equity:		
Extra Space Storage Inc. stockholders' equity:		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock, \$0.01 par value, 500,000,000 shares authorized, 129,534,407 and 127,103,750 shares issued and outstanding at December 31, 2019 and December 31, 2018, respectively	1,295	1,271
Additional paid-in capital	2,868,681	2,640,705
Accumulated other comprehensive income (loss)	(28,966)	34,650
Accumulated deficit	(301,049)	(262,902)
Total Extra Space Storage Inc. stockholders' equity	2,539,961	2,413,724
Noncontrolling interest represented by Preferred Operating Partnership units, net	175,948	153,096
Noncontrolling interests in Operating Partnership, net and other noncontrolling interests	205,785	218,602
Total noncontrolling interests and equity	2,921,694	2,785,422
Total liabilities, noncontrolling interests and equity	\$ 8,532,377	\$ 7,847,978

See accompanying notes

Extra Space Storage Inc.
Consolidated Statements of Operations
(dollars in thousands, except share data)

	For the Year Ended December 31,		
	2019	2018	2017
Revenues:			
Property rental	\$ 1,130,177	\$ 1,039,340	\$ 967,229
Tenant reinsurance	128,387	115,507	98,401
Management fees and other income	49,890	41,757	39,379
Total revenues	1,308,454	1,196,604	1,105,009
Expenses:			
Property operations	336,050	291,695	271,974
Tenant reinsurance	29,376	25,707	19,173
General and administrative	89,418	81,256	78,961
Depreciation and amortization	219,857	209,050	193,296
Total expenses	674,701	607,708	563,404
Gain on real estate transactions and impairment of real estate	1,205	30,807	112,789
Income from operations	634,958	619,703	654,394
Interest expense	(186,526)	(178,436)	(153,511)
Non-cash interest expense related to amortization of discount on equity component of exchangeable senior notes	(4,742)	(4,687)	(5,103)
Interest income	7,467	5,292	6,736
Income before equity in earnings of unconsolidated real estate ventures and income tax expense	451,157	441,872	502,516
Equity in earnings of unconsolidated real estate ventures	11,274	14,452	15,331
Income tax expense	(11,308)	(9,244)	(3,625)
Net income	451,123	447,080	514,222
Net income allocated to Preferred Operating Partnership noncontrolling interests	(12,492)	(13,995)	(14,989)
Net income allocated to Operating Partnership and other noncontrolling interests	(18,664)	(17,796)	(20,220)
Net income attributable to common stockholders	\$ 419,967	\$ 415,289	\$ 479,013
Earnings per common share			
Basic	\$ 3.27	\$ 3.29	\$ 3.79
Diluted	\$ 3.24	\$ 3.27	\$ 3.76
Weighted average number of shares			
Basic	128,203,568	126,087,487	125,967,831
Diluted	136,433,769	133,159,033	134,155,771

See accompanying notes

Extra Space Storage Inc.
Consolidated Statements of Comprehensive Income
(amounts in thousands)

	For the Year Ended December 31,		
	2019	2018	2017
Net income	\$ 451,123	\$ 447,080	\$ 514,222
Other comprehensive income (loss):			
Change in fair value of interest rate swaps	(66,843)	1,430	17,308
Total comprehensive income	384,280	448,510	531,530
Less: comprehensive income attributable to noncontrolling interests	27,929	31,861	35,997
Comprehensive income attributable to common stockholders	\$ 356,351	\$ 416,649	\$ 495,533

See accompanying notes

Extra Space Storage Inc.
Consolidated Statements of Stockholders' Equity
(amounts in thousands, except share data)

	Noncontrolling Interests			Extra Space Storage Inc. Stockholders' Equity					Total Noncontrolling Interests and Equity
	Preferred Operating Partnership	Operating Partnership	Other	Shares	Par Value	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	
Balances at December 31, 2016	\$ 147,920	\$ 203,354	\$ —	125,881,460	\$1,259	\$2,566,120	\$ 16,770	\$ (339,257)	\$ 2,596,166
Issuance of common stock upon the exercise of options	—	—	—	38,418	—	1,266	—	—	1,266
Restricted stock grants issued	—	—	—	95,392	1	(1)	—	—	—
Restricted stock grants cancelled	—	—	—	(8,179)	—	—	—	—	—
Compensation expense related to stock-based awards	—	—	—	—	—	9,561	—	—	9,561
Issuance of Operating Partnership units in conjunction with acquisitions	—	7,618	—	—	—	—	—	—	7,618
Redemption of Operating Partnership units for cash	—	(1,238)	—	—	—	(1,272)	—	—	(2,510)
Issuance of Preferred D Units in the Operating Partnership in conjunction with acquisitions	11,161	—	—	—	—	—	—	—	11,161
Noncontrolling Interest in consolidated joint venture	—	—	216	—	—	—	—	—	216
Repurchase of equity portion of 2013 exchangeable senior notes	—	—	—	—	—	(6,189)	—	—	(6,189)
Net income (loss)	14,989	20,317	(97)	—	—	—	—	479,013	514,222
Other comprehensive income	106	682	—	—	—	—	16,520	—	17,308
Distributions to Operating Partnership units held by noncontrolling interests	(14,540)	(17,432)	—	—	—	—	—	—	(31,972)
Dividends paid on common stock at \$3.12 per share	—	—	—	—	—	—	—	(393,040)	(393,040)
Balances at December 31, 2017	\$ 159,636	\$ 213,301	\$ 119	126,007,091	\$1,260	\$2,569,485	\$ 33,290	\$ (253,284)	\$ 2,723,807

Extra Space Storage Inc.
Consolidated Statements of Stockholders' Equity
(amounts in thousands, except share data)

	Noncontrolling Interests			Extra Space Storage Inc. Stockholders' Equity					Total Noncontrolling Interests and Equity
	Preferred Operating Partnership	Operating Partnership	Other	Shares	Par Value	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	
Balances at December 31, 2017	\$ 159,636	\$ 213,301	\$ 119	126,007,091	\$1,260	\$2,569,485	\$ 33,290	\$ (253,284)	\$ 2,723,807
Issuance of common stock upon the exercise of options	—	—	—	54,575	—	1,169	—	—	1,169
Restricted stock grants issued	—	—	—	85,066	1	—	—	—	1
Restricted stock grants cancelled	—	—	—	(11,771)	—	—	—	—	—
Issuance of common stock, net of offering costs	—	—	—	933,789	10	90,221	—	—	90,231
Compensation expense related to stock-based awards	—	—	—	—	—	11,176	—	—	11,176
Repayment of receivable for preferred operating units pledged as collateral on loan	495	—	—	—	—	—	—	—	495
Issuance of Operating Partnership units in conjunction with acquisitions	—	1,877	—	—	—	—	—	—	1,877
Redemption of Operating Partnership units for stock	—	(1,337)	—	35,000	—	1,337	—	—	—
Redemption of Operating Partnership units for cash	—	(1,126)	—	—	—	(1,432)	—	—	(2,558)
Conversion of Preferred C Units in the Operating Partnership for Common Operating Partnership Units	(6,851)	6,851	—	—	—	—	—	—	—
Noncontrolling interest in consolidated joint venture	—	—	122	—	—	—	—	—	122
Repurchase of equity portion of 2013 exchangeable senior notes	—	—	—	—	—	(31,251)	—	—	(31,251)
Net income (loss)	13,995	17,797	(1)	—	—	—	—	415,289	447,080
Other comprehensive income	12	58	—	—	—	—	1,360	—	1,430
Distributions to Operating Partnership units held by noncontrolling interests	(14,191)	(19,059)	—	—	—	—	—	—	(33,250)
Dividends paid on common stock at \$3.36 per share	—	—	—	—	—	—	—	(424,907)	(424,907)
Balances at December 31, 2018	\$ 153,096	\$ 218,362	\$ 240	127,103,750	\$1,271	\$2,640,705	\$ 34,650	\$ (262,902)	\$ 2,785,422

Extra Space Storage Inc.
Consolidated Statements of Stockholders' Equity
(amounts in thousands, except share data)

	Noncontrolling Interests			Extra Space Storage Inc. Stockholders' Equity					Total Noncontrolling Interests and Equity
	Preferred Operating Partnership	Operating Partnership	Other	Shares	Par Value	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	
Balances at December 31, 2018	\$ 153,096	\$ 218,362	\$ 240	127,103,750	\$1,271	\$2,640,705	\$ 34,650	\$ (262,902)	\$ 2,785,422
Issuance of common stock upon the exercise of options	—	—	—	211,057	3	3,060	—	—	3,063
Restricted stock grants issued	—	—	—	109,081	2	—	—	—	2
Restricted stock grants cancelled	—	—	—	(8,863)	—	—	—	—	—
Issuance of common stock, net of offering costs	—	—	—	1,779,200	19	198,808	—	—	198,827
Compensation expense related to stock-based awards	—	—	—	—	—	13,051	—	—	13,051
Repayment of receivable for preferred operating units pledged as collateral on loan	—	1,211	—	—	—	—	—	—	1,211
Redemption of Operating Partnership units for stock	—	(13,057)	—	340,182	—	13,057	—	—	—
Issuance of Preferred D Units in the Operating Partnership in conjunction with acquisitions	28,022	—	—	—	—	—	—	—	28,022
Conversion of Preferred C Units in the Operating Partnership for Common Operating Partnership Units	(4,374)	4,374	—	—	—	—	—	—	—
Noncontrolling interest in consolidated joint venture	—	—	173	—	—	—	—	—	173
Net income (loss)	12,492	18,711	(47)	—	—	—	—	419,967	451,123
Other comprehensive loss	(407)	(2,820)	—	—	—	—	(63,616)	—	(66,843)
Distributions to Operating Partnership units held by noncontrolling interests	(12,881)	(21,362)	—	—	—	—	—	—	(34,243)
Dividends paid on common stock at \$3.56 per share	—	—	—	—	—	—	—	(458,114)	(458,114)
Balances at December 31, 2019	<u>\$ 175,948</u>	<u>\$ 205,419</u>	<u>\$ 366</u>	<u>129,534,407</u>	<u>\$1,295</u>	<u>\$2,868,681</u>	<u>\$ (28,966)</u>	<u>\$ (301,049)</u>	<u>\$ 2,921,694</u>

See accompanying notes

Extra Space Storage Inc.
Consolidated Statements of Cash Flows
(amounts in thousands)

	For the Year Ended December 31,		
	2019	2018	2017
Cash flows from operating activities:			
Net income	\$ 451,123	\$ 447,080	\$ 514,222
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	219,857	209,050	193,296
Amortization of deferred financing costs	11,989	14,286	12,289
Non-cash interest expense related to amortization of discount on equity component of exchangeable senior notes	4,742	4,687	5,103
Non-cash lease expense	1,064	—	—
Compensation expense related to stock-based awards	13,051	11,176	9,561
Gain on real estate transactions and impairment of real estate	(1,205)	(30,807)	(112,789)
Distributions from unconsolidated real estate ventures in excess of earnings	6,358	6,867	4,567
Changes in operating assets and liabilities:			
Other assets	(12,482)	(1,664)	(12,728)
Accounts payable and accrued expenses	15,522	2,736	(10,515)
Other liabilities	(2,333)	14,384	(5,631)
Net cash provided by operating activities	<u>707,686</u>	<u>677,795</u>	<u>597,375</u>
Cash flows from investing activities:			
Acquisition of real estate assets	(349,494)	(426,388)	(653,185)
Development and redevelopment of real estate assets	(53,717)	(60,677)	(31,746)
Proceeds from sale of real estate assets	11,254	52,458	312,165
Investment in unconsolidated real estate entities	(197,759)	(65,500)	(17,944)
Return of investment in unconsolidated real estate ventures	3,982	49,130	581
Issuance of notes receivable	(185,993)	(13,850)	—
Principal payments received from notes receivable	157,861	25,226	44,869
Purchase of equipment and fixtures	(7,764)	(4,297)	(7,819)
Net cash used in investing activities	<u>(621,630)</u>	<u>(443,898)</u>	<u>(353,079)</u>
Cash flows from financing activities:			
Proceeds from the sale of common stock, net of offering costs	198,827	90,231	—
Proceeds from notes payable and revolving lines of credit	2,214,000	1,413,030	1,325,623
Principal payments on notes payable and revolving lines of credit	(1,977,805)	(1,109,854)	(1,088,679)
Principal payments on notes payable to trusts	(30,928)	(88,662)	—
Deferred financing costs	(2,986)	(12,302)	(6,967)
Repurchase of exchangeable senior notes	—	(80,270)	(19,916)
Net proceeds from exercise of stock options	3,063	1,169	1,266
Redemption of Operating Partnership units held by noncontrolling interests	—	(2,558)	(2,510)
Contributions from noncontrolling interests	173	122	201
Dividends paid on common stock	(458,114)	(424,907)	(393,040)
Distributions to noncontrolling interests	(34,243)	(33,250)	(31,972)
Net cash used in financing activities	<u>(88,013)</u>	<u>(247,251)</u>	<u>(215,994)</u>
Net increase (decrease) in cash, cash equivalents, and restricted cash	(1,957)	(13,354)	28,302
Cash, cash equivalents, and restricted cash, beginning of the period	72,690	86,044	57,742
Cash, cash equivalents, and restricted cash, end of the period	<u>\$ 70,733</u>	<u>\$ 72,690</u>	<u>\$ 86,044</u>
Supplemental schedule of cash flow information			
Interest paid	\$ 174,155	\$ 159,474	\$ 136,202
Income taxes paid	10,359	730	5,648
Supplemental schedule of noncash investing and financing activities:			
Redemption of Operating Partnership units held by noncontrolling interests for common stock			
Noncontrolling interests in Operating Partnership	\$ (13,057)	\$ (1,337)	\$ —
Common stock and paid-in capital	13,057	1,337	—
Establishment of operating lease right of use assets and lease liabilities			
Real estate assets - operating lease right-of-use assets	\$ 277,557	\$ —	\$ —
Operating lease liabilities	(286,914)	—	—

Accounts payable and accrued expenses		9,357		—		—
Acquisitions of real estate assets						
Real estate assets, net	\$	21,066	\$	88,842	\$	51,455
Value of Operating Partnership units issued		—		(1,877)		(14,428)
Notes payable assumed		(17,157)		(87,500)		(24,055)
Investment in unconsolidated real estate ventures		(2,780)		535		(12,957)
Other noncontrolling interests		—		—		(15)
Net liabilities assumed		(1,129)		—		—
Accrued construction costs and capital expenditures						
Acquisition of real estate assets	\$	2,203	\$	778	\$	3,509
Development and redevelopment of real estate assets		1,601		554		1,703
Accounts payable and accrued expenses		(3,804)		(1,332)		(5,212)
Contribution of Preferred OP Units to unconsolidated real estate venture						
Investments in unconsolidated real estate ventures	\$	(28,022)	\$	—	\$	—
Value of Preferred Operating Partnership units issued		28,022		—		—
Issuance of Preferred OP Units for additional investment in unconsolidated real estate venture						
Preferred OP Units issued	\$	—	\$	—	\$	(4,351)
Investment in unconsolidated real estate ventures		—		—		4,351
Conversion of Preferred OP Units to common OP Units						
Preferred OP Units	\$	4,374	\$	6,851	\$	—
Common OP Units		(4,374)		(6,851)		—

See accompanying notes

1. DESCRIPTION OF BUSINESS

Extra Space Storage Inc. (the “Company”) is a fully integrated, self-administered and self-managed real estate investment trust (“REIT”), formed as a Maryland corporation on April 30, 2004, to own, operate, manage, acquire, develop and redevelop professionally managed self-storage properties located throughout the United States. The Company was formed to continue the business of Extra Space Storage LLC and its subsidiaries, which had engaged in the self-storage business since 1977. The Company’s interest in its stores 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 invests in stores by acquiring wholly-owned stores or by acquiring an equity interest in real estate entities. At December 31, 2019, the Company had direct and indirect equity interests in 1,171 storage facilities. In addition, the Company managed 646 stores for third parties bringing the total number of stores which it owns and/or manages to 1,817. These stores are located in 40 states, Washington, D.C. and Puerto Rico. The Company also offers tenant reinsurance at its owned and managed stores that insures the value of goods in the storage units.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

Variable Interest Entities

The Company accounts for arrangements that are not controlled through voting or similar rights as variable interest entities (“VIEs”). An enterprise is required to consolidate a VIE if it is the primary beneficiary of the VIE. 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 the power, through voting or similar rights, to direct the activities of the entity that most significantly impact the entity’s economic performance, (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, the enterprise that is deemed to have a variable interest, or combination of variable interests, that provides the enterprise with a controlling financial interest in the VIE, is considered the primary beneficiary and must consolidate the VIE.

The Company has concluded that under certain circumstances when the Company enters into arrangements for the formation of joint ventures or when entering into a new bridge loan agreement, a VIE may be created under condition (i), (ii) (b) or (c) of the previous paragraph. For each VIE created, the Company has performed a qualitative analysis, including considering which party, if any, has the power to direct the activities most significant to the economic performance of each VIE and whether that party has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could be significant to the VIE. 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. As of December 31, 2019 and 2018, the Company had no consolidated VIEs. Additionally, the Operating Partnership had a note payable to a trust that was a VIE under condition (ii)(a) above. Since the Operating Partnership was not the primary beneficiary of the trust, this VIE was not consolidated.

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 GAAP 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.

Fair Value Disclosures

Derivative financial instruments

Currently, the Company uses interest rate swaps to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate forward curves.

The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees. In conjunction with the Financial Accounting Standard Board's fair value measurement guidance, the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of December 31, 2019, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

The table below presents the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2019, aggregated by the level in the fair value hierarchy within which those measurements fall.

Description	December 31, 2019	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other assets - Cash flow hedge swap agreements	\$ 6,214	\$ —	\$ 6,214	\$ —
Other liabilities - Cash flow hedge swap agreements	\$ 31,400	\$ —	\$ 31,400	\$ —

There were no transfers of assets and liabilities between Level 1 and Level 2 during the year ended December 31, 2019. The Company did not have any significant assets or liabilities that are re-measured on a recurring basis using significant unobservable inputs as of December 31, 2019 or 2018.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Long-lived assets held for use are evaluated for impairment when events or circumstances indicate there may be impairment. The Company reviews each store at least annually to determine if any such events or circumstances have occurred or exist. The Company focuses on stores where occupancy and/or rental income have decreased by a significant amount. For these stores, the Company determines whether the decrease is temporary or permanent, and whether the store will likely recover the lost occupancy and/or revenue in the short term. In addition, the Company reviews stores in the lease-up stage and compares actual operating results to original projections.

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When the Company determines that an event that may indicate impairment has occurred, the Company compares the carrying value of the related 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 assets exceeds the undiscounted future net operating cash flows attributable to the assets. The impairment loss recognized equals the excess of net carrying value over the related fair value of the assets.

When real estate assets are identified by management as held for sale, the Company discontinues depreciating the assets and estimates the fair value of the assets, net of selling costs. The Company compares the carrying value of the related long-lived assets to the undiscounted future net operating cash flows attributable to the assets (categorized within Level 3 of the fair value hierarchy). If the estimated fair value, net of selling costs, of the assets that have been identified as held for sale is less than the net carrying value of the assets, the Company would recognize a loss on the assets held for sale. The operations of assets held for sale or sold during the period are presented as part of normal operations for all periods presented.

The Company assesses annually whether there are any indicators that the value of the Company's investments in unconsolidated real estate ventures may be impaired and when events or circumstances indicate that there may be 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.

As of December 31, 2019 and 2018, the Company did not have any assets or liabilities measured at fair value on a nonrecurring basis.

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, restricted cash, receivables, other financial instruments included in other assets, accounts payable and accrued expenses, variable-rate notes payable and notes receivable, revolving lines of credit and other liabilities reflected in the consolidated balance sheets at December 31, 2019 and 2018, approximate fair value.

The fair values of the Company's notes receivable from Preferred Operating Partnership unit holders were based on the discounted estimated future cash flow of the notes (categorized within Level 3 of the fair value hierarchy); the discount rate used approximated the current market rate for loans with similar maturities and credit quality. The fair values of the Company's fixed rate notes payable and notes payable to trusts were estimated using the discounted estimated future cash payments to be made on such debt (categorized within Level 3 of the fair value hierarchy); the discount rates used approximated current market rates for loans, or groups of loans, with similar maturities and credit quality. The fair value of the Company's exchangeable senior notes was estimated using an average market price for similar securities obtained from a third party.

The fair values of the Company's fixed-rate assets and liabilities were as follows for the periods indicated:

	December 31, 2019		December 31, 2018	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Notes receivable from Preferred and Common Operating Partnership unit holders	\$ 116,184	\$ 118,524	\$ 115,467	\$ 119,735
Fixed rate notes payable and notes payable to trusts	\$ 3,511,151	\$ 3,417,928	\$ 2,985,731	\$ 3,022,414
Exchangeable senior notes	\$ 673,831	\$ 575,000	\$ 620,149	\$ 575,000

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. The construction period begins when expenditures for the real estate assets have been made and activities that are necessary to prepare the asset for its intended use are in progress. The construction period ends when the asset is substantially complete and ready for its intended use.

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

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computed using the straight-line method over the estimated useful lives of the buildings and improvements, which are generally between five and 39 years.

Stores purchased at the time of certificate of occupancy issuance and stores purchased subsequent to the Company's adoption of ASU 2017-01 on January 1, 2017 are considered asset acquisitions. As such, the purchase price is allocated to the real estate assets acquired based on their relative fair values, which are estimated using significant unobservable inputs. The value of the tangible assets, consisting of land and buildings, is determined as if vacant. Intangible assets, which represent the value of existing tenant relationships, are recorded at their relative fair values based on the avoided cost to replace the current leases. The Company measures the value of tenant relationships based on the rent lost due to the amount of time required to replace existing customers, which is based on the Company's historical experience with turnover in its stores. Any debt assumed as part of the acquisition is recorded at fair value based on current interest rates compared to contractual rates. Acquisition-related transactions costs are capitalized as part of the purchase price.

Intangible lease rights represent: (1) purchase price amounts allocated to leases on three stores that cannot be classified as ground or building leases; these rights are amortized to expense over the life of the leases and (2) intangibles related to ground leases on eight stores where the leases were assumed by the Company at rates that were lower than the current market rates for similar leases. The values associated with these assumed leases were recorded as intangibles, which will be amortized over the lease terms.

Real Estate Sales

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.

Investments in Unconsolidated Real Estate Entities

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 in 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.

The Company evaluated its investments in preferred stock of non-public real estate entities and determined it did not have significant influence over the entity, and the investment in preferred stock does not have a readily determinable fair value, therefore it has been recorded at the transaction price. The Company periodically evaluates the investment for impairment. No impairment indicators were noted as of December 31, 2019.

Cash and Cash Equivalents

The Company's cash is deposited with financial institutions located throughout the United States 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 throughout the United States relating to earnest money deposits on potential acquisitions, real estate taxes, loan collateral, operating reserves and insurance and capital expenditures.

Other Assets

Other assets consist of equipment and fixtures, rents receivable from our tenants, bridge loan receivables, investments in trusts and other receivables, other intangible assets, deferred tax assets, prepaid expenses and the fair value of interest rate swaps. Depreciation of equipment and fixtures is computed on a straight-line basis over three to five years.

Derivative Instruments and Hedging Activities

The Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Company may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or the Company elects not to apply hedge accounting. The Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

Risk Management and Use of Financial Instruments

In the normal course of its ongoing 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 stores due to changes in rental rates, interest rates or other market factors affecting the value of stores held by the Company. The Company has entered into interest rate swap agreements to manage a portion of its interest rate risk.

Exchange of Common Operating Partnership Units

Redemption of common Operating Partnership units for shares of common stock, when redeemed under the original provisions of the Operating Partnership agreement, are accounted for by reclassifying the underlying net book value of the units from noncontrolling interest to the Company's equity.

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 and merchandise sales are recognized as income when earned. Equity in earnings of unconsolidated real estate ventures is recognized based on the Company's ownership interest in the earnings of each of the unconsolidated real estate entities. Interest income is recognized as earned.

The Company's management fees are earned subject to the terms of the related management services agreements ("MSAs"). These MSAs provide that the Company will perform management services, which include leasing and operating the property and providing accounting, marketing, banking, maintenance and other services. These services are provided in exchange for monthly management fees, which are based on a percentage of revenues collected from stores owned by third parties and unconsolidated joint ventures. MSAs generally have original terms from three to five years, after which management services are provided on a month-to-month basis unless terminated. Management fees are due on the last day of each calendar month that management services are provided.

The Company accounts for the management services provided to a customer as a single performance obligation which are rendered over time each month. The total amount of consideration from the contract is variable as it is based on monthly revenues, which are influenced by multiple factors, some of which are outside the Company's control. Therefore, the Company

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recognizes the revenue at the end of each month once the uncertainty is resolved. Due to the standardized terms of the MSAs, the Company accounts for all MSAs in a similar, consistent manner. Therefore, no disaggregated information relating to MSAs is presented.

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

Tenant reinsurance premiums are recognized as revenue over the period of insurance coverage. The Company records an unpaid claims liability at the end of each period based on existing unpaid claims and historical claims payment history. The unpaid claims liability represents an estimate of the ultimate cost to settle all unpaid claims as of each period end, including both reported but unpaid claims and claims that may have been incurred but have not been reported. The Company uses a third party claims administrator to adjust all tenant reinsurance claims received. The administrator evaluates each claim to determine the ultimate claim loss and includes an estimate for claims that may have been incurred but not reported. Annually, a third party actuary evaluates the adequacy of the unpaid claims liability. Prior year claim reserves are adjusted as experience develops or new information becomes known. The impact of such adjustments is included in the current period operations. The unpaid claims liability is not discounted to its present value. Each tenant chooses the amount of insurance coverage they want through the tenant reinsurance program. Tenants can purchase policies in amounts of 2,000 dollars to 10,000 dollars of insurance coverage in exchange for a monthly fee. As of December 31, 2019, the average insurance coverage for tenants was approximately 3,300 dollars. The Company's exposure per claim is limited by the maximum amount of coverage chosen by each tenant. The Company purchases reinsurance for losses exceeding a set amount for any one event. The Company does not currently have any amounts recoverable under the reinsurance arrangements.

For the years ended December 31, 2019, 2018 and 2017, the number of claims made were 9,059, 8,091 and 6,214, respectively. The following table presents information on the portion of the Company's unpaid claims liability, which is included in other liabilities on the Company's consolidated balance sheets, that relates to tenant insurance for the periods indicated:

	For the Year Ended December 31,		
	2019	2018	2017
Tenant Reinsurance Claims:			
Unpaid claims liability at beginning of year	\$ 7,326	\$ 5,167	\$ 3,896
Claims and claim adjustment expense for claims incurred in the current year	16,280	15,800	11,700
Claims and claim adjustment expense (benefit) for claims incurred in the prior years	98	107	(203)
Payments for current year claims	(11,352)	(11,010)	(8,895)
Payments for prior year claims	(4,243)	(2,738)	(1,331)
Unpaid claims liability at the end of the year	<u>\$ 8,109</u>	<u>\$ 7,326</u>	<u>\$ 5,167</u>

Advertising Costs

The Company incurs advertising costs primarily attributable to digital and other advertising. These costs are expensed as incurred. The Company recognized \$25,106, \$16,153 and \$14,410 in advertising expense for the years ended December 31, 2019, 2018 and 2017, respectively, which are included in property operating expenses on the Company's consolidated statements of operations.

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 "Internal Revenue 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 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. For any taxable year that the Company fails to qualify as a REIT and for which applicable statutory relief provisions did not apply, we

would be taxed at the regular corporate rates on all of our taxable income for at least that year and the ensuing four years. The Company is subject to certain state and local taxes. Provision for such taxes has been included in income tax expense on the Company's consolidated statements of operations. For the year ended December 31, 2019, 0% (unaudited) of all distributions to stockholders qualified as a return of capital.

The Company owns and may acquire direct or indirect interests in entities that have elected or will elect to be taxed as REITs under the Internal Revenue Code (each, a "Subsidiary REIT"). A Subsidiary REIT is subject to the various REIT qualification requirements and other limitations described herein that are applicable to the Company. If a Subsidiary REIT were to fail to qualify as a REIT, then (i) that Subsidiary REIT would become subject to U.S. federal income tax, (ii) shares in such Subsidiary REIT would cease to be qualifying assets for purposes of the asset tests applicable to REITs, and (iii) it is possible that the Company would fail certain of the asset tests applicable to REITs, in which event the Company would fail to qualify as a REIT unless it could avail itself of certain relief provisions.

The Company has elected to treat its corporate subsidiary, Extra Space Management, Inc. ("ESMI"), as a taxable REIT subsidiary ("TRS"). In general, the Company's TRS may perform additional services for tenants and may engage in any real estate or non-real estate related business. A TRS is subject to federal corporate income tax. ESM Reinsurance Limited, a wholly-owned subsidiary of ESMI, generates income from insurance premiums that are subject to federal corporate income tax and state insurance premiums tax.

Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities. At December 31, 2019 and 2018, there were no material unrecognized tax benefits. Interest and penalties relating to uncertain tax positions will be recognized in income tax expense when incurred. As of December 31, 2019 and 2018, the Company had no interest or penalties related to uncertain tax provisions.

Stock-Based Compensation

The measurement and recognition of compensation expense for all share-based payment awards to employees and directors are based on estimated fair values. Awards granted are valued at fair value and any compensation expense is recognized over the service periods of each award.

Earnings Per Common Share

Basic earnings per common share is computed using the two-class method by dividing net income attributable to common stockholders by the weighted average number of common shares outstanding during the period. All outstanding unvested restricted stock awards contain rights to non-forfeitable dividends and participate in undistributed earnings with common stockholders; accordingly, they are considered participating securities that are included in the two-class method. Diluted earnings 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 weighted average number of basic shares and 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 either the two-class, treasury stock or as if-converted method, whichever is most dilutive. Potential common shares are securities (such as options, convertible debt, Series A Participating Redeemable Preferred Units ("Series A Units"), Series B Redeemable Preferred Units ("Series B Units"), Series C Convertible Redeemable Preferred Units ("Series C Units"), Series D Redeemable Preferred Units ("Series D Units" and together with the Series A Units, Series B Units and Series C Units, the "Preferred OP Units") and common Operating Partnership units ("OP Units")) that do not have a current right to participate in earnings of the Company but could do so in the future by virtue of their option, redemption or conversion right.

In computing the dilutive effect of convertible securities, net income is adjusted to add back any changes in earnings 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 earnings per common share, only potential common shares that are dilutive (those that reduce earnings per common share) are included. For the years ended December 31, 2019, 2018 and 2017, options to purchase approximately zero, 36,075, and 45,286 shares of common stock, respectively, were excluded from the computation of earnings per share as their effect would have been anti-dilutive.

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For the purposes of computing the diluted impact of the potential exchange of the Preferred OP Units for common shares upon redemption, where the Company has the option to redeem in cash or shares and where the Company has stated the intent and ability to settle the redemption in shares, the Company divided the total liquidation value of the Preferred OP Units by the average share price of \$106.57 for the year ended December 31, 2019.

The following table presents the number of weighted OP Units and Preferred OP Units, and the potential common shares, that were excluded from the computation of earnings per share as their effect would have been anti-dilutive:

	For the Year Ended December 31,		
	2019	2018	2017
	Equivalent Shares (if converted)	Equivalent Shares (if converted)	Equivalent Shares (if converted)
Series B Units	393,189	464,033	533,174
Series C Units (1)	—	312,075	377,135
Series D Units	1,081,369	1,019,524	—
	1,474,558	1,795,632	910,309

⁽¹⁾ The remainder of the Series C Units were converted to OP Units on April 25, 2019.

The Operating Partnership had \$575,000 of its 3.125% Exchangeable Senior Notes due 2035 (the “2015 Notes”) issued and outstanding as of December 31, 2019. The 2015 Notes could potentially have a dilutive impact on the Company’s earnings per share calculations. The 2015 Notes are exchangeable by holders into shares of the Company’s common stock under certain circumstances per the terms of the indenture governing the 2015 Notes. The exchange price of the 2015 Notes was \$91.76 per share as of December 31, 2019, and could change over time as described in the indenture. The Company has irrevocably agreed to pay only cash for the accreted principal amount of the 2015 Notes relative to its exchange obligations, but retained the right to satisfy the exchange obligation in excess of the accreted principal amount in cash and/or common stock.

Though the Company has retained that right, Accounting Standards Codification (“ASC”) 260, “*Earnings per Share*,” requires an assumption that shares would be used to pay the exchange obligation in excess of the accreted principal amount, and requires that those shares be included in the Company’s calculation of weighted average common shares outstanding for the diluted earnings per share computation. For the years ended December 31, 2019 and 2018, the Company had repaid the principal and accrued interest of its Exchangeable Senior Notes due 2033 (the “2013 Notes”), and therefore, no shares relating to the 2013 Notes were included in the computation of diluted earnings per share. For the year ended December 31, 2017, 344,430 shares related to the 2013 Notes were included in the computation of diluted earnings per share. For the year ended December 31, 2019, 993,114 shares related to the 2015 Notes were included in the computation of diluted earnings per share. For the years ended December 31, 2018 and 2017, no shares related to the 2015 Notes were included in the computation of diluted earnings per share as the exchange price exceeded the per share price of the Company’s common stock during these periods.

For the purposes of computing the diluted impact on earnings per share of the potential exchange of Series A Units for common shares upon redemption, where the Company has the option to redeem in cash or shares and where the Company has stated the positive intent and ability to settle at least \$101,700 of the instrument in cash (or net settle a portion of the Series A Units against the related outstanding note receivable), only the amount of the instrument in excess of \$101,700 is considered in the calculation of shares contingently issuable for the purposes of computing diluted earnings per share as allowed by ASC 260-10-45-46.

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The computation of earnings per share is as follows for the periods presented:

	For the Year Ended December 31,		
	2019	2018	2017
Net income attributable to common stockholders	\$ 419,967	\$ 415,289	\$ 479,013
Earnings and dividends allocated to participating securities	(680)	(723)	(975)
Earnings for basic computations	419,287	414,566	478,038
Earnings and dividends allocated to participating securities	680	723	—
Income allocated to noncontrolling interest - Preferred Operating Partnership Units and Operating Partnership Units	23,727	22,831	30,088
Fixed component of income allocated to noncontrolling interest - Preferred Operating Partnership (Series A Units)	(2,288)	(2,288)	(3,119)
Net income for diluted computations	\$ 441,406	\$ 435,832	\$ 505,007
Weighted average common shares outstanding:			
Average number of common shares outstanding - basic	128,203,568	126,087,487	125,967,831
OP Units	6,006,114	5,675,547	5,590,831
Series A Units	875,480	875,480	875,480
Series D Units	—	—	1,081,561
Unvested restricted stock awards included for treasury stock method	212,402	244,215	—
Shares related to exchangeable senior notes and dilutive stock options	1,136,205	276,304	640,068
Average number of common shares outstanding - diluted	136,433,769	133,159,033	134,155,771
Earnings per common share			
Basic	\$ 3.27	\$ 3.29	\$ 3.79
Diluted	\$ 3.24	\$ 3.27	\$ 3.76

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-9, "Revenue from Contracts with Customers," ("Topic 606") which amends the guidance for revenue recognition to replace numerous, industry-specific requirements and converges areas under this topic with those of the International Financial Reporting Standards. Topic 606 outlines a five-step process for customer contract revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards. The amendment also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. Topic 606 became effective for annual and interim periods beginning after December 15, 2017. The Company determined that its property rental revenue and tenant reinsurance revenue are not subject to the guidance in Topic 606, as they qualify as lease contract and insurance contracts, which are excluded from its scope. The Company's management fee revenue is included in the scope of Topic 606, and revenue recognized under the standard does not differ materially from revenue recognized under previous guidance. The Company adopted the standard using the modified retrospective transition method as of January 1, 2018. The Company's adoption of Topic 606 did not result in a cumulative catch-up adjustment or any significant changes to financial statement line items.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)," which modifies the accounting for leases, intending to increase transparency and comparability of organizations by requiring balance sheet presentation of leased assets and increased financial statement disclosure of leasing arrangements. ASU 2016-02 requires entities to recognize a liability for their lease obligations and a corresponding asset representing the right to use the underlying asset over the lease term. ASU 2016-02 became effective for annual and interim periods beginning after December 15, 2018. The Company adopted the standard using the modified retrospective approach as of January 1, 2019. The Company elected the package of practical expedients upon adoption, which allows for the application of the standard solely to the transition period in 2019 but does not require application to prior fiscal comparative periods presented. The Company also elected the practical expedient provided in a subsequent amendment to ASU 2016-02 that removed the requirement to separate lease and nonlease components. The

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Company did not record a significant cumulative catch-up adjustment upon the adoption of ASC 2016-02. The primary impact was related to the Company's 22 operating ground leases and two corporate facility leases under which it served as lessee as of the adoption date. The Company recognized lease liabilities totaling \$104,863 and right-of-use assets related to operating leases totaling \$95,506 as of the adoption date. Refer to footnote 13 for further discussion of the Company's leases.

In October 2016, the FASB issued ASU 2016-18, "*Statement of Cash Flows (Topic 230): Restricted Cash*," which requires that a statement of cash flows explains the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company adopted this guidance as of January 1, 2018, and now presents restricted cash along with cash and cash equivalents in its consolidated statements of cash flows. Prior periods were reclassified to conform to this presentation.

In June 2016, the FASB issued ASU 2016-13, "*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*." ASU 2016-13 changes how entities measure credit losses for most financial assets. This standard requires an entity to estimate its lifetime "expected credit loss" and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. In November 2018, the FASB issued ASU 2018-19, "*Codification Improvements to Topic 326, Financial Instruments - Credit Losses*," which clarified that receivables arising from operating leases are within the scope of the leasing standard (ASU 2016-02), and not within the scope of ASU 2016-13. This new standard was effective for the Company on January 1, 2020. The Company does not expect this new standard to have a material impact on the Company's consolidated financial statements.

3. REAL ESTATE ASSETS

The components of real estate assets are summarized as follows:

	December 31, 2019	December 31, 2018
Land - operating	\$ 1,935,551	\$ 1,825,133
Land - development	3,372	7,359
Buildings, improvements and other intangibles	7,047,654	6,743,355
Right of use asset - finance lease	8,050	—
Intangible assets - tenant relationships	122,489	119,557
Intangible lease rights	12,443	12,443
	<u>9,129,559</u>	<u>8,707,847</u>
Less: accumulated depreciation and amortization	(1,473,852)	(1,262,438)
Net operating real estate assets	7,655,707	7,445,409
Real estate under development/redevelopment	41,157	46,422
Net real estate assets	<u>\$ 7,696,864</u>	<u>\$ 7,491,831</u>
Real estate assets held for sale included in net real estate assets	<u>\$ 2,947</u>	<u>\$ 13,032</u>

As of December 31, 2019, the Company had one parcel of land classified as held for sale. The estimated fair value less selling costs of this asset is greater than the carrying value of the assets, and therefore no loss has been recorded related to this asset. Assets held for sale are included in the self-storage operations segment of the Company's segment information.

The Company amortizes to expense intangible assets—tenant relationships on a straight-line basis over the average period that a tenant is expected to utilize the facility (currently estimated at 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 \$6,614, \$9,050, and \$14,349 for the years ended December 31, 2019, 2018 and 2017, respectively. The remaining balance of the unamortized lease rights will be amortized over the next nine to 42 years. Accumulated amortization related to intangibles was \$127,712 and \$121,238 as of December 31, 2019 and 2018, respectively.

4. PROPERTY ACQUISITIONS AND DISPOSITIONS

The following table shows the Company's acquisitions of stores for the years ended December 31, 2019 and 2018. The table excludes purchases of raw land or improvements made to existing assets.

Quarter	Number of Stores	Consideration Paid							Total
		Total	Cash Paid	Loan Assumed	Investments in Real Estate Ventures	Net Liabilities/ (Assets) Assumed	Value of OP Units Issued	Number of OP Units Issued	
Q4 2019	5	\$ 51,278	\$ 51,058	\$ —	\$ —	\$ 220	\$ —	—	\$ 51,278
Q3 2019	1	16,937	16,941	—	—	(4)	—	—	16,937
Q2 2019	1	8,424	8,424	—	—	—	—	—	8,424
Q1 2019	14	223,740	202,890	17,157	2,780	913	—	—	223,740
	21 ⁽¹⁾	\$ 300,379	\$ 279,313	\$ 17,157	\$ 2,780	\$ 1,129	\$ —	—	\$ 300,379
Q4 2018	6	\$ 74,852	\$ 74,868	\$ —	\$ —	\$ (16)	\$ —	—	\$ 74,852
Q3 2018	6	74,694	71,989	—	—	2,705	—	—	74,694
Q2 2018	17	237,284	148,650	87,500	(1,024)	281	1,877	21,768	237,284
Q1 2018	5	70,787	70,171	—	489	127	—	—	70,787
	34 ⁽²⁾	\$ 457,617	\$ 365,678	\$ 87,500	\$ (535)	\$ 3,097	\$ 1,877	21,768	\$ 457,617

- (1) Store acquisitions during the year ended December 31, 2019 include the acquisition of 12 stores previously held in joint ventures where the Company held a noncontrolling interest. The Company purchased its partners' remaining equity interests in the joint ventures, and the properties owned by the joint ventures became wholly owned by the Company. No gain or loss was recognized as a result of these acquisitions.
- (2) Store acquisitions during the year ended December 31, 2018 include the acquisition of 15 stores previously held in joint ventures where the Company held a noncontrolling interest. The Company purchased its partners' remaining equity interests in the joint ventures, and the properties owned by the joint ventures became wholly owned by the Company. No gain or loss was recognized as a result of these acquisitions.

Store Disposals

On April 11, 2019, the Company closed on the sale of a store located in New York that had been classified as held for sale for \$11,272 in cash. The Company recorded a gain on the sale of \$1,205.

On August 16, 2018, the Company sold a store located in California that had been classified as held for sale for \$40,235 in cash. The Company recorded a gain on the sale of \$30,671.

On November 30, 2017, the Company sold 36 stores located in various states that had been classified as held for sale for an aggregate sales price of \$295,000. The buyer of these properties was Storage Portfolio II JV, LLC ("SP II"), a newly formed joint venture in which the Company has a 10.0% equity interest. The Company recognized a gain of \$118,776 related to this disposition, which represented 90.0% of the total gain. This amount is included in Gain on real estate transactions and impairment of real estate on the Company's consolidated statements of operations. The Company deferred 10.0% of the gain due to the fact that it held an equity interest in the buyer, which resulted in a reduction in the carrying value of the Company's investment in SP II.

On September 13, 2017, the Company closed on the sale of a parcel of land located in New York that had been classified as held for sale for \$19,000 in cash. This parcel of land had been written down to its fair value less selling costs during the six months ended June 30, 2017, and a loss of \$3,500 was recorded. Therefore, no additional gain or loss was recorded related to this sale at the time of closing.

5. INVESTMENTS IN UNCONSOLIDATED REAL ESTATE ENTITIES

Investments in unconsolidated real estate entities and cash distributions in unconsolidated real estate ventures represent the Company's interest in preferred stock of SmartStop Self Storage REIT, Inc. ("SmartStop") and the Company's noncontrolling interest in real estate joint ventures that own stores. The Company accounts for its investment in SmartStop preferred stock, which does not have a readily determinable fair value, at the transaction price less impairment, if any. The Company accounts for its investments in joint ventures using the equity method of accounting. The Company initially records these investments at cost and subsequently adjusts for cash contributions, distributions and net equity in income or loss, which is allocated in accordance with the provisions of the applicable partnership or joint venture agreement.

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 or 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 or profits, as applicable, than its equity interest.

The Company separately reports investments with net equity less than zero in cash distributions in unconsolidated real estate ventures in the consolidated balance sheets. The net equity of certain joint ventures is less than zero because distributions have exceeded the Company's investment in and share of income from these joint ventures. This is generally the result of financing distributions, capital events or operating distributions that are usually greater than net income, as net income includes non-cash charges for depreciation and amortization while distributions do not.

Net Investments in unconsolidated real estate entities and cash distributions in unconsolidated real estate ventures consist of the following:

	Number of Stores	Equity Ownership %	Excess Profit % (1)	December 31,	
				2019	2018
PRISA Self Storage LLC	85	4%	4%	\$ 9,133	\$ 9,334
Storage Portfolio II JV LLC	36	10%	30%	(4,827)	(4,233)
Storage Portfolio I LLC	24	34%	49%	(38,345)	(38,129)
VRS Self Storage, LLC	16	45%	54%	17,639	18,281
ESS-NYFL JV LP	11	16%	24%	13,320	—
WICNN JV LLC (3)	10	10%	25%	36,552	26,885
Extra Space Northern Properties Six LLC	10	10%	35%	(2,091)	(1,700)
Alan Jathoo JV LLC	9	10%	10%	7,977	8,180
PR EXR Self Storage, LLC	5	25%	40%	59,391	19,841
ESS Bristol Investments LLC	8	10%	28%	3,046	2,331
GFN JV, LLC (3)	5	10%	30%	12,168	10,586
Extra Space West Two LLC (4)	—	5%	40%	—	3,818
Extra Space West One LLC (4)	—	5%	40%	—	(1,038)
Other minority owned stores	22	10-50%	19-50%	28,827	25,973
SmartStop Self Storage REIT, Inc. Preferred Stock (2)	n/a	n/a	n/a	150,000	—
Net Investments in and Cash distributions in unconsolidated real estate entities	241			\$ 292,790	\$ 80,129

(1) Includes pro-rata equity ownership share and promoted interest.

(2) In October 2019, the Company invested \$150,000 in shares of newly issued convertible preferred stock of SmartStop, with an additional commitment to purchase up to \$50,000 of the preferred shares over the 12 months after the original purchase. The dividend rate for the preferred shares is 6.25% per annum, subject to increase after five years. The preferred shares are generally not redeemable for five years, except in the case of a change of control or initial listing of SmartStop. Dividend income from this investment is included on the management fees and other income line on the Company's consolidated statements of operations.

EXTRA SPACE STORAGE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
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- (3) The Company had \$31,500 and \$10,335 of preferred equity in the WICNN JV LLC and GFN JV, LLC joint ventures, respectively, as of December 31, 2019. The Company earns an 8.0% return on its preferred equity in these joint ventures, which has priority over other distributions.
- (4) In January 2019, the Company purchased its joint venture partners' interests in the Extra Space West One LLC and Extra Space West Two LLC joint ventures, which owned a total of 12 stores. The Company paid \$172,505 of cash to acquire the equity interests, and subsequent to this acquisition, the Company owned 100.0% of the joint ventures and the related stores.

In accordance with ASC 810, the Company reviews all of its joint venture relationships annually to ensure that there are no entities that require consolidation. As of December 31, 2019, there were no previously unconsolidated entities that were required to be consolidated as a result of this review.

The Company has entered into several new unconsolidated real estate ventures. The Company accounts for its investment in the following ventures under the equity method of accounting. Information about these new real estate ventures is summarized as follows:

	Number of Stores	Equity ownership %	Total initial investment
For the Year Ended December 31, 2019	16	10.0%-50.0%	\$ 19,663
For the Year Ended December 31, 2018	28	10.0% -50.0%	\$ 63,723
For the Year Ended December 31, 2017	39	10.0% - 25.0%	\$ 13,341

During the year ended December 31, 2019, the Company contributed a total of \$104,338 to its joint ventures (new and existing) for the purchase of 15 operating stores and nine stores acquired at the issuance of certificate of occupancy.

On April 30, 2018, the Company acquired its partner's interest in the WCOT Self Storage LLC joint venture. The Company paid cash of \$115,797 and assumed a loan of \$87,500. The 14 properties owned by this joint venture became wholly-owned properties of the Company subsequent to this acquisition.

Equity in earnings of unconsolidated real estate ventures consists of the following:

	For the Year Ended December 31,		
	2019	2018	2017
Equity in earnings of PRISA Self Storage LLC	\$ 2,327	\$ 2,338	\$ 2,430
Equity in earnings of Storage Portfolio II JV LLC	291	79	33
Equity in earnings of Storage Portfolio I LLC	1,809	1,886	2,684
Equity in earnings of VRS Self Storage, LLC	3,583	3,640	3,562
Equity in earnings of ESS-NYFL JV LLC	(96)	—	—
Equity in earnings of WICNN JV LLC	1,373	622	—
Equity in earnings of Extra Space Northern Properties Six LLC	1,091	1,014	918
Equity in earnings of Alan Jathoo JV LLC	(47)	(12)	—
Equity in earnings of Bristol Investments LLC	(262)	(152)	—
Equity in earnings of GFN JV, LLC	450	22	—
Equity in earnings of PR EXR Self Storage, LLC	(443)	(75)	(105)
Equity in earnings of WCOT Self Storage LLC	—	359	1,033
Equity in earnings of Extra Space West Two LLC	—	1,042	1,210
Equity in earnings of Extra Space West One LLC	—	2,526	2,502
Equity in earnings of other minority owned stores	1,198	1,163	1,064
	<u>\$ 11,274</u>	<u>\$ 14,452</u>	<u>\$ 15,331</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
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Equity in earnings of certain of our joint ventures includes the amortization of the Company's excess purchase price of \$27,867 of these equity investments over its original basis. The excess basis is amortized over 40 years.

The Company provides management services to certain joint ventures for a fee. Management fee revenues for affiliated real estate joint ventures for the years ended December 31, 2019, 2018 and 2017 were \$14,624, \$14,123 and \$12,650, respectively.

6. NOTES PAYABLE AND REVOLVING LINES OF CREDIT

The components of notes payable are summarized as follows:

Notes Payable	December 31, 2019	December 31, 2018	Fixed Rate	Variable Rate	Basis Rate (2)	Maturity Dates
Secured fixed rate notes payable (1)	\$ 1,365,408	\$ 2,032,414	2.53% - 6.00%			September 2020 - February 2030
Secured variable rate notes payable (1)	878,093	834,835		3.01% - 3.31%	Libor plus 1.3% - 1.6%	April 2020 - August 2028
Unsecured fixed rate notes payable	2,052,521	990,000	2.80% - 4.39%			October 2023 - October 2029
Unsecured variable rate notes payable	47,480	310,000		2.76% - 3.31%	Libor plus 1.0% - 1.6%	January 2025 - June 2026
Total	4,343,502	4,167,249				
Less: unamortized debt issuance costs	(24,529)	(29,936)				
Total	\$ 4,318,973	\$ 4,137,313				

⁽¹⁾ The loans are collateralized by mortgages on real estate assets and the assignment of rents.

⁽²⁾ 30-day USD LIBOR

On July 1, 2019, and December 20, 2019, the Company executed amendments to the credit agreement originally entered into on October 14, 2016 and amended and restated as of December 7, 2018 (the "Credit Agreement"), which sets forth the terms of the revolving credit facility and loans comprising the Company's "Credit Facility." The July 1 amendment increased total commitments in the Credit Facility by creating two new term loan tranches (the "Tranche 3 Term Loan Facility" and the "Tranche 4 Term Loan Facility"), which total \$245 million and \$255 million, respectively, and mature January 2025 and June 2026, respectively. The proceeds from these new tranches were used to pay off existing secured debt. The December 20th amendment changed the requirements for the Investment Grade Election and increased the limit of total maximum potential borrowings under the facility to \$2.5 billion from \$2.0 billion at December 31, 2018. As part of the Investment Grade Election which the company completed on December 20, 2019, on December 27, 2019, the Company released all but 4 Guarantors under the Credit Facility.

At December 31, 2019, the amended Credit Facility provided for aggregate borrowings of up to \$1.85 billion consisting of a senior unsecured four-year revolving credit facility of \$650 million maturing January 2023 (the "Revolving Credit Facility"), a senior unsecured loan of \$480 million maturing January 2024 (the "Tranche 1 Term Loan Facility"), a senior unsecured loan of \$220 million maturing October 2023 (the "Tranche 2 Term Loan Facility"), the Tranche 3 Term Loan Facility of \$245 million, and the Tranche 4 Term Loan Facility of \$255 million. The Company may request an extension of the term of the Credit Facility for up to two additional periods of six months each, after satisfying certain conditions.

As of December 31, 2019, amounts outstanding under the Credit Facility bore interest at floating rates, at the Company's option, equal to either (i) LIBOR plus the applicable Eurodollar rate margin or (ii) the applicable base rate which is the applicable margin plus the highest of (a) 0.0%, (b) the federal funds rate plus 0.50%, (c) U.S. Bank's prime rate or (d) the Eurodollar rate plus 1.00%. Per the Credit Agreement, the applicable Eurodollar rate margin and applicable base rate margin are based on the Company's achieved debt rating pursuant to the 'Investment Grade Election,' with the Eurodollar rate margin ranging from 0.75% to 2.25% per annum and the applicable base rate margin ranging from 0.0% to 1.3% per annum.

EXTRA SPACE STORAGE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
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The Credit Agreement is guaranteed by the Company and is not secured by any assets of the Company. The Company is subject to certain restrictive covenants relating to its outstanding debt. As of December 31, 2019, the Company was in compliance with all of its financial covenants.

The following table summarizes the scheduled maturities of notes payable, excluding available extensions, at December 31, 2019:

2020	\$	568,431
2021		252,053
2022		150,796
2023		767,405
2024		712,972
Thereafter		1,891,845
	\$	4,343,502

Real estate assets are pledged as collateral for the secured loans. Of the Company's \$4,343,502 principal amount of notes payable outstanding at December 31, 2019, \$2,012,791 was recourse due to guarantees or other security provisions.

All of the Company's lines of credit are guaranteed by the Company. The following table presents information on the Company's lines of credit, the proceeds of which are used to repay debt and for general corporate purposes, for the periods indicated:

Revolving Lines of Credit	As of December 31, 2019			Origination Date	Maturity	Basis Rate (1)
	Amount Drawn	Capacity	Interest Rate			
Credit Line 1 (2)	\$ 38,000	\$ 140,000	3.2%	6/4/2010	7/1/2021	LIBOR plus 1.45%
Credit Line 2 (3)(4)	120,000	650,000	2.7%	12/7/2018	1/29/2023	LIBOR plus 0.9%
	<u>\$ 158,000</u>	<u>\$ 790,000</u>				

(1) 30-day USD LIBOR

(2) Secured by mortgages on certain real estate assets. One two-year extension available.

(3) Unsecured. Two six-month extensions available.

(4) Basis Rate as of December 31, 2019. Rate is subject to change based on our investment grade rating.

7. DERIVATIVES

The Company is exposed to certain risk arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources and duration of its debt funding and the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's investments and borrowings.

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

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The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income (“OCI”) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. A portion of these changes is excluded from accumulated other comprehensive income as it is allocated to noncontrolling interests. During the years ended December 31, 2019, 2018 and 2017, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. During 2020, the Company estimates that \$4,374 will be reclassified as an increase to interest expense.

The following table summarizes the terms of the Company’s 24 derivative financial instruments, which have a total combined notional amount of \$2,354,609 as of December 31, 2019:

Hedge Product	Range of Notional Amounts	Strike	Effective Dates	Maturity Dates
Swap Agreements	\$30,943 - \$267,431	1.13% - 4.60%	1/1/2014 - 7/29/2019	9/14/2020 - 6/29/2026

Fair Values of Derivative Instruments

The table below presents the fair value of the Company’s derivative financial instruments as well as their classification on the consolidated balance sheets:

	Asset / Liability Derivatives	
	December 31, 2019	December 31, 2018
	Fair Value	
Derivatives designated as hedging instruments:		
Other assets	\$ 6,214	\$ 42,324
Other liabilities	\$ 31,400	\$ 2,131

Effect of Derivative Instruments

The tables below present the effect of the Company’s derivative financial instruments on the consolidated statements of operations for the periods presented. No tax effect has been presented as the derivative instruments are held by the Company:

Type	Gain (loss) recognized in OCI For the Year Ended December 31,		Location of amounts reclassified from OCI into income	Gain (loss) reclassified from OCI For the Year Ended December 31,		
	2019	2018		2019	2018	2017
Swap Agreements	\$ (54,680)	\$ 9,889	Interest expense	\$ 12,322	\$ 8,258	\$ (8,853)

Credit-Risk-Related Contingent Features

The Company has agreements with some of its derivative counterparties that contain provisions pursuant to which, the Company could be declared in default of its derivative obligations if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender.

The Company also has an agreement with some of its derivative counterparties that incorporates the loan covenant provisions of the Company’s indebtedness with a lender affiliate of the derivative counterparty. Failure to comply with the loan covenant provisions would result in the Company being in default on any derivative instrument obligations covered by the agreement.

As of December 31, 2019, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$30,269. As of December 31, 2019, the Company had not posted any collateral related to these agreements. If the Company had breached any of these provisions as of December 31, 2019, it could have been required to cash settle its obligations under these agreements at their termination value of \$32,245.

8. NOTES PAYABLE TO TRUSTS

During 2005, the Company's Operating Partnership formed three wholly-owned unconsolidated subsidiaries: ESS Statutory Trust I ("Trust") ESS Statutory Trust II, ("Trust II") and ESS Statutory Trust III ("Trust III," and together with Trust and Trust II, the "Trusts"). The Trusts issued trust preferred securities to third parties and common securities to the Operating Partnership. The Trust loaned the proceeds from the sale of the preferred and common securities to the Operating Partnership in the form of notes. The Trusts were VIEs because the holders of the equity investment at risk (that is the Trusts' preferred securities) did not have the power to direct the activities of the entities that most significantly affected the entities' economic performance due to their lack of voting or similar rights. Because the Operating Partnership's investment in the Trusts' common securities was financed directly by the Trusts as a result of its loan of the proceeds to the Operating Partnership, that investment was not considered an equity investment at risk. The Operating Partnership's investment in the Trusts was not a variable interest because equity interests are variable interests only to the extent that the investment is considered to be at risk, and therefore the Operating Partnership was not the primary beneficiary of the Trusts. Since the Company was not the primary beneficiary of the Trusts, they were not consolidated. A debt obligation was recorded in the form of notes for the proceeds as discussed above, which were owed to the Trusts. The Company had also included its investment in the Trusts' common securities in other assets on the Company's consolidated balance sheets.

During the year ended December 31, 2018, the Company repaid a total principal amount of \$88,662 of the notes payable to Trusts, representing all of the notes payable to Trust III, all of the notes payable to Trust II, and all but \$30,928 of the notes payable to Trust. The Trusts used the proceeds from these repayments to redeem their preferred and common securities. In January 2019, the Company repaid the remaining balance of \$30,928 of notes payable to Trust.

During the time they were outstanding, the Company did not provide financing or other support during the periods presented to the Trusts that it was not previously contractually obligated to provide. The Company's maximum exposure to loss as a result of its involvement with the Trusts was equal to the total amount of the notes discussed above less the amounts of the Company's investments in the Trusts' common securities. The net amount was equal to the notes payable that the Trusts owed to third parties for their investments in the Trusts' preferred securities.

The Company had no consolidated VIEs during the years ended December 31, 2019 or December 31, 2018.

9. EXCHANGEABLE SENIOR NOTES

In September 2015, the Operating Partnership issued \$575,000 of its 3.125% Exchangeable Senior Notes due 2035. Costs incurred to issue the 2015 Notes were approximately \$11,992, consisting primarily of a 2.0% underwriting fee. These costs are being amortized as an adjustment to interest expense over five years, which represents the estimated term based on the first available redemption date, and are included in exchangeable senior notes, net, in the consolidated balance sheets. The 2015 Notes are general unsecured senior obligations of the Operating Partnership and are fully guaranteed by the Company. Interest is payable on April 1 and October 1 of each year beginning April 1, 2016, until the maturity date of October 1, 2035. The Notes bear interest at 3.125% per annum and contain an exchange settlement feature, which provides that the 2015 Notes may, under certain circumstances, be exchangeable for cash (for the principal amount of the 2015 Notes) and, with respect to any excess exchange value, for cash, shares of the Company's common stock, or a combination of cash and shares of the Company's common stock, at the Company's option. The exchange rate of the 2015 Notes as of December 31, 2019 was approximately 10.90 shares of the Company's common stock per \$1,000 principal amount of the 2015 Notes.

The Operating Partnership may redeem the 2015 Notes at any time to preserve the Company's status as a REIT. In addition, on or after October 5, 2020, the Operating Partnership may redeem the 2015 Notes for cash, in whole or in part, at 100% of the principal amount plus accrued and unpaid interest, upon at least 30 days but not more than 60 days prior written notice to the holders of the 2015 Notes. The holders of the 2015 Notes have the right to require the Operating Partnership to repurchase the 2015 Notes for cash, in whole or in part, on October 1 of the years 2020, 2025 and 2030, (unless the Operating Partnership has called the 2015 Notes for redemption), and upon the occurrence of certain designated events, in each case for a repurchase price equal to 100% of the principal amount of the 2015 Notes plus accrued and unpaid interest. Certain events are considered "Events of Default," as defined in the indenture governing the 2015 Notes, which may result in the accelerated maturity of the 2015 Notes.

Additionally, the 2015 Notes can be exchanged during any calendar quarter, if the last reported sale price of the common stock of the Company is greater than or equal to 130% of the exchange price for at least 20 trading days during a period of 30

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consecutive trading days ending on the last trading day of the immediately preceding calendar quarter. The price of the Company's common stock did not exceed 130% of the exchange price for the required time period for the 2015 Notes during the quarter ended December 31, 2019.

On June 21, 2013, the Operating Partnership issued \$250,000 of its 2013 Notes at a 1.5% discount, or \$3,750. Costs incurred to issue the 2013 Notes were approximately \$1,672. These costs were amortized as an adjustment to interest expense over five years, which represented the estimated term based on the first available redemption date. The 2013 Notes bore interest at 2.375% per annum and contained an exchange settlement feature. The Operating Partnership redeemed all remaining outstanding 2013 Notes on July 5, 2018.

GAAP requires entities with convertible debt instruments that may be settled entirely or partially in cash upon conversion to separately account for the liability and equity components of the instrument in a manner that reflects the issuer's economic interest cost. The Company therefore accounts for the liability and equity component of the 2015 Notes separately. The equity components are included in paid-in capital in stockholders' equity in the consolidated balance sheets, and the value of the equity components are treated as original issue discount for purposes of accounting for the debt components. The discount is being amortized as interest expense over the remaining period of the debt through its first redemption date, October 1, 2020 for the 2015 Notes. The effective interest rate on the liability components of the 2015 Notes is 4.0%, which approximates the market rate of interest of similar debt without exchange features (i.e. nonconvertible debt) at the time of issuance.

Information about the 2015 Notes, including the total carrying amounts of the equity component, the principal amount of the liability component, the unamortized discount and net carrying amount, was as follows for the periods indicated:

	December 31, 2019	December 31, 2018
Carrying amount of equity component	\$ 22,597	\$ 22,597
Principal amount of liability component	\$ 575,000	\$ 575,000
Unamortized discount - equity component	(3,675)	(8,417)
Unamortized debt issuance costs	(1,812)	(4,209)
Net carrying amount of liability component	<u>\$ 569,513</u>	<u>\$ 562,374</u>

The amount of interest cost recognized relating to the contractual interest rate and the amortization of the discount on the liability component for the Notes were as follows for the periods indicated:

	For the Year Ended December 31,		
	2019	2018	2017
Contractual interest	\$ 17,968	\$ 18,106	\$ 19,303
Amortization of discount	4,742	4,687	5,103
Total interest expense recognized	<u>\$ 22,710</u>	<u>\$ 22,793</u>	<u>\$ 24,406</u>

Repurchase of 2013 Notes

During the year ended December 31, 2018, the Company repurchased a total principal amount of \$49,259 of the 2013 Notes, which represented all of the remaining principal amount outstanding. The Company paid cash of \$80,270 for the total of the principal amount and the exchange value in excess of the principal amount.

During the year ended December 31, 2017, the Company repurchased a total principal amount of \$13,911 of the 2013 Notes. The Company paid cash of \$20,042 for the total of the principal amount and the exchange value in excess of the principal amount.

The Company allocated the value of the consideration paid to repurchase the 2013 Notes (1) to the extinguishment of the liability component and (2) to the reacquisition of the equity component. The amount allocated to the extinguishment of the liability component is equal to the fair value of that component immediately prior to extinguishment. The difference between the consideration attributed to the extinguishment of the liability component and the sum of (a) the net carrying amount of the repurchased liability component, and (b) the related unamortized debt issuance costs, is recognized as a gain on debt

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extinguishment. The remaining settlement consideration is allocated to the reacquisition of the equity component of the repurchased 2013 Notes and recognized as a reduction of stockholders' equity.

Information about the repurchases is as follows:

	For the Year Ended December 31,	
	2018	2017
Principal amount repurchased	\$ 49,259	\$ 13,911
Amount allocated to:		
Extinguishment of liability component	\$ 49,019	\$ 13,692
Reacquisition of equity component	31,251	6,350
Total consideration paid for repurchase	\$ 80,270	\$ 20,042
Exchangeable senior notes repurchased	\$ 49,259	\$ 13,911
Extinguishment of liability component	(49,019)	(13,692)
Discount on exchangeable senior notes	(230)	(184)
Related debt issuance costs	(10)	(35)
Gain/(loss) on repurchase	\$ —	\$ —

10. STOCKHOLDERS' EQUITY

The Company's charter provides that it can issue up to 500,000,000 shares of common stock, \$0.01 par value per share and 50,000,000 shares of preferred stock, \$0.01 par value per share. As of December 31, 2019, 129,534,407 shares of common stock were issued and outstanding, and no shares of preferred stock were issued or outstanding.

All holders 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.

On May 15, 2019, the Company filed its current \$500,000 "at the market" equity program with the Securities and Exchange Commission using a shelf registration statement on Form S-3, and entered into separate equity distribution agreements with nine sales agents. Under the terms of the current equity distribution agreements, the Company may from time to time offer and sell shares of common stock, up to the aggregate offering price of \$500,000, through its sales agents.

During the year ended December 31, 2019, the Company sold 1,779,200 shares of common stock under its "at the market" equity program at an average sales price of \$113.19 per share, resulting in net proceeds of \$198,827. At December 31, 2019, the Company had \$298,621 available for issuance under the current equity distribution agreements.

During the year ended December 31, 2018, the Company sold 933,789 shares of common stock under its prior "at the market" equity program at an average sales price of \$97.93 per share, resulting in net proceeds of \$90,531.

11. NONCONTROLLING INTEREST REPRESENTED BY PREFERRED OPERATING PARTNERSHIP UNITS

Classification of Noncontrolling Interests

GAAP requires a company to present ownership interests in subsidiaries held by parties other than the company in the consolidated financial statements within the equity section, but separate from the company's equity. It also requires the amount of consolidated net income attributable to the parent and to the noncontrolling interest to be clearly identified and presented on the face of the consolidated statement of operations and requires changes in ownership interest to be accounted for similarly as equity transactions. If noncontrolling interests are determined to be redeemable, they are to be carried at their redemption value as of the balance sheet date and reported as temporary equity.

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The Company has evaluated the terms of the Operating Partnership's preferred units and classifies the noncontrolling interest represented by such preferred units as stockholders' equity in the accompanying consolidated balance sheets. The Company will periodically evaluate individual noncontrolling interests for the ability to continue to recognize the noncontrolling amount as permanent equity in the consolidated balance sheets. Any noncontrolling interests that fail to qualify as permanent equity will be reclassified as temporary equity and adjusted to the greater of (1) the carrying amount, or (2) its redemption value as of the end of the period in which the determination is made.

At December 31, 2019 and 2018, the noncontrolling interests represented by the Preferred OP Units qualified for classification as permanent equity on the Company's consolidated balance sheets. The partnership agreement of the Operating Partnership (as amended, the "Partnership Agreement") provides for the designation and issuance of the OP Units. Noncontrolling interests in Preferred OP Units were presented net of notes receivable from preferred Operating Partnership unit holders of \$100,000 and \$108,644 as of December 31, 2019 and 2018, respectively, as more fully described below.

Series A Participating Redeemable Preferred Units

The Series A Units were issued in June 2007. Series A Units in the amount of \$101,700 bear a fixed priority return of 2.3%, and originally had a fixed liquidation value of \$115,000. The remaining balance participates in distributions with, and has a liquidation value equal to, that of the common OP Units. The Series A Units became redeemable at the option of the holder on September 1, 2008, which redemption obligation may be satisfied, at the Company's option, in cash or shares of its common stock. As a result of the redemption of 114,500 Series A Units in October 2014, the remaining fixed liquidation value was reduced to \$101,700 which represents 875,480 Series A Units. On April 18, 2017, the holder of the Series A Units and the Operating Partnership agreed to reduce the fixed priority return on the Series A Units from 5.0% to 2.3% in exchange for a reduction in the interest rate of the related loan, as more fully described below.

The Partnership Agreement provides for the designation and issuance of the Series A Units. The Series A Units have priority over all other partnership interests of the Operating Partnership with respect to distributions and liquidation.

On June 25, 2007, the Operating Partnership loaned the holders of the Series A Units \$100,000. The note receivable bears interest at 2.1%. On April 18, 2017, a loan amendment was signed modifying the maturity date of the loan to the later of the death of the Series A Unit holder or his spouse and also lowering the interest rate of the loan from 4.9% to 2.1%. The loan amendment was determined to be a loan modification under GAAP, and therefore no change in value was recognized. The loan is secured by the borrower's Series A Units. No future redemption of Series A Units can be made unless the loan secured by the Series A Units is also repaid. The Series A Units are shown on the balance sheet net of the \$100,000 loan because the borrower under the loan is also the holder of the Series A Units.

Series B Redeemable Preferred Units

The Partnership Agreement provides for the designation and issuance of the Series B Units. The Series B Units rank junior to the Series A Units, on parity with the Series C Units and Series D Units, and senior to all other partnership interests of the Operating Partnership with respect to distributions and liquidation.

The Series B Units were issued in 2013 and 2014 and have a liquidation value of \$25.00 per unit for a current fixed liquidation value of \$41,902 which represents 1,676,087 Series B Units. Holders of the Series B Units receive distributions at an annual rate of 6.0%. These distributions are cumulative. The Series B Units are redeemable at the option of the holder on the first anniversary of the date of issuance, which redemption obligations may be satisfied at the Company's option in cash or shares of its common stock. The Series B Units rank junior to the Series A Units, on parity with the Series C Units and Series D Units, and senior to all other partnership interests of the Operating Partnership with respect to distributions and liquidation.

Series C Convertible Redeemable Preferred Units

The Partnership Agreement provides for the designation and issuance of the Series C Units. The Series C Units rank junior to the Series A Units, on parity with the Series B Units and Series D Units, and senior to all other partnership interests of the Operating Partnership with respect to distributions and liquidation.

The Series C Units were issued in 2013 and 2014 and had a liquidation value of \$42.10 per unit. From issuance to the fifth anniversary of issuance, each Series C Unit holder received quarterly distributions equal to the quarterly distribution for

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common OP Unit plus \$0.18. These distributions were cumulative. The Series C Units became redeemable at the option of the holder one year from the date of issuance, which redemption obligation could be satisfied at the Company's option in cash or shares of its common stock. The Series C Units were convertible into common OP Units at the option of the holder one year from the date of issuance, at a rate of 0.9145 common OP Units per Series C Unit converted. This conversion option expired upon the fifth anniversary of the date of issuance.

In December 2014, the Operating Partnership loaned holders of the Series C Units \$20,230. The note receivable, which was collateralized by the Series C Units, bears interest at 5.0% and matures on December 15, 2024. The Series C Units were shown on the balance sheet net of the loan because the borrower under the loan receivable was also the holder of the Series C Units.

On December 1, 2018, certain holders of the Series C Units converted their Series C Units into common OP Units, with a total of 407,996 Series C Units being converted into a total of 373,113 common OP Units. As part of this conversion, the holders of the Series C Units agreed to pledge the common OP Units received in the conversion as collateral on the loan receivable to replace the Series C Units that were converted. As of December 31, 2018, the total outstanding balance of the loan receivable was \$19,735, of which \$8,644 was shown as a reduction of the noncontrolling interests related to the Series C Units and \$11,091 was shown as a reduction of the noncontrolling interests related to the common OP Units on the Company's consolidated balance sheets. On April 25, 2019, the remaining 296,020 Series C Units were converted into 270,709 OP Units. The remaining outstanding balance of the loan receivable of \$18,524 is shown as a reduction of the noncontrolling interests related to the OP Units as of December 31, 2019. See footnote 12 for further discussion of noncontrolling interests.

Series D Redeemable Preferred Units

The Partnership Agreement provides for the designation and issuance of the Series D Units. The Series D Units rank junior to the Series A Units, on parity with the Series B Units and Series C Units, and senior to all other partnership interest of the Operating Partnership with respect to distributions and liquidation.

The Series D Units have been issued at various times from 2014 to 2019. During the year ended December 31, 2019, the Operating Partnership issued a total of 1,120,924 Series D Units valued at \$28,023 in conjunction with joint venture acquisitions. During the year ended December 31, 2017, the Operating Partnership issued 446,420 Series D Units valued at \$11,161 in conjunction with wholly-owned and joint venture acquisitions.

The Series D Units have a liquidation value of \$25.00 per unit, for a current fixed liquidation value of \$120,086 which represents 4,803,445 Series D Units. Holders of the Series D Units receive distributions at an annual rate between 3.0% and 5.0%. These distributions are cumulative. The Series D Units will become redeemable at the option of the holder on the first anniversary of the date of issuance, which redemption obligation may be satisfied at the Company's option in cash or shares of its common stock. In addition, certain of the Series D Units are exchangeable for common OP Units until the tenth anniversary of the date of issuance, with the number of common OP Units to be issued equal to \$25.00 per Series D Unit, divided by the value of a share of common stock as of the exchange date.

12. NONCONTROLLING INTEREST IN OPERATING PARTNERSHIP AND OTHER NONCONTROLLING INTERESTS

Noncontrolling interest in Operating Partnership

The Company's interest in its stores is held through the Operating Partnership. Between its general partner and limited partner interests, the Company held a 90.7% majority ownership interest therein as of December 31, 2019. The remaining ownership interests in the Operating Partnership (including Preferred OP Units) of 9.3% are held by certain former owners of assets acquired by the Operating Partnership.

The noncontrolling interest in the Operating Partnership represents OP Units that are not owned by the Company. OP Units are redeemable at the option of the holder, which redemption may be satisfied at the Company's option in cash based upon the fair market value of an equivalent number of shares of the Company's common stock (based on the ten-day average trading price) at the time of the redemption. Alternatively, the Company may, at its sole discretion, 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. The ten-day average closing stock price at December 31, 2019, was \$104.18 and there were 5,924,778 OP Units outstanding. Assuming that all of the OP Unit holders exercised their right to redeem all of their OP Units on December 31, 2019 and the Company elected to pay the OP Unit holders cash, the Company would have paid \$617,243 in cash consideration to redeem the units.

OP Unit activity is summarized as follows for the periods presented:

	For the Year Ended December 31,		
	2019	2018	2017
OP Units redeemed for common stock	340,182	35,000	—
OP Units redeemed for cash	—	30,000	33,896
Cash paid for OP Units redeemed	\$ —	\$ 2,558	\$ 2,510
OP Units issued in conjunction with acquisitions	—	21,768	90,228
Value of OP Units issued in conjunction with acquisitions	\$ —	\$ 1,877	\$ 7,618
OP Units issued upon redemption of Series C Units	270,709	373,113	—

On December 1, 2018, 373,113 common OP Units were issued in the conversion of 407,996 Series C Units. These newly issued OP Units were pledged as collateral on the existing loan receivable to the Series C Unit holders. As a result, noncontrolling interests in the Operating Partnership was reported net of \$11,091 of the loan receivable as of December 31, 2018, which represents the portion of the note receivable that is collateralized by the OP Units. The remaining 296,020 Series C Units were converted into 270,709 OP Units on April 25, 2019 and the remainder of the loan receivable was reported net with the OP Units. The remaining total outstanding balance of the loan receivable of \$18,524 is shown as a reduction of the noncontrolling interests related to the OP Units as of December 31, 2019.

GAAP requires a company to present ownership interests in subsidiaries held by parties other than the company in the consolidated financial statements within the equity section but separate from the company's equity. It also requires the amount of consolidated net income attributable to the parent and to the noncontrolling interest to be clearly identified and presented on the face of the consolidated statement of operations and requires changes in ownership interest to be accounted for similarly as equity transactions. If noncontrolling interests are determined to be redeemable, they are to be carried at their redemption value as of the balance sheet date and reported as temporary equity.

The Company has evaluated the terms of the common OP Units and classifies the noncontrolling interest represented by the common OP Units as stockholders' equity in the accompanying consolidated balance sheets. The Company will periodically evaluate individual noncontrolling interests for the ability to continue to recognize the noncontrolling amount as permanent equity in the consolidated balance sheets. Any noncontrolling interests that fail to qualify as permanent equity will be reclassified as temporary equity and adjusted to the greater of (1) the carrying amount, or (2) its redemption value as of the end of the period in which the determination is made.

Other Noncontrolling Interests

Other noncontrolling interests represent the ownership interest of third parties in two consolidated joint ventures as of December 31, 2019. One joint venture owns two operating stores in Texas and two operating stores in Colorado, and the other owns an operating store in Pennsylvania and a development property in New Jersey. The voting interests of the third-party owners are between 5.0% and 20.0%.

13. LEASES

The Company adopted ASC 842, "*Leases*," effective January 1, 2019 on a modified retrospective basis as allowed under the standard and thus prior periods have not been restated. The Company elected the package of transition practical expedients, and has therefore (1) not reassessed whether any expired or existing contracts are or contain leases, (2) not reassessed the lease classification for any expired or existing leases, and (3) not reassessed initial direct costs for any expired or existing leases.

Lessee Accounting

The Company recognized right-of-use assets related to operating leases totaling \$95,506 and lease liabilities of \$104,863 as of the adoption date, January 1, 2019. These are presented as "Operating lease liabilities" and "Real estate assets-operating lease right-of-use assets" on the Company's consolidated balance sheets.

In June and August 2019, the Company entered into new triple-net lease agreements to lease land and buildings at 22 and five operating stores, respectively. These leases are categorized as operating leases, and have contractual lease terms of 25 years, but have termination options after 10 years that result in lease terms of 10 years under ASC 842. The Company recorded new operating lease right-of-use assets and operating lease liabilities of \$127,532 and \$52,224, respectively, in conjunction with these new lease agreements.

The Company is lessee under several types of lease agreements. Generally, these leases fall into the following categories:

- Leases of real estate at 49 stores classified as wholly-owned. These leases generally have original lease terms between 10-67 years. Under these leases, the Company typically has the option to extend the lease term for additional terms of 5-35 years.
- Leases of its corporate offices and call center. These leases have original lease terms between 5.3 and 12.1 years, with no extension options.
- Leases of 13 regional offices. These leases have original lease terms between three and five years. The Company has the option on five of these leases to extend the lease term for three additional years.
- Leases of small district offices. These leases generally have terms of 12 months or less. The Company has made an election to account for these under the short-term lease exception outlined under ASC 842. Therefore, no lease assets or liabilities are recorded related to these leases.

The Company has included lease extension options in the lease term for calculations of its right-of-use assets and liabilities related to the real estate asset leases at its stores when it is reasonably certain that the Company plans to extend the lease terms as the options arise.

Several of the leases of real estate at the Company's stores include escalation clauses based on an index or rate, such as the Consumer Price Index (CPI). The Company included these lease payments in its calculations of right-of-use assets and liabilities based on the prevailing index or rate as of the adoption date. The Company will recognize changes to these variable lease payments in earnings in the period of change.

One of the real estate leases includes variable lease payments that are based upon a percentage of gross revenues. Certain other leases include additional variable payments relating to a percentage of sales in excess of a specified amount, common area maintenance, property taxes, and similar items. These payments are variable lease payments that do not depend on an index or rate and are excluded from the measurement of the lease liabilities and right-of-use-assets for these leases. The Company will recognize costs from these variable lease payments in the period in which the obligation for those payments is incurred.

The Company has signed a lease agreement for a store in New Jersey. The store is currently under construction by the lessor, and the Company will take possession of the leased asset upon completion of construction, which is estimated to be completed in early to mid-2020. The lease term is 75 years from the lease commencement date, with three 10-year extension options. The Company has also signed a lease agreement for a store in California. The store is under construction by the lessor,

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and the Company will take possession of the leased asset upon completion of construction, which is estimated to be completed in late 2020. The lease term is 15 years from the lease commencement date, with three 10-year extension options and one 5-year extension option. The Company has not recorded right-of-use assets or lease liabilities related to these leases as of December 31, 2019 as the lease term has not yet commenced for either lease. The lease commencement date will occur when the Company takes possession of the leased asset, and the Company will recognize a lease liability and right-of-use asset relating to the leases at that time.

As the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available surrounding the Company's unsecured borrowing rates and implied secured spread at the lease commencement date in determining the present value of lease payments. These discount rates vary depending on the term of the specific leases.

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Following is information on our total lease costs as of the period indicated:

	For the Year Ended December 31, 2019
Finance lease cost:	
Amortization of finance lease right-of-use assets	\$ 168
Interest expense related to finance lease liabilities	290
Operating lease cost	20,268
Variable lease cost	5,068
Short-term lease cost	164
Total lease cost	\$ 25,958
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash outflows for finance lease payments	\$ 231
Operating cash outflows for operating lease payments	19,226
Total cash flows for lease liability measurement	\$ 19,457
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 277,557
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ 8,050
Weighted average remaining lease term - finance leases (years)	46.9
Weighted average remaining lease term - operating leases (years)	14.7
Weighted average discount rate - finance leases	6.07%
Weighted average discount rate - operating leases	3.65%

The Company recorded lease expense of \$8,229 and \$6,898 related to operating leases in the years ended December 31, 2018 and 2017, respectively.

The following table presents information about the Company's undiscounted cash flows on an annual basis for operating and finance leases, including a reconciliation of the undiscounted cash flows to the finance lease and operating lease liabilities recognized in the Company's consolidated balance sheets:

	Operating	Finance	Total
2020	\$ 28,369	\$ 232	\$ 28,601
2021	28,628	237	28,865
2022	28,651	255	28,906
2023	28,707	255	28,962
2024	29,198	255	29,453
Thereafter	223,823	16,522	240,345
Total	\$ 367,376	\$ 17,756	\$ 385,132
Present value adjustments	(92,593)	(12,918)	(105,511)
Lease liabilities	\$ 274,783	\$ 4,838	\$ 279,621

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The Company elected the package of practical expedients upon adoption of ASC 842, which allows for the application of the standard solely to the transition period in 2019 and does not require application to prior fiscal comparative periods presented. Disclosures required under the previous leasing standard are presented for prior years. The following table summarizes future minimum lease payments required under operating leases as of December 31, 2018:

2019	\$	8,203
2020		8,307
2021		8,137
2022		7,837
2023		7,021
Thereafter		111,653
	<u>\$</u>	<u>151,158</u>

Lessor Accounting

The Company's property rental revenue is primarily related to rents received from tenants at its operating stores. The Company's leases with its self-storage tenants are generally on month-to-month terms, include automatic monthly renewals, allow flexibility to increase rental rates over time as market conditions permit, and provide for the collection of contingent fees such as late fees. These leases do not include any terms or conditions that allow the tenants to purchase the leased space. All self-storage leases for which the Company acts as lessor have been classified as operating leases. The real estate assets related to the Company's stores are included in "Real estate assets, net" on the Company's condensed consolidated balance sheets and are presented at historical cost less accumulated depreciation and impairment, if any. Rental income related to these operating leases is included in Property rental revenue on the Company's condensed consolidated statements of operations, and is recognized each month during the month-to-month terms at the rental rate in place during each month.

14. STOCK-BASED COMPENSATION

As of December 31, 2019, 1,438,073 shares were available for issuance under the Company's 2015 Incentive Award Plan (the "Plan").

Option grants are issued with an exercise price equal to the closing price of stock on the date of grant. Unless otherwise determined by the Compensation, Nominating and Governance Committee ("CNG Committee") at the time of grant, options shall vest ratably over a four-year period beginning on the date of grant. Each option will be exercisable once it has vested. Options are exercisable at such times and subject to such terms as determined by the CNG Committee, but under no circumstances may be exercised if such exercise would cause a violation of the ownership limit in the Company's charter. Options expire 10 years from the date of grant. Beginning in 2017, the CNG Committee decided to replace stock options granted to executives with performance based stock units for executive compensation. See the "Performance-Based Stock Units" section below.

Also as defined under the terms of the Plan, restricted stock grants may be awarded. The stock grants are subject to a vesting period over which the restrictions are released 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, the grantee has the ability to vote the shares and receive nonforfeitable dividends paid on shares. Unless otherwise determined by the CNG Committee at the time of grant, the forfeiture and transfer restrictions on the shares lapse over a four-year period beginning on the date of grant.

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Option Grants

A summary of stock option activity is as follows:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value as of December 31, 2019
Outstanding at December 31, 2016	510,574	\$ 30.60		
Exercised	(38,418)	32.94		
Outstanding at December 31, 2017	472,156	\$ 30.41		
Exercised	(54,575)	21.45		
Outstanding at December 31, 2018	417,581	\$ 31.58		
Exercised	(211,057)	14.65		
Outstanding at December 31, 2019	206,524	\$ 48.88	3.43	\$11,719
Vested and Expected to Vest	206,460	\$ 48.87	3.43	\$11,717
Ending Exercisable	197,576	\$ 47.20	3.30	\$11,543

The aggregate intrinsic value in the table above represents the total value (the difference between the Company's closing stock price on the last trading day of 2019 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2019. The amount of aggregate intrinsic value will change based on the fair market value of the Company's stock. The total intrinsic value of options exercised for the years ended December 31, 2019, 2018 and 2017 was \$18,089, \$3,693 and \$1,786, respectively.

There have been no options granted since 2016. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model. The Black-Scholes model incorporates assumptions to value stock-based awards. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of the grant for the estimated life of the option. The Company uses actual historical data to calculate the expected price volatility, dividend yield and average expected term. The forfeiture rate, which is estimated at a weighted-average of 7.4% of unvested options outstanding as of December 31, 2019, is adjusted periodically based on the extent to which actual forfeitures differ, or are expected to differ, from the previous estimates.

A summary of stock options outstanding and exercisable as of December 31, 2019, is as follows:

Exercise Price	Options Outstanding			Options Exercisable	
	Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
\$12.21 - \$12.21	77,400	0.18	\$ 12.21	77,400	\$ 12.21
\$38.40 - \$38.40	8,085	3.14	38.40	8,085	38.40
\$47.50 - \$47.50	9,800	4.13	47.50	9,800	47.50
\$65.36 - \$65.36	15,647	5.15	65.36	15,647	65.36
\$65.45 - \$65.45	11,960	5.13	65.45	11,960	64.45
\$73.52 - \$73.52	50,000	5.58	73.52	50,000	73.52
\$85.99 - \$85.99	33,632	6.15	85.99	24,684	85.99
	206,524	3.42	\$ 48.88	197,576	\$ 47.20

The Company recorded compensation expense relating to outstanding options of \$364, \$570 and \$649 in general and administrative expense for the years ended December 31, 2019, 2018 and 2017, respectively. Net proceeds received for the years ended December 31, 2019, 2018 and 2017, related to option exercises was \$3,063, \$1,169 and \$1,266, respectively. At December 31, 2019, there was no unrecognized compensation expense related to non-vested stock options under the Plan. The

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valuation model applied in this calculation utilizes subjective assumptions that could potentially change over time, including the expected forfeiture rate.

Common Stock Granted to Employees and Directors

The Company recorded \$9,173, \$8,733 and \$7,232 of expense in general and administrative expense in its statement of operations related to restricted stock awards granted to employees and directors for the years ended December 31, 2019, 2018 and 2017, respectively. The forfeiture rate, which is estimated at a weighted-average of 9.7% of vested awards outstanding as of December 31, 2019, is adjusted periodically based on the extent to which actual forfeitures differ, or are expected to differ, from the previous estimates. At December 31, 2019 there was \$11,712 of total unrecognized compensation expense related to non-vested restricted stock awards under the Plan. That cost is expected to be recognized over a weighted-average period of 2.17 years. 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 is as follows:

Restricted Stock Grants	Shares	Weighted-Average Grant-Date Fair Value
Unreleased at December 31, 2016	299,585	\$ 70.57
Granted	95,392	74.49
Released	(120,323)	63.95
Cancelled	(8,179)	77.25
Unreleased at December 31, 2017	266,475	\$ 74.76
Granted	85,066	86.14
Released	(116,656)	72.38
Cancelled	(11,771)	80.96
Unreleased at December 31, 2018	223,114	\$ 80.02
Granted	109,081	101.52
Released	(110,724)	79.58
Cancelled	(8,863)	90.11
Unreleased at December 31, 2019	212,608	\$ 90.85

Performance-based Stock Units

In 2017, the CNG Committee changed its compensation for executives to issue performance-based stock units (the "PSUs") as a replacement for stock option awards. The PSUs granted to executives represent the right to earn shares of the Company's common stock. These awards have two financial performance components: (1) the Company's core FFO performance ("FFO Target"), and (2) the Company's total stockholder return relative to the performance of a defined group of peers ("TSR Target"). Each of these performance components are weighted 50% and are measured over the performance period, which is defined as the three-year period ending December 31 from the year of grant. At the end of the performance period, the financial performance components are reviewed to determine the number of shares actually granted to executives, which can be as low as zero shares and up to a maximum of two shares issued for each PSU. A summary of the PSU activity is as follows:

Performance-Based Stock Units	Units	Weighted-Average Grant-Date Fair Value
Unvested at December 31, 2016	—	\$ —
Granted	30,071	83.84
Unvested at December 31, 2017	30,071	\$ 83.84
Granted	28,735	96.19
Unvested at December 31, 2018	58,806	\$ 89.87
Granted	49,334	103.18
Unvested at December 31, 2019	108,140	\$ 95.94

The Company recorded \$3,514, \$1,873 and \$840 of expense in general and administrative expense in its statement of operations related to PSUs granted to employees and directors for the years ended December 31, 2019, 2018 and 2017, respectively. The Company estimated the fair value of the PSUs as of the grant date, using the closing trading price of the Company's common stock on the grant date to value the FFO Target portion. A Monte Carlo simulation model was used to calculate the fair value of the TSR Target portion of the PSUs, using the following assumptions:

	For the Year Ended December 31,		
	2019	2018	2017
Intrinsic value	\$6,211	\$5,321	\$2,630
Risk-free rate	2.53%	2.37%	1.62%
Volatility	20.7%	22.6%	21.4%
Expected term (in years)	2.8	2.9	2.8
Dividend yield	—%	—%	—%
Unrecognized compensation cost	\$4,315	\$2,739	\$1,681
Term over which compensation cost recognized	3	3	3

Under the terms of the PSUs, dividends for the entire measurement period are paid in cash when the shares are issued, so a dividend yield of zero was used. The valuation model applied in this calculation utilizes subjective assumptions that could potentially change over time, including the probabilities associated with achieving the FFO Targets (categorized within Level 3 of the fair value hierarchy). Therefore, the amount of unrecognized compensation expense at December 31, 2019 noted above does not necessarily represent the expense that will ultimately be realized by the Company in the statement of operations.

15. 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 60% of their annual salary, subject to a statutory prescribed annual limit. For the years ended December 31, 2019, 2018 and 2017, the Company made matching contributions to the plan of \$3,355, \$2,833 and \$2,212, respectively, based on 100% of the first 3% and up to 50% of the next 2% of an employee's compensation.

16. INCOME TAXES

As a REIT, the Company is generally not subject to federal income tax with respect to that portion of its income which is distributed annually to its stockholders. However, the Company has elected to treat one of its corporate subsidiaries, Extra Space Management, Inc., as a TRS. In general, the Company's TRS may perform additional services for tenants and generally may engage in any real estate or non-real estate related business. A TRS is subject to federal corporate income tax. The Company accounts for income taxes in accordance with the provisions of ASC 740, "Income Taxes." Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities. The Company has elected to use the Tax-Law-Ordering approach to determine when excess tax benefits will be realized.

The income tax provision for the years ended December 31, 2019, 2018 and 2017, is comprised of the following components:

	For the Year Ended December 31, 2019		
	Federal	State	Total
Current expense	\$ 10,164	\$ 2,936	\$ 13,100
Tax credits/true-up	(3,633)	(30)	(3,663)
Change in deferred expense/(benefit)	1,787	84	1,871
Total tax expense	<u>\$ 8,318</u>	<u>\$ 2,990</u>	<u>\$ 11,308</u>

	For the Year Ended December 31, 2018		
	Federal	State	Total
Current expense	\$ 9,136	\$ 2,426	\$ 11,562
Tax credits/true-up	(5,841)	(175)	(6,016)
Change in deferred expense	3,730	(32)	3,698
Total tax expense	<u>\$ 7,025</u>	<u>\$ 2,219</u>	<u>\$ 9,244</u>

	For the Year Ended December 31, 2017		
	Federal	State	Total
Current expense	\$ 5,677	\$ 1,662	\$ 7,339
Tax credits/true-up	(5,573)	(383)	(5,956)
Change in deferred benefit	1,700	542	2,242
Total tax expense	<u>\$ 1,804</u>	<u>\$ 1,821</u>	<u>\$ 3,625</u>

A reconciliation of the statutory income tax provisions to the effective income tax provisions for the periods indicated is as follows:

	For the Year Ended December 31,					
	2019		2018		2017	
Expected tax at statutory rate	\$ 97,110	21.0 %	\$ 95,828	21.0 %	\$ 186,274	35.0 %
Non-taxable REIT income	(82,717)	(17.9)%	(83,022)	(18.2)%	(170,811)	(32.1)%
State and local tax expense - net of federal benefit	2,837	0.6 %	2,385	0.5 %	2,306	0.4 %
Change in valuation allowance	(207)	— %	(1,052)	(0.2)%	159	— %
Tax credits/true-up	(3,663)	(0.8)%	(6,016)	(1.3)%	(5,956)	(1.1)%
Remeasurement of deferred balances	—	— %	—	— %	(8,460)	(1.6)%
Miscellaneous	(2,052)	(0.4)%	1,121	0.2 %	113	— %
Total provision	<u>\$ 11,308</u>	<u>2.5 %</u>	<u>\$ 9,244</u>	<u>2.0 %</u>	<u>\$ 3,625</u>	<u>0.6 %</u>

EXTRA SPACE STORAGE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Amounts in thousands, except store and share data, unless otherwise stated

The major sources of temporary differences stated at their deferred tax effects are as follows:

	December 31, 2019	December 31, 2018
Deferred tax liabilities:		
Fixed assets	\$ (23,805)	\$ (20,907)
Operating lease right-of-use assets	(2,475)	—
Other	(84)	(96)
State deferred taxes	(3,405)	(3,076)
Total deferred tax liabilities	(29,769)	(24,079)
Deferred tax assets:		
Captive insurance subsidiary	312	324
Accrued liabilities	2,006	1,772
Stock compensation	2,118	1,604
Operating lease liabilities	2,478	—
SmartStop TRS	219	219
Other	50	53
State deferred taxes	7,250	7,196
Total deferred tax assets	14,433	11,168
Valuation allowance	(3,665)	(3,872)
Net deferred income tax liabilities	\$ (19,001)	\$ (16,783)

The state income tax net operating losses expire between 2020 and 2037. The valuation allowance is associated with the state income tax net operating losses. The tax years 2015 through 2018 remain open related to the state returns, and 2016 through 2018 for the federal returns.

17. SEGMENT INFORMATION

The Company's segment disclosures present the measure used by the chief operating decision makers ("CODMs") for purposes of assessing each segment's performance. The Company's CODMs are comprised of several members of its executive management team who use net operating income ("NOI") to assess the performance of the business for the Company's reportable operating segments. NOI for our self-storage operations represents total property revenue less direct property operating expenses. NOI for our tenant reinsurance segment represents tenant reinsurance revenues less tenant reinsurance expense.

The Company's segments are comprised of two reportable segments: (1) self-storage operations and (2) tenant reinsurance. The self-storage operations activities include rental operations of wholly-owned stores. The Company's consolidated revenues equal total segment revenues plus property management fees and other income. Tenant reinsurance activities include the reinsurance of risks relating to the loss of goods stored by tenants in the stores operated by the Company. Excluded from segment revenues and net operating income is property management fees and other income.

For all periods presented, substantially all of our real estate assets, intangible assets, other assets, and accrued and other liabilities are associated with the self-storage operations segment. Financial information for the Company's business segments is set forth below:

EXTRA SPACE STORAGE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Amounts in thousands, except store and share data, unless otherwise stated

	Year Ended December 31,		
	2019	2018	2017
Revenues:			
Self-Storage Operations	\$ 1,130,177	\$ 1,039,340	\$ 967,229
Tenant Reinsurance	128,387	115,507	98,401
Total segment revenues	<u>\$ 1,258,564</u>	<u>\$ 1,154,847</u>	<u>\$ 1,065,630</u>
Operating expenses:			
Self-Storage Operations	\$ 336,050	\$ 291,695	\$ 271,974
Tenant Reinsurance	29,376	25,707	19,173
Total segment operating expenses	<u>\$ 365,426</u>	<u>\$ 317,402</u>	<u>\$ 291,147</u>
Net operating income:			
Self-Storage Operations	\$ 794,127	\$ 747,645	\$ 695,255
Tenant Reinsurance	99,011	89,800	79,228
Total segment net operating income:	<u>\$ 893,138</u>	<u>\$ 837,445</u>	<u>\$ 774,483</u>
Total segment net operating income	\$ 893,138	\$ 837,445	\$ 774,483
Other components of net income (loss):			
Property management fees and other income	49,890	41,757	39,379
General and administrative expense	(89,418)	(81,256)	(78,961)
Depreciation and amortization expense	(219,857)	(209,050)	(193,296)
Gain on real estate transactions and impairment of real estate	1,205	30,807	112,789
Interest expense	(186,526)	(178,436)	(153,511)
Non-cash interest expense related to the amortization of discount on equity component of exchangeable senior notes	(4,742)	(4,687)	(5,103)
Interest income	7,467	5,292	6,736
Equity in earnings of unconsolidated real estate entities	11,274	14,452	15,331
Income tax expense	(11,308)	(9,244)	(3,625)
Net income	<u>\$ 451,123</u>	<u>\$ 447,080</u>	<u>\$ 514,222</u>

18. COMMITMENTS AND CONTINGENCIES

The Company is involved in various legal proceedings and is subject to various claims and complaints arising in the ordinary course of business. Because litigation is inherently unpredictable, the outcome of these matters cannot presently be determined with any degree of certainty. In accordance with applicable accounting guidance, management establishes an accrued liability for litigation when those matters present loss contingencies that are both probable and reasonably estimable. In such cases, there may be an exposure to loss in excess of any amounts accrued. The estimated loss, if any, is based upon currently available information and is subject to significant judgment, a variety of assumptions, and known and unknown uncertainties. The Company could in the future incur judgments or enter into settlements of claims that could have a material adverse effect on its results of operations in any particular period, notwithstanding the fact that the Company is currently vigorously defending any legal proceedings against it. As of December 31, 2019, the Company was involved in various legal proceedings and was subject to various claims and complaints arising in the ordinary course of business. In the opinion of management, such litigation, claims and complaints are not expected to have a material adverse effect on the Company's financial condition or results of operations.

EXTRA SPACE STORAGE INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
Amounts in thousands, except store and share data, unless otherwise stated

As of December 31, 2019, the Company was under agreement to acquire three stores at a total purchase price of \$27,400. Of these stores, two are scheduled to close in 2020 at a purchase price of \$16,000, and one is scheduled to close in 2021 at a purchase price of \$11,400. Additionally, the Company is under agreement to acquire seven stores in 2020 with joint venture partners, for a total investment of \$25,095.

Although there can be no assurance, the Company is not aware of any material environmental liability, for which it believes it will be ultimately responsible, that could have a material adverse effect on its financial condition or results of operations. However, changes in applicable environmental laws and regulations, the uses and conditions of properties in the vicinity of the Company's properties, the activities of its tenants and other environmental conditions of which the Company is unaware with respect to its properties could result in future material environmental liabilities.

19. SUPPLEMENTARY QUARTERLY FINANCIAL DATA (UNAUDITED)

	For the Three Months Ended			
	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019
Revenues	\$ 311,546	\$ 323,602	\$ 337,505	\$ 335,801
Cost of operations	163,069	165,609	174,867	171,156
Revenues less cost of operations	\$ 148,477	\$ 157,993	\$ 162,638	\$ 164,645
Net income	\$ 102,160	\$ 112,689	\$ 115,995	\$ 120,279
Net income attributable to common stockholders	\$ 94,770	\$ 104,828	\$ 108,087	\$ 112,282
Earnings per common share—basic	\$ 0.74	\$ 0.82	\$ 0.84	\$ 0.87
Earnings per common share—diluted	\$ 0.74	\$ 0.81	\$ 0.83	\$ 0.86

	For the Three Months Ended			
	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018
Revenues	\$ 285,485	\$ 296,813	\$ 306,953	\$ 307,353
Cost of operations	151,573	152,097	153,362	150,676
Revenues less cost of operations	\$ 133,912	\$ 144,716	\$ 153,591	\$ 156,677
Net income	\$ 95,430	\$ 102,713	\$ 139,687	\$ 109,250
Net income attributable to common stockholders	\$ 88,256	\$ 95,153	\$ 130,418	\$ 101,462
Earnings per common share—basic	\$ 0.70	\$ 0.75	\$ 1.03	\$ 0.80
Earnings per common share—diluted	\$ 0.70	\$ 0.75	\$ 1.02	\$ 0.80

Extra Space Storage Inc.
Schedule III
Real Estate and Accumulated Depreciation
(Dollars in thousands)
As of December 31, 2019

Self - Storage Facilities by State:	Store Count	Debt	Land Initial Cost	Building and Improvements Initial Cost	Adjustments and Costs to Land and Building Subsequent to Acquisition	Gross carrying amount at December 31, 2019			Accumulated Depreciation
						Land	Building and Improvements	Total	
AL	8	\$ 29,567	\$ 7,690	\$ 42,770	\$ 3,693	\$ 7,691	\$ 46,462	\$ 54,153	\$ 8,277
AZ	23	21,845	27,535	117,304	9,574	27,533	126,880	154,413	24,239
CA	165	531,406	539,355	1,166,591	109,246	540,043	1,275,149	1,815,192	264,874
CO	16	30,432	16,809	71,894	16,652	17,527	87,828	105,355	19,546
CT	7	23,557	9,875	50,966	4,766	9,874	55,733	65,607	9,934
FL	91	263,634	163,455	588,353	56,727	163,919	644,616	808,535	134,121
GA	63	85,820	83,742	406,477	27,502	83,726	433,995	517,721	60,262
HI	13	31,029	17,663	133,870	6,025	17,663	139,895	157,558	25,676
IL	37	50,669	45,435	234,396	25,785	44,888	260,728	305,616	43,160
IN	15	10,987	12,447	58,247	5,850	12,447	64,097	76,544	11,698
KS	1	—	366	1,897	866	366	2,763	3,129	1,087
KY	11	34,066	8,640	68,679	18,260	9,412	86,167	95,579	12,296
LA	2	—	6,114	8,541	1,312	6,115	9,852	15,967	4,221
MA	46	105,046	73,544	270,243	50,778	73,725	320,840	394,565	80,863
MD	32	118,007	99,147	284,253	16,756	97,180	302,976	400,156	70,387
MI	7	5,792	9,583	51,359	3,239	9,583	54,598	64,181	5,740
MN	5	—	7,377	50,057	514	7,377	50,571	57,948	2,585
MO	5	—	4,129	15,444	4,107	4,086	19,594	23,680	7,392
MS	3	—	2,420	20,849	1,450	2,420	22,299	24,719	2,635
NC	19	28,221	31,969	104,104	7,379	31,967	111,485	143,452	11,241
NH	2	5,938	754	4,054	1,278	817	5,269	6,086	2,388
NJ	59	155,754	134,032	560,512	41,422	137,258	598,708	735,966	129,970
NM	11	17,689	32,252	71,142	5,049	32,252	76,191	108,443	9,373
NV	14	37,557	15,252	74,376	4,671	15,252	79,047	94,299	10,422
NY	27	43,218	121,945	230,875	34,801	122,680	264,941	387,621	59,450
OH	17	34,470	17,788	50,493	6,733	17,787	57,227	75,014	13,318
OR	6	30,267	7,906	39,576	2,042	7,906	41,618	49,524	7,545
PA	18	34,475	24,297	149,144	12,297	23,589	162,149	185,738	24,480
RI	2	11,841	3,191	6,926	1,253	3,191	8,179	11,370	2,939
SC	23	43,543	37,075	135,760	10,029	37,076	145,788	182,864	22,598
TN	17	45,601	25,938	91,497	8,750	25,938	100,247	126,185	18,046
TX	100	213,291	169,160	648,128	57,365	169,012	705,641	874,653	112,790
UT	10	13,181	9,008	39,295	2,247	9,008	41,542	50,550	9,854
VA	46	163,675	139,318	414,335	19,385	139,319	433,719	573,038	69,063
WA	8	20,345	12,528	47,645	2,694	12,530	50,337	62,867	11,380
DC	1	8,762	14,394	18,172	429	14,394	18,601	32,995	1,824
Other corporate assets		—	—	2,202	138,483	—	140,685	140,685	40,298
Intangible tenant relationships and lease rights		—	—	132,000	2,932	—	134,932	134,932	127,712
Construction in Progress/Undeveloped Land		—	5,978	—	39,788	3,372	42,394	45,766	—
Right of use asset - finance lease (1)		—	—	—	8,050	—	8,050	8,050	168
Totals (1)	930	\$ 2,249,685	\$ 1,938,111	\$ 6,462,425	\$ 770,180	\$ 1,938,923	\$ 7,231,793	\$ 9,170,716	\$ 1,473,852

(1) No right-of-use assets related to operating leases are included in the ending net real estate assets information above. As of December 31, 2019, there was a right-of-use asset relating to a finance lease in the amount of \$8,050 included in net real estate assets on the Company's consolidated balance sheets.

Extra Space Storage Inc. Schedule III (continued)

Activity in real estate facilities during the years ended December 31, 2019, 2018 and 2017 is as follows:

	2019	2018	2017
Operating facilities			
Balance at beginning of year	\$ 8,709,315	\$ 8,158,741	\$ 7,649,448
Acquisitions	303,588	459,223	628,391
Improvements	68,459	64,336	71,090
Transfers from construction in progress	59,614	49,449	19,079
Dispositions and other	(11,418)	(22,434)	(209,267)
Balance at end of year	<u>\$ 9,129,558</u>	<u>\$ 8,709,315</u>	<u>\$ 8,158,741</u>
Accumulated depreciation:			
Balance at beginning of year	\$ 1,262,438	\$ 1,060,060	\$ 900,861
Depreciation expense	212,202	203,030	185,903
Dispositions and other	(789)	(652)	(26,704)
Balance at end of year	<u>\$ 1,473,851</u>	<u>\$ 1,262,438</u>	<u>\$ 1,060,060</u>
Real estate under development/redevelopment:			
Balance at beginning of year	\$ 44,954	\$ 33,750	\$ 21,860
Current development	55,817	60,677	33,484
Transfers to operating facilities	(59,614)	(49,449)	(19,079)
Dispositions and other	—	(24)	(2,515)
Balance at end of year	<u>\$ 41,157</u>	<u>\$ 44,954</u>	<u>\$ 33,750</u>
Net non-lease real estate assets (1)	<u>\$ 7,696,864</u>	<u>\$ 7,491,831</u>	<u>\$ 7,132,431</u>

(1) No right-of-use assets related to operating leases are included in the ending net real estate assets information above. As of December 31, 2019, there was a right-of-use asset relating to a finance lease in the amount of \$8,050 included in net real estate assets on the Company's consolidated balance sheets.

As of December 31, 2019, the aggregate cost of real estate for U.S. federal income tax purposes was \$7,721,422.

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

None.

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 SEC, 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 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 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 meets quarterly and 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 at the reasonable assurance level 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 (2013 framework). Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2019. 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 independent registered public accounting firm, Ernst & Young LLP, has issued the following attestation report over our internal control over financial reporting.

(b) Attestation Report of the Registered Public Accounting Firm**Report of Independent Registered Public Accounting Firm****The Board of Directors and Stockholders of Extra Space Storage Inc.***Opinion on Internal Control over Financial Reporting*

We have audited Extra Space Storage, Inc.’s internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Extra Space Storage, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and financial statement schedule listed in the Index at Item 8 and our report dated February 25, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

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 included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

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.

/s/ Ernst & Young LLP

Salt Lake City, Utah
February 25, 2020

(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

Information required by this item is incorporated by reference to the information set forth under the captions “Information about our Executive Officers,” and “Information About the Board of Directors and its Committees” in our definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after December 31, 2019.

We have adopted a Code of Business Conduct and Ethics in compliance with rules of the SEC 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 Relations—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 300, Salt Lake City, Utah 84121, Attn: Jeff Norman or by telephoning (801) 365-4600.

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, 2019.

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 “Executive Compensation” and “Security Ownership of Directors and Officers” in our definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after December 31, 2019.

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

Information with respect to certain relationships 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, 2019.

Item 14. Principal Accounting Fees and Services

Information with respect to principal accounting fees and services is incorporated by reference to the information set forth under the caption “Ratification 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, 2019.

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:

<u>Exhibit Number</u>	<u>Description</u>
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 to Exhibit 2.1 of Form 8-K filed on May 11, 2005).
2.2	Agreement and Plan of Merger, dated as of June 15, 2015, among Extra Space Storage Inc., Extra Space Storage LP, Edgewater REIT Acquisition (MD) LLC, Edgewater Partnership Acquisition (DE) LLC, SmartStop Self Storage, Inc. and SmartStop Self Storage Operating Partnership, L.P. (incorporated by reference to Exhibit 2.1 of Form 8-K filed on June 15, 2015).
2.3	Amendment No. 1 to Agreement and Plan of Merger, dated as of July 16, 2015, among Extra Space Storage Inc., Extra Space Storage LP, Edgewater REIT Acquisition (MD) LLC, Edgewater Partnership Acquisition (DE) LLC, SmartStop Self Storage, Inc. and SmartStop Self Storage Operating Partnership, L.P. (incorporated by reference to Exhibit 2.1 of Form 8-K filed on July 16, 2015).
3.1	Amended and Restated Articles of Incorporation of Extra Space Storage Inc.(1)
3.2	Articles of Amendment of Extra Space Storage Inc., dated September 28, 2007 (incorporated by reference to Exhibit 3.1 of Form 8-K filed on October 3, 2007).
3.3	Articles of Amendment of Extra Space Storage Inc., dated August 29, 2013 (incorporated by reference to Exhibit 3.1 of Form 8-K filed on August 29, 2013).
3.4	Articles of Amendment of Extra Space Storage Inc., dated May 21, 2014 (incorporated by reference to Exhibit 3.1 of Form 8-K filed on May 28, 2014).
3.5	Second Amended and Restated Bylaws of Extra Space Storage Inc.(incorporated by reference to Exhibit 3.1 of Form 8-K filed on January 17, 2018)
3.6	Fourth Amended and Restated Agreement of Limited Partnership of Extra Space Storage LP (incorporated by reference to Exhibit 10.1 of Form 8-K filed on December 6, 2013).
3.7	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 to 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 to Exhibit 4.2 of Form 8-K filed on August 2, 2005).
4.3	Junior Subordinated Note (incorporated by reference to Exhibit 4.3 of Form 10-K filed on February 26, 2010)
4.4	Trust Preferred Security Certificates (incorporated by reference to Exhibit 4.4 of Form 10-K filed on February 26, 2010)
4.5	Indenture, dated September 21, 2015, among Extra Space Storage LP, as issuer, Extra Space Storage Inc., as guarantor, and Wells Fargo Bank, National Association, as trustee, including the form of 3.125% Exchangeable Senior Notes due 2035 and the form of guarantee (incorporated by reference to Exhibit 4.1 of Form 8-K filed on September 21, 2015).
4.6	Description of Securities(2)
10.1	Registration Rights Agreement, by and among Extra Space Storage Inc. and the parties listed on Schedule I thereto.(1)

<u>Exhibit Number</u>	<u>Description</u>
10.2	Joint Venture Agreement, dated June 1, 2004, by and between Extra Space Storage LLC and Prudential Financial, Inc.(1)
10.3	Registration Rights Agreement, dated June 20, 2005, among Extra Space Storage Inc. and the investors named therein (incorporated by reference to Exhibit 10.2 of Form 8-K filed on June 24, 2005).
10.4	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 to Exhibit 10.1 of Form 8-K filed on August 2, 2005).
10.5	Promissory Note, dated June 25, 2007, among Extra Space Storage LP, H. James Knuppe and Barbara Knuppe (incorporated by reference to Exhibit 10.2 of Form 8-K filed on June 26, 2007).
10.6	Pledge Agreement, dated June 25, 2007, among Extra Space Storage LP, H. James Knuppe and Barbara Knuppe (incorporated by reference to Exhibit 10.3 of Form 8-K filed on June 26, 2007).
10.7	Registration Rights Agreement among Extra Space Storage LP, H. James Knuppe and Barbara Knuppe. (incorporated by reference to Exhibit 10.26 of Form 10-K filed on February 26, 2010).
10.8	Membership Interest Purchase Agreement, dated as of April 13, 2012, between Extra Space Properties Sixty Three LLC and PRISA III Co-Investment LLC (incorporated by reference to Exhibit 10.1 of Form 8-K filed on April 16, 2012).
10.9	Extra Space Storage Inc. Executive Change in Control Plan (incorporated by reference to Exhibit 10.1 of Form 8-K filed on August 31, 2010).
10.10	Letter Agreement, dated as of November 22, 2013, amending the Contribution Agreement, dated June 15, 2007, among Extra Space Storage LP and various limited partnerships affiliated with AAAAA Rent-A-Space, and the Promissory Note, dated June 25, 2007, among Extra Space Storage LP, H. James Knuppe and Barbara Knuppe (incorporated by reference to Exhibit 10.1 of Form 10-Q filed on May 8, 2014).
10.11	Letter Agreement, dated April 18, 2017, amending the Promissory Note and Waiving a Portion of the Series A Preferred Priority Return, among Extra Space Storage LP, ESS Holdings Business Trust I, H. James Knuppe and Barbara Knuppe (incorporated by reference to Exhibit 10.1 of Form 10-Q filed on May 5, 2017).
10.12*	2015 Incentive Award Plan (incorporated by reference to the Definitive Proxy Statement on Schedule 14A filed on April 14, 2015)
10.13*	Form of 2015 Incentive Award Plan Performance Stock Award Agreement(2)
10.14	Registration Rights Agreement, dated September 21, 2015, among Extra Space Storage LP, Extra Space Storage Inc., Citigroup Global Markets Inc. and Wells Fargo Securities, LLC, as representatives of the initial purchasers (incorporated by reference to Exhibit 10.1 of Form 8-K filed on September 21, 2015).
10.15	Credit Agreement, dated as of October 14, 2016, by and among Extra Space Storage Inc., Extra Space Storage LP, U.S. Bank National Association, as administrative agent, certain other financial institutions acting as syndication agents, documentation agents, senior management agents and lead arrangers and book runners, and certain lenders party thereto (incorporated by reference to Exhibit 10.1 of Form 8-K filed on October 17, 2016).
10.16*	2004 Long-Term Compensation Incentive Plan as amended and restated effective March 25, 2008 (incorporated by reference to the Definitive Proxy Statement on Schedule 14A filed on April 14, 2008)
10.17*	Form of 2004 Long Term Incentive Compensation Plan Option Award Agreement for Employees with employment agreements. (incorporated by reference to Exhibit 10.11 of Form 10-K filed on February 26, 2010).
10.18*	Form of 2004 Long Term Incentive Compensation Plan Option Award Agreement for employees without employment agreements. (incorporated by reference to Exhibit 10.12 of Form 10-K filed on February 26, 2010).
10.19*	Form of 2004 Non-Employee Directors Share Plan Option Award Agreement for Directors. (incorporated by reference to Exhibit 10.13 of Form 10-K filed on February 26, 2010).
10.20*	2004 Long Term Incentive Compensation Plan Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.2 of Form 10-Q filed on November 7, 2007).
10.21*	First Amendment to Extra Space Storage Inc. 2004 Non-Employee Directors' Share Plan (incorporated by reference to Exhibit 10.4 of Form 10-Q filed on November 7, 2007).
10.22*	Extra Space Storage 2004 Non-Employee Directors' Share Plan (incorporated by reference to Exhibit 10.22 of Form 10-K/A filed on March 20, 2007).
10.23	Note Purchase Agreement, dated as of June 29, 2017, by and among Extra Space Storage Inc., Extra Space Storage LP and the purchasers named therein (incorporated by reference to Exhibit 10.1 of Form 8-K filed on June 30, 2017).
10.24	Note Purchase Agreement, dated as of May 25, 2018, by and among Extra Space Storage Inc., Extra Space Storage LP and the purchasers named therein (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on May 31, 2018).

Exhibit Number	Description
10.25	Amended and Restated Credit Agreement, dated as of December 7, 2018, by and among Extra Space Storage Inc., Extra Space Storage LP, U.S. Bank National Association, as administrative agent, certain other financial institutions acting as syndication agents, documentation agents and lead arrangers and book runners, and certain lenders party thereto (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on December 10, 2018).
10.26	Amendment No. 1, dated as of July 1, 2019, to the Amended and Restated Credit Agreement, dated as of December 7, 2018, by and among Extra Space Storage Inc., Extra Space Storage LP, U.S. Bank National Association, as administrative agent, certain other financial institutions acting as syndication agents, documentation agents and lead arrangers and book runners, and certain lenders party thereto (incorporated by reference to Exhibit 10.1 of Form 8-K filed on July 8, 2019).
21.1	Subsidiaries of the Company(2)
23.1	Consent of Ernst & Young LLP(2)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.(2)
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.(2)
32.1	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.(2)
101	The following financial information from Registrant's Annual Report on Form 10-K for the period ended December 31, 2019, formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets as of December 31, 2019 and 2018; (ii) Consolidated Statements of Operations for the years ended December 31, 2019, 2018 and 2017; (iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2019, 2018 and 2017; (iv) Consolidated Statements of Stockholders' Equity for the years ended December 31, 2019, 2018 and 2017; (v) Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017; and (vi) Notes to Consolidated Financial Statements(2).
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).

* Management compensatory plan or arrangement

- (1) Incorporated by reference to Registration Statement on Form S-11 (File No. 333-115436 dated August 11, 2004).
- (2) Filed herewith.
- (3) See Item 15(a)(2) above.

Item 16. Form 10K Summary

None.

**DESCRIPTION OF THE REGISTRANT'S SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934**

The following is a summary of the general terms of the common stock of Extra Space Storage Inc., a Maryland corporation (“we,” “our,” “us” and “our company”), which is the only class of securities our company has registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). This description does not purport to be complete and is subject to, and qualified in its entirety by reference to, the Maryland General Corporation Law (the “MGCL”) and our charter (the “charter”) and bylaws (“bylaws”). Copies of our charter and bylaws are filed as exhibits to our most recent Annual Report on Form 10-K with the United States Securities and Exchange Commission (the “SEC”), and are incorporated herein by reference.

GENERAL

Our charter provides that we may issue up to 500,000,000 shares of our common stock, par value \$0.01 per share, and 50,000,000 shares of preferred stock, par value \$0.01 per share. Our charter authorizes our board of directors, with the approval of a majority of our board of directors and without stockholder approval, to amend our charter from time to time to increase or decrease the aggregate number of authorized shares of stock or the number of authorized shares of stock of any class or series.

COMMON STOCK**Distributions**

Subject to the preferential rights of any other class or series of stock and to the provisions of our charter regarding the restrictions on ownership and transfer of stock, holders of shares of our common stock are entitled to receive dividends on such stock if, as and when authorized by our board of directors out of assets legally available therefor and declared by us and to share ratably in the assets of our company legally available for distribution to our stockholders in the event of our liquidation, dissolution or winding up after payment of or adequate provision for all known debts and liabilities of our company.

Voting Rights Generally

Subject to the provisions of our charter regarding the restrictions on ownership and transfer of stock, and except as may otherwise be specified in the terms of any class or series of our common stock, each outstanding share of our common stock entitles the holder to one vote on all matters submitted to a vote of stockholders, including the election of directors and, except as provided with respect to any other class or series of stock, the holders of such shares will possess the exclusive voting power. There is no cumulative voting in the election of our board of directors, which means that the holders of a majority of the outstanding shares of our common

stock can elect all of the directors then standing for election and the holders of the remaining shares will not be able to elect any directors.

Preemptive Rights and Other Rights

Holders of shares of our common stock have no preference, conversion, exchange, sinking fund, redemption or appraisal rights and have no preemptive rights to subscribe for any of our securities. Subject to the provisions of our charter regarding the restrictions on ownership and transfer of stock, shares of our common stock will have equal dividend, liquidation and other rights.

Voting Rights Related to Extraordinary Actions

Under the MGCL, a Maryland corporation generally cannot dissolve, amend its charter, merge, sell all or substantially all of its assets, convert into another entity, engage in a statutory share exchange or engage in similar transactions outside the ordinary course of business unless declared advisable by the board of directors and approved by its stockholders by the affirmative vote of two-thirds of the votes entitled to be cast on the matter, unless a lesser percentage (but not less than a majority of all of the votes entitled to be cast on the matter) is set forth in the corporation's charter. Except for certain charter amendments, our charter provides that any such action shall be effective if approved by the affirmative vote of stockholders entitled to cast a majority of all of the votes entitled to be cast on the matter. However, our operating assets may be held by our subsidiaries and these subsidiaries may be able to transfer all of their assets without any vote of our stockholders.

Power to Increase Authorized Stock and Issue Additional Shares of Our Common Stock

Our charter authorizes our board of directors to reclassify any unissued shares of our common stock into other classes or series of stock, and to establish the number of shares in each class or series, and to set the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms and conditions of redemption for each such class or series.

We believe that the power of our board of directors to (1) amend our charter to increase the number of authorized shares of stock or the number of authorized shares of stock of any class or series, (2) cause us to issue additional authorized but unissued shares of our common stock and (3) classify or reclassify unissued shares of our common stock and thereafter to cause us to issue such classified or reclassified shares of stock will provide us with increased flexibility in structuring possible future financings and acquisitions and in meeting other needs which might arise. The additional classes or series, as well as the common stock, will be available for issuance without further action by our stockholders, unless stockholder consent is required by applicable law or the rules of any stock exchange or automated quotation system on which our securities may be listed or traded. Although our board of directors does not currently intend to do so, it could authorize us to issue a class or series of stock that could, depending upon the terms of the particular class or series, delay, defer or prevent a transaction or a change of control

of our company that might involve a premium price for our stockholders or otherwise be in their best interests.

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company.

Restrictions on Ownership and Transfer

To qualify as a real estate investment trust (“REIT”) under the Internal Revenue Code of 1986, as amended (the “Code”), our stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of twelve months (other than the first year for which an election to be a REIT has been made) or during a proportionate part of a shorter taxable year. Also, not more than 50% of the value of our outstanding shares of stock may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities such as qualified pension plans) during the last half of a taxable year (other than the first year for which an election to be a REIT has been made).

Our charter contains restrictions on the ownership and transfer of our common stock and outstanding capital stock which are intended to assist us in complying with these requirements and continuing to qualify as a REIT, among other purposes. The relevant sections of our charter provide that, subject to the exceptions described below, no person or entity (other than a designated investment entity) may beneficially own, or be deemed to own by virtue of the applicable constructive ownership provisions of the Code, more than 7.0% (by value or by number of shares, whichever is more restrictive) of our outstanding common stock (the common stock ownership limit) or 7.0% (by value or by number of shares, whichever is more restrictive) of our outstanding capital stock (the aggregate stock ownership limit). No designated investment entity (as defined in our charter) may beneficially own, or be deemed to own by virtue of the applicable constructive ownership provisions of the Code, more than 9.8% (by value or by number of shares, whichever is more restrictive) of our outstanding common stock or 9.8% (by value or by number of shares, whichever is more restrictive) of our outstanding capital stock. We refer to these restrictions as the “ownership limits.” In addition, different excepted holder ownership limits apply to the family of Kenneth M. Woolley, our Chairman, and certain of his affiliates, family members and estates and trusts formed for the benefit of the foregoing, and Spencer F. Kirk, a director and our former Chief Executive Officer, and certain of his affiliates, family members and estates and trusts formed for the benefit of the foregoing. A person or entity that becomes subject to the ownership limit by virtue of a violative transfer that results in a transfer to a trust, as set forth below, is referred to as a “purported beneficial transferee” if, had the violative transfer been effective, the person or entity would have been a record owner and beneficial owner or solely a beneficial owner of our common stock, or is referred to as a “purported record transferee” if, had the violative transfer been effective, the person or entity would have been solely a record owner of our common stock.

Our charter defines a “designated investment entity” as:

- an entity that is a pension trust that qualifies for look-through treatment under Section 856(h) of the Code;
- an entity that qualifies as a regulated investment company under Section 851 of the Code; or
- an entity that (a) for compensation engages in the business of advising others as to the value of securities or as to the advisability of investing in, purchasing, or selling securities; (b) purchases securities in the ordinary course of its business and not with the purpose or effect of changing or influencing control of us, nor in connection with or as a participant in any transaction having such purpose or effect, including any transaction subject to Rule 13d-3(b) of the Exchange Act; and (c) has or shares voting power and investment power within the meaning of Rule 13d-3(a) under the Exchange Act, so long as such beneficial owner of such entity, or in the case of an investment management company, the individual account holders of the accounts managed by such entity, would satisfy the 7.0% ownership limit if such beneficial owner or account holder owned directly its proportionate share of the shares held by the entity.

The constructive ownership rules under the Code are complex and may cause stock owned actually or constructively by a group of related individuals and/or entities to be owned constructively by one individual or entity. As a result, the acquisition of less 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 (or the acquisition of an interest in an entity that owns, actually or constructively, our capital stock by an individual or entity), could, nevertheless, cause that individual or entity, or another individual or entity, to own constructively in excess of 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, and thereby violate one or more of the applicable ownership limits.

Our board of directors may, in its sole discretion, waive (prospectively or retroactively) the applicable ownership limit with respect to a particular stockholder if:

- our board of directors obtains such representations and undertakings from such stockholder as are reasonably necessary to ascertain that no person's beneficial or constructive ownership of our stock will result in our being "closely held" under Section 856(h) of the Code or otherwise failing to qualify as a REIT;
- our board of directors determines that such stockholder does not own, and will not own, actually or constructively, an interest in a tenant of ours (or a tenant of any entity owned in whole or in part by us) that would cause us to own, actually or constructively, more than a 9.9% interest (as set forth in Section 856(d)(2)(B) of the Code) in such tenant (or our board of directors determines that revenue derived from such tenant will not affect our ability to qualify as a REIT) and our board of directors

obtains such representations and undertakings from such stockholder as are reasonably necessary to ascertain this fact; and

- such stockholder agrees that any violation or attempted violation of such representations or undertakings, or other action which is contrary to the restrictions described herein, will result in such shares of stock being automatically transferred to a charitable trust.

As a condition of our waiver, our board of directors may require an opinion of counsel or an Internal Revenue Service ruling satisfactory to our board of directors with respect to our REIT qualification. Notwithstanding the receipt of any such opinion or ruling, our board of directors may impose such conditions or restrictions as it deems appropriate in connection with granting such waiver.

In connection with the waiver of an ownership limit or at any other time, our board of directors may from time to time increase or decrease the ownership limit for all other persons and entities; provided, however, that any decrease may be made only prospectively as to subsequent holders (other than a decrease as a result of a retroactive change in existing law, in which case the decrease shall be effective immediately); and the ownership limit may not be increased if, after giving effect to such increase, five persons (other than a designated investment entity) could beneficially own or constructively own in the aggregate, more than 49.9% of the value of our shares of capital stock then outstanding. A reduced ownership limit will not apply to any person or entity whose percentage ownership in our common stock or capital stock, as applicable, is in excess of such decreased ownership limit until such time as such person or entity's percentage of our common stock or our capital stock, as applicable, equals or falls below the decreased ownership limit, but any further acquisition of our common stock or capital stock, as applicable, in excess of such percentage ownership of our common stock or capital stock will be in violation of the ownership limit.

Our charter further prohibits:

- any person from beneficially or constructively owning shares of our stock that would result in our being "closely held" under Section 856(h) of the Code or otherwise cause us to fail to qualify as a REIT; and
- any person from transferring shares of our common stock if such transfer would result in shares of our common stock being beneficially owned by fewer than 100 persons (determined without reference to any rules of attribution).

Any person who acquires or attempts to acquire beneficial or constructive ownership of shares of our capital stock that will, or may, violate any of the foregoing restrictions on transferability and ownership, will be required to give written notice immediately to us and provide us with such other information as we may request in order to determine the effect of such transfer or attempted transfer on our qualification as a REIT. The foregoing provisions on transferability and 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.

Pursuant to our charter, if any transfer of common stock would result in such shares being beneficially owned by fewer than 100 persons, such transfer will be null and void and the intended transferee will acquire no rights in such shares. In addition, if any purported transfer of our capital stock, or any other event would otherwise result in any person violating the ownership limits, or such other limit as established by our board of directors, or in our being “closely held” under Section 856(h) of the Code, or otherwise failing to qualify as a REIT, then that number of shares (rounded up to the nearest whole share) that would cause us to violate such restrictions will be automatically transferred to, and held by, a trust for the exclusive benefit of one or more charitable organizations selected by us and the intended transferees will acquire no rights in such shares. The trustee of the trust will have all of the voting rights and rights to dividends or other distributions with respect to shares held in the trust. These rights will be exercised for the exclusive benefit of the charitable beneficiary. The automatic transfer will be effective as of the close of business on the business day prior to the date of the violative transfer or other event that results in a transfer to the trust. Any dividend or other distribution paid to the purported record transferee, prior to our discovery that the shares had been automatically transferred to a trust as described above, must be repaid to the trustee upon demand for distribution to the beneficiary of the trust. If the transfer to the trust as described above is not automatically effective, for any reason, to prevent the violation, then our charter provides that the transfer of the shares will be null and void and the intended transferee will acquire no rights in such shares.

Shares of our capital stock transferred to the trustee are deemed offered for sale to us, or our designee, at a price per share equal to the lesser of (1) the price paid by the purported record transferee for the shares (or, if the event which resulted in the transfer to the trust did not involve a purchase of such shares of our stock at market price, the last reported sales price on the trading day immediately preceding the day of the event which resulted in the transfer of such shares of our stock to the trust) and (2) the market price on the date we accept, or our designee accepts, such offer. We have the right to accept such offer until the trustee has sold the shares of our capital stock held in the trust pursuant to the clauses discussed below. Upon a sale to us, the interest of the charitable beneficiary in the shares sold terminates and the trustee must distribute the net proceeds of the sale to the purported record transferee and any dividends or other distributions held by the trustee with respect to such capital stock will be paid to the charitable beneficiary.

If we do not buy the shares, the trustee must, within 20 days of receiving notice from us of the transfer of shares to the trust, sell the shares to a person or entity designated by the trustee who could own the shares without violating the ownership limits. After that, the trustee must distribute to the purported record transferee an amount equal to the lesser of (1) the price paid by the purported record transferee for the shares (or, if the event which resulted in the transfer to the trust did not involve a purchase of such shares at market price, the last reported sales price reported on the trading day immediately preceding the relevant date) and (2) the sales proceeds (net of commissions and other expenses of sale) received by the trust for the shares. The purported beneficial transferee or purported record transferee has no rights in the shares held by the trustee.

The trustee shall be designated by us and shall be unaffiliated with us and with any purported record transferee or purported beneficial transferee. Prior to the sale of any shares by the trust, the trustee will receive, in trust for the beneficiary, all dividends and other distributions paid by us with respect to the shares, and may also exercise all voting rights with respect to the shares.

Subject to Maryland law, effective as of the date that the shares have been transferred to the trust, the trustee shall have the authority, at the trustee's sole discretion:

- to rescind as void any vote cast by a purported record transferee prior to our discovery that the shares have been transferred to the trust; and
- to recast such vote in accordance with the desires of the trustee acting for the benefit of the beneficiary of the trust.

However, if we have already taken irreversible corporate action, then the trustee may not rescind and recast the vote.

Any beneficial owner or constructive owner of shares of our capital stock and any person or entity (including the stockholder of record) who is holding shares of our capital stock for a beneficial owner must, within 30 days after the end of each taxable year, provide us with a completed questionnaire containing the information regarding their ownership of such shares, as set forth in the applicable Treasury regulations. In addition, any person or entity that is a beneficial owner or constructive owner of shares of our capital stock and any person or entity (including the stockholder of record) who is holding shares of our capital stock for a beneficial owner or constructive owner shall, on request, be required to disclose to us in writing such information as we may request in order to determine the effect, if any, of such stockholder's actual and constructive ownership of shares of our capital stock on our qualification as a REIT and to ensure compliance with the ownership limits, or as otherwise permitted by our board of directors.

All certificates, if any, representing shares of our capital stock bear a legend referring to the restrictions described above.

These ownership limits could delay, defer or prevent a transaction or a change of control of our company that might involve a premium price for our stock or otherwise be in the best interests of our stockholders.

CERTAIN PROVISIONS OF MARYLAND LAW AND OF OUR CHARTER AND BYLAWS

Our Board of Directors

Our charter and bylaws provide that the number of directors of our company may be established by our board of directors but may not be fewer than the minimum number permitted under the MGCL nor more than 15. Except as may be provided by our board of directors in

setting the terms of any class or series of preferred stock, any vacancy may be filled, at any regular meeting or at any special meeting called for that purpose, only by a majority of the remaining directors, even if the remaining directors do not constitute a quorum, and the director elected to fill the vacancy will serve for the remainder of the full directorship in which the vacancy occurred and until a successor is elected and qualifies.

Each of our directors is elected by our common stockholders entitled to vote to serve until the next annual meeting and until their successors are duly elected and qualify. Pursuant to our bylaws, directors in uncontested elections are elected upon the affirmative vote of a majority of the total votes cast for and against such nominee at a duly called meeting of stockholders, and directors in contested elections are elected by a plurality of all of the votes cast. In both uncontested and contested elections, holders of shares of our common stock have no right to cumulative voting in the election of directors. Consequently, at each annual meeting of stockholders, the holders of a majority of the shares of our common stock entitled to vote will be able to elect all of our directors (subject to the rights of our preferred stock and any other class or series of stock to elect directors).

Removal of Directors

Our charter provides that, subject to the rights of holders of one or more classes or series of preferred stock to elect or remove one or more directors, a director may be removed only for cause (as defined in our charter) and only by the affirmative vote of at least two-thirds of the votes of stockholders entitled to be cast generally in the election of directors. This provision, when coupled with the exclusive power of our board of directors to fill vacant directorships, precludes stockholders from removing incumbent directors except upon the existence of cause for removal and a substantial affirmative vote, and filling the vacancies created by such removal with their own nominees.

Business Combinations

Under the MGCL, certain “business combinations” (including a merger, consolidation, statutory share exchange or, in certain circumstances, an asset transfer or issuance or reclassification of equity securities) between a Maryland corporation and an interested stockholder (i.e., any person who beneficially owns, directly or indirectly, 10% or more of the voting power of the corporation’s outstanding voting stock or an affiliate or associate of the corporation who, at any time within the two-year period immediately prior to the date in question, was the beneficial owner, directly or indirectly, of 10% or more of the voting power of the then outstanding stock of the corporation) or an affiliate of such an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. Thereafter, any such business combination must be recommended by the board of directors of such corporation and approved by the affirmative vote of at least (1) 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation and (2) two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom (or with whose affiliate) the business combination is to be effected or held by an affiliate or associate of the interested stockholder, unless, among other conditions, the corporation’s common stockholders

receive a minimum price (as defined in the MGCL) for their shares and the consideration is received in cash or in the same form as previously paid by the interested stockholder for its shares. A person is not an interested stockholder under the statute if the board of directors approved in advance the transaction by which the person otherwise would have become an interested stockholder. Our board of directors may provide that its approval is subject to compliance with any terms and conditions determined by it.

These provisions of the MGCL do not apply, however, to business combinations that are approved or exempted by a board of directors prior to the time that the interested stockholder becomes an interested stockholder. Pursuant to the statute, our board of directors has by resolution exempted Kenneth M. Woolley, his affiliates and associates and all persons acting in concert with the foregoing, and Spencer F. Kirk, his affiliates and associates and all persons acting in concert with the foregoing, from these provisions of the MGCL and, consequently, the five-year prohibition and the supermajority vote requirements will not apply to business combinations between us and any person described above. As a result, any person described above may be able to enter into business combinations with us that may not be in the best interests of our stockholders without compliance by our company with the supermajority vote requirements and the other provisions of the statute.

Control Share Acquisitions

The MGCL provides that holders of “control shares” of a Maryland corporation acquired in a “control share acquisition” have no voting rights with respect to the control shares except to the extent approved at a special meeting by the affirmative vote of two-thirds of the votes entitled to be cast on the matter, excluding shares of stock in a corporation in respect of which any of the following persons is entitled to exercise or direct the exercise of the voting power of shares of stock of the corporation in the election of directors: (1) a person who makes or proposes to make a control share acquisition, (2) an officer of the corporation or (3) an employee of the corporation who is also a director of the corporation. “Control shares” are voting shares of stock which, if aggregated with all other such shares of stock owned by the acquirer or in respect of which the acquirer is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquirer to exercise voting power in electing directors within one of the following ranges of voting power: (a) one-tenth or more but less than one-third, (b) one-third or more but less than a majority, or (c) a majority or more of all voting power. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A “control share acquisition” means the acquisition of issued and outstanding control shares, subject to certain exceptions.

A person who has made, or proposes to make, a control share acquisition, upon satisfaction of certain conditions (including an undertaking to pay expenses), may compel our board of directors to call a special meeting of stockholders to be held within 50 days of demand and undertaking to pay expenses to consider the voting rights of the shares. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then, subject to certain conditions and

limitations, the corporation may redeem any or all of the control shares (except those for which voting rights have previously been approved) for fair value determined, without regard to the absence of voting rights for the control shares, as of the date of any meeting of stockholders at which the voting rights of such shares are considered and not approved or, if no such meeting is held, as of the date of the last control share acquisition by the acquirer. If voting rights for control shares are approved at a stockholders meeting and the acquirer becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of such appraisal rights may not be less than the highest price per share paid by the acquirer in the control share acquisition.

The control share acquisition statute does not apply (1) to shares acquired in a merger, consolidation or statutory share exchange if the corporation is a party to the transaction or (2) to acquisitions approved or exempted by the charter or bylaws of the corporation.

Our bylaws contain a provision exempting from the control share acquisition statute any and all acquisitions by any person of our stock. There can be no assurance that such provision will not be amended or eliminated at any time in the future.

Other Takeover Defense Provisions of Maryland Law

Subtitle 8 of Title 3 of the MGCL permits a Maryland corporation with a class of equity securities registered under the Exchange Act and with at least three independent directors to elect to be subject by provision in its charter or bylaws or a resolution of its board of directors and notwithstanding any contrary provision in the charter or bylaws, to any or all of five provisions:

- a classified board;
- a two-thirds vote requirement to remove a director;
- a requirement that the number of directors be fixed only by the vote of the directors;
- a requirement that a vacancy on the board be filled only by the remaining directors and for the remainder of the full term of class of directors in which the vacancy occurred and until a successor is elected and qualifies; and
- a majority requirement for the calling of a stockholder-requested special meeting of stockholders.

Pursuant to Subtitle 8, we have elected to provide that vacancies on our board may be filled only by the remaining directors and for the remainder of the full term of the directorship in which the vacancy occurred. Through provisions in our charter and bylaws unrelated to Subtitle 8, we already (1) require the affirmative vote of the stockholders entitled to cast not less than two-thirds of all of the votes entitled to be cast on the matter for the removal of any director from the board, which removal is only allowed for cause and (2) require the written request of stockholders entitled to cast not less than a majority of all votes entitled to be cast at such

meeting to call a special meeting of our stockholders, unless such meeting is called by our chairman of the board, our president, our chief executive officer or the board.

Amendment to Our Charter and Bylaws

Except for amendments relating to removal of directors and the restrictions on ownership and transfer of our stock and amendments relating to the vote required to amend these provisions (which each require the affirmative vote of the stockholders entitled to cast not less than two-thirds of all the votes entitled to be cast on the matter), our charter may be amended only if declared advisable by our board of directors and approved by the affirmative vote of the stockholders entitled to cast not less than a majority of all of the votes entitled to be cast on the matter.

Our board of directors has the power to adopt, alter or repeal any provision of our bylaws and to make new bylaws. Additionally, our bylaws may be amended by stockholders by the affirmative vote of a majority of the votes entitled to be cast on the matter.

Proxy Access

Our bylaws include provisions permitting, subject to certain eligibility, procedural and disclosure requirements, qualifying stockholders, or a qualifying group of no more than 20 stockholders, who have maintained continuous ownership of at least 3% of our outstanding shares of common stock for at least three years to require us to include in our proxy materials for an annual meeting of stockholders a number of director nominees constituting up to 20% of the number of directors serving on our board of directors (rounded down to the nearest whole number, but not less than one).

Advance Notice of Director Nominations and New Business

Our bylaws provide that with respect to an annual meeting of stockholders, nominations of individuals for election to our board of directors and the proposal of business to be considered by stockholders may be made only (1) pursuant to our notice of the meeting, (2) by or at the direction of our board of directors or (3) by a stockholder who was a stockholder of record both at the time of giving of notice and at the time of the annual meeting, who is entitled to vote at the meeting in the election of directors or on the proposal of other business, as the case may be, and who has complied with the advance notice procedures set forth in our bylaws.

With respect to special meetings of stockholders, only the business specified in our notice of meeting may be brought before the meeting. Nominations of individuals for election to our board of directors may be made only (1) pursuant to our notice of the meeting, (2) by or at the direction of our board of directors or (3) provided that our board of directors has determined that directors shall be elected at such meeting, by a stockholder who was a stockholder of record both at the time of giving of notice and at the time of the special meeting, who is entitled to vote at the meeting and who has complied with the advance notice provisions set forth in our bylaws.

Generally, under our bylaws, a stockholder seeking to nominate a director or bring other business before our annual meeting of stockholders must deliver a notice to our secretary not later than 5:00 p.m., Mountain Time, on the 120th day, nor earlier than the 150th day, prior to the first anniversary of the date of the proxy statement for the prior year's annual meeting. In addition, a stockholder seeking to nominate a director at a special meeting of stockholders must deliver notice to our secretary not earlier than the 150th day prior to such special meeting nor later than 5:00 p.m., Mountain Time, on the later of the 120th day prior to such special meeting or the tenth day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by our board of directors to be elected at such meeting. For a stockholder seeking to nominate a candidate for our board of directors, the notice must describe various matters regarding the nominee, including name, address, occupation and number of shares held, and other specified matters. For a stockholder seeking to propose other business, the notice must include a description of the proposed business, the reasons for the proposal and other specified matters.

Anti-Takeover Effect of Certain Provisions of Maryland Law and of Our Charter and Bylaws

Our charter and bylaws and Maryland law contain provisions that may delay, defer or prevent a change of control or other transaction that might involve a premium price for our stock or otherwise be in the best interests of our stockholders, including business combination provisions, supermajority vote and cause requirements for removal of directors and advance notice requirements for director nominations and stockholder proposals. Likewise, if the provision in the bylaws opting out of the control share acquisition provisions of the MGCL were rescinded, these provisions of the MGCL could have similar anti-takeover effects.

Indemnification and Limitation of Directors' and Officers' Liability

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (1) actual receipt of an improper benefit or profit in money, property or services or (2) active and deliberate dishonesty established by a final judgment and which is material to the cause of action. Our charter contains such a provision which eliminates such liability to the maximum extent permitted by Maryland law.

The MGCL requires a corporation (unless its charter provides otherwise, which our company's charter does not) to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service in that capacity. The MGCL permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made, or threatened to be made, a party by reason of their service in those or other capacities unless it is established that:

- the act or omission of the director or officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result of active and deliberate dishonesty;
- the director or officer actually received an improper personal benefit in money, property or services; or
- in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful.

However, under the MGCL, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that personal benefit was improperly received, unless in either case a court orders indemnification and then only for expenses. In addition, the MGCL permits a corporation to advance reasonable expenses to a director or officer upon the corporation's receipt of:

- a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation; and
- a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

Our charter authorizes us to obligate us and our bylaws obligate us, to the maximum extent permitted by Maryland law in effect from time to time, to indemnify and, without requiring a preliminary determination of the ultimate entitlement to indemnification, pay or reimburse reasonable expenses in advance of final disposition of a proceeding to:

- any present or former director or officer who is made, or threatened to be made, a party to the proceeding by reason of his or her service in that capacity; or
- any individual who, while a director or officer of our company and at our request, serves or has served as a director, officer, partner or trustee of another corporation, REIT, partnership, joint venture, trust, employee benefit plan or other enterprise and who is made, or threatened to be made, a party to the proceeding by reason of his or her service in that capacity.

Our charter and bylaws also permit us, with the approval of our board of directors, to indemnify and advance expenses to any person who served a predecessor of ours in any of the capacities described above and to any employee or agent of our company or a predecessor of our company.

We have entered into indemnification agreements with each of our directors and executive officers. The indemnification agreements require, among other matters, that we indemnify our directors and executive officers to the maximum extent permitted by law and

advance to the directors and executive officers all related expenses, subject to reimbursement if it is subsequently determined that indemnification is not permitted. Under these agreements, we must also indemnify and advance all expenses incurred by directors and executive officers seeking to enforce their rights under the indemnification agreements and may cover directors and executive officers under our directors' and officers' liability insurance. Although indemnification agreements offer substantially the same scope of coverage afforded under the bylaws, they provide greater assurance to directors and executive officers that indemnification will be available, because, as contracts, they cannot be modified unilaterally in the future by the board of directors to eliminate the rights they provide.

EXTRA SPACE STORAGE INC.

2015 INCENTIVE AWARD PLAN

PERFORMANCE STOCK UNIT AWARD GRANT NOTICE AND
PERFORMANCE STOCK UNIT AWARD AGREEMENT

Extra Space Storage Inc., a Maryland corporation (the “**Company**”), pursuant to its 2015 Incentive Award Plan (as amended from time to time, the “**Plan**”), hereby grants to the individual listed below (“**Participant**”), an award of performance-based restricted stock units (“**Performance Stock Units**” or “**PSUs**”) with respect to the number of shares of the Company’s Common Stock (the “**Shares**”) set forth below. Each PSU is hereby granted in tandem with a corresponding dividend equivalent (the “**Dividend Equivalents**”). This award for Performance Stock Units and Dividend Equivalents (this “**PSU Award**”) is subject to all of the terms and conditions set forth in this Performance Stock Unit Award Grant Notice (the “**Grant Notice**”) and in the Performance Stock Unit Award Agreement attached hereto as Exhibit A (the “**Agreement**”) and the Plan, each of which are incorporated herein by reference. Unless otherwise defined herein, the terms defined in the Plan shall have the same defined meanings in this Grant Notice and the Agreement.

Participant: —

Grant Date: —

Target Number of PSUs: —

Maximum Number of PSUs: —

Distribution Schedule: Subject to the terms of the Performance Stock Unit Agreement, the PSUs and the Dividend Equivalents shall be distributable as they vest pursuant to the Vesting Schedule in accordance with Section 1.1(c) of the Agreement.

Vesting Schedule: Subject to the terms of the Agreement, the PSUs and the Dividend Equivalents shall vest as set forth on Exhibit B to this Grant Notice.

By his or her signature below, Participant agrees to be bound by the terms and conditions of the Plan, the Agreement and this Grant Notice. Participant has reviewed the Agreement, the Plan and this Grant Notice in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Grant Notice and fully understands all provisions of this Grant Notice, the Agreement and the Plan. Participant has been provided with a copy or electronic access to a copy of the prospectus for the Plan. Participant hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions arising under the Plan, this Grant Notice or the Agreement.

EXTRA SPACE STORAGE INC.

PARTICIPANT

By: —
Print Name: —
Title: —

By: —
Print
Name:

EXHIBIT A

TO PERFORMANCE STOCK UNIT AWARD GRANT NOTICE

PERFORMANCE STOCK UNIT AWARD AGREEMENT

Pursuant to the Grant Notice to which this Agreement is attached, the Company has granted to Participant the number of PSUs indicated in the Grant Notice and their corresponding Dividend Equivalents. The PSU Award is subject to the terms and conditions set forth in this Agreement and the Plan, which is incorporated herein by reference. In the event of any inconsistency between the Plan and this Agreement, the terms of the Plan shall control.

ARTICLE I.

AWARD; VESTING; DISTRIBUTION

1.1 Terms of Performance Stock Units and Dividend Equivalents.

(a) Award.

(i) In consideration of Participant's past and/or continued employment with or service to the Company or any Affiliate and for other good and valuable consideration, the Company hereby grants to Participant the right to receive the number of PSUs set forth in the Grant Notice and their corresponding Dividend Equivalents, subject to all of the terms and conditions set forth in this Agreement, the Grant Notice and the Plan. Prior to actual issuance of any Shares, the PSUs, the Dividend Equivalents and the PSU Award represent an unsecured obligation of the Company, payable only from the general assets of the Company.

(ii) The Company hereby grants to Participant, with respect to each PSU, a Dividend Equivalent for ordinary cash dividends paid to substantially all holders of outstanding Shares with a record date after the Grant Date and prior to the date the applicable PSU is settled, forfeited or otherwise expires. Each Dividend Equivalent entitles Participant to receive the equivalent value of any such ordinary cash dividends paid on a single Share. The Company will establish a separate Dividend Equivalent bookkeeping account (a "***Dividend Equivalent Account***") for each Dividend Equivalent and credit the Dividend Equivalent Account (without interest) on the applicable dividend payment date with the amount of any such cash paid.

(b) Vesting. The PSUs subject to the PSU Award shall vest in accordance with the Vesting Schedule set forth in Exhibit B to the Grant Notice. Unless and until the PSUs have vested in accordance with the Vesting Schedule set forth in the Grant Notice, Participant will have no right to any distribution with respect to such PSUs. In the event of Participant's Termination of Service prior to the vesting of all of the PSUs, any unvested PSUs will terminate automatically without any further action by the Company and be forfeited without further notice and at no cost to the Company. Dividend Equivalents (including any Dividend Equivalent Account balance) will vest or be forfeited, as applicable, upon the vesting or forfeiture of the PSU with respect to which the Dividend Equivalent (including the Dividend Equivalent Account) relates.

(c) Distribution.

(i) Subject to the terms and provisions of the Plan and this Agreement, within ten (10) days following the vesting date of the PSUs as specified in the Vesting Schedule set forth in Exhibit B to the Grant Notice, (A) shares of Common Stock shall be distributed to Participant (or in the event of Participant's death, to his or her estate) with respect to such Participant's PSUs vesting on such date and (B) cash shall be distributed to Participant (or in the event of Participant's death, to his or her estate) with respect to any related Dividend Equivalents (including any Dividend Equivalent Account balance); provided, however, that, in the event the vesting date is the date of a Change in Control, the PSUs and any related Dividend Equivalents (including any Dividend Equivalent Account balance) shall be settled immediately prior to such Change in Control.

(ii) All distributions of the PSUs shall be made by the Company in the form of whole shares of Common Stock. All distributions in respect of the Dividend Equivalents (including any Dividend Equivalent Account balance) will be paid in cash. In lieu of any fractional share of Common Stock, the Company shall make a cash payment to Participant equal to the Fair Market Value of such fractional share on the date the PSUs are settled pursuant to this Section 1.1.

(iii) Neither the time nor form of distribution of Common Stock with respect to the PSUs and the Dividend Equivalents may be changed, except as may be permitted by the Administrator in accordance with the Plan and Section 409A of the Code and the Treasury Regulations thereunder.

1.2 Tax Withholding. Notwithstanding anything to the contrary in this Agreement:

(a) The Company and its Affiliates have the authority to deduct or withhold from other compensation payable to Participant, or to require Participant to remit to the Company or the applicable Affiliate, an amount sufficient to satisfy applicable federal, state, local and foreign taxes (including the Participant's portion of any FICA obligation) required by Applicable Law to be withheld with respect to any taxable event arising from the vesting of the PSUs or the Dividend Equivalents or the receipt of the Shares or cash upon settlement of the PSUs or the Dividend Equivalents. Participant may, at his or her election, satisfy the tax withholding obligation in one or more of the forms specified below, subject to Section 10.2 of the Plan:

(i) by cash or check made payable to the Company or the Affiliate with respect to which the withholding obligation arises;

(ii) by the deduction of such amount from amounts payable in settlement of the Dividend Equivalents or other compensation payable to Participant;

(iii) with the consent of the Administrator, by requesting that the Company withhold a net number of vested Shares otherwise issuable pursuant to the PSUs having a then current Fair Market Value not exceeding the amount necessary to satisfy the withholding obligation of the Company and its Affiliates based on the minimum applicable statutory withholding rates for federal, state, local and foreign income tax and payroll tax purposes;

(iv) with the consent of the Administrator, by tendering vested shares of Common Stock owned by Participant having a then current Fair Market Value not exceeding the amount necessary to satisfy the withholding obligation of the Company and its Affiliates based on the minimum applicable statutory withholding rates for federal, state, local and foreign income tax and payroll tax purposes;

(v) through the delivery of a notice that Participant has placed a market sell order with a broker acceptable to the Company with respect to the Shares issuable pursuant to the PSUs then vesting and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company or the Affiliate with respect to which the withholding obligation arises in satisfaction of such withholding taxes; provided that payment of such proceeds is then made to the Company or the applicable Affiliate at such time as may be required by the Administrator, but in any event not later than the settlement of such sale; or

(vi) in any combination of the foregoing.

(b) In the event Participant fails to provide timely payment of all sums required pursuant to Section 1.2(a), the Company shall have the right, but not the obligation, to satisfy all or any portion of Participant's required payment obligation pursuant to Section 1.2(a)(iii) above. The Company shall not be obligated to deliver any stock certificate representing Shares issuable with respect to the PSUs or to pay cash in respect of the Dividend Equivalents to Participant or Participant's legal representative unless and until Participant or Participant's legal representative shall have paid or otherwise satisfied in full the amount of all federal, state, local and foreign taxes applicable with respect to the taxable income of Participant resulting from the grant of the PSUs and the Dividend Equivalents, the distribution of the Shares or cash issuable with respect thereto, or any other taxable event related to the PSUs or the Dividend Equivalents, provided that no payment shall be delayed under this Section 1.2(b) if such delay will result in the imposition of taxes or penalties under Section 409A of the Code.

(c) In the event any tax withholding obligation arising in connection with the PSU Award will be satisfied under Section 1.2(a)(iii) above, then, unless Participant is subject to Section 16 of the Exchange Act at the time the tax withholding obligation arises (in which case the approval of the Committee shall be required for any election by the Company pursuant to this Section 1.2(c)), the Company may elect to instruct any brokerage firm determined acceptable to the Company for such purpose to sell on Participant's behalf a whole number of shares from those Shares that are then issuable upon settlement of the PSUs as the Company determines to be appropriate to generate cash proceeds sufficient to satisfy the tax withholding obligation and to remit the proceeds of such sale to the Company or the Affiliate with respect to which the withholding obligation arises. Participant's acceptance of this PSU Award constitutes Participant's instruction and authorization to the Company and such brokerage firm to complete the transactions described in this Section 1.2(c). The Company may refuse to issue any Shares to Participant until the foregoing tax withholding obligations are satisfied.

(d) Participant is ultimately liable and responsible for all taxes owed in connection with the PSU Award, regardless of any action the Company or any Affiliate takes with respect to any tax withholding obligations that arise in connection with the PSU Award. Neither the Company nor any Affiliate makes any representation or undertaking regarding the treatment of any tax withholding in connection with the PSU Award. The Company and its Affiliates do not commit and are under no obligation to structure the PSU Award to reduce or eliminate Participant's tax liability.

1.3 Conditions to Issuance of Shares. The Company shall not be required to issue or deliver any Shares issuable upon the vesting of the PSUs prior to the fulfillment of all of the following conditions:

(a) the admission of the Shares to listing on all stock exchanges on which such Shares are then listed;

(b) the completion of any registration or other qualification of the Shares under any state or federal law or under rulings or regulations of the U.S. Securities and Exchange Commission or other governmental regulatory body, which the Administrator shall, in its sole and absolute discretion, deem necessary and advisable;

(c) the obtaining of any approval or other clearance from any state or federal governmental agency that the Administrator shall, in its absolute discretion, determine to be necessary or advisable;

(d) the lapse of any such reasonable period of time following the date the PSUs vest as the Administrator may from time to time establish for reasons of administrative convenience, subject to Section 409A of the Code and the Treasury Regulations and other guidance issued thereunder; and

(e) the receipt by the Company of full payment of any applicable withholding tax in any manner permitted under Section 1.2 above.

1.4 Forfeiture and Claw-Back Provisions. Participant hereby agrees that the Administrator may provide that the PSU Award shall terminate and any PSUs and Dividend Equivalents (including any Dividend Equivalent Account) shall be forfeited, if Participant at any time prior to the settlement of the PSU Award engages in any activity which is inimical, contrary or harmful to the interests of the Company, as determined by the Administrator, including, without limitation, any violation of any written Company policy, or Participant's employment is terminated for Cause. In addition, Participant hereby acknowledges and agrees that the PSU Award is subject to the provisions of Section 10.5 of the Plan.

1.5 Other Restrictions. Participant hereby acknowledges and agrees that the PSU Award is subject to the provisions of Section 12.8 of the Plan.

ARTICLE II.

OTHER PROVISIONS

2.1 Administration. The Administrator shall have the power to interpret the Plan, the Grant Notice and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan, the Grant Notice and this Agreement as are consistent therewith and to interpret, amend or revoke any such rules. All actions taken and all interpretations and determinations made by the Administrator will be final and binding upon Participant, the Company and all other interested persons. To the extent allowable pursuant to Applicable Law, no member of the Administrator will be personally liable for any action, determination or interpretation made with respect to the Plan, the Grant Notice or this Agreement.

2.2 PSU Award and Interests Not Transferable. This PSU Award and the rights and privileges conferred hereby, including the PSUs and the Dividend Equivalents awarded hereunder, shall not be liable for the debts, contracts or engagements of Participant or his or her successors in interest nor shall they be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy), and any attempted disposition thereof shall be null and void and of no effect.

2.3 Rights as Stockholder. Neither Participant nor any person claiming under or through Participant shall have any of the rights or privileges of a stockholder of the Company in respect of any Shares issuable hereunder unless and until certificates representing such Shares (which may be in book-entry form)

shall have been issued and recorded on the books and records of the Company or its transfer agents or registrars, and delivered to Participant (including through electronic delivery to a brokerage account). No adjustment will be made for a dividend or other right for which the record date is prior to the date of such issuance, recordation and delivery, except as provided in Article 12 of the Plan. After such issuance, recordation and delivery, Participant shall have all the rights of a stockholder of the Company, including with respect to the right to vote the Shares and the right to receive any cash or share dividends or other distributions paid to or made with respect to the Shares.

2.4 Adjustments. Participant acknowledges that the PSU Award, including the vesting of the PSU Award and the number of Shares subject to the PSU Award, is subject to adjustment in the discretion of the Administrator upon the occurrence of certain events as provided in this Agreement and Article 12 of the Plan.

2.5 Not a Contract of Employment or other Service Relationship. Nothing in this Agreement or in the Plan shall confer upon Participant any right to continue to serve as an employee or other service provider of the Company or any of its Affiliates. Participant understands and agrees that this PSU Award does not alter the at-will nature of his or her employment relationship with the Company and is not a promise of continued employment for the vesting period of the PSU Award or any portion of it.

2.6 Conformity to Securities Laws. Participant acknowledges that the Plan, the Grant Notice and this Agreement are intended to conform to the extent necessary with all Applicable Laws, including, without limitation, the provisions of the Securities Act and the Exchange Act and any and all regulations and rules promulgated thereunder by the Securities and Exchange Commission, and state securities laws and regulations. Notwithstanding anything herein to the contrary, the Plan shall be administered, and the PSUs and the Dividend Equivalents are granted and may be settled, only in such a manner as to conform to Applicable Law. To the extent permitted by Applicable Law, the Plan, the Grant Notice and this Agreement shall be deemed amended to the extent necessary to conform to Applicable Law.

2.7 Amendment, Suspension and Termination. To the extent permitted by the Plan, this Agreement may be wholly or partially amended or otherwise modified, suspended or terminated at any time or from time to time by the Administrator, provided, that, except as may otherwise be provided by the Plan, no amendment, modification, suspension or termination of this Agreement shall impair any rights or obligations under this Agreement in any material way without the prior written consent of Participant.

2.8 Notices. Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of the Secretary of the Company at the Company's principal office, and any notice to be given to Participant shall be addressed to Participant (or if Participant is then deceased, to Participant's estate) at Participant's last address reflected on the Company's records. By a notice given pursuant to this Section 2.8, either party may hereafter designate a different address for notices to be given to that party. Any notice shall be deemed duly given when sent via email (if to Participant) or when sent by certified mail (return receipt requested) and deposited (with postage prepaid) in a post office or branch post office regularly maintained by the United States Postal Service.

2.9 Successors and Assigns. The Company may assign any of its rights under this Agreement to single or multiple assignees, and this Agreement shall inure to the benefit of the successors and assigns of the Company. Subject to the restrictions on transfer set forth herein and the Plan, this Agreement shall be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

2.10 Section 409A.

(a) Notwithstanding any other provision of the Plan, this Agreement or the Grant Notice, the Plan, this Agreement and the Grant Notice shall be interpreted in accordance with, and incorporate the terms and conditions required by, Section 409A of the Code (together with any Department of Treasury regulations and other interpretive guidance issued thereunder, including without limitation any such regulations or other guidance that may be issued after the Grant Date, “**Section 409A**”). The Administrator may, in its discretion, adopt such amendments to the Plan, this Agreement or the Grant Notice or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, as the Administrator determines are necessary or appropriate to comply with the requirements of Section 409A.

(b) This Agreement is not intended to provide for any deferral of compensation subject to Section 409A of the Code, and, accordingly, the Shares and cash issuable pursuant to the PSUs and the Dividend Equivalents hereunder shall be distributed to Participant no later than the later of: (i) the fifteenth (15th) day of the third month following Participant’s first taxable year in which such PSUs and Dividend Equivalents are no longer subject to a substantial risk of forfeiture, and (ii) the fifteenth (15th) day of the third month following first taxable year of the Company in which such PSUs and Dividend Equivalents are no longer subject to substantial risk of forfeiture, as determined in accordance with Section 409A and any Treasury Regulations and other guidance issued thereunder.

(c) For purposes of Section 409A of the Code (including, without limitation, for purposes of Treasury Regulation Section 1.409A-2(b)(2)(iii)), each payment that Participant may be eligible to receive under this Agreement shall be treated as a separate and distinct payment.

2.11 Tax Representations. Participant has reviewed with Participant’s own tax advisors the federal, state, local and foreign tax consequences of this investment and the transactions contemplated by the Grant Notice and this Agreement. Participant is relying solely on such advisors and not on any statements or representations of the Company or any of its agents. Participant understands that Participant (and not the Company) shall be responsible for Participant’s own tax liability that may arise as a result of this investment or the transactions contemplated by this Agreement.

2.12 Titles. Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

2.13 Governing Law; Severability. The laws of the State of Maryland shall govern the interpretation, validity, administration, enforcement and performance of the terms of this Agreement regardless of the law that might be applied under principles of conflicts of laws. Should any provision of this Agreement be determined by a court of law to be illegal or unenforceable, the other provisions shall nevertheless remain effective and shall remain enforceable.

2.14 Limitations Applicable to Section 16 Persons. Notwithstanding any other provision of the Plan or this Agreement, if Participant is subject to Section 16 of the Exchange Act, the PSUs, the Dividend Equivalents, the Plan and this Agreement shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including any amendment to Rule 16b-3 of the Exchange Act) that are requirements for the application of such exemptive rule. To the extent permitted by Applicable Law, this Agreement shall be deemed amended to the extent necessary to conform to such applicable exemptive rule.

2.15 Entire Agreement. The Plan, the Grant Notice and this Agreement (including any exhibit hereto) constitute the entire agreement of the parties and supersede in their entirety all prior undertakings and agreements of the Company and Participant with respect to the subject matter hereof.

2.16 Limitation on Participant's Rights. Participation in the Plan confers no rights or interests other than as herein provided. This Agreement creates only a contractual obligation on the part of the Company as to amounts payable and shall not be construed as creating a trust. Neither the Plan nor any underlying program, in and of itself, has any assets. Participant shall have only the rights of a general unsecured creditor of the Company with respect to amounts credited and benefits payable, if any, with respect to the PSUs and the Dividend Equivalents, and rights no greater than the right to receive the Common Stock as a general unsecured creditor.

2.17 Counterparts. The Grant Notice may be executed in one or more counterparts, including by way of any electronic signature, subject to Applicable Law, each of which shall be deemed an original and all of which together shall constitute one instrument.

2.18 Paperless Administration. By accepting this PSU Award, Participant hereby agrees to receive documentation related to the PSU Award by electronic delivery, such as a system using an internet website or interactive voice response, maintained by the Company or a third party designated by the Company.

2.19 Broker-Assisted Sales. In the event of any broker-assisted sale of shares of Common Stock in connection with the payment of withholding taxes as provided in Section 1.2(a)(iii) or (v): (a) any shares of Common Stock to be sold through a broker-assisted sale will be sold on the day the tax withholding obligation or arises, or as soon thereafter as practicable; (b) such shares of Common Stock may be sold as part of a block trade with other participants in the Plan in which all participants receive an average price; (c) Participant will be responsible for all broker's fees and other costs of sale, and Participant agrees to indemnify and hold the Company and its Affiliates harmless from any losses, costs, damages, or expenses relating to any such sale; (d) to the extent the proceeds of such sale exceed the applicable tax withholding obligation or exercise price, the Company agrees to pay such excess in cash to Participant as soon as reasonably practicable; (e) Participant acknowledges that the Company or its designee is under no obligation to arrange for such sale at any particular price, and that the proceeds of any such sale may not be sufficient to satisfy the applicable tax withholding obligation or exercise price; and (f) in the event the proceeds of such sale are insufficient to satisfy the applicable tax withholding obligation, Participant agrees to pay immediately upon demand to the Company or its Affiliates with respect to which the withholding obligation arises, an amount sufficient to satisfy any remaining portion of the Company's or the applicable Affiliate's withholding obligation.

2.20 No Right to Continued Service. PARTICIPANT ACKNOWLEDGES AND AGREES THAT THE VESTING OF THE PSU AWARD PURSUANT TO SECTION 1.1 HEREOF IS EARNED ONLY BY CONTINUING SERVICE TO THE COMPANY AND ITS AFFILIATES AS AN "AT WILL" EMPLOYEE OR CONSULTANT OF THE COMPANY OR ONE OF ITS AFFILIATES OR A DIRECTOR OF THE COMPANY (AND NOT THROUGH THE ACT OF BEING HIRED OR ACQUIRING SHARES HEREUNDER). PARTICIPANT FURTHER ACKNOWLEDGES AND AGREES THAT THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS AN EMPLOYEE, CONSULTANT OR DIRECTOR FOR SUCH PERIOD, FOR ANY PERIOD, OR AT ALL, AND SHALL NOT INTERFERE WITH THE COMPANY'S OR ANY OF ITS AFFILIATES' RIGHT TO TERMINATE PARTICIPANT'S EMPLOYMENT OR SERVICE TO THE COMPANY OR SUCH AFFILIATE AT ANY TIME, WITH OR WITHOUT CAUSE.

EXHIBIT B

TO PERFORMANCE STOCK UNIT AWARD GRANT NOTICE

VESTING SCHEDULE

Capitalized terms used in this Exhibit B and not defined in Section 3 below shall have the meanings given them in the Agreement to which this Exhibit B is attached.

1. Performance Vesting. The PSUs shall vest based on the Company's Relative TSR Ranking (as defined below) and Core FFO (as defined below) for the Performance Period (as defined below). Subject to Section 1(c) below, Participant must remain continuously employed with or providing services to the Company or its Affiliates from the Grant Date until the Measurement Date, in order to be eligible to vest in the PSUs pursuant to this Section 1.

(a) Vesting in the Event the Measurement Date is December 31, _____. In the event the Measurement Date is December 31, _____, such number of PSUs shall vest on the Certification Date as is determined as follows:

(i) Relative TSR Ranking. Such number of PSUs shall vest on the Certification Date based on the Company's Relative TSR Ranking for the TSR Performance Period as is determined by multiplying (i) fifty percent (50%) by (ii) the Target Number of PSUs set forth in the Grant Notice, by (iii) the TSR Performance Multiplier (as determined below) as of the Measurement Date (rounded to the nearest whole PSU). The "**TSR Performance Multiplier**" means, for the Performance Period, the performance multiplier determined pursuant to the chart below based on the Company's Relative TSR Ranking relative to the Peer Companies in the MSCI US REIT Index for the Performance Period. If the Company achieves a Relative TSR Ranking that falls between the following levels, the Performance Multiplier will be determined by linear interpolation between the applicable levels.

Relative TSR Ranking Relative to the MSCI US REIT Index for the Performance Period	TSR Performance Multiplier
At or above the 75 th Percentile	200%
Below the 75 th Percentile and above the 50 th Percentile	Determined by linear interpolation
At the 50 th Percentile	100%
Below the 50 th Percentile and above the 25 th Percentile	Determined by linear interpolation
At the 25 th Percentile	50%
Below the 25 th Percentile	0%

(ii) Core FFO. Such number of PSUs shall vest on the Certification Date based on the Company's Core FFO for the FFO Performance Period as is determined by multiplying (i) fifty (50%) by (ii) the Target Number of PSUs set forth in the Grant Notice, by (iii) the Core FFO Performance Multiplier (as determined below) as of the Measurement Date (rounded to the nearest whole PSU). The "**Core FFO Performance Multiplier**" means, for the FFO Performance Period, the performance multiplier determined pursuant to the chart below based on the aggregate sum of the Company's Core FFO as determined on each of the three FFO Performance Periods. If the Company achieves Core FFO that falls between the following levels, the Performance Multiplier will be determined by linear interpolation between the applicable levels.

Aggregate Core FFO for each of the Performance Periods	Core FFO Performance Multiplier
At or above \$___	200%
Above \$__ and below \$__	Determined by linear interpolation
At \$___	100%
Above \$___ and below \$__	Determined by linear interpolation
At or below \$___	0%

(b) Vesting in the Event the Measurement Date is the Date of a Change in Control. Notwithstanding the foregoing, in the event the Measurement Date is the date of a Change in Control, such number of PSUs shall vest on the Measurement Date as is equal the greater of (i) the Target Number of PSUs set forth in the Grant Notice, or (ii) the number of PSUs that would vest pursuant to the provisions of Section 1(a) above as a result of the application of the provisions of such section to the shortened Performance Period ending on the date of such Change in Control, as determined by the Administrator and certified in writing as of the date of such Change in Control; provided, however, that, in determining the Core FFO Performance Multiplier for the Performance Period, the Company's Core FFO for the Performance Period shall be measured against prorated Core FFO objectives determined by multiplying the Core FFO targets set forth in Section 1(a)(ii) above by a fraction (not to exceed one) (A) the numerator of which shall be equal to the number of days elapsed from the first day of the Performance Period until the date of the Change in Control, and (b) the denominator of which shall be three-hundred sixty-five (365).

(c) Effect of Termination Due to Death or Disability Prior to Measurement Date. In the event of Participant's Termination of Service as a result of Participant's death or Disability prior to the Measurement Date, on the date of Participant's Termination of Service, Participant shall vest in such number of PSUs as is equal to (i) the Target Number of PSUs set forth in the Grant Notice, multiplied by (ii) a fraction (not to exceed one) (A) the numerator of which shall be equal to the number of days elapsed from the first day of the Performance Period until the date of Participant's Termination of Service, and (b) the denominator of which shall be three-hundred sixty-five (365); provided, however, that the Administrator shall have the discretion to allow 100% of the Target Number of PSUs set forth in the Grant Notice to vest on the date of Participant's Termination of Service.

(d) Maximum PSUs. In no event will more than the Maximum Number of PSUs set forth in the Grant Notice vest pursuant to this Exhibit B.

2. Forfeiture. Any portion of the PSUs which do not vest as a result of the Company's Relative TSR Ranking and/or Core FFO for the Performance Period being below the threshold for vesting set forth above shall automatically and without further action be cancelled and forfeited by Participant, and Participant shall have no further right or interest in or with respect to such PSUs or any related Dividend Equivalents. In addition, subject to Section 1(c), in the event that Participant experiences a Termination of Service for any reason (other than as a result of Participant's Disability or death) prior to the Measurement Date, then the PSUs and any related Dividend Equivalents shall automatically and without further action be cancelled and forfeited by Participant, and Participant shall have no further right or interest in or with respect to such PSUs or any related Dividend Equivalents.

3. **Definitions.** For purposes of this Exhibit B, the following terms shall have the meanings given below:

a. **“Beginning Market Value”** means the Market Value based on the last trading day prior to the beginning of the Performance Period.

(a) **“Certification Date”** means, in the event the Measurement Date is December 31, ____, the date on which the Administrator certifies the TSR Performance Multiplier and Core FFO Performance Multiplier for the Performance Period, which certification shall occur no later than March 1, ____, *provided, however*, that in the event of a Change in Control after December 31, ____, the Certification Date shall occur no later than the date of such Change in Control.

a. **“Core FFO”** means the Company’s funds from operations as adjusted to exclude revenues and expenses not core to the Company’s operations, costs associated with acquisitions and non-cash interest, as calculated in accordance with the standards established by the National Association of Real Estate Investment Trusts and in a manner generally consistent with the Core FFO calculations set forth in the Company’s Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and/or any supplemental information filed in connection therewith.

b. **“Disability”** shall mean the absence of Participant from Participant’s duties with the Company on a full-time basis for ninety (90) consecutive days or on a total of one hundred eighty (180) days in any twelve (12) month period, in either case as a result of incapacity due to mental or physical illness which is determined to be total and permanent by a physician selected by the Company and reasonably acceptable to Participant or Participant’s legal representative.

c. **“Ending Market Value”** means the Market Value based on the last trading day of the Performance Period; provided, however, that in the event that the Measurement Date is the date of a Change in Control, the Ending Market Value of the Common Stock shall mean the price per share of Common Stock paid by the acquiror in the Change in Control.

d. **“FFO Performance Period”** means each of (i) January 1, __ through December 31, ____, (ii) January 1, __ through December 31, ____ and (iii) January 1, ____ through December 31, ____.

e. **“Market Value”** means the closing price per share of Common Stock (or per share of common stock of a Peer Company, as applicable) for the date of determination as reported by the NYSE or such other authoritative source as the Administrator may determine.

f. **“Measurement Date”** means the first to occur of (a) December 31, __, or (b) the date on which a Change in Control occurs.

g. **“Peer Companies”** means, for the MSCI US REIT Index for a Performance Period, the companies included in the MSCI US REIT Index on both the first day of the applicable Performance Period and the last day of the applicable Performance Period.

h. **“Relative TSR Ranking”** means the Company’s TSR relative to the TSRs of the Peer Companies in the MSCI US REIT Index for the Performance Period. The Company’s Relative TSR Ranking will be determined by ranking the Company and the Peer Companies in the MSCI US REIT Index from highest to lowest according to their respective TSRs for the Performance Period. After this ranking,

the percentile performance of the Company relative to the Peer Companies in the MSCI US REIT Index will be determined as follows:

$$P = 1 - ((R-1)/(N-1))$$

Where: “P” represents the Company’s percentile performance, which will be rounded, if necessary, to the nearest whole percentile by application of regular rounding.

“N” represents the number of Peer Companies in the MSCI US REIT Index, plus the Company.

“R” represents the Company’s ranking among the Peer Companies in the MSCI US REIT Index.

(b) **“Performance Period”** means the TSR Performance Period and the FFO Performance Period.

a. **“TSR”** means, with respect to the Performance Period, the total value delivered to stockholders of the Company (or of a Peer Company, as applicable), as measured by the change in the price of the Common Stock of the Company (or common stock of a Peer Company, as applicable) over such Performance Period (positive or negative) from the Beginning Market Value for such Performance Period to the Ending Market Value for such Performance Period, plus dividends paid over the Performance Period assuming dividends are reinvested based on the price of the Common Stock of the Company (or common stock of a Peer Company, as applicable) on the last trading day of the month during which the ex-dividend date occurs. Additionally, as set forth in, and pursuant to, Section 2.4 of the Agreement, appropriate adjustments to the TSR of the Company (or of a Peer Company, as applicable) shall be made to take into account all stock dividends, stock splits, reverse stock splits and the other events set forth in Section 2.4 of the Agreement that occur prior to the Measurement Date.

(c) **“TSR Performance Period”** means the period beginning on January 1, _____ and ending on the Measurement Date.

Name	Jurisdiction of Formation/Incorporation
Extra Space Storage LP	Delaware

The list above excludes consolidated wholly-owned subsidiaries carrying on the same line of business (the ownership and operation of commercial real estate). The list also excludes other subsidiaries which, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary as of December 31, 2019. A total of 329 subsidiaries have been excluded, each of which operates in the United States [other than one subsidiary which operates in Bermuda].

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- 1) Registration Statement (Form S-3 No. 333-231506) of Extra Space Storage Inc.,
- 2) Registration Statement (Form S-8 No. 333-204010) pertaining to the 2015 Incentive Award Plan of Extra Space Storage Inc.,
- 3) Registration Statement (Form S-3 No. 333-198215) of Extra Space Storage Inc.,
- 4) Registration Statement (Form S-3 No. 333-190928) of Extra Space Storage Inc.,
- 5) Registration Statement (Form S-3 No. 333-176296) of Extra Space Storage Inc.,
- 6) Registration Statement (Form S-3 No. 333-176277) of Extra Space Storage Inc.,
- 7) Registration Statement (Form S-8 No. 333-157559) pertaining to the 401 (k) Plan of Extra Space Storage Inc.,
- 8) Registration Statement (Form S-3 No. 333-153082) of Extra Space Storage Inc.,
- 9) Registration Statement (Form S-3 No. 333-133407) of Extra Space Storage Inc.,
- 10) Registration Statement (Form S-3 No. 333-128988) of Extra Space Storage Inc.,
- 11) Registration Statement (Form S-3 No. 333-128504) of Extra Space Storage Inc.,

of our reports dated February 25, 2020 with respect to the consolidated financial statements and schedule of Extra Space Storage Inc., and the effectiveness of internal control over financial reporting of Extra Space Storage Inc., included in this Annual Report (Form 10-K) of Extra Space Storage Inc. for the year ended December 31, 2019.

/s/ Ernst & Young LLP

Salt Lake City, Utah
February 25, 2020

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Joseph D. Margolis, 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 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 disclosure 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 registrant's 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; and
- 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 25, 2020

By: /S/ JOSEPH D. MARGOLIS
Name: Joseph D. Margolis
Title: *Chief Executive Officer*

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, P. Scott Stubbs, 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 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 disclosure 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 registrant's 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; and
- 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 25, 2020

By: /s/ P. SCOTT STUBBS

Name: P. Scott Stubbs

Title: *Executive Vice President and Chief Financial Officer*

**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, Joseph D. Margolis, 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, 2019 (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.

Date: February 25, 2020

By: /s/ JOSEPH D. MARGOLIS

Name: Joseph D. Margolis

Title: *Chief Executive Officer*

I, P. Scott Stubbs, 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, 2019 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.

Date: February 25, 2020

By: /s/ P. SCOTT STUBBS

Name: P. Scott Stubbs

Title: *Executive Vice President and Chief Financial Officer*