



## **Transcript of Sovran Self Storage Second Quarter 2013 Earnings Release August 1, 2013**

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### **Participants**

Diane Piegza – Vice President, Corporate Communications  
David Rogers – Chief Executive Officer  
Andrew Gregoire – Chief Financial Officer  
Paul Powell – Executive Vice President, Real Estate Investment  
Edward Killeen – Executive Vice President, Real Estate Management

### **Analysts**

Christy McElroy – UBS  
Todd Thomas – KeyBanc Capital Markets  
David Toti – Cantor Fitzgerald  
Steven King – SunTrust Robinson Humphrey  
Paul Adornato – BMO Capital Markets  
Paula Poskon – Robert W. Baird  
Todd Stender – Wells Fargo Securities

### **Presentation**

#### **Operator**

Greetings and welcome to the Sovran Self Storage Second Quarter 2013 Earnings Release. 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.

#### **Diane Piegza – Vice President, Corporate Communications**

Thank you, Melissa and good morning, everyone. Welcome to our second quarter 2013 conference call. Leading today's call will be David Rogers, our Chief Executive Officer. Also participating are Andy Gregoire, Chief Financial Officer; 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 and 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 are included in our company's SEC filings. Copies of these filings may be obtained by contacting the Company directly or the SEC.

At this time, I'd like to turn the call over to Dave Rogers.

**David Rogers – Chief Executive Officer**

Thanks, Diane. Good morning, everyone. This was a good quarter, I will let Andy give the details on our operating performance, but the big picture is customer queries are up, closing rates are up, occupancy is up, in place and asking rates are up, and our top line is up almost 9%. And now that we are pretty deep into the busy season we've developed a sense to what the next two or three quarters will bring and they are looking very good.

We didn't acquire any properties in the quarter, but we have been busy on the acquisition front. A couple of bigger portfolios came on the scene recently, one has been sold to a company other than ours and the other one is still in play, and we have been active in both of those transactions. Aside from that, we have three Class A properties under contract, two of them are on Long Island; one is in Colorado Springs, Colorado and they total of about \$28 million purchase price.

Even though these are stabilized stores with occupancies in the low to mid-80's, we see pretty significant upside in all three of them. And pending successful completion of due diligence, we are expecting a late third quarter closing. And as is typical, the second half of the year brings more deals to market and while this is certainly a seller's time, we are hoping and expecting that we will be acquiring more stores in the fourth quarter.

As we reported about a month ago, we completed a successful refinancing in June. With this we provided for funding of \$100 million note that matures in September and we got reductions on the rates associated with our bank notes and Line of Credit. So this takes care of all of our maturities through 2016 and it saves us a little over \$4 million a year in interest costs. Our balance sheet now is stronger than ever and we have got plenty of capacity on our Line of Credit.

In case you missed it, on July 1<sup>st</sup> we increased our dividend by \$0.05 a share, which now puts us at \$0.53 per share per quarter. We have increased guidance by almost a quarter a share since the beginning of the year and we are feeling pretty confident in the strength of our business, so this dividend pop was well warranted.

Andy, I will let you now talk about the details of the quarter.

**Andrew Gregoire – Chief Financial Officer**

Thanks, Dave. Regarding operations, same-store revenues were strong again, increasing 8.9% over those of the second quarter of 2012. This was our fourth consecutive quarter of 8% or greater same-store revenue growth and a record for Uncle Bob's. The growth was primarily as a result of a 380 basis point increase in average occupancy and a 3.6% increase in rates, as we saw pricing power begin to show up in the rents collected.

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Same-store occupancy at June 30, 2013 was 91%, another record for our company for the month of June. We also continue to see a meaningful 30% increase in tenant insurance income on a year-over-year basis.

Total property operating expenses on a same-store basis increased a modest 2.4% as a result of the expected increases in the real estate taxes and insurance. Partially offsetting these increases was the continued decrease in Yellow Page spending and our control of personnel costs and utilities.

As a result of the continued strong revenue gains and controlled expenses, same-store net operating income increased a very nice 12.2%. This was also our fourth consecutive quarter of same-store NOI increase of 10% or more.

G&A costs were one million dollars higher this quarter over that of the previous year. Aside from a \$300,000 increase in internet advertising, the main reason for the increase is the fact that we operated 25 more stores at the end of this quarter as compared to April 1, 2012. Also, the continuing investment in our revenue management system and incentive compensation related to our improved results. Offsetting a portion of the overhead costs is an increase of over \$190,000 in third party management fees earned this quarter.

Regarding properties, Dave mentioned the three stores we have under contract for approximately \$28 million. On the disposition front, we may look prune a few properties in 2013, although none are under contract for sale at this time.

From a balance sheet perspective, in June we announced an amendment to our existing credit facility that will reduce interest costs by an annualized \$4.1 million, extend our maturity on a Line of Credit at June of 2018, and the bank term notes till June of 2020. The amendment also includes \$100 million delay draw term note that will be drawn in September of this year to replace maturing private placement notes. The refinancing is part of our strategy to continue to maintain our conservative and flexible balance sheet by pushing out our maturities, limiting floating interest rate exposure, and keeping our assets almost entirely unencumbered. At June 30, we had \$9.6 million of cash on hand and \$186 million available on our Line of Credit, including the accordion feature.

With regard to guidance, we have included in our release the expected ranges of revenues and expenses for the third quarter and the entire year. Same-store revenues for Q3 should be in the 7% to 8% range and NOI growth around 8.5% to 9.5% for the quarter. For the year, we have increased our same-store revenue estimate to between 7% and 8% and increased our NOI growth to 8.5% to 9.5%.

Core G&A are projected at \$36 million for 2013, including over \$5 million of 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 31.5 million common shares for the remainder of 2013.

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As a result of the above assumptions, we are increasing guidance and are forecasting funds from operations for the full year 2013 at between \$3.70 and \$3.74 per share and between \$0.96 and \$0.98 per share for the third quarter of 2013.

With that, I will turn it back to Dave.

**David Rogers – Chief Executive Officer**

So before we open it to Q&A I'd like you to see how we are viewing the Self Storage environment. Certainly the macro picture comes into play here. Demand is growing across the sector as a result of a somewhat healthier economy and an uptick in housing markets. For almost 30 years we have been saying that when tough times hit, self-storage suffers the effect later and less severely than other property types and recovers more quickly. And this has certainly being borne out with the events of recent years. Even with the anemic recovery that we are experiencing so far, storage has come around really well. And of course the dearth of new supply coming on board, there's a lot of space to get absorbed.

But the macro impact is only part of the story. Probably more than any other sector, storage benefits from scale, and with almost 500 stores flying the Uncle Bob's banner, we have the capacity to invest heavily in the platforms most critical to running our business. We are driving record traffic to our stores as a result of our web-based marketing team, the folks in our state-of-the-art customer care center are providing terrific service and they are achieving high closing rates in the process. Our revenue management group is managing big data. We are able to parlay information on hundreds of thousands of units in close to real time to match rates and incentives to current market conditions, even predicting what demand will be and that's giving us unprecedented pricing power. Our other initiatives – Uncle Bob's third-party management, the corporate alliance program, our online training programs – these are all possible because of our scale. So we have an immeasurable advantage over most of the industry, and I think it's setting us up for outside growth in the quarters and years to come. We really like where we are right now.

With that, Melissa, we'll entertain questions.

**Operator**

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

<Q>: Good morning. Clearly, you've been pushing more in rents in recent quarters. Given that your move-ins are down about 5% year-over-year and your move-outs are up about the same amount, what kind of impact do you think that your efforts to raise Street has had on move-ins and sort of the same question on existing customer rent hikes and the impact on move-outs?

**Andrew Gregoire – Chief Financial Officer**

You know, when you look at the move-ins being down year-over-year that's expected. With this occupancy where we are at, we turn away people every day, so we expect that. Our pricing is set so that we turn away a certain number of people so we maximize revenue. So we are fine with what we are seeing with occupancy growth from an ins point of view.

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From an outs point of view, if you look at our outs compared to our total population of customers, those move-outs are identical. 20% of our customers move-out in a quarter, that's consistent year-over-year. So the increase in outs is sort of, you know, it doesn't compare apples to apples, you have to look at your customer base. So the outs increase doesn't surprise us at all, it's exactly what we expected at 20% of our occupied spaces.

<Q>: Can you disclose year-over-year change in asking rents in Q2? I think in April you mentioned it was up 7%? And when you talk about asking rents, is this an average of the rents that you are quoting to new customers or is this the rent that are actually moving in at?

**Andrew Gregoire – Chief Financial Officer**

It's the average we are quoting the customers when we show the increase. In May, we were up 7.5—

**Ed Killeen – Executive Vice President**

7.5%; 5.7% over the previous quarter.

<Q>: If I were to look at the move-in rents is that something you track and if so, is that any different?

**Andrew Gregoire – Chief Financial Officer**

No, that would be the same. The rates are up that much, it's just obviously the move-ins are 43,000 for the quarter.

**Ed Killeen – Executive Vice President**

The quoted is the paid in our world. I mean, there are concessions in the form of maybe a free-lock or what have you, but the price is the price. The customer care rep, there is no negotiating so that is the move-in price.

<Q>: Where are your asking rents today versus where they were sort of at the bottom and then versus where they were at the peak?

**Andrew Gregoire – Chief Financial Officer**

At the peak last year was ..., so it's about 7% above the peak today.

<Q>: I guess I am thinking peak in terms of sort of prerecession and then bottom kind of where you were in the last couple of years?

**Andrew Gregoire – Chief Financial Officer**

I don't have it in front of me.

**David Rogers – Chief Executive Officer**

The bottom of '09 was, that would be a big number percentage wise.

**Ed Killeen – Executive Vice President**

We can certainly get that number and get back to you, Christy.

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<Q>: Okay. I just have really one quick last follow-up question. Dave, I just wanted to kind of follow-up on your macro comments on the subject of market share. Clearly, the larger operators have been doing better than the smaller operators and that also helps to drive some growth in the property management platforms. Can you give us a sense for how smaller operators are performing today?

**David Rogers – Chief Executive Officer**

They are performing pretty well, actually. I think from the end of 2011, beginning of 2012 they started to see a turn from the three years of negative same-store rev at least top line. You know, we came out of that right away in 2010. It took those folks at least a couple of years more. But from what we see on our acquisition due diligence, on the properties we are looking at, on the Uncle Bob's management due diligence, it's not a proper scientific example because it's probably, it will probably be about 400 to 600 stores this year that we look at of the smaller variety and we are definitely seeing uptick in occupancy, a little bit of rate. So the Rising Tide high is certainly helping all of us, but not to the degree I don't think that it is helping the public companies by any stretch.

**Operator**

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

<Q>: I am on with Jordan Sadler as well. So the first question, in terms of acquisitions, Dave, you commented about the slow start to the year, but it sounds like you're expecting that to ramp up a bit. I know you've talked loosely about \$100 million to maybe \$150 million of acquisitions being a target, though nothing's stated in the guidance. So I was just wondering if you still feel comfortable with that range for the full year.

**Paul Powell – Executive Vice President, Real Estate Investment**

Yeah, we're still saying we're looking at probably over \$500 million worth of property and we expect to still do maybe \$100 million to \$150 million this year. We are seeing quite a bit more activity as far as opportunities; we're working off market with some sellers. So we are expecting the fourth quarter to be fairly active for us.

<Q>: And how would you characterize the product that you're seeing in terms of occupancy and pricing, and have you changed your return thresholds at all just given the recent rise in interest rates?

**Paul Powell – Executive Vice President, Real Estate Investment**

No, we have not. I mean the cap rates still are compressing a little bit, especially with some of the transactions that have taken place over the last month or two. We are targeting opportunistic deals, the low five cap hoping to grow those 100 basis points to 150 basis points in the first year. Stabilized assets, we're targeting low sixes. So that really hasn't changed.

**David Rogers – Chief Executive Officer**

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Todd, we had a bit of a sea change in the way that we evaluate properties over the last probably year, year and a half. Heretofore what we used to look at as a stabilized property was 85%, 86% and now we're seeing that if it's in the right market and it's the right kind of store that stabilization for company like ours might be 91% or 92% or at least in peak season and have an average of 88% or 89%. So in that sense we've looked at a lot of the acquisitions we've done over the last 2.5 years, 3 years and saw that we've popped them more than we really expected to and it's basically because we can do it with our platform. So in that sense, I think we've looked at acquisitions a little more aggressively because we know we can ring more out of property than we thought we could in the past.

<Q>: Then just shifting over to some leasing, can you just talk about or kind of quantify what the concessions were in the quarter? How much you gave away in free rent? I was just wondering how that was relative to the second quarter of last year.

**Edward Killeen – Executive Vice President, Real Estate Management**

We continue to reduce our concessions. 48% of our customers received a concession versus 70% last year, year-over-year Q2, and 73% the previous quarter and the value of those concessions offered are also down 25% from \$73 a month to \$50 to \$55 a month 2Q year-over-year.

<Q>: The \$55 a month, I am just wondering if you can help us understand how much more upside there is to that over the next couple of quarters, right? So in 2012, you had the large spike in occupancy, the big occupancy gains that led to an increase in new rentals, which tends to come alongside concessions one or more months maybe of free rent. So you essentially your tenant acquisition costs increased significantly in 2012 and now those are normalizing. Can you help us understand what that impact might be going forward to rental income growth and how we should sort of think about the customer acquisition costs?

**Edward Killeen – Executive Vice President, Real Estate Management**

Well it is getting a bit tighter, but we do see this trend continuing. Demand is up, all the metrics in regards to web marketing and anywhere else where we measure demand is up and we continue to rent and we continue to increase occupancy. Therefore, the concessions, we will continue to be able to drive those down a bit. But to the same degree that we've been at over the last several quarters – doubtful – but we see the next couple of quarters, we should see those reducing a bit.

**Operator**

Our next question comes from the line of David Toti with Cantor Fitzgerald.

<Q>: Good morning. Dave, did you give any details on that large portfolio that you mentioned, are you able to talk about that at all?

**David Rogers – Chief Executive Officer**

You know, it's still in play so.

**Paul Powell – Executive Vice President, Real Estate Investment**

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Yeah. The Morningstar portfolio is the one that's still in play at the moment. We're actively finalizing our underwriting, and we hope to get our final offer out in the next week or two. Where it's going to transact, is anybody's guess at this moment.

<Q>: Is that the only sort of kind of whale out there or is there a little bit of dislodging happening with some of the bigger portfolios?

**Paul Powell – Executive Vice President, Real Estate Investment**

That's the biggest one out there now, David. There's a few other smaller portfolios that are being marketed by some brokers, and we're looking at those as well, but this is the big one that I think everybody's taking a close look at.

<Q>: And I just want to go back to Christy's question on the move-ins and the move-outs, sort of the kind of squeeze given the lower vacancy. At certain point does that lack of empty product really start to crimp your rent growth potential? Just because you don't have the inventory, you can't really capture the street rate pricing power?

**Edward Killeen – Executive Vice President, Real Estate Management**

Well, David, we take a look at that pricing power from a couple of different ways, both from a very granular perspective and through quite a wide lens. But if you look at where we are right now, the story now for sort of filling that gap, that gap between where we are in occupancy and 100% occupancy, it's all about sort of employing and refining the processes that we have.

The smaller the gap, that gap between the current occupancy and 100%, the more challenging it really is to manage. Really, putting aside any of the external drivers that impact either demand, when your 85% occupancy or less and you have effective management tools, which of course we have, there is abundant space available for customers. And in most cases, it's relatively simple to retain and grow occupancy a bit. Now at 86% to 89%, where we are playing over the last couple of years, it's certainly more of a challenge and it really does require higher level of expertise to balance the in-place rates, the asking rents and managing the concessions properly, all in an effort to maximize revenues, and for this you really need to deploy the proper systems and the people.

Where we're at now at 90 plus percent occupancy, it's a whole different beast. You need to be fully engaged and committed to utilizing the very best and most sophisticated systems, and management expertise, which we have to effectively manage that gap and of course maximize the revenues. So really, as David said before, the ceiling that exists, the 88% to 89% ceiling, for us, for many years, that's moving and that's maybe moving to the mid-90s, and we've been working in the last couple of years, even coming out of the recession preparing for this, refining all of our systems, our processes and properly positioning all the great people that we have here, so we have the know-how to manage that gap. And again, only manage it in a way that maximizes revenues.

It really isn't rocket science, but we do believe that our efforts in this respect, they separate us from the competitors, large, small, REIT, no REIT.

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<Q>: Great answer. I have just one more follow-up on that topic. Doesn't that phenomena, as you move into the second half and actually with the higher occupancy level, does that really open up the landscape on the acquisition side to find vacancy, to potentially doing development just so that you have that new product on hand?

**David Rogers – Chief Executive Officer**

Yeah, it is something we talk about seriously all the time here to the extent that we've ratcheted up our own expansion and enhancement program hopefully to double it next year to hit some 50 or 60 stores and improve those with adding 10,000 to 15,000 or 18,000 feet per, but you are right. Now we are looking at stores where we have people that are developing stores, coming to us looking to manage with perhaps buying at CO and looking at stores that are in the 50% occupancy range perhaps and taking out platforms and running those up. But I think a lot of what Paul sees, Paul and Bob see are a lot of 50% occupied stores that are going to stay 50% occupied.

**Paul Powell – Executive Vice President, Real Estate Investment**

We are still in some discussions with some smaller developers, possibly JV'ing with them on development, but Sovran will not do development on its own at this point.

**Operator**

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

<Q>: I was curious if the uptick in the housing market is that bringing in some more commercial tenants and I don't know, if maybe you are seeing that in larger unit sizes getting rented or just longer lengths of stay?

**David Rogers – Chief Executive Officer**

We have always tried to make the marriage between or at least find a link between housing and us. All I can say is when housing goes down, we go down and when housing comes up, we go up. It is for such a host of reasons, people who are moving, people who are remodeling, people who are building, then you have the contractors who are into the housing trade so there is just so many facets you can look at and it is tough to put it together. I can't say that housing in any particular regard, we are such a broad based supplier of space, everybody is our customer, and when it ticks up its commercial, its students, its professional, its residential, people who are moving, people who are getting a divorce, a death in the family, so I don't see how we....

**Edward Killeen – Executive Vice President, Real Estate Management**

Well, looking at our commercial business, whether it's our corporate customers or small business customers, that's always been very difficult to quantify. As much as we try to capture that customer profile information at the store level, it's all dependent on how that incoming customer presents the use of storage to us. Typically when it's a small business they don't even mention to us that it's for a small business, they come in and they rent it personally. But anecdotally, when we are out there, when the area managers are working with their managers on the field, the feeling is that there is an uptick in our small business, commercial business customer.

**Operator**

Our next question comes from the line of Ki Bin Kim with SunTrust.

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<Q>: David, I am not sure if I heard the street rate number, did you guys mention that, overall street rate?

**Andrew Gregoire – Chief Financial Officer**

As of the end of July, Ki Bin?

<Q>: I guess at the end of the quarter, end of July?

**Andrew Gregoire – Chief Financial Officer**

The end of quarter we were at 11.24 and end of July 11.48.

<Q>: Have you guys done a study of looking at your street rate compared to your competitors, whether they be private or public, surrounding your assets and how that, I guess maybe more appropriate for private. So how your street rates compare to your private target market operator competition and what that spread looks like and how that's changed over time, and at what point does that spread become too wide where even though you guys do a better job on internet and advertising and pricing, where that gap becomes wide enough where it would start to offset customers behavior patterns in terms of coming into your store versus someone who's 20% cheaper?

**Edward Killeen – Executive Vice President, Real Estate Management**

Well, the figure that maybe you are looking for it is so very fluid and it's based upon so many systematic factors from a revenue management standpoint, that that in itself is real difficult to quantify. Because in one store you might have a spread of 10% to 15% of one particular space from a nearby comp to 3%, and that changes throughout from month-to-month and quarter-to-quarter.

It certainly does impact what we do from a revenue management standpoint. I mean that is one of the triggers looking at the competition and seeing where they are. But it is not a significant trigger for us. We look at the comps, but it isn't a big driver for the decision making when it comes to asking rates.

<Q>: I guess my concern is that it becomes a bigger driver as that spread might potentially widen, right. But with that let me ask this question in a slightly different way. What does your system say on that single variable about how that has trended?

**David Rogers – Chief Executive Officer**

The old revenue management used to be we mapped everybody around us in a 5 mile radius. All the stores we can find in a 5 mile radius, graded them on amenities, and said this is what their rates were and we pretty much followed their rates. It was all based on price, because the shopping was done via the phone book or driving around, and it was pretty tight even as recently as probably 2007 to 2008.

But in the past few years especially, I don't think we're— I mean there are markets where we are more than 20% over Mom & Pop, but there are other reasons than besides just the fact that we have visibility. We have better stores, we have better

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service, we have longer hours, there are a whole host of reasons, so it's hard to just put it on price like it used to be.

Somebody is out there and said "Store your car here for \$70 a month" and we're charging \$150, we still get a lot of people at \$150. I am not going to say \$80 is typical, or 50% is typical but it's certainly possible and not that unusual.

<Q>: And when you guys check your competition, rates on competition, do you also incorporate promotions that are being offered by your competition into that equation?

**Edward Killeen – Executive Vice President, Real Estate Management**

That number is difficult to quantify. We certainly look at the comp rates on the web. I mean, we all search the web for comp rates. From there you can see the concessions that are offered. But the smaller operators, the Mom & Pop's, you never really know for sure what concessions are being offered until you walk through the door, so it is pretty tricky to quantify that, and frankly, we really don't look at that. We do look at the REITs and their concessions, but not the smaller operators.

<Q>: I mean, it's difficult one to quantify, I guess. And just one last question, since you already started talking about July, I was wondering if you could just go ahead and maybe give some operating status up to July on occupancy or overall revenues.

**Andrew Gregoire – Chief Financial Officer**

Sure, yes, we don't have the revenue data, but occupancy was 91.7 at the end of July. On this same store pool it was 88.7 last year at the end of July. And we talked about rates, they were 11.48 at the end of the month of July, last year they were 10.63.

**Operator**

Our next question comes from line of Paul Adornato from BMO Capital Markets.

<Q>: I was wondering if you could tell us what percent of the same-store revenue increase is attributable to greater insurance penetration.

**David Rogers – Chief Executive Officer**

They are very minimal. The penetration was about the same. We had a change in our share of those commissions. So the penetration uptick was very minimal, less than a 1% but there was a change in our commission structure with the insurance company.

<Q>: Could you elaborate on that?

**Andrew Gregoire – Chief Financial Officer**

We cannot disclose our sharing arrangement. Sorry about that.

<Q>: Can we assume that's an increase to your benefit?

**Andrew Gregoire – Chief Financial Officer**

Correct.

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<Q>: Talking about acquisitions on that discussion of digging a little bit deeper to some more value add type properties and even development properties, what type of volumes you might just see in that category as opposed to fully stabilized acquisitions?

**Paul Powell – Executive Vice President, Real Estate Investment**

Yes, we are seeing with the uptick in occupancy even at the private operators, the occupancies are all up there. What we are seeing, we are looking at some deals that actually are fairly new, they had some quick lease ups, but they did that by discounting or specials so the spread between physical and economic occupancy is quite wide. I mean those I consider somewhat opportunistic just because they're high occupancy but there is a lot of money left on the table for us to be able to get through our platform.

So the Morningstar portfolio, that's occupancies in the low 80's, so that's certainly got some growth opportunity there. Some other deals, the three that we have under contract, two properties on Long Island, those are just coming out on lease up. They have some occupancy room plus some economic growth. And then one in Colorado is more stable. So other off market deals that we are looking at that we hope to close later this year, those are mostly stable properties, but we still feel there is some room to grow rates and in place rates as well.

<Q>: And just looking back to the insurance question, can you tell us when that agreement was renegotiated?

**Andrew Gregoire – Chief Financial Officer**

It went into effect in the first quarter of this year.

**Operator**

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

<Q>: Dave, could you talk a little about the trends you are seeing in inbound calls from private owners and the third-party business?

**David Rogers – Chief Executive Officer**

Yes, it's not changed much from the past couple of quarters. There is a lot of troubled stores out there that what we think for a pretty good reason probably don't want to get involved with. We are seeing, we are working with some who are pretty established but need some help with their lender, perhaps, or just are sort of turning. But, you know, the quality store right now with the uptick in business in the cost of sector, I think we are having a harder time getting people who are scared right at this point or we saw a little wave of that at the end of 2011 where people are saying, "Boy, these guys are crushing us. We have got to find a way to join their team or get their flag in our store." We are not seeing as much because little bit of successes is making a lot of these guys content, I would say.

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One of the things we are seeing a lot of is the potential developer coming in and wanting to build a store and help us manage it from day one. That's probably, if I had to guess, Paul, the biggest uptick.

**Paul Powell – Executive Vice President, Real Estate Investment**

Yes, that's what we've been seeing a lot. Not only that, I get calls daily now for people wanting to sell parcels. But yes, our third-party management team, especially at the trade shows, the majority of the traffic through their booth is people who are in the process of building a property and they are looking for third-party management. And they're also looking for an exit strategy, either possibly buying a CO or some other occupancy level, so that is the majority of what we are seeing right now.

<Q>: And just finally, any differences you are seeing in real estate trends or insurance trends across the different markets you operate in?

**Andrew Gregoire – Chief Financial Officer**

Paula, I think it's pretty widespread the trends. I don't think there are any markets that are jumping out at me. When you look at our revenue growth, you still see that fire in New Jersey hurt us. New Jersey's not doing that bad, as it shows in our numbers. We had a fire at one of the stores, the other store is doing 6% growth, so they're doing alright, but other trends regarding insurance, we're not seeing anything exciting.

**Operator**

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

<Q>: Just kind of looking at your sources of capital right now, how are you thinking about that, the various types? Your balance sheet is obviously low levered, stock price is up, you've raised the dividend twice this year so the OP units are probably attractive to a private seller. How do you kind of think about what you're going to tap for new acquisitions?

**Andrew Gregoire – Chief Financial Officer**

I think we're going to maintain our strategy, use the ATM on the smaller acquisitions, the match fund, but I think we'll be consistent there. We'll mix in some debt. Obviously, on any larger portfolios like a MorningStar we would want to tell that story and do a traditional offering, but a similar mix, probably 70% equity.

**David Rogers – Chief Executive Officer**

It's kind of wishful thinking, Todd, with regard to the OP units I think. We're still having a tough time, we're bringing a lot of potential sellers in with the idea of the OP units but at the end of the day it's usually a cash transaction. We'd love to use that as our currency, but it's been tougher to do.

<Q>: With the quick move in interest rates since May, we've heard this in other sub groups of the REIT world it's impacting the pace of deal flow. Are you guys seeing any stall in sales activity or acquisition opportunity because of the rise in interest rates?

**Paul Powell – Executive Vice President, Real Estate Investment**

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Todd, actually we are seeing the reverse. Again, we're pretty active with soft market discussions with quite a few sellers, and so we're really not seeing a decline, it has actually picked up some over the last three months.

**David Rogers – Chief Executive Officer**

Historically, we've seen a pretty big lag between interest rate rises, it just doesn't seem to—that takes a while....impact the idea that the owners have in their mind about what their property is worth, so I am not sure. Even though it was a pretty big jump and I am really glad we did our financing before it happened, the big jump hasn't translated into deal flow or pricing changes.

<Q>: And some of your strongest markets like Texas, Florida, New York are also your largest markets, do you have a feel of what the supply picture looks like in some of the key areas where you are driving occupancies?

**Paul Powell – Executive Vice President, Real Estate Investment**

There is definitely an uptick in planning new developments. But in our last survey of our markets, there are about 30 properties within our trade area that either have just opened or are in construction or in the planning stage. And then in the markets in general there is about another 29 stores that we found. So close to 60 we're seeing within our portfolio of new developments, either in the planning or in construction or just opened. So again, it's really negligent. It is not going to affect us in the foreseeable future.

<Q>: Just as a reminder, how long would it take for a property that's newly developed to get to a stabilized occupancy? What kind of runway are they looking like?

**Paul Powell – Executive Vice President, Real Estate Investment**

In some of the third party deals that we have looked at that we will be managing, we are projecting or the owners are projecting four-year stabilization.

**Operator**

Our next question comes from the line of Ki Bin Kim who is with SunTrust.

<Q>: Just a couple of quick follow ups. On development, surprised to hear that you want to partner up with some third parties, why not take it on yourself? You can handle the dilution given your capital position, why not do it yourself versus teaming up with a partner?

**David Rogers – Chief Executive Officer**

You're right. The dilution on doing a few would be negligible, but I think it is more the idea that we want to make, if we do this it would be with a guy that has local market expertise, guys that have been right there on the ground.

When we say "potential developers", we're not talking about guys who want to get into this because they hear it is a good business; it is people who have experience in both the construction, site selection, working it through the zoning and entitlement process. So it's a whole host of things that we know the storage business, I am not sure we know the storage development business, and to ramp up to do that would be on the

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scale we would do it on our own would be probably foolish. But a lot of it has to do with market knowledge and market context.

<Q>: And maybe it's a little earlier to say, but once you have this business running, what would the ideal or maybe kind of minimum run rate we should expect on development?

**David Rogers – Chief Executive Officer**

For us it is basically JV and then...

<Q>: Yeah.

**David Rogers – Chief Executive Officer**

It will be pretty minimal.

It is not a game, for 30 years we've said we are not really comfortable with the risk reward ratio on development. And as Paul just mentioned four years and I think recent experience with even very good developers admittedly in tough times it's been worse than that. We still think there is a lot more pop we can get from stores that we have that are established and well-built and grow those from say 80 or 85 then we would, from 0 to 80. However, it's just not our bag.

<Q>: I guess the bigger concern for self-storage is that development with DSA and some other .... coming back on line, still minimal as a percent of stock, but that's potentially growing. Does that, if it starts to become a bigger issue, however incrementally for the sector, how does that change your view on portfolio quality? Because most of the self-storage operators haven't really sold any assets, right, whether it be in bad markets, good markets, even ...but if ...become a bigger issue, especially in a market where you can't go which I would guess would be the secondary and tertiary markets, how does that change your view on maybe pruning the portfolio and getting out of those markets ...and longer term more exposed to competing supply?

**David Rogers – Chief Executive Officer**

We look at all of our stores every year and we have sold about 30 stores over the last, not this year but over the last 3-4 years. There are a few maybe to go. But in markets with a million people, the overall market not the trade area, markets with a million people and if your store is located in a good 5 mile range, I don't think your threat of new competition is as bad as you might be thinking. You know, if you got a good store in a good location, a decent sized market, you are going to be fine especially if you have the platform that we have.

And again, we thought in early 2000, there were some 3000-4000 properties per year being built on a smaller base, on a base of about 40,000 existing facilities, the pot was growing by 10% a year. Here we're talking 60 in our trade area, probably a couple 100 nationally. I think even 500 to 1000 especially in this point in time per year for the next couple of years wouldn't impact most markets.

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So down the road, five years from now if everybody decides the only place to go is self-storage and they are getting out of apartments and out of strip centers and building stores, maybe then there's a concern. But I think it's a long way off. You know, we learn you don't want to be in small towns, because the moderate sized towns, you got a million people in the town, you build a couple of facilities in that town it's not going to hurt you if yours are the ones that are top dogs.

**Operator**

Our next question is a follow-up from Todd Thomas with KeyBanc Capital Markets.

<Q>: Just a couple of quick follow-ups, I was wondering on the Morningstar portfolio if you could just give us a sense for what the price tag looks like, is that a \$200 million portfolio or \$400 million or \$500 million portfolio?

**Paul Powell – Executive Vice President, Real Estate Investment**

Just some guidance we have heard, we expect it to transact from around \$300 million.

<Q>: And then just a follow-up. You had mentioned that rates at the end of July were 11.48 and that compared to 10.63 at the end of July in 2012. Were those street rates, and if so, are you able to provide what the rent per occupied square foot rates were at the end of July 2013 versus 2012?

**Andrew Gregoire – Chief Financial Officer**

Those are asking rates. I do not have the collective rents as of this morning.

<Q>: Would the spread be somewhat comparable though or would we expect that to be a little bit more narrow?

**Andrew Gregoire – Chief Financial Officer**

It would be more narrow.

**Operator**

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

**David Rogers – Chief Executive Officer**

Thank you, Melissa, and thanks, everyone on the call for your support. We look forward to a good summer and talking to you in the fall. Take care.

**Operator**

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation

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