

Transcript of
Sovran Self Storage
Fourth Quarter 2015 Earnings Release Conference Call - Edited
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Participants

Diane Piegza – Vice President, Investor Relations
David Rogers – Chief Executive Officer
Andrew Gregoire – Vice President, Finance
Edward Killeen – Chief Operating Officer
Paul Powell – Chief Investment Officer

Analysts

Jeremy Metz – UBS
Guarav Mehta – Cantor Fitzgerald
David Toti – BB&T Capital Markets
Todd Thomas – Keybank Capital Markets
Jana Galan – Bank of America Merrill Lynch
George Hogle – Jefferies
Ki Bin Kim – SunTrust
Jonathan Hughes – Raymond James
Todd Stender – Wells Fargo
Ross Nussbaum – UBS

Presentation

Operator

Greetings and welcome to the Sovran Self Storage Fourth Quarter 2015 Earnings Release 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.

I would now like to turn the conference over to your host, Ms. Diane Piegza, Vice President, Investor Relations for Sovran Self Storage. Thank you, please go ahead.

Diane Piegza – Vice President, Investor Relations

Thank you, Melissa, and good morning everyone. Welcome to our fourth quarter 2015 conference call. Leading today's call will be David Rogers, Sovran's Chief Executive Officer. Also participating are Andy Gregoire, Ed Killeen and Paul Powell.

As a reminder, the following discussion and answers to your questions contain forward-looking statements. Our actual results may differ from those projected due to risks and uncertainties with the company's business. Additional information concerning these factors is included in the company's latest SEC filings.

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

David Rogers – Chief Executive Officer

Thanks, Diane, and welcome, everyone, to our call. Our Q4 was good. On the operating front, results were solid as we continued to grow the top line by pushing both rates and occupancy, and for the most part we've been able to keep costs under control. Regarding acquisitions, we bought only one property and sold two, so we kind of took a step backwards during the quarter, but we were busy laying the groundwork to start 2016 off in a big way by signing contracts for 30 properties worth almost \$400 million. Of these, 21 are stabilized stores in metro areas where we already have a presence—Dallas, Boston, Denver, metro New York, Philadelphia, Phoenix, and south Florida.

We're also in the midst of acquiring seven stores in Los Angeles, which is a new market for us, and in addition to these 28 up and operating stores, we're buying two newly developed facilities, one in Phoenix and the other in Los Angeles. We've closed on 20 of those stores already this year, with the rest expected to come on board in the next few weeks.

Andy will give further details, but through the fourth quarter and into January, anticipating these pending acquisitions, we raised \$44 million via the ATM, increased our credit line to \$500 million, and did an equity offering of \$270 million, so our balance sheet is strong and our liquidity position is excellent. This is important as we work to manage our external growth strategy, which is to acquire assets that we can significantly improve in markets where we already have an established presence, or if a new market, one in which we can quickly gain scale. We look to do this in a manner that's earnings accretive on a leverage-neutral basis while enhancing our net asset value, and we think we've met these objectives with this wave of acquisitions and capital formation.

One point of note concerning net asset value, with the two leased-up properties in Phoenix and L.A., we now have 12 certificate of occupancy properties either in the portfolio or under contract. Six have been operating for a few quarters and are detailed in the press release. Phoenix and Miami just came on board and we expect the other four to open as the year progresses. The CofO deals do cause a drag on current earnings as we fund the operating and carry costs during lease-up, but they're proving to be a real driver to higher net asset value.

Evaluating 2015 on the whole, borrowing from Frank Sinatra, it was a very good year. We put up excellent overall operating results, including three straight quarters of accelerating top line growth. We added 20 high quality stores to our portfolio, and we set the stage to buy 30 more, all while continuing to enhance our operating platform and strengthen our financial position. We expect nothing less in 2016.

Now Andy, why don't you tell us about some of the details?

Andrew Gregoire – Vice President, Finance

Thanks, Dave. Last night, we reported same-store revenues increased 6.7% over those of fourth quarter of 2014. This was an acceleration from the 6.5% in Q3 same-store growth and shows the continued strength of our platforms in the sector. The drivers behind the revenue growth were 120 basis point increase in average occupancy and a 5% increase in rental rates. Same-store occupancy increased to 90.1% at December 31 as compared to 88.9% at the end of 2014.

Total operating expenses excluding real estate taxes were well controlled, increasing only 1.2% on a same-store basis. As expected, property taxes for the quarter came in at a double digit increase over the fourth quarter of 2014 as a result of the tough quarterly comparable due to the fact that we had a benefit recorded at the end of 2014 for property taxes. Same-store property taxes for the year came in slightly better than expected, increasing 5.2%. Our revenue growth and controlled expenses and the performance of our acquisitions led to a strong 13.3% increase in adjusted FFO per share for the quarter.

G&A costs were \$1.1 million higher this quarter over that of the previous year. The main reasons for the increase were additional legal fees related to a lawsuit in New Jersey, the fact that we operated more stores at the end this

quarter compared to last year's fourth quarter, and additional incentive compensation earned due to our strong results.

On the balance sheet side, we have continued to maintain our conservative leverage. During the quarter, we issued approximately 450,000 common shares through the ATM, resulting in net proceeds of \$44 million which were used to fund one store acquired during the period and pay down a portion of our line of credit. At December 31st, we had approximately \$7 million of cash on hand, \$220 million available on our line, and approximately \$59 million available on the ATM program.

As many of you are aware, we completed our follow-on offering of 2.6 million common shares in January of 2016, resulting in net proceeds for the company of approximately \$270 million, part of which was used to fund the 2016 acquisitions completed to date. Also in January, we increased the capacity on our line of credit from \$300 million to \$500 million to further expand our liquidity position.

Our solid operating fundamentals and our prudent use of leverage was recognized by S&P and Fitch, who both recently upgraded our credit rating from BBB- to BBB. In addition, we obtained a similar investment-grade rating from Moody's during the quarter at Baa2.

With regard to guidance, we have included in our release the expected ranges of revenues and expenses for the first quarter and the entire year. Same-store revenue growth for Q1 and the year should be in the 6% to 7% range and NOI around 7% to 8%. Expenses outside of property taxes should increase between 3% and 4%. Property taxes are forecasted to increase 6% to 7% over 2015 levels. In 2016, we have an above-average number of stores on a property tax reassessment cycle, leading to the higher than normal forecasted property tax expense.

Our guidance assumes the previously announced \$400 million in acquisitions are completed on schedule and an additional \$100 million of accretive acquisitions are completed over the remainder of 2016. We have not included in guidance the related acquisition costs incurred to date or that could occur in the future. Our guidance also assumes \$0.07 to \$0.08 FFO dilution from the CofO deals we have completed to date or that we expect to complete in 2016.

As a result of the above assumptions, we are forecasting adjusted funds from operations for the full year 2016 at between \$5.45 and \$5.51 per share and between \$1.17 and \$1.19 per share for the first quarter of 2016.

With that, Melissa, we will open the call for questions.

Operator

(Operator instructions.) Our first question comes from the line of Jeremy Metz with UBS. Please proceed with your question.

<Q>: Hi, guys, good morning. I was wondering if you could give us some color on the seven stabilized assets you bought in California. I think the initial cap rate was around a five on a trailing basis, so just thinking through the deal, where was occupancy for those assets at closing, where do you think you can take it up to, and then what sort of stabilized yield are you expecting there?

David Rogers – Chief Executive Officer

Hi, Jeremy. They were in two contracts. We've bought four already; we've got the other four lined up, and three of those are stabilized. The combined mix on those came in at a trailing 12-month, 5.1 cap. We expect good things of those properties. They're about 90% occupied, but the rate structure is not very solid, so we think there's about 82% occupancy, economic occupancy, on those seven stores. We expect during the first 12

months to push that a good 9% or 10%. Unfortunately, we're going to give most of it back in first year property tax increases, so our trailing 12 going in was a 5.1. We expect first year, despite the high revenue pop, to only come in at about 5.3 as we absorb the first year property tax increase, and then from there we should be good. The property tax increases in California, subsequent to an adjustment first year, are not bad.

So, it's a little quirky in the way—we're going to have, I think, a pretty good opportunity to improve these stores, but you're not going to see it in the first year.

<Q>: Okay, appreciate that. Then one for Paul on the development. I was just wondering if you could walk us through what you're seeing in terms of new supply across your bigger markets, and then in particular how many of your 40 Houston stores are being impacted by supply.

Edward Killeen – Chief Operating Officer

Hey, Jeremy, it's Ed. Regarding new supply, there seems to be some activity out there, but the actual new supply coming on continues to be muted. We see 159 total projects that were either completed in 2015 in construction or in planning, and of those 159, only 41 of them have actually been constructed. Now, of the 74 properties located in immediate trade areas, most of the activity is in the Dallas-Fort Worth area, Chicago, Phoenix, Raleigh and Houston. So, there is activity, but again, we believe it's coming, but it really isn't here just yet.

<Q>: Okay, and then just sticking with Houston, one last one. Are you seeing any weakness creep into that market at all, whether operationally or even on the transaction side? Obviously your results have been good, but I'm just wondering if it's more still the tide coming here before maybe going out.

David Rogers – Chief Executive Officer

I think a little bit, Jeremy, still hangs on the fact that we had a very strong 2014 in Houston, so some of our weakness is coming off a real high water mark in 2014. Yes, there's some pressure.

Edward Killeen – Chief Operating Officer

Hey Jeremy, it's Ed again. We think to a great extent, given the ability of ourselves and our peers to attract and retain customers beyond the independents and the smaller operators, we think we sort of shielded ourselves from the ebb and flow of market conditions there. While we might feel the effects of a softening market due to the energy business, we do not see signs that will have a critically negative impact on our overall business.

<Q>: All right, thanks, Ed.

Operator

Thank you. Our next question comes from the line of Guarav Mehta with Cantor Fitzgerald. Please proceed with your question.

<Q>: Yes hi, good morning. Going back to acquisitions, could you discuss the forward [indiscernible] yield on the assets also there as well?

Paul Powell – Chief Investment Officer

Yes, Guarav, this is Paul. The forward cap rate on the acquisitions that we did in the first quarter, excluding the California ones—let me just get to the right page. The Florida ones, we're projecting about a 6.5 cap year one, and then the New England ones and the Dallas ones, they're both going to run in the mid-5s, 5.6 to 5.7 year one. The one we bought in Phoenix, that was a new development, opened up in May. We managed it from when it was first opened, so we're only expecting a 4% yield year one on that one.

There were two others that we bought. One was a development, one in North Miami, which of course is going to have no impact year one, and then one outside of Philly was about a 6.3 cap year one.

<Q>: Okay, and then on the revenue guidance side, what's the occupancy and rent growth assumptions driving the revenues?

Andrew Gregoire – Vice President, Finance

On the occupancy point, we were thinking 100 basis points. We've shown better than that in January, but 100 basis points is built in from the occupancy side. The rest comes from rate.

<Q>: Okay, and then lastly on the same-store pool, it seems like you're going to add 29 stores to the same-store pool in '16. Is there any benefit of those additional stores to the guidance?

Andrew Gregoire – Vice President, Finance

There's not a whole lot of change. Those stores, they reset the occupancy about 20 basis points lower, so there's not a big difference in those stores coming versus our mature 399. So, you won't see a big fluctuation, and we'll continue to show that in the press release so you can see that, but we don't expect a big change as a result of those coming into the pool.

<Q>: Okay, thanks for taking my questions.

Operator

Thank you. Our next question comes from the line of David Toti with BB&T Capital Markets. Please proceed with your question.

<Q>: Hey, good morning guys. First question, are you guys, can you remind me, are you guys using third-party aggregators, and do you still view that entity as a potential competitor or more of another channel?

Edward Killeen – Chief Operating Officer

David, we view it as another channel. We use primarily SpareFoot, and while there has been a 4% increase in organic search, move-ins from organic search, we have seen our spending with SpareFoot decrease, thus our reliance on SpareFoot decrease by 29%. So, while they're our partners, the channel that we would much rather have our customers come in through is our own website, and we've done some things with SpareFoot this year, again, reducing net cost by eliminating listings, select listings where there is a reduced level of inventory available, so it's worked out real well for us in 2015.

<Q>: Okay, that's helpful. My only other question had to do with concessions, and I apologize if I missed this. Has there been any change in that trend in terms of generally diminishing, and are you seeing any reversal of concession activity in the Texas markets in particular?

Edward Killeen – Chief Operating Officer

We are not. Things aren't changing out of the ordinary in Houston or anywhere in Texas. Concessions are down year-over-year approximately \$450,000 or 27%, and that's really no different anywhere in Texas than it is in the rest of our stores.

<Q>: Great, thanks for the detail.

Operator

Thank you. Our next question comes from the line of Todd Thomas with Keybank Capital Markets. Please proceed with your question.

<Q>: Hi, thanks. Good morning. Just following up on the concession activity and also your revenue growth guidance, so about 100 basis points of occupancy uplift, the remaining 5.5% from rents. How much more room do you have to reduce discounts? Can you maybe share the quarterly numbers and also just comment on how much more room you might have to reduce discounts going forward?

Andrew Gregoire – Vice President, Finance

Sure, Todd. The discounts in same store in the fourth quarter year-over-year, in '14 they were \$1.6 million, in '15 they were \$1.2 million, round numbers. Q1 of '15, so in other words when we're looking at Q1 of '15, it was \$1.8 million. We definitely see room to decrease that. From the June-July area, there's probably not a whole lot of room to decrease, but on the ends of the spectrum, beginning of the year, end of the year, we have more room to decrease concessions.

<Q>: Okay. Then in Houston, you broke out the revenue growth forecast there, 5.75 to 6.25%. What are your occupancy assumptions in Houston? How does that negative 180 basis point year-over-year spread trend throughout the year? And then, can you just share with us in terms of how you're thinking about operating the Houston portfolio if there's any difference in Houston compared to the rest of the portfolio?

Andrew Gregoire – Vice President, Finance

Sure. The occupancy, the 180 basis points, we think that's probably about where it should stay for the year. That's what's built into the model, so I think there's some good rate growth there. So, I mean, Houston, yes, it's not as strong as it has been, but it's still holding in there as very—there's a lot of property types that would love to have 6% growth, and I think we're comfortable with where we're at in Houston.

Edward Killeen – Chief Operating Officer

Yes, our operating growth, our operating plan will remain the same in Houston. We really don't see a need for any change. I mean, from a revenue management standpoint, you might see a bit more free rent in Houston to attract customers later on in the year, but heading into the peak season, again, we really don't see a big change. While the rates there are a little bit under the portfolio average, they really remain steady. We're not seeing the downturn just yet.

<Q>: Okay, and then just lastly, thinking about your first quarter guidance, I was just wondering what's causing the big decrease sequentially. So, you did \$1.28 excluding acquisition costs in the fourth quarter, you're projecting a \$0.10 per share decrease in the first quarter. I know there's some seasonality baked in and a timing mismatch from the equity offering and acquisitions, but it seems like the sequential decrease is quite large. Am I missing anything?

Andrew Gregoire – Vice President, Finance

It's a good point. We just want to make sure everybody is aware, the 450,000 shares issued through the ATM in Q4, that was late in Q4. Then we had the big equity issuance in Q1 in January. It's pretty dilutive. In fact, you're paying off some line debt with that until we buy these properties, which some of these won't occur until April. But there is some—you know, the normal sequential decrease in your revenue, revenue in Q1 is lower than Q4, and that's not a huge difference. The property tax bite in Q1 compared to—again, we're estimating property taxes, but I think we've got to start out the year pretty strong. We show 89 properties that are up for reassessment that could have potential for big hits on the property tax side. So, we see an outside property tax increase, snow removal in Q1 versus Q4 is usually about \$700,000 more, admin expenses about \$500,000 more. Really if you look at it, all of our raises go into effect. We try to retain our quality people at the store level, at the home office level. We had almost an average 3% increase in raises at the store level and home office come January 1, so all those went into effect.

So when you bake all that in, I think you'll see that it's right where we're at.

<Q>: Okay, great. Thank you.

David Rogers – Chief Executive Officer

Thanks Todd.

Operator

Thank you. Our next question comes from the line of Jana Galan with Bank of America Merrill Lynch. Please proceed with your question.

<Q>: Thank you, good morning. Right now, I don't think there is any dispositions in the guidance, but was just curious if you're contemplating taking advantage of the large demand for storage assets out there, or are you happy with your portfolio both geographically and in terms of the quality?

Paul Powell – Chief Investment Officer

Yes, Jana, we don't have any properties for sale at the moment. We're continually reviewing our portfolio, and there may be some dispositions later this year just out of some non-strategic markets, but right now we have nothing in the pipeline.

<Q>: And on the acquisition side, I think this is a big year for CMBS maturities. Do you think that will provide even more activity for you, or are you comfortable with that \$100 million additional in acquisitions that you have in the guidance?

Paul Powell – Chief Investment Officer

Yes, Jana, right now we have \$39 million where we're negotiating contracts on top of what we've already disclosed. We do expect we'll certainly do the \$100 million this year. There is a lot of opportunity now, at least through the first half of the year. Some of the CMBS debt that's expiring, I think will create some more additional opportunity. We're very pleased with the pipeline right now, at least through the first half, so I think we'll have a great year.

<Q>: Thank you.

Operator

Thank you. Our next question comes from the line of George Hoglund with Jefferies. Please proceed with your question.

<Q>: Good morning, guys. Just a couple questions on the markets that had negative same-store NOI growth in the quarter, like Austin, San Antonio and St. Louis. Just wondering if that was driven by mostly by property taxes.

Andy Gregoire, Chief Financial Officer

Yes, George, exactly right. Those stores, those markets, San Antonio, St. Louis, Austin, Birmingham, had some very high property tax increases. Portions of Dallas got hit this year, and we expect portions of it to get hit in '16 also, so yes, it was really driven. There was no other unusual expenses outside of property taxes.

<Q>: Okay, and then also given the large tax protest in 4Q '14, what's the likelihood, or what are the chances that the 2016 property tax growth comes in well below the 6% to 7% you guys are projecting?

Andy Gregoire, Chief Financial Officer

You know, I think because of those reassessment cycles, we hope to win some, but I don't think we can start the year assuming we're going to. There's high prices being paid for this property type, and the assessors are seeing it, so it's a tough battle. We will win some, but I think we've got to start the year saying, this is what we expect. As the year goes on, we'll see where it comes in at.

<Q>: Okay, thanks. Then just in terms of occupancy in January, where was occupancy in January versus last year?

Andy Gregoire, Chief Financial Officer

On this same-store pool, we ended January at 90.2 compared to 88.8 last January, so it was 140 basis points.

<Q>: Okay, thanks guys.

Operator

Thank you. Our next question comes from the line of Ki Bin Kim with SunTrust. Please proceed with your question.

<Q>: Thanks. Good morning, guys. So, Dave, I think following your company over the years, I wouldn't characterize you guys as overly aggressive on setting expectations or guidance, but given that your same-store guidance is pretty healthy in 2016 at 7.5%, what are some of the elements that you're seeing out there that have been better than you expected?

David Rogers – Chief Executive Officer

I think the continued dearth of new supply is a boon to all of us, including the mom and pops. But I think at our level, I think the impact of our platforms—you know, in the industry, you as investors and analysts saw a big pop from all of us, I think, coming out of the downturn, especially starting in 2011 with the real traction we got from web advertising and what RevMan meant to all of us. I guess what's a pleasant surprise to me is the continuation of the impact, the positive impact that those had. That part of our business has not matured. There's more inroads to have with both web marketing, with RevMan. We're bringing levels of customer service out of our call center at a higher level.

I think right now, you're seeing the gap between the big players and the smaller players as tight as it's ever been. The rising tide has lifted everybody, but even so we have probably from what I've seen at different industry panels and talking with some of the private guys, we probably still have a 200 to 300 basis point lead over the guys without the platforms, and this is in the really good times. I think as times, if they do decline in our sector, we're going to widen that gap and continue to be strong, so I guess if we're saying what are the positives or surprises on the plus side, it's got to be the continuation of the importance and success of those platforms.

<Q>: Okay, and maybe asking a different way, the 6% to 7% same store revenue that you expect in '16, how much of that growth is already locked in because of what's happened in the past few months of elevating street rates or lower promotions, and how much do you have to actually bank on higher street rates to come in 2016?

David Rogers – Chief Executive Officer

Well, I think we have work to do. As we always say, this is the worst time for you to ask us to predict how our year is going to be. We love talking to you about it at NAREIT in June because then we've got a couple months of a lot of activity, a lot of setting rates, seeing how they stick, seeing what we can do with our in-place and how the market is going to react to higher rates. We've got work to do. Certainly we're holding our breath every year, despite the fact that we should have maybe a little more swagger given five years of really strong growth. It's still a nervous time when we start setting those rates and answering the phone and getting our managers to put their existing tenants' rates in place. We have work to do.

I think we're in a good spot certainly, and the rates coming out of 4Q and 1Q are good, and we have a good stable of people to raise the rates on. But I really look forward to talking to you at NAREIT, Ki Bin.

<Q>: Just a last quick one. Obviously you guys didn't have any California exposure, and for you to get into it, you guys paid somewhat of a cover charge by paying those Prop 13 taxes and just low cap rates. Just curious, if you had more to buy at the same price, would you pursue it going forward?

David Rogers – Chief Executive Officer

Yes. Let's clear up the, I'll call it confusion, to be nice, on the price we paid in California. We bought two portfolios. The Harrisons—the one portfolio was \$187 million, included 13 stores. There were some in Dallas, there were some in Boston, there were some in New Hampshire, and there were four in California. On balance for that whole pool, which we liked very much, I'll say for sure 11 of the assets, and two were maybe a bit marginal, but nonetheless more than acceptable, we paid \$172 for that whole pool a foot.

So, then we're in California up to our waist. We're not all the way in, but we're in in a way that we think, all right, we should be adding more properties, and another portfolio came up for sale. It's a very good portfolio, and we said here with four in, we've got an opportunity for four more, we will pay up for this. So we did, but the paid up price, and it's in the filings and it's—you know, sometimes you can argue what you paid on a cap rate basis, but you can't argue what you paid on a square foot basis, because there's X square feet and there's Y dollars. On that high-grade portfolio that we paid up for, we paid \$237 a foot.

So, we're comfortable with what we paid there. Yes, the cap rate, as I mentioned earlier, we're going to take a little bit of a hit in year one, but it'll be great going forward. But the prices paid were for stabilized stores in markets like that, I think we didn't pay up that much at all.

Now, we do have, as Paul might mention, a couple other opportunities.

Paul Powell – Chief Investment Officer

Yes, Ki Bin, I mentioned earlier we had \$39 million under contract. One of those is another property in California, and we're not paying that high a price per foot. It's around \$160 a foot. So again, getting into California has opened the door. I'm looking at other opportunities out there we can add, go after one-offs or one or two properties, so we're going to be pretty aggressive looking in California now that we've got a good presence there. Paying the \$237 that Dave referenced, hopefully we're not going to have to pay that high, but those were very high quality assets as well with very high rents.

So, we're going to continue to look in California, and I certainly hope we acquire a few more this year.

<Q>: Okay, thank you, guys.

Operator

Thank you. Our next question comes from the line of Jonathan Hughes with Raymond James. Please proceed with your question.

<Q>: Hey, good morning guys. Thanks for taking my question. Thanks for the color earlier on Todd's question regarding 1Q guidance. I recall last year in the early months you said you didn't push rates enough as you felt you should have. What does the trajectory look like this year? Are you going to wait until occupancy increases a bit as we enter the peak leasing months, or have you started aggressively increasing rates already?

Edward Killeen – Chief Operating Officer

Well, it's difficult to say even in January until we get into the renting season, but with asking rates at 4.1% and the great majority of the CBSA's where we have three or more stores, the way those rates are trending, they're either neutral and most of them are positive trending at the 4-plus percentage mark. So, there remains an upward trend, but maybe this year more so than in previous years, there might be a little bit more of a variance from market to market in regards to pricing power.

Andrew Gregoire – Vice President, Finance

And Jonathan, regarding in place, we've done more in-place increases in January than we did in all Q1 last year, so we're being more aggressive on the in-place, and you'll see that as the year goes on.

<Q>: Okay great, very helpful. Then I don't know if you mentioned this earlier, but what are your yields on the four COs under contract and that spread versus stabilized cap rates, and specifically the Miami and Chicago assets?

Paul Powell – Chief Investment Officer

Jonathan, this is Paul. The Miami asset that we just closed earlier this month, we're projecting about a 7.9 cap at stabilization, which is roughly 150 basis points over what we paid today. The two in Chicago are going to be probably an 8 cap is the way we underwrote them at stabilization, so that's maybe 150, 175 basis points over today's cap rate. Then the one in Charleston, actually we're forecasting a strong stabilization cap rate at 9.5%. We went under contract with that one quite a while ago before the compression and CO deals really got going, so we're very comfortable with that deal, and that should be opening up in the next month or two.

<Q>: So, 150 to 175 over, is that kind of down, say, 25 to 50 basis points from a year ago?

Paul Powell – Chief Investment Officer

Yes, I would say over the last year and a half, that spread has dropped 100 basis points.

<Q>: Okay, 100. All right, that's it for me. Thanks guys.

Operator

Thank you. Our next question comes from the line of Todd Stender with Wells Fargo. Please proceed with your question.

<Q>: Thanks guys, and Andy, thanks for the context around topline growth. I think you answered most of my questions, but just looking at the differences in your same-store portfolio versus, say, the properties you've acquired over the last eight to ten months, what do you think your expectations are for some of the growth, whether it's occupancy and rate? Part two is can you share some of the underwriting assumptions around specifically the L.A. properties, and then maybe touch on Florida?

Andrew Gregoire – Vice President, Finance

Sure. I'll talk about the assumptions. Regarding the acquisitions, I think that's what you're getting at, the acquisitions in '15 that we've done, again, occupancy was a little lower than our average but not a whole lot, probably about on average 50 to 100 basis points below our stabilized pool. So, we have a little bit more occupancy to gain on those, so I think from those acquisitions, you're going to see the growth come more from occupancy than rate. Rate will come later in the year and next year, but mostly the growth will come from occupancy.

David Rogers – Chief Executive Officer

With regard to L.A., Todd, I don't know if you heard earlier that we talked about going in at a 5.1 trailing for the seven stabilized L.A. stores. We expect pretty good revenue growth. We've got the expenses, they were

somewhat dressed to sell, but nonetheless we'll be operating, there won't be much change in expenses, save of course for property taxes which will be a big hit. So, we're going to lose the 9% or 10% topline growth we expect in the first year of operation at those seven stores to the impact of property taxes, but then going forward we should be in pretty good shape.

And then you said something about Florida?

<Q>: Yes, any context—I think it's four properties in Florida, I don't know if that helps. Just to round out what your expectations are down there.

Paul Powell – Chief Investment Officer

Yes, the four in Florida that we closed in the first quarter, we expect year one cap rate to be 6.6, and we hope to grow that 75 to 100 basis points going into 2017. So, we felt those were quality assets. We think we're going to add a lot to the operational platforms, rates and so forth, so again, we're forecasting 6.6 year one and hopefully another 50 to 100 basis points in the next year.

<Q>: Great, thank you.

Operator

Thank you. (Operator instructions.) Our next question is a followup from the line of Jeremy Metz with UBS. Please proceed with your question.

<Q>: Hey guys, it's Ross Nussbaum here with Jeremy. A couple questions. The first is have you sat back and said we should be selling some assets here into what's been a frothy acquisition market? I kind of look at the portfolio and say, you know, do you really need to be in Birmingham or Youngstown, Ohio, or Chattanooga? Is there really any logic to owning side assets in these smaller Southeastern, Midwest cities at this point?

David Rogers – Chief Executive Officer

There's a couple parts to that, Ross. We have found that if you're in a city that has got, say, 750,000, maybe a little more, maybe a little less, but three-quarters of a million people, and you've got the better stores of that market, you can hit it. You can hit it pretty good. I mean, we've been doing that over the years, and I know it doesn't look great on the rate per square foot that we charge, and it certainly doesn't look great on the demographics, but nonetheless if you position the properties right and you've got the better assets in that market, you can win.

Now, we've gotten out of some over the last five years or so. We've gotten rid of probably about three dozen properties in Tallahassee and Macon and Augusta, Georgia and markets like that, partly because they are under the threshold of size but also because we didn't have—we either didn't have the better stores in those markets or we couldn't add any more. But if we've got four or five in a market and can dominate, that's okay.

Certainly we look at the portfolio. We step back at least every two years, if not every year, and get into it pretty good. And Eddie took the lead on this the last go-round, and I'll let you give a little color on that, Ed.

Edward Killeen – Chief Operating Officer

Yes, Ross, about a year ago when we really did look at sort of pruning the tree, we identified 28 stores that we thought would, for various reasons, be put on a disposition list. What ended up happening is we took a real deep dive into these 28 stores, and the fact is the operating fundamentals remained maybe a little bit weaker, but these were stores that were in strong markets, real good locations, strong demos, and we knew that they could have stronger operating metrics with a little bit of TLC.

So, we started what we call a rehab program on the 28 locations, and we kind of said to ourselves, look, we're in the real estate business. These are good stores. We just need to do something with them. Why dispose of them? We're planning on \$13 million in renovating these 28 locations over the next couple years to bring them up to our standards.

At one point, these were locations that maybe on the other end of it, maybe it's not the Birmingham and just some other smaller markets that maybe at some point we might want to get out of, but right now we're operating quite well in those markets. But these are stores that are in good markets, and we decided to bring them up to an Uncle Bob standard.

Andrew Gregoire – Vice President, Finance

And Ross, you may see us five to ten, I would think throughout the year is probably the number you would see if we disposed of anything. It'd be in that small number, five to ten stores.

<Q>: Okay. My second question is just focused on some of the performance by market, and there was just a couple markets that stood out to me that I was curious on. You had one market, I guess, where same-store revenues were down, Pensacola. How did occupancy in Pensacola go up from 77% to 87%, but the revenues were down? Obviously you slashed rents, but can you just share some color?

Andrew Gregoire – Vice President, Finance

Sure, Ross. That was an unusual situation. We had our largest store in Pensacola flooded, and we lost all the customers. That was in late '14. Now, we had lost rent coverage from insurance, so it didn't show up in the rent until this year when that burned off. Occupancy has come back, and we filled that store up, but we had the lost rent coming in from the insurance company that helped that store quite a bit. So, it is definitely, that's a good catch. It looks very unusual to have occupancy up as much as it is without the revenue there, but it really was comparing apples to oranges regarding a flooded store that saw some insurance proceeds coming in for a good six months.

<Q>: Okay, and then reverse question, Space Coast, Florida, occupancy down over 400 basis points year-over-year, yet revenues up 10%. Were you just that insanely aggressive with rate?

Andrew Gregoire – Vice President, Finance

No, I think there's—we might have been a little aggressive with the rate.

<Q>: I'm just trying to look at these anomalies where occupancy necessarily didn't go up but you still had remarkable revenue growth and just trying to extrapolate when you have those situations by market, is that sort of teaching you something as to, okay, we clearly understand the upper bounds of rate growth?

Andrew Gregoire – Vice President, Finance

Yes, we often do testing, we'll say that.

<Q>: Appreciate it.

Operator

Thank you. Mr. Rogers, there are no further questions at this time. I'd like to turn the floor back to you for any final concluding remarks.

David Rogers – Chief Executive Officer

Thank you, everyone, for your interest in our company. We look forward to a great 2016, and we'll see you at the conferences. Take care.