FINAL TRANSCRIPT

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PRESENTATION

Operator

Greetings, and welcome to the Extra Space Storage fourth-quarter earnings conference call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. (Operator Instructions). As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, James Overturf with Extra Space Storage. Thank you, Mr. Overturf. You may begin.

James Overturf - *Extra Space Storage Inc. - IR*

Thank you, Doug. Welcome to Extra Space Storage's fourth-quarter and year-end 2009 conference call. In addition to our press release, we have also furnished unaudited supplemental financial information on our website.

Please remember that management's prepared remarks and answers to your questions contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements address matters which are subject to risks and uncertainties that may cause actual results to differ from those discussed today.

Examples of forward-looking statements include those related to Extra Space Storage's development and acquisition programs, revenues and operating income, FFO and guidance. We encourage all of our listeners to review a more detailed discussion related to these forward-looking statements contained in the Company's filings with the SEC.

Forward-looking statements represent management's estimates as of today, Tuesday, February 23, 2010. Extra Space Storage assumes no obligation to update these forward-looking statements in the future because of changing market conditions or other circumstances.

I would now like to turn the call over to Spencer Kirk, Chairman and Chief Executive Officer.

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

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

In the fourth quarter, we earned $0.23 of adjusted FFO and $0.94 for the full year, which exceeded our prior estimate and guidance range. This outperformance was due to better-than-expected occupancy and rate gains. Throughout the fourth quarter, we continued our focus on property performance and saw pronounced gains in pricing power and square-foot occupancy.

From our low point in April 2009, we saw positive trends in same-store rentals and vacates, resulting in a 400 basis point swing in square-foot occupancy by year-end. At year-end, square-foot occupancy was up 100 basis points on a same-store basis compared to last year.

We believe this improved demand is indicative of the need-driven nature of the self-storage product, which, along with the strength of our operating platform and our high-quality, well-located properties, gives us a sense of optimism as we head into 2010.

In 2009, we significantly strengthened our balance sheet. During the year, we obtained $341 million of debt financing, including $63 million in the fourth quarter. Currently, we have the capability to repay all debt maturities through the first quarter 2012. In 2010, we will continue to strengthen our balance sheet to maintain our solid financial position.

The Company has declared a dividend of $0.10 to be paid March 31. Our plan is to pay a quarterly cash dividend that meets our estimated annual taxable rate minimum in 2010.

We also continued to grow our national footprint throughout the year by adding 57 managed properties to our 3-Plus Management Program. We are now one of the largest third-party management companies in the industry. We also opened 12 development properties in 2009. These two growth components combined to increase our footprint by 10% in one of the most severe recessions our nation has experienced.

I will now turn the call over to Karl Haas to discuss operations.

Karl Haas - *Extra Space Storage Inc. - VP, COO*

Thanks, Spencer. We had a good fourth quarter in terms of rental activity and square-foot occupancy stabilization. Our same-store occupancy ended the year at 83.2%, which was 1% above last year. To give you some perspective, at the end of April 2009, our same-store occupancy delta was minus 2.9%, and at September 30, 2009, it was negative 1.4%.

Importantly, even through what has been the most challenging economic environment in this Company's history, rentals for the entire period -- entire year were down only 3400 out of 276,000 rentals for all stabilized properties. For same-store pool, rentals were down 1.5% compared to 2008, and same-store vacates were down by over 4% for the same period, indicating the relative stability of our asset type.

Our same-store revenues appeared to have bottomed early in the fourth quarter. Same-store revenues decreased 4% in Q4 versus negative 4.5% in Q3. Same-store operating expenses increased 1.9% in the fourth quarter compared to a 1.2% decrease in the third quarter. This increase is primarily due to property taxes.

Our controllable expenses, notably payroll, have been consistently below last year. Most of this reduction is due to what we call right staffing or becoming more efficient in how we staff our properties and controlling overtime hours. We are projecting 1% to 3% growth in operating expenses in 2010. It is unrealistic to assume that same-store expense growth will be as low in 2010 as it was in 2009.

Our street rates have rebounded from late 2008 and early 2009. In the fourth quarter, we began to realize the impact of improved street rates and rate increases to existing tenants, which continued to stick, as evidenced by lower vacate rates.

One of our main priorities has been to constantly improve our use of technology with respect to the top line. Our innovative use of technology has enhanced our ability to reach prospective tenants and implement a more sophisticated pricing strategy. We've increased our Internet marketing to drive more and more prospective customers to our website. This has resulted in a year-over-year increase in online reservations of 23% comparing 2008 to 2009. We also -- we are seeing this trend continue in 2010.

Additionally, we've experienced an increase in daily unique visitors to our website of 23% year-over-year.

We've also seen the benefits from technological innovation in our call center. Since bringing our call center in-house in late 2008 and placing it on the salesforce.com platform, we have seen our rental conversion percentage increase every month since January 2009. We have all sales calls routing to a highly-trained sales staff that is equipped with best-in-class technology and pricing flexibility that has ultimately increased our close rates.

While our Internet and call-center strategies are going well, it all comes down to having the right talent at the site level. We continue to devote significant energy and resources in our local store management. We recognize the influence that our managers can have on our business. By empowering our store managers with the right technology and sales techniques, we continue to see a positive impact on the conversion of walk-in traffic. Walk-in customers who have not contacted our call center or website account for 40% to 45% of all traffic to our sites. The only contact these customers have with Extra Space is with the local store manager.

Empowering high-caliber store managers to close the deal with these customers will help us continue to differentiate ourselves in the marketplace.

These have been challenging times in the field. However, with our use of technology, our commitment to our customers, focus on our people, and with our assets located in the best markets, we should continue to maximize our storage performance and lead our sector in growth.

With that, I would like to turn it over to Kent.

Kent Christensen - *Extra Space Storage Inc. - CFO*

Thanks, Karl. In the fourth quarter, we achieved $0.23 of FFO when adjusted for one-time charges, and $0.22 of FFO prior to these adjustments. These amounts include $0.03 per share related to our development program.

For the year, we earned $0.99 of FFO. Adjustments were made to exclude the following items. The winding down of our development program and closing our marketing operations in Memphis, Tennessee, totaling $0.23 per share. The gain from debt repurchases throughout the year of $0.31 per share. And $0.02 from non-cash interest related to our exchangeable notes. With these adjustments, we earned $0.94 of FFO.

During the quarter, we closed eight loans, equaling approximately $63 million. Our 2009 total of new loans was approximately $341 million. We finished the year with $132 million of cash and $50 million of capacity on our undrawn credit line with Bank of America, for a total of $182 million. We currently have the capacity to address all of our maturities into the first quarter of 2012.

I would like to recognize our treasury, finance and legal teams for all the hard work they did on closing these loans in 2009. It is also important to note that with the exception of a single covenant on our undrawn $50 million line of credit with Bank of America, none of our debt has corporate level covenants.

We currently have 50 unencumbered, wholly-owned properties on which we can place loans to address our remaining 2012 maturities and beyond. The total estimated value of these properties which -- the total estimated loan amount on these properties would be approximately $220 million. As we use our current capacity and pay off our maturities, our unencumbered pool would be 77 properties.

We completed four development properties during the quarter at a total cost of approximately $36 million, for a total of 12 development properties completed in 2009. In winding down our development program, we anticipate completing another 10 properties in the next six quarters. We estimate our development properties contain between $0.20 and $0.25 of unrealized FFO.

Acquisition opportunities are low at this time, though our acquisition team is keeping a pulse on the market. Due to our record of successful acquisitions, experience and financial flexibility, we believe we are ready to act intelligently and be able to execute when attractive opportunities arise.

Turning to our outlook for 2010, at this time, we estimate earning between $0.16 and $0.17 for the first quarter and between $0.74 and $0.81 for the year. Our annual estimates include $0.02 of non-cash interest related to our exchangeable notes. This is a change to how we have reported this issue in the past quarters.

We are forecasting same-store annual top-line growth to be between a negative 1.5 to a positive 0.5. For further assumptions on our guidance, please refer to our earnings press release.

With that, I would like to turn the call back to Spencer.

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

Thank you, Kent. Before we begin Q&A, I would like to make a few comments. 2009 was challenging, to say the least, but even in light of significant challenges, we improved our balance sheet, we further optimized our operational performance, and we expanded our footprint by 10%.

Our 2010 guidance reflects our belief that we anticipate improvements, but it will take us some time to get back to pre-recession levels. In 2010, we will focus on four primary areas.

First, we will continue to improve our property performance by increasing rentals, optimizing rates and containing expenses. Second, we will continue to be a technological leader in the self-storage industry. We will persistently focus on innovative processes that allow for improvements in revenue management, automation of major processes and best-in-class customer care.

Third, we will continue to fortify our balance sheet. Our focal point will continue to be smart debt and opportunistic equity in order to maximize our financial flexibility and allow us to deploy capital in an accretive manner. We will be constantly looking forward to ensure capacity to take care of near-term debt and to wisely stage the maturity schedule.

And fourth, we will grow intelligently. We've stated that Extra Space is a Company committed to growth. As always, our attention will be on quality opportunities and good locations. We will continue marketing our third-party management program, 3-Plus, to ensure good partners and a potential pipeline for acquisitions.

As Kent mentioned, we have 10 properties remaining in the development program, which we will open in the next six quarters. Given the challenges in the capital markets over the last two years, we do not want to make the assumption that growth and the capital to grow will be as readily available as it was several years ago. We are making sure that in every aspect of our business, we are adopting methods to grow in an intelligent manner.

This concludes our prepared remarks. We would now like to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Todd Thomas, KeyBanc Capital Markets.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Good afternoon. I'm on with Jordan Sadler, as well. I was just wondering what kind of occupancy trends are you forecasting internally to go along with your same-store revenue guidance?

Unidentified Company Representative

We are anticipating -- it is a blend, and we always have it as a blend of rates and occupancy. We are -- we are expecting to continue to see our occupancy delta to grow to about -- from the current low 1's to hopefully around 3% by the middle of the year.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay, and so we started to see some of the improvement in occupancy trends, as you mentioned, I guess starting in April of '09. And initially it was mostly on the move-out side. I was just wondering when you think about growing that delta, is there still room on the move-out side, or is it because you are seeing an increase in rental demand?

Karl Haas - *Extra Space Storage Inc. - VP, COO*

We believe that there still is some, especially in the first three months of the year, when last year, we experienced heavier than normal vacates. It becomes less likely later in the year, but we actually saw -- we had less rental growth in the middle part of the year. So it will probably be a combination of the both -- more vacates for the next three or four months and then after that, more rentals, we hope.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay, and then just touching on some of -- in your prepared remarks -- some of the commentary on the acquisition markets. Last quarter, you alluded to what sounded like a possible acquisition of a JV partner's interest in an existing fund. Is that still being discussed, and are there any other opportunities that you are actively looking at today?

Kent Christensen - *Extra Space Storage Inc. - CFO*

I'm not remembering what the JV partner was that you're referring to, Todd. We constantly -- or regularly have discussions with all of our joint venture partners about potentially buying out their interest. At this moment in time, we're not actively pursuing any of our joint venture partners or having any active negotiations with any of them.

That being said, it's always an ongoing discussion that we have with them. There are -- I can tell you that we get numerous phone calls looking -- where or people have cash that are out there looking to make investments in the self-storage space. There is a lot of interest in the self-storage space. It seems most of the people are looking for substantial returns, 20-plus returns.

And so we are not seeing a lot of legitimate buyers of the self-storage product type that we think we would be able to do something with. But we are always interested in that, and that is something we would continue to look at and monitor and look at opportunities that are available to us.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay. I think Jordan has a question also.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

Regarding the $0.20 to $0.25 of incremental FFO that you feel could be realized from the development pipeline, just to clarify, that is in addition to the $0.02 of dilution that you are currently incurring?

Kent Christensen - *Extra Space Storage Inc. - CFO*

Jordan, that would be taking the negative dilution that we currently have and reversing that to a positive. And my $0.20 to $0.25 is if you take our budget for 2010 that is included in our guidance, and you take that number away from what we ultimately believe these properties could produce in NOI, that difference would be between $0.20 and $0.25; $0.25 being if the properties lease up at rates that we hope to achieve; $0.20 if they lease up at rates that are lower than what we ultimately hoped we would achieve.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

Is that about an 8% expected stabilized yield?

Kent Christensen - *Extra Space Storage Inc. - CFO*

Yes, that's correct.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

And then what is the timing to get to that $0.20, $0.25, roughly? I know based on your schedules here it doesn't look like 2012.

Kent Christensen - *Extra Space Storage Inc. - CFO*

That would be between three and four years. The property -- the ultimate achievement of those amounts, because we have 10 properties opening this year, would be between three and four years. But you will get most of that in the next two to three years.

Jordan Sadler - *KeyBanc Capital Markets - Analyst*

Okay, thanks.

Operator

Ki Bin Kim, Macquarie Group.

Ki Bin Kim - *Macquarie Group - Analyst*

Just a follow-up on that previous question. It looks like your 2009 deliveries, a lot of that was concentrated in California. I was wondering if you could give an update on the health of those markets. And basically, following on your previous question, what your lease-up expectations are in those specific markets.

Kent Christensen - *Extra Space Storage Inc. - CFO*

The lease-up of all of our development properties, what I can represent is that on average, they are about what we would have expected. We have some properties that are going much slower than we wanted. On the other hand, we have some properties that are exceeding our expectations.

So on average, the lease-up has been about what we thought. That being said, the rental rates that we are getting on the properties are somewhere between 5% and 15% below what we had hoped. So we are not achieving the rental rates we had hoped we would get. But the lease-up activity is on par for what we would expect.

So from that perspective, we are very optimistic in how all of these lease-up properties are performing. And ultimately, we think we will get to the revenue numbers we had hoped to achieve, but it might be a couple of years from now.

Ki Bin Kim - *Macquarie Group - Analyst*

And how much of that is in your 2010 guidance, in terms of lease-up in your development pipeline?

Kent Christensen - *Extra Space Storage Inc. - CFO*

It would probably be on average about one third of the vacancy in the properties. We would expect all of these properties to lease up over, on average, about a three-year period of time. So we would expect the occupancies on these to increase by one third of their total (multiple speakers) an average.

Ki Bin Kim - *Macquarie Group - Analyst*

Okay, and in January, you guys started a new Internet discount program, about 10% at 15%, for a lot of your properties on the Internet. I was wondering if you could give an update on the impact of that and is it achieving your desired result of getting additional market share on the Internet?

Karl Haas - *Extra Space Storage Inc. - VP, COO*

Actually, that has been going on since August, and we have expanded it. We started with 100 properties and have continued to expand it. And probably, I guess, by January, we had probably about 70% of our properties on it. And now, we have virtually all of our properties on it.

And we do feel that it has helped us improve our Internet conversion rates, because we show both prices -- what we call a standard rate and Internet special rate -- and customers respond favorably to seeing the discounted price.

Ki Bin Kim - *Macquarie Group - Analyst*

Okay. Thank you.

Operator

Ryan Meliker, Morgan Stanley.

Ryan Meliker - *Morgan Stanley - Analyst*

Just a quick question regarding some of the fundamentals. Looking at your tables, if I look at the stabilized properties for the fourth quarter, it looks like your stabilized net rent per occupied square foot was down close to 4% in the fourth quarter, which was almost a point worse than the third quarter. And obviously, throughout the year, we've gotten a little bit worse.

Do you guys think we've troughed in that and we are going to start to see that down 4% get better -- maybe down 3%, down 2%, in the first quarter? Or do we think we haven't troughed, and if we haven't, do you have an idea of when do you think we will?

Karl Haas - *Extra Space Storage Inc. - VP, COO*

I had a little difficulty -- are you talking about occupancy or revenue?

Ryan Meliker - *Morgan Stanley - Analyst*

Talking about the net rent per occupied square foot, so your rates, more than revenue. So what you are charging per occupied square foot.

Unidentified Company Representative

We are expecting to see it continue to improve.

Ryan Meliker - *Morgan Stanley - Analyst*

To improve? Because it seems like it got worse in the fourth quarter than it was in the third quarter -- for your stabilized properties -- down 4% versus down 3%, roughly, in the third quarter.

Karl Haas - *Extra Space Storage Inc. - VP, COO*

Compared to the third quarter, but we're expecting it to continue to -- we are expecting it to improve. And we actually saw it start during the quarter to start to move in the positive direction.

Ryan Meliker - *Morgan Stanley - Analyst*

So we would expect 1Q to be better than 4Q in that regard then?

Karl Haas - *Extra Space Storage Inc. - VP, COO*

Yes.

Ryan Meliker - *Morgan Stanley - Analyst*

Thank you.

Operator

Michael Salinsky, RBC Capital Markets.

Michael Salinsky - *RBC Capital Markets - Analyst*

Real quickly, I don't know if you mentioned this, but could you talk about how January and February trends played out relative to the fourth quarter?

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

Yes, Michael. This is Spencer. For the first part of 2010, I think the best statement would be that we are still positive. And although the trend is not as robust as it was in the fourth quarter, it is going in a direction that we are comfortable with.

Michael Salinsky - *RBC Capital Markets - Analyst*

Okay. Any commentary in terms of like occupancy? Have you seen occupancy pick up or have you seen any ability to close the rate gap further?

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

Yes, we are closing the rate. Once again, the trends are positive on rentals, vacates and occupancy. It is just not as pronounced as it was in the fourth quarter.

And with that, we are not trying to extrapolate the fourth quarter as a trend for all of 2010. It was really a good quarter for us, and we are still seeing positive territory in the first part of 2010.

Michael Salinsky - *RBC Capital Markets - Analyst*

Okay. That's helpful. Second question, in terms of gain to lease right now, or maybe the mark-to-market, where does that stand at the portfolio right now and where was that in the fourth quarter?

Karl Haas - *Extra Space Storage Inc. - VP, COO*

We actually have continued to make a press on closing the gap. Early in 2009, that gap was well above 20%, and we are well below 10% now.

Michael Salinsky - *RBC Capital Markets - Analyst*

Okay. That's helpful. Your renewal increases for 2010 going out to new tenants, is the plan to go back to the 6% to 8%, or are you going to keep that (multiple speakers)?

Karl Haas - *Extra Space Storage Inc. - VP, COO*

We've actually continued it all the way through this period, and we really -- and as we've stated, it is -- while early in 2009 we had some concerns because we saw higher vacates, we didn't change anything with that, with the exception of putting some caps on as the gap got too big. For some customers, we didn't increase them, but it was really a small portion of the overall portfolio. And so we've continued to increase at pretty aggressive rates throughout the whole period. And so we really haven't made a change in strategy there at all.

Michael Salinsky - *RBC Capital Markets - Analyst*

Any changes in frequency or --?

Karl Haas - *Extra Space Storage Inc. - VP, COO*

No.

Michael Salinsky - *RBC Capital Markets - Analyst*

Okay. And then finally, I know you talked about not seeing a lot of opportunities on the acquisition market. Just curious as to where you would need to see cap rates to become more constructive on acquisitions. And also, if you were to become more focused on acquisitions, how you would look to funding those acquisitions.

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Kent Christensen - *Extra Space Storage Inc. - CFO*

We would love to buy properties at cap rates that allow them to be highly accretive. So 10 caps would be great. What we are not finding are sellers that are willing to sell their properties at those prices, as a general rule. And there has not been enough distress in the self-storage space to drive a lot of sales at very accretive pricing. There have been some here and there, but there is not a substantial amount.

So from our perspective, we would like to see properties -- when we believe that our stock price and the market is letting us know what we think the appropriate price is to buy properties, and there is those -- what our company is valued at and with what the private market is selling as it comes more in line with -- those two numbers come more in line, then we think it makes a lot of sense to be out and be out acquiring properties.

We are still looking for those opportunities that are accretive, and we think there will be a few. But I don't think there is going to be lots of them. And when those occur, we are already positioned right now to be able to execute on a few acquisitions in the future if we can find some of those. As a general rule, though, we are not seeing many and we would hope to be able to execute on the ones that we are seeing.

Michael Salinsky - *RBC Capital Markets - Analyst*

Okay. And just in terms of if you were to become more aggressive that would be funding -- would it be leverage neutral? Would you buy them on the line? Kind of just give us a sense of the (multiple speakers).

Kent Christensen - *Extra Space Storage Inc. - CFO*

It would hopefully be leverage neutral. Obviously, with the dividend that we have set at $0.10 per share, if you used the cash from our lower dividend, that allows us to have cash available for us to do acquisitions, plus the money that we currently have available to us. If we used that cash to do acquisitions, that would effectively all be leverage neutral.

And so -- and then if we think that there is lots of opportunities and we think it can be very accretive, as Spencer has said, we are not leaving out any financial option, including at some point getting equity if we need to, if we think there's lots of opportunities out there. We are just not seeing them right now.

Michael Salinsky - *RBC Capital Markets - Analyst*

Okay. Thank you, guys.

Operator

Paula Poskon, Robert W. Baird.

Paula Poskon - *Robert W. Baird - Analyst*

Thank you. Good morning. When you had reinstated the $0.13 quarterly dividend last quarter, I thought that was a fairly sustainable rate. So can you talk about what prompted the cutdown to $0.10 in light of your growing optimism around operating trends?

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

Good question. I am not speaking for the Board, but the philosophy that has been simply stated is this. We want to pay out a dividend that meets the taxable REIT minimum, for the obvious reasons, and we want to use the remaining cash to help strengthen the balance sheet and give us the wherewithal for whatever might be coming down the road.

Paula Poskon - *Robert W. Baird - Analyst*

Thank you. And on the balance sheet, can you talk about what your financing expectations are, given your guidance of an average $100 million cash balance in 2010?

Kent Christensen - *Extra Space Storage Inc. - CFO*

That assumes that we close about a little over another $100 million worth of new loans in 2012 -- 2010. That helps us take care of the 2012 obligations.

Paula Poskon - *Robert W. Baird - Analyst*

Okay. And then just broadly, just to come back to the growth discussion, could you remind us what your investment criteria are, and in particular, how you conduct your internal underwriting process? Who is involved with that and what is the process?

Kent Christensen - *Extra Space Storage Inc. - CFO*

For doing an acquisition?

Paula Poskon - *Robert W. Baird - Analyst*

Yes.

Kent Christensen - *Extra Space Storage Inc. - CFO*

We have what is called a real estate committee that is comprised of seven members of our executive team here at Extra Space. That -- and we have an acquisitions group. The acquisitions group puts together a package that is brought to the executive or the real estate committee. The real estate committee then meets and goes through a voting process to decide whether or not to do that.

The criteria we have is generally -- there is numerous sets, but the biggest -- the number one items are we want properties that are mostly in the markets where we are currently located. We want them to be well-located properties. We want the properties to be in good condition. And we want to be able to hopefully get a lot of upside or some growth out of the properties that we are looking at, through our management systems or other factors that we believe we are going to be able to add value to that property.

So those would be the major factors. The number one being the markets where we are currently in, and behind all of that is a lot of other factors about the markets that we're in, the populations, the rents per square foot and those kinds of things. So that is all included in the package that we get from our acquisitions team.

Paula Poskon - *Robert W. Baird - Analyst*

And then just finally, how much of that do you keep in mind as you evaluate third-party management opportunities and growing that pipeline?

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

I think we take into consideration the operational efficiencies, Paula. We want to be in the best markets and in the best locations. And as we look at anything, whether it is a development project, whether it's an acquisition opportunity or whether it is a third-party managed space, we want to say let's make sure that we are in the best markets and let's make sure that the operational platform to support that property is already in place. Because otherwise, we are re-creating something and that drives down the return.

Paula Poskon - *Robert W. Baird - Analyst*

Thanks very much. That's all I have.

Operator

Smedes Rose, KBW.

Smedes Rose - *KBW - Analyst*

I just wanted to maybe understand a little better on the trends from the fourth quarter to the first quarter. It seemed like at least relative to our expectations that your customer volumes were better, with less folks moving out and more folks moving in, and pretty positive net absorption in the quarter. And you talked about that sort of turning around in the first quarter and your guidance for the first quarter is quite a bit below the consensus outlook. And I was wondering was there something that helped bump trends in the fourth quarter that pulled away from the first quarter, or maybe you could just talk about that a little more.

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

Yes, Smedes. This is Spencer. I would like to address that. It is really interesting. The fourth quarter was strong and, in particular, December was a pleasant surprise for us, a very positive surprise.

It's interesting to note that as we are in February, the third week of February historically is the low point for our business in its seasonality. So as you look at the delta between the fourth quarter and the first quarter and what we've reported and what we've projected, I think there are several items that really fall into four buckets that drive the difference.

Number one is that we are still having negative property performance. Although it is stabilizing, we are at the low point of the year.

Number two, we've got an increased interest expense on over $100 million worth of cash on hand, plus the additional costs associated with the development properties that we've opened.

Number three is we just closed the Harrison Street deal, which has a hit there. And fourth, there are miscellaneous first-quarter expenses that we have to pay for in the first 90 days of this year to cover the full year. And I think if you take those four buckets, it explains in large measure the delta between Q4 and Q1.

Smedes Rose - *KBW - Analyst*

Okay, thanks. And then in the last quarter -- on your last quarter conference call, you sort of hit on a few of your markets, just some of the regional trends. And I was wondering if you could update us on that, specifically Florida and California, the markets that seem perpetually weak. Is there any change there, any positive trends or --?

Karl Haas - *Extra Space Storage Inc. - VP, COO*

We have seen -- Florida is bottoming out and has bottomed out and is moving in a more positive direction. Not all parts, but in general, Florida is continuing to start to improve.

LA, I'm not feeling quite as good about. LA has still not shown much bounce yet. So we really don't know where that is going. It's not getting that much worse. Really, all markets have gotten a little bit better, but LA has gotten less better than some of the other markets. Atlanta and Phoenix and Las Vegas continue to perform poorly. They are not really getting that much worse, but they are staying down there in the trough.

Good markets are Boston is -- Boston, New York City is doing well, Chicago is doing okay, and the Baltimore/D.C. area is continuing to do very, very well.

Smedes Rose - *KBW - Analyst*

Thank you.

Operator

Michael Knott, Green Street Advisors.

Lukas Hartwich - *Green Street Advisors - Analyst*

Hey, guys. It's Lukas Hartwich in for Michael Knott. I was just hoping if you could comment on the pickup of rental activity during the quarter. I noticed the 6% increase on page 18, I believe, and that seemed to be a pretty healthy pickup from previous quarters. So I was just hoping if you could maybe comment on are certain renters coming back or what is driving that?

Karl Haas - *Extra Space Storage Inc. - VP, COO*

One thing is -- I was expecting a question about the snow in the Northeast. We implemented a new technique there, where we now plow the snow in front of the units that are occupied, and that leaves the vacant units with no snow in front of them, so that has really helped. Just kidding there.

We've had both positive rentals, and December was probably one of the most positive months we have had in a long, long time. And the great part is it has been combined with vacates decreasing. It didn't continue quite that way in the early part of this year, in January, but we still net-net have seen positive -- movement in the right direction.

Lukas Hartwich - *Green Street Advisors - Analyst*

Thank you.

Operator

Christy McElroy, UBS.

Christy McElroy - *UBS - Analyst*

Just a follow-up on the question about the markets. Are you marketing and pricing differently in the tougher markets versus the better markets?

Karl Haas - *Extra Space Storage Inc. - VP, COO*

Not really marketing differently. We price based on every market individually and how it is performing and where its occupancy is. So every market is different from -- not that we use dramatically different strategies, but we obviously are -- what is driving a lot of what we do is occupancy and the delta in occupancy.

Christy McElroy - *UBS - Analyst*

Okay, and then you talked a little bit about being able to push street rates a little bit further in Q4. Can you just sort of give a little bit more color on that, quantify how much you have been able to push street rates from the bottom?

Karl Haas - *Extra Space Storage Inc. - VP, COO*

Well, we reached the bottom or the trough in street rates in February 2009, when our rates were down about 13% to the prior year, to 2008. And we've moved in a positive direction as far as a delta to last year every month since then, to the point where now we are actually above same time last year's rates.

Christy McElroy - *UBS - Analyst*

Okay, and then can you quantify that?

Karl Haas - *Extra Space Storage Inc. - VP, COO*

Yes, we are about 1.5% above last year's rates at this point -- at the end of January.

Christy McElroy - *UBS - Analyst*

Okay. And then just following up on your comments about the trends in January and February being a little bit less pronounced than the fourth quarter, but still moving in the right direction, in terms of your occupancy, do you still expect a positive year-over-year occupancy gap in Q1?

Karl Haas - *Extra Space Storage Inc. - VP, COO*

Yes.

Christy McElroy - *UBS - Analyst*

You do, okay. And then just lastly, given the adjustment to your dividend, what is your expectation for free cash flow generation in 2010?

Karl Haas - *Extra Space Storage Inc. - VP, COO*

It would be between $40 million and $50 million.

Christy McElroy - *UBS - Analyst*

Okay, great. Thank you.

Operator

(Operator Instructions) Ki Bin Kim.

Ki Bin Kim - *Macquarie Group - Analyst*

Just a quick follow-up. In your guidance, you put in $3.5 million to $4 million of additional tax expense within your TRS. I was wondering if you could give a brief description about that and if it is a recurring item.

Kent Christensen - *Extra Space Storage Inc. - CFO*

Yes, it is recurring. It is completely tied to our tenant insurance program. And that program exists in our TRS, and it has grown pretty substantially. And the effect of that, because it is a taxable item that resides in our TRS, is that we are now paying income taxes as a result of our tenant insurance program.

And so it will be -- it will be that amount going up and down on a yearly basis, but there will be an income tax expense that we will now incur because of that.

Ki Bin Kim - *Macquarie Group - Analyst*

Thank you.

Operator

Todd Stender, Wells Fargo Securities.

Todd Stender - *Wells Fargo Securities - Analyst*

Good afternoon, everybody. If this was asked, please forgive me. I hopped on late. Can you share the terms on your mortgage financing in the quarter? You closed $63 million of debt financing on seven loans. And also the terms on the construction loan.

Kent Christensen - *Extra Space Storage Inc. - CFO*

I'll give averages. Our average has been similar to what it has been all year long. We haven't seen a lot of change since the beginning of the year and the terms and conditions that we received from the banks. That is effectively 300 over LIBOR on our variable rate loans.

However, at 300 over LIBOR, almost all the loans now come with a floor, and those floors are between 5 3/4% and 6%. There is amortization on the loans. They are generally between three and seven years. We have been able to get some longer terms on the loans, and we are now trying to stage the loans so that we make sure that our loans don't expire any substantial amount in any one calendar year.

The debt service coverage are between 1.3 and 1.4. And the loan-to-values are about 65%. Loan-to-values are based on cap rates that are coming from appraisals. The appraisals are not accurate. And so ultimately, our loan-to-value was a negotiation with the bank as to what they want the cap rate to be. But I would have to say in general that we are arriving at cap rates on the appraisals that we are seeing in the eighth to low eights. So it is a loan-to-value based on an eight cap of about 65%.

And on our -- you asked about the construction loan. The construction loan is similar. It would be about 300 over LIBOR with a floor of 5.75%. On the construction loan side, we are still having lots of difficulty in getting loans on construction properties. Stabilized properties, there is more appetite for property loans, but on the construction side, it is still very difficult.

Todd Stender - *Wells Fargo Securities - Analyst*

Thank you very much.

Operator

Todd Thomas.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Spencer, you mentioned in talking about the first-quarter FFO or expectation, you mentioned the fourth item there, miscellaneous expenses. It that operating expenses? I heard Karl talking about snow. I was just wondering if that is something that is material.

And then also, if you could just comment on G&A. It looks like G&A is coming in a little bit higher than I would have expected, especially given some of the right staffing that you've implemented throughout the year.

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

Yes, let's talk about the first-quarter expenses. There are some annual fees that come due with the Stock Exchange and other things. You have your tax preparation fees that all fall within the first quarter. So it is just miscellaneous expenses that we get the benefit for the full year.

With regards to G&A, we are continuing to position ourself for the future. We are investing in some enhancements for our revenue management program. After skipping a year, we provided some raises to the field folks. And we've just had to recognize that containing expenses in 2010 at 2009 levels isn't realistic, and so we positioned ourselves for that 1% to 3% expense growth.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay.

Operator

There are no further questions in the queue. I would like to hand the call back over to management for closing comments.

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

I would like to thank everyone for joining us today. We appreciate your interest in Extra Space and we look forward to the next quarterly conference call. Thank you.

Operator

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