

Transcript of Sovran Self Storage

First Quarter 2013 Earnings Conference Call - Edited May 2, 2013

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Participants

Diane Piegza – Vice President, Corporate Communications
Dave Rogers – Chief Executive Officer
Andrew Gregoire – Chief Financial Officer
Paul Powell – Executive VP of Real Estate Investment
Ed Killeen – Executive VP Real Estate Management

Analysts

Nick Joseph – Citi
Todd Thomas – KeyBanc Capital Markets.
Christy McElroy – UBS
Jana Galan – Bank of America/Merrill Lynch.
Todd Stender – Wells Fargo Securities.
Jeremy Metz – Deutsche Bank.
Paula Poskon – Robert W. Baird.
Josh Patinkin – BMO Capital Markets.

Presentation

Operator

Greetings and welcome to the Sovran Self Storage First Quarter 2013 Earnings Release Conference call. At this time all participants are in a listen-only mode. A brief question and answer session will follow the formal presentation. (Operator's instructions) As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host Diane Piegza, Vice President of Corporate Communications for Sovran Self Storage. Thank you. Ms. Piegza, you may begin.

Diane Piegza – Vice President, Corporate Communications

Thank you and good morning. Welcome to our First Quarter 2013 Conference call. Leading today's call will be David Rogers, our Chief Executive Officer. Also participating are: Andrew Gregoire, Chief Financial Officer; and Ed Killeen, Executive Vice President of Real Estate Management; and Paul Powell, Executive Vice President of Real Estate Investment.

As a reminder, the following discussion in the answers to your questions contain forward-looking statements and Sovran's actual results may differ materially from

projected results. Additional information concerning the factors that may cause such differences is included in our company's SEC filings. Copies of these filings may be obtained by contacting the company or the SEC.

At this time I will turn the call over to Dave Rogers.

Dave Rogers – Chief Executive Officer

Thanks, Diane. Good morning, everyone.

Q1 started our year in fine fashion. For the third straight quarter we achieved same-store revenue growth in excess of 8% and same-store NOI in excess of 10%. Occupancy grew again from December to March, surprising us this year. Last year was the first time that happened in our 29 year history, and we thought it was a one-time anomaly. Our Internet marketing team, revenue management group, customer care reps and store personnel are doing a terrific job and their efforts are reflected in our results. I'll let Andy provide the details on the quarter in a minute but it was another good one and it sets an optimistic tone for the balance of 2013.

We bought three stores so far this year, all in markets where we have a significant presence. In mid-February, we acquired the 14th store in San Antonio and in late March we acquired our sixth store on Long Island and our fourth facility in the Boston market. The first two are fairly stabilized properties with occupancies in the low 80s, while the Boston store is considerably more opportunistic. It was only 68% full when we took it over. The properties totaled 131,000 square feet and cost is \$22 million.

We have been digging pretty deep to acquire more properties of this type and we do see some opportunities, but it's more of a seller's market and the competition for quality assets is pretty fierce. We did bring seven more properties to the Uncle Bob's brand via third-party management contracts this quarter and were working that segment of the business pretty hard as well.

Our balance sheet and liquidity position are solid, debt to EBITDA and debt service coverage ratios are strong, and our maturities are for the most part far out and well staggered, and we also have plenty of dry powder available, so we're well-positioned to capitalize on opportunities as they arise.

With that, I'm going to turn the call over to the Andy Gregoire.

Andrew Gregoire – Chief Financial Officer

Thanks, Dave. Regarding operations, same-store revenues were strong again, increasing 8.1% over those of the first quarter of 2012. This was our third consecutive quarter of 8% or greater same-store revenue growth.

This was primarily the result of a 530 basis point increase in average occupancy and a modest increase in rates. Same-store occupancy as of March 31 was a 87.6%, a record for our company for the month of March. We also continue to see meaningful increases in tenant insurance commissions on a year-over-year basis.

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Total property operating expenses on same-store basis increased by 3.3%, as a result of an expected increase in snow removal costs, credit card fees and real estate taxes. Partially offsetting these increases was the continued decrease in Yellow Page spending. As a result of the continued strong revenue gains and more normal expense growth, same-store net operating income increased a very nice 10.6%. This was our third consecutive quarter with over 10% same-store NOI growth.

G&A costs were \$1.2 million, higher this quarter over that of the previous year. Aside from a \$200,000 increase in Internet advertising, the main reason for the increase is the fact that we operated 21 more stores at the end of this quarter as compared to January 1, 2012, and our continued investment in revenue management and training programs. Offsetting a portion of the overhead costs is an increase of almost \$170,000 in third-party management fees earned this quarter.

Regarding properties, Dave mentioned three stores we purchased during the quarter for approximately \$22 million. These purchases were funded by our ATM issuances. During the quarter we also sold one storage facility that was part of a consolidated joint venture for net proceeds of approximately \$4 million, resulting in the gain of \$400,000. We may prune additional mature properties in 2013, although none are under contract for sale at this time.

From the balance sheet perspective, as was anticipated we issued 822,000 common shares under our ATM program, resulting in net proceeds of approximately \$50 million. We used the proceeds to purchase the three properties in the quarter and to reduce the outstanding balance on our line of credit. This is part of our strategy to continue our conservative and flexible balance sheet by limiting floating interest rate exposure, staggering our debt maturities, and keeping our assets almost entirely unencumbered. At March 31, we had \$6.9 million cash on hand and \$174 million available on our line of credit, including the accordion feature.

With regard to guidance, we have included in our release our expected ranges of revenues and expenses for the second quarter and the entire year. Same store revenue for Q2 should be in the 6.5-7.5% and NOI growth around 8-9% for the quarter. For the year, we have increased our same-store revenue estimate to between 5.25-6.25% and increased our NOI growth to the 6-7% range.

Core G&A expenses are projected at \$34 million, including \$4.4 million of net Internet advertising. We have not assumed any additional purchases or sales of properties in our guidance, nor have we included the related acquisition costs incurred to date or that could occur in the future. Our guidance assumes a weighted average diluted share count of 31.4 million shares for the remainder of 2013, which includes the 822,000 common shares issued during Q1 through the ATM.

As a result of the above assumptions we are increasing guidance and are forecasting funds from operations for the full year 2013 at between \$3.54 and \$3.58 per share, and between \$.88 and \$.90 per share for the second quarter of 2013.

With that, we will open the call for questions.

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Operator

Our first question comes from the line of Nick Joseph with Citi.

<Q>: What were the rates on the two stabilized assets required in the first quarter?

Paul Powell – Executive VP of Real Estate Investment

Hi, Nick, this is Paul. The two stabilized was 6.5 in place cap rate and our San Antonio property was 5.1 for the property on Long Island.

<Q>: You mentioned that there is fierce competition for acquisitions and that you might prune additional properties in 2013. Could you give us a sense of maybe the size of potential dispositions?

Paul Powell – Executive VP of Real Estate Investment

We've got six properties now that we're trying to market for about \$30 million.

<Q>: Last question, for the \$100 million in debt coming due in September, do you still plan to turn that out and what sort of rates are you seeing in the market today?

Andrew Gregoire – Chief Financial Officer

This is Andy. We do plan to term that out. We're looking at a few different options right now. It's not repayable until September, so we can't do it early, but we have a lot of options to term that out and the rates are 200+ lower than it's currently at.

Operator

Our next question comes from the line of Todd Thomas with KeyBanc Capital Markets.

<Q>: Good morning. I'm on with Jordan Sandler as well.

So in terms of acquisitions, only the \$22 million are currently in the guidance. It sounds like the competition is sort of intensifying, but there are also a couple of conferences I guess early in April and I was wondering what you think might be a reasonable assumption to assume for this year based on what you're saying, whether or not the pipeline is starting to build a bit?

Paul Powell – Executive VP of Real Estate Investment

During the conferences, we did hear of some other portfolios that will probably come into market. Again, there is a lot of money chasing those deals. We feel that we'll certainly be in the game, but we do better with off-market deals; we are starting to see a little more activity there, so hopefully going into the second half of the year our activity should pick up. Our guidance is still about \$100 million so far this year, maybe 150 million, but it's going to be fierce, so we're looking at off market deals.

<Q>: Okay, \$100 million to \$150 million that you think is reasonable, that's not included in the guidance, that's just what you think would be a reasonable assumption for the year?

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Paul Powell – Executive VP of Real Estate Investment

Correct.

<Q>: Okay. I was wondering if you could share with us where occupancy was at the end of April and what that spread looked like year-over-year?

Andrew Gregoire – Chief Financial Officer

End of April, we were at 88.2; the spread over the prior April was 430 basis points. So it's still increasing nicely. Our revenue management team probably says it's a little bit too high at this time of the year, but we're happy with it.

<Q>: Okay, does that mean that you might get a little more aggressive with rate or your use of concessions at this point, given that you're a little bit ahead in terms of occupancy where your revenue management system would be telling you?

Ed Killeen – Executive VP Real Estate Management

Yes, that is exactly what it means. This quarter and looking at Q2, we certainly have to see what the selling season brings to us, but we can see concessions or incentives being suppressed a bit and our asking rates continue to climb.

<Q>: Okay, and then just lastly, just looking at the two New Jersey properties that you have listed in the consolidated portfolio, I was just wondering what the decline in occupancy and also revenue and NOI was at those two properties? And I was wondering if that performance was also consistent with the properties that are owned in the joint venture, I think the Lackland properties that were acquired several quarters ago?

Andrew Gregoire – Chief Financial Officer

That's unusual. One of those two stores had a fire and that's what caused the decline. We had to close the store for a few days and get some negative press. Everything's back up and running, but that hurt that store for the quarter. The Lackland portfolio is performing very well.

<Q>: Great. Thank you.

Operator

Our next question comes from the line of Christy McElroy with UBS.

<Q>: Good morning, guys. A sort of followup on Todd's question. In the guidance discussion of your release you talked about increasing rental rates. Just with regard to the same-store realized rent growth, which is up slightly at about .4% I think in Q1, can you quantify some of those drivers behind that number? What was your year-over-year growing in asking rents and discounts, and by what degree are you raising existing customer rents?

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Ed Killeen – Executive VP Real Estate Management

Right now our asking rates are up about 5.9%. Now we'll see what happens as we head into the selling season. By end of Q2, we see maybe that gap declining a little bit, but we'll see what happens. They are still very strong.

The incentives also are down significantly. The number of incentives offered to our customers are down from 82% to 73% this year, and the value of those incentives are also down 16% to just over \$65 a month. So we see the ability to continue to suppress our incentives a bit.

<Q>: And then existing customer rents, I think in the fourth quarter you were up about 3% to 5%. Is that about how much you're raising rents on existing customers?

Ed Killeen – Executive VP Real Estate Management

The value of those in place, actually it's up quite a bit. For those customers that are receiving increases, we're at over 7%. So the value of those incentives, the rate increases, up 7.5% right now for those folks who are receive increases.

<Q>: You said that asking rents were up 5.9% in Q1, but you expect that gap to decline in Q2? Is there a reason for that?

Andrew Gregoire – Chief Financial Officer

I think what you have, Christie is the 5.9% was at the end of March. With our occupancy where it is, I think that will hold. At some point we're going to be pushing up against some tougher comps later in the year, so that will decline. The delta in occupancy will decline, but some of it will be made up in rate, but that rate delta will also decrease later in the year.

<Q>: And if I just think about that sort of by yearend, so if I think about the occupancy delta declining and your rents hopefully rising, your realized rents hopefully rising, where do you think logically sort of by yearend you will be? I know you don't guide for this specifically, but in terms of year-over-year rent spread and where you hope to be with realized rent growth by yearend?

Andrew Gregoire – Chief Financial Officer

Christie, we're maximizing revenue, so there's a couple triggers there. Last year it was mostly occupancy. This year that occupancy delta will shrink. Rates will come back. If they hold the second half of the year, we're going to be sitting pretty. But right now we're assuming that they potentially won't hold the second half of the year. We were at 5.9% at the end of March, 6.8% increase in rents at the end of April compared to last April. So, it's going in the right direction. If it keeps going in that direction our guidance will be a little conservative.

<Q>: One last question, if I could. In the release you also commented about web marketing initiatives helping to reduce some of the seasonality. Can you talk about how your web marketing has evolved over the last year or two?

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Ed Killeen – Executive VP Real Estate Management

It's evolved quite a bit. I mean, it really, web marketing as a whole, it's very dynamic; things change very quickly. There's just a plethora of analytics to review throughout the quarter and throughout the year, and Google dictates quite a bit of that, because their algorithms are continually changing and we have to keep up with exactly what Google is doing. And as we've adjusted over the last year or so, it's one of those items that really separates the REIT's and the larger operators from the rest of the field out there; just having the ability, the technology, the people and the resources to properly manage all the web initiatives, whether it be the organic search or the sponsored search or the target mobile marketing. I can tell you this, in regards to mobile alone that is becoming the real driver. Mobile traffic alone unique visits is up 138% versus overall traffic up 47% and desktop is virtually flat at really under 1% growth. So, things are beginning to shift. That mobile application is also very expensive to advertise on.

So, we'll see what happens over the next year. Every quarter, every year is a different picture when it comes to web initiative.

<Q>: Thanks so much.

Operator

Our next question comes from the line of Jana Galan with Bank of America/Merrill Lynch.

<Q>: Thank you. Good morning. I just had a quick question on the credit card fees. I think that so much of last year you and your peers saw a little bit of benefit from the credit card companies. Has that now reversed?

Andrew Gregoire – Chief Financial Officer

Yes, that has reversed. The Visa's and the MasterCard's of the world found new fees to put in place to recoup some of that. It won't go up to the level it was before, but they are recouping that, so that's going to look odd. It's going to look high until Q4 of this year, then it should level out.

<Q>: Thank you.

Operator

Our next question comes from the line of Todd Stender with Wells Fargo Securities.

<Q>: Thanks, guys. Any further details on the Boston asset you acquired? It sounded like it had the biggest lease-up opportunity. Just wanted to see how old the property was and what the in-place rents are and how do they compare with market rents.

Paul Powell – Executive VP Real Estate Investment

The Boston property was developed about 3-3.5 years ago. It was a conversion. It was kind of a mom-and-pop operation. It had very poor results on the Internet as far as search results. So its in-place rents were I think about \$13-\$14.00. Their asking rates were quite a bit higher, so they were giving a lot of discounts. So we expect to

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actually do a lot better. The signage was poor on the building. It's a great location, it's very visible, and we just really felt that it was under managed, so we're going to be placing, this occupancy was around 68% when we bought it, so we're expecting growth of 150-200 basis points year one. We will be pushing in-place rents or trying to get in-place rents closer to our ask rents.

<Q>: That's helpful. And you also added seven properties to your third-party management platform. What's that number up to now and can you describe just in general what you're doing differently to land more of these opportunities than when you really first entered the space?

Andrew Gregoire – Chief Financial Officer

From a number point of view, Todd, we have 55 in joint ventures and 21 straight managed stores at the end of the quarter, so we're up to 21 strictly managed third-party stores.

Dave Rogers, Chief Executive Officer

We've been at this now for about a year and a quarter, Todd, and as we said before, we really want to make sure that we bring the right stores into the mix, the store that we want to put our Uncle Bob's brand on, presumably to own them down the road. We want to make sure that the owners that we team up with and that we drive the services to have the necessary financial depth, if nothing else, to make sure that we can bring the deferred maintenance up to speed, that they can be there to support the store. So, we're aggressive in our search, we're aggressive in meeting with people. We're probably not as aggressive in taking it right to the closing table and signing up. I don't know exactly what the ratio is, but I've got to believe it's something on the order of 4:1 or 5:1 opportunities that we look at and have interest in and actual close.

<Q>: That's helpful. Any geographical area that you're focusing on or just in general where you have the scale with your existing portfolio?

Dave Rogers, Chief Executive Officer

For both acquisitions and third-party management, everywhere we are has a priority, the markets we're in. We are exploring new markets all the time and if there's any scale at all that can be had in the first year that really entices us. So, I'm not going to say we'd do a one- or two-off management contract in a market where we don't exist, but we would look at the acquisition opportunities, combined with the management opportunities in new markets. And if we can get to a reasonable base within a year or 18-months, say four to ten properties, we would go there.

<Q>: Thank you.

Operator

Our next question comes from the line of Jeremy Metz with Deutsche Bank.

<Q>: Good morning, guys. I was just wondering, you were talking about occupancy, bucking some of that typical seasonal trend this quarter, remaining stronger than you had expected. Looking at the rest of the year, I think on our last call you had said there's about 250 to 300 basis points upside of growth baked into guidance. Has that

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guidance changed at all given the strong first quarter and what you're seeing so far in Q2?

Andrew Gregoire – Chief Financial Officer

No, we're still looking in the peak, into July probably the 250-300, so we'll be pushing high 90, maybe 91 that time. It's really going to be mix, though. It's maximizing that revenue. It's the mix of that occupancy growth that's left, but the rate push now is going to be more of a factor this year.

<Q>: Okay. Just given some of the strong growth in occupancy, have you seen any noticeable increase in your length of stay of the customers you have? And then along that same line, where are you sending out renewals on existing customers?

Ed Killeen – Executive VP Real Estate Management

Our length of stay is quite strong. For those customers that stay with us over a year were up about, I believe, 2%.

Andrew Gregoire – Chief Financial Officer

Yes, we're at 55.3% of our customers have been with us more than year.

Ed Killeen – Executive VP Real Estate Management

And as Andy suggested, what revenue management is telling us now as opposed to last year is that we should be looking at in-place and asking rates, and we will certainly be pushing in-place rents up quite a bit. As I suggested earlier, they're pretty strong at 7.5%. And while we didn't put many rent increases in place for the quarter, the number of increases that we put in April doubled what we did for the quarter and we see that trend continuing throughout the second and part of the third quarter.

<Q>: How did that 55.3%, how does that compare to the year-ago period?

Andrew Gregoire – Chief Financial Officer

It's almost 2% higher.

<Q>: Okay. Just one last one. You talked about some benefits from reducing Yellow Page spend, and I think one of your peers said they're completely moving away from it. Have you given any thought to doing away with Yellow Page and just focusing on Internet and mobile advertising?

Ed Killeen – Executive VP Real Estate Management

Jeremy, we have done that with the exception of line listings. The benefits of reduced Yellow Page spending has pretty much burned off. There will be, I believe, 100, I'm not sure exactly what the number is, but you've got to spend just a little bit to maintain listings. And in a few of the weaker markets where we see that Internet views is extremely low, we have very few ads out there that the larger full page, quarter page, half page ads, but that might equal 10 books at the end of the day. So, Yellow Page is pretty much dead.

Dave Rogers – Chief Executive Officer

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We think we'll probably level off at about 600,000-650,000 a year, down from 4.5 million four years ago.

<Q>: Great. Appreciate it.

Operator

Our next question comes from the line of Paula Poskon with Robert W. Baird.

<Q>: Good morning. You talked in the press release that some of the revenue growth was driven by strong growth in insurance commissions. What's your insurance penetration rate right now?

Ed Killeen – Executive VP Real Estate Management

It's up slightly at 52% and our capture rate is also up just ab it. Current capture rate at 79.6%.

<Q>: Thank you. Dave, just a big picture question for you, there's obviously been a lot of discussion in the investment world about the valuations of the storage space and seeing its historically low implied cap rates. Do you think there's been a permanently repricing of the assets broadly in the sector or do you think that's just true for the REIT's given the power of the technology platform? How are you just thinking about that going forward?

Dave Rogers – Chief Executive Officer

I do think it's across the board, pretty much, Paula. We've put a lot of emphasis of technology on the platforms and I think a lot of investors see that that value can be had. To the extent now that we're hearing about development talk, and there's been more of it certainly this year at the tradeshow than there was last year, a lot of those developers have "seen the light" so to speak, and are talking to us and I would imagine the other bigger players just to see what's involved in laying out the store the way we might want, laying out a marketing plan, coming to us before there's even a permit file or approval, entitlement granted, to see if we're interested in managing those stores. So, I think the idea of these stores being managed professionally and with a pretty good degree of technology involved has brought to the people in the business the fact that these stores can be valued higher with the platforms in place.

You certainly see it in the valuation of our company and you can measure it every day, but I think it's penetrated into the smarter operators at every level and it's a pretty big shift. It's not as big as it was, say, crossing the .com bubble where everything we did from the '80s right through the late '90s into 2000, these assets were priced at 9.5-10 cap, it was a seismic shift then. Certainly through the 2000s down to the present, let's call it 6-6.5 cap. So, it's a little worrying, but I do think it's across the industry. It's not just the big guys.

<Q>: Thanks very much.

Operator

Our next question is from Todd Thomas with KeyBanc Capital Markets.

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<Q>: It's Jordan Sadler here with Todd. Just wanted to sort of focus in on that cost of capital question a little bit. What's embedded in the guidance in terms of taking out the term debt that matures in September and maybe even cleaning up the line balance? What are you thinking given that interest rates are falling to these levels?

Andrew Gregoire – Chief Financial Officer

The September renewal or the debt ceiling in September, we've got a lot of options. Baked in the guidance is a 200 basis points decrease in that rate on that. We want to push that out numerous years, so that's our plan, to push it out long-term. We don't intend to take that down with equity.

<Q>: Could a bond offering be in the cards? It seems like you're closing in on 250 if you potentially get lined up a few more of these acquisitions.

Dave Rogers – Chief Executive Officer

That would be, the idea of a \$250 million to \$300 million being the index eligible level. I'm sure we wouldn't do a bond offering if we didn't have that. We would not go out sub index level. So we're looking at that, but I've got to say, given our acquisition volume prior to September 4th, we're not counting on it. We are looking at 10-year term notes, we're looking at bank lines. As Andy said, we've got a lot of options right now. We have positioned our balance sheet really well by sort of accelerating our ATM offerings and put a few dollars more equity into the mix and a little less debt. So, we've got a couple months, I guess, to really work it through.

We would love to do a public deal. We're just not sure that we're going to have the mass at September to do that.

Andrew Gregoire – Chief Financial Officer

I think it's more likely that the 2016 note, when that comes due, would be our initial public debt offering, but it depends on acquisition volume issue.

<Q>: Alright, don't be too hasty. The other question is regarding the equity. The ATM issuance during the quarter was bigger than we had. When we plug in your number, we get another couple, it brings our number down a couple of pennies, so I would imagine your guidance reflects at least obviously the \$50 million you did in the quarter, so that's dragging the guidance down by a couple pennies or so at the midpoint. But is there anything else that you're expecting that you'll continue to sort of tap the ATM incrementally, either in guidance or conjecturally?

Andrew Gregoire – Chief Financial Officer

It really depends on acquisition volume. Right now we don't see tapping the ATM unless acquisition volume is significant. We think for the year, we had significant acquisitions in December, we caught up some of that by paying down the debt with the ATM, there's nothing in guidance right now that we would issue more under the ATM. Pretty much share count is what it is today with some slight upticks from dividend reinvestment, that type of thing.

<Q>: What's left on the ATM at this point?

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Andrew Gregoire – Chief Financial Officer

It was \$175 million, so \$125 million remains.

<Q>: Thank you.

Operator

Our next question comes from the line of Josh Patinkin with BMO Capital Markets.

<Q>: Good morning. Thinking more long-term in terms of Yellow Book advertising spend, does it make sense to hone in on one operational aspect, that is the Internet, and cycle capital out of the lower Internet penetration markets that you're in?

Ed Killeen – Executive VP Real Estate Management

Well, we pretty much are out of all of the Yellow Page books with the exception of listings and just a, like I said, 10-12 books out there among our whole portfolio. The lion's share of our ad spending is in web. I'm not sure if that answers your question, but that's where we're spending the money.

<Q>: And in the markets where there really isn't that much Internet penetration for your customer base, how do you square the advertising spend on Yellow Book versus Internet?

Ed Killeen – Executive VP Real Estate Management

That is a good question. It's not as if in those markets we reduce our web spend. You have to be there no matter what. It's just we augment that with a little bit of Yellow Page spending for those customers that just have not yet migrated over to web. But it's not as if in those markets, those very few markets, primarily down in the Gulf area, that people are not using the web and we really have not reduced spending there. We just do a bit of Yellow Page spend.

<Q>: On the third-party business, generally speaking, where does occupancy come in at when you get control of the assets?

Dave Rogers – Chief Executive Officer

Oh boy, it ranges from zero on a new development to, we've taken over some decently run properties that are receiving a little bit, maybe, or have some rate issues. So I would say zero to 90, and all points in between.

<Q>: And so, suffice to say, when you do get control of them there's significant upside in restoring occupancy?

Dave Rogers – Chief Executive Officer

Most of the time, but sometimes it's a question of the ownership is concerned that their new hits, their move-ins are decelerating significantly and they're looking for us to basically prop them up on the web. In some cases they're sold on our revenue management. But yes, I would say probably 2/3 or 3/4 of what we bring in is an occupancy issue, but not to leave the other stuff off.

<Q>: Okay. Do you operate any off of the Uncle Bob's brand?

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Dave Rogers – Chief Executive Officer

No. That's a requirement that we brand them Uncle Bob's right away.

<Q>: Lastly, in terms of scalability, I think last we spoke you said you need about 100 stores or more to really scale this business today. Where do you fall on that question now?

Dave Rogers – Chief Executive Officer

I'm not sure how that got interpreted that way. If it joins our big scale, I think what we were talking about with regard to scalability was the margins on managed stores are significantly less. The fee income that we bring in, we're only probably making somewhere on the range of 15% to 20% margin on that versus 65% margin on wholly-owned stores. So, I'm not quite sure—

<Q>: I'm sorry, not for your third-party business, but for the storage business in general, about how many stores do you need and how much AUM?

Dave Rogers – Chief Executive Officer

Okay, I think it's a lot more than one hundred then. To do what we do, I mean, even if you're willing to spend on average of \$10,000 to \$12,000 per store on the web and you can then spend, at 250 stores you're spending \$2.5 million, that's only part of the puzzle on the scale game. Certainly, the fact that we actively manage the process of knowing where to buy on the web, when to buy – time of week, time of day – and there's a lot that goes on here that has to be in addition to the media buy and the web buy that you're doing, you have to have people to manage it. Likewise with revenue management, we've got a team of four pretty sharp guys that are running the concept of rev man throughout the whole system. So we pay big for the basic process, the software and the way to do it, but we also have an ongoing concept. So, I'm thinking if you're talking scale now, you're easily in the 250-300 store range to make it work in terms of the technology. It used to be 200-225 for a call center. That's probably the one piece of technology that the number of units have come down with the advances that have been made. In the 15 years that we've had our call center, 13 years, have been pretty significant. So if you were just doing a call center deal like we did over a decade ago, that's come down. But the other two platforms take some, I'm sure, somewhere in the range of 250+.

<Q>: Thank you very much.

Operator

Mr. Rogers, there are no further questions at this time. I'd like to turn the call back over to you for closing comments.

Dave Rogers – Chief Executive Officer

We thank everyone for their interest and look forward to seeing you at NAREIT and when we're on our next call. Have a good spring.

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**Transcript:
Sovran Self Storage
First Quarter 2013 Earnings Conference Call
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Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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