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

# FORM 10-Q

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

**For the quarterly period ended March 31, 2016**

**Commission file number: 1-13820**

# SOVRAN SELF STORAGE, INC.
**(Exact name of Registrant as specified in its charter)**

| **Maryland** | **16-1194043** |
|---|---|
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |

**6467 Main Street**
**Williamsville, NY 14221**
**(Address of principal executive offices) (Zip code)**

**(716) 633-1850**
**(Registrant's telephone number including area code)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

| | |
|---|---|
| Large Accelerated Filer ☒ | Accelerated Filer ☐ |
| Non-accelerated Filer ☐ | Smaller Reporting Company ☐ |

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

As of April 22, 2016, 39,444,553 shares of Common Stock, $.01 par value per share, were outstanding.

**Part I. Financial Information**

**Item 1. Financial Statements**

## SOVRAN SELF STORAGE, INC.
## CONSOLIDATED BALANCE SHEETS

| (dollars in thousands, except share data) | March 31, 2016 (unaudited) | December 31, 2015 |
|---|---|---|
| **Assets** | | |
| Investment in storage facilities: | | |
| Land | $ 594,879 | $ 480,176 |
| Building, equipment, and construction in progress | 2,238,107 | 2,011,526 |
| | 2,832,986 | 2,491,702 |
| Less: accumulated depreciation | (479,859) | (465,195) |
| Investment in storage facilities, net | 2,353,127 | 2,026,507 |
| Cash and cash equivalents | 6,373 | 7,032 |
| Accounts receivable | 4,203 | 6,805 |
| Receivable from unconsolidated joint ventures | 659 | 929 |
| Investment in unconsolidated joint ventures | 64,985 | 62,520 |
| Prepaid expenses | 7,236 | 5,431 |
| Fair value of interest rate swap agreements | — | 550 |
| Other assets | 12,900 | 9,048 |
| Total Assets | $2,449,483 | $2,118,822 |
| **Liabilities** | | |
| Line of credit | $ 141,000 | $ 79,000 |
| Term notes, net of financing fees | 746,831 | 746,650 |
| Accounts payable and accrued liabilities | 38,065 | 47,839 |
| Deferred revenue | 8,138 | 7,511 |
| Fair value of interest rate swap agreements | 26,846 | 15,343 |
| Mortgages payable | 1,959 | 1,993 |
| Total Liabilities | 962,839 | 898,336 |
| Noncontrolling redeemable Operating Partnership Units at redemption value | 24,213 | 18,171 |
| **Shareholders' Equity** | | |
| Common stock $.01 par value, 100,000,000 shares authorized, 39,399,691 shares outstanding at March 31, 2016 (36,710,673 at December 31, 2015) | 394 | 367 |
| Additional paid-in capital | 1,664,549 | 1,388,343 |
| Dividends in excess of net income | (176,429) | (171,980) |
| Accumulated other comprehensive loss | (26,511) | (14,415) |
| Total Shareholders' Equity | 1,462,003 | 1,202,315 |
| Noncontrolling interest in consolidated subsidiary | 428 | — |
| Total Equity | 1,462,431 | 1,202,315 |
| Total Liabilities and Shareholders' Equity | $2,449,483 | $2,118,822 |

See notes to consolidated financial statements.

**SOVRAN SELF STORAGE, INC.**
**CONSOLIDATED STATEMENTS OF OPERATIONS**
**(unaudited)**

| (dollars in thousands, except per share data) | January 1, 2016 to March 31, 2016 | January 1, 2015 to March 31, 2015 |
|---|---|---|
| **Revenues** | | |
| Rental income | $ 91,541 | $ 78,886 |
| Other operating income | 7,583 | 6,522 |
| Total operating revenues | 99,124 | 85,408 |
| **Expenses** | | |
| Property operations and maintenance | 22,861 | 20,559 |
| Real estate taxes | 10,547 | 8,920 |
| General and administrative | 10,464 | 9,406 |
| Acquisition costs | 2,384 | 582 |
| Operating leases of storage facilities | — | 683 |
| Depreciation and amortization | 16,425 | 14,181 |
| Total operating expenses | 62,681 | 54,331 |
| Income from operations | 36,443 | 31,077 |
| **Other income (expenses)** | | |
| Interest expense | (9,134) | (9,161) |
| Interest income | 6 | 2 |
| Loss on sale of storage facility | — | (7) |
| Equity in income of joint ventures | 915 | 646 |
| **Net income** | 28,230 | 22,557 |
| Net income attributable to noncontrolling interest in the Operating Partnership | (130) | (106) |
| Net loss attributable to noncontrolling interest in consolidated subsidiary | 239 | — |
| Net income attributable to common shareholders | $ 28,339 | $ 22,451 |
| **Earnings per common share attributable to common shareholders – basic** | $ 0.74 | $ 0.65 |
| **Earnings per common share attributable to common shareholders – diluted** | $ 0.73 | $ 0.65 |
| Common shares used in basic earnings per share calculation | 38,410,817 | 34,329,768 |
| Common shares used in diluted earnings per share calculation | 38,663,138 | 34,554,871 |
| Dividends declared per common share | $ 0.85 | $ 0.75 |

See notes to consolidated financial statements.

**SOVRAN SELF STORAGE, INC.**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**(unaudited)**

| (dollars in thousands) | Three months ended March 31, 2016 | 2015 |
|---|---|---|
| Net income | $ 28,230 | $22,557 |
| Other comprehensive income: | | |
| Change in fair value of derivatives net of reclassification to interest expense | (12,096) | (3,987) |
| Total comprehensive income | 16,134 | 18,570 |
| Comprehensive income attributable to noncontrolling interest in the Operating Partnership | (75) | (87) |
| Comprehensive loss attributable to noncontrolling interest in consolidated subsidiary | 239 | — |
| Comprehensive income attributable to common shareholders | $ 16,298 | $18,483 |

See notes to consolidated financial statements.

## SOVRAN SELF STORAGE, INC.
## CONSOLIDATED STATEMENTS OF CASH FLOWS
## (unaudited)

| (dollars in thousands) | January 1, 2016 to March 31, 2016 | January 1, 2015 to March 31, 2015 |
|---|---|---|
| **Operating Activities** | | |
| Net income | $ 28,230 | $ 22,557 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 16,425 | 14,181 |
| Amortization of deferred financing fees | 356 | 296 |
| Loss on sale of storage facility | — | 7 |
| Equity in income of joint ventures | (915) | (646) |
| Distributions from unconsolidated joint ventures | 1,285 | 1,017 |
| Non-vested stock earned | 1,889 | 1,612 |
| Stock option expense | 46 | 36 |
| Changes in assets and liabilities (excluding the effects of acquisitions): | | |
| Accounts receivable | 2,645 | 13 |
| Prepaid expenses | (1,789) | (443) |
| Receipts from (advances to) joint ventures | 270 | (145) |
| Accounts payable and other liabilities | (10,080) | (7,887) |
| Deferred revenue | (439) | 342 |
| Net cash provided by operating activities | 37,923 | 30,940 |
| **Investing Activities** | | |
| Acquisitions of storage facilities | (323,548) | (134,040) |
| Improvements, equipment additions, and construction in progress | (13,797) | (5,335) |
| Net proceeds from the sale of storage facility | — | 711 |
| Investment in unconsolidated joint ventures | (2,845) | (285) |
| Property deposit | (2,372) | (1,095) |
| Net cash used in investing activities | (342,562) | (140,044) |
| **Financing Activities** | | |
| Net proceeds from sale of common stock | 274,298 | 122,631 |
| Proceeds from line of credit | 310,000 | 144,000 |
| Repayments of line of credit | (248,000) | (130,000) |
| Financing costs | (936) | — |
| Dividends paid - common stock | (31,204) | (25,609) |
| Distributions to noncontrolling interest holders | (144) | (117) |
| Mortgage principal payments | (34) | (32) |
| Net cash provided by financing activities | 303,980 | 110,873 |
| Net decrease in cash | (659) | 1,769 |
| Cash at beginning of period | 7,032 | 8,543 |
| Cash at end of period | $ 6,373 | $ 10,312 |
| **Supplemental cash flow information** | | |
| Cash paid for interest, net of interest capitalized | $ 5,689 | $ 5,307 |
| Cash (received) paid for income taxes, net of refunds | $ (47) | $ 88 |

See notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
## (Unaudited)

### 1. BASIS OF PRESENTATION

The accompanying unaudited financial statements of Sovran Self Storage, Inc. have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended March 31, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

***Reclassification:*** Certain amounts from the 2015 financial statements have been reclassified to conform with the current year presentation.

### 2. ORGANIZATION

Sovran Self Storage, Inc. (the "Company," "We," "Our," or "Sovran"), a self-administered and self-managed real estate investment trust (a "REIT"), was formed on April 19, 1995 to own and operate self-storage facilities throughout the United States. On June 26, 1995, the Company commenced operations effective with the completion of its initial public offering. At March 31, 2016, we had an ownership interest in, and/or managed 562 self-storage properties in 26 states under the name Uncle Bob's Self Storage ®. Among our 562 self-storage properties are 39 properties that we manage for an unconsolidated joint venture (Sovran HHF Storage Holdings LLC) of which we are a 20% owner, 30 properties that we manage for an unconsolidated joint venture (Sovran HHF Storage Holdings II LLC) of which we are a 15% owner, and 16 properties that we manage and have no ownership interest. Approximately 41% of the Company's revenue is derived from stores in the states of Texas and Florida. In addition, approximately 10% of the Company's revenue is derived from the Houston, Texas market.

All of the Company's assets are owned by, and all its operations are conducted through, Sovran Acquisition Limited Partnership (the "Operating Partnership"). Sovran Holdings, Inc., a wholly-owned subsidiary of the Company (the "Subsidiary"), is the sole general partner of the Operating Partnership; the Company is a limited partner of the Operating Partnership, and through its ownership of the Subsidiary and its limited partnership interest controls the operations of the Operating Partnership, holding a 99.5% ownership interest therein as of March 31, 2016. The remaining ownership interests in the Operating Partnership (the "Units") are held by certain former owners of assets acquired by the Operating Partnership.

We consolidate all wholly owned subsidiaries. Partially owned subsidiaries and joint ventures are consolidated when we control the entity. Our consolidated financial statements include the accounts of the Company, the Operating Partnership, Uncle Bob's Management, LLC (the Company's taxable REIT subsidiary), Warehouse Anywhere LLC (an entity owned 60% by Uncle Bob's Management, LLC), Locke Sovran I, LLC (a wholly-owned subsidiary), and Locke Sovran II, LLC (a wholly-owned subsidiary). All intercompany transactions and balances have been eliminated. Investments in joint ventures that we do not control but for which we have significant influence over are accounted for using the equity method.

Included in the consolidated balance sheets are noncontrolling redeemable operating partnership units. These interests are presented in the "mezzanine" section of the consolidated balance sheet because they do not meet the functional definition of a liability or equity under current accounting literature. These represent the outside ownership interests of the limited partners in the Operating Partnership. At March 31, 2016, there were 209,638 noncontrolling redeemable operating partnership Units outstanding (168,866 at December 31, 2015). These unitholders are entitled to receive distributions per unit equivalent to the dividends declared per share on the Company's common stock. The Operating Partnership is obligated to redeem each of these limited partnership Units in the Operating Partnership at the request of the holder thereof for cash equal to the fair market value of a share of the Company's common stock, at the time of such redemption, provided that the Company at its option may elect to acquire any such Unit presented for redemption for one common share or cash. The Company accounts for these noncontrolling redeemable Operating Partnership Units under the provisions of EITF D-98, "*Classification and Measurement of Redeemable Securities*" which was codified in FASB ASC Topic 480-10-S99. The application of the FASB ASC Topic 480-10-S99 accounting model requires the noncontrolling interest to follow normal noncontrolling interest accounting and then be marked to redemption value at the end of each reporting period if higher (but never adjusted below that normal noncontrolling interest accounting amount). The offset to the adjustment to the carrying amount of the noncontrolling redeemable Operating Partnership Units is reflected in dividends in excess of net income. Accordingly, in the accompanying consolidated balance sheet, noncontrolling redeemable Operating Partnership Units are reflected at redemption value at March 31, 2016 and December 31, 2015, equal to the number of Units outstanding multiplied by the fair market value of the Company's common stock at that date. Redemption value exceeded the value determined under the Company's historical basis of accounting at those dates.

| (dollars in thousands) | Three Months Ended Mar. 31, 2016 |
|---|---|
| Beginning balance noncontrolling redeemable Operating Partnership Units | $ 18,171 |
| Issuance of Operating Partnership Units | 4,472 |
| Net income attributable to noncontrolling interest in the Operating Partnership | 130 |
| Distributions | (144) |
| Adjustment to redemption value | 1,584 |
| Ending balance noncontrolling redeemable Operating Partnership Units | $ 24,213 |

In March 2016 the Operating Partnership issued 40,772 Units with a fair market value of $4.5 million to acquire self-storage properties. The fair value of the Units on the date of issuance was determined based upon the fair market value of the Company's common stock on that date.

## 3. STOCK BASED COMPENSATION

The Company accounts for stock-based compensation under the provisions of ASC Topic 718, "*Compensation - Stock Compensation*". The Company recognizes compensation cost in its financial statements for all share based payments granted, modified, or settled during the period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the related vesting period.

For the three months ended March 31, 2016 and 2015, the Company recorded compensation expense (included in general and administrative expense) of $46,000 and $36,000, respectively, related to stock options and $1,866,000 and $1,612,000, respectively, related to amortization of non-vested stock grants and performance-based awards.

During the three months ended March 31, 2016 and 2015, employees and directors exercised 0 and 9,500 stock options respectively, and 7,185 and 5,234 shares of non-vested stock, respectively, vested.

## 4. INVESTMENT IN STORAGE FACILITIES

The following summarizes our activity in storage facilities during the three months ended March 31, 2016.

| (dollars in thousands) | |
|---|---|
| Cost: | |
| Beginning balance | $2,491,702 |
| Acquisition of storage facilities | 327,408 |
| Improvements and equipment additions | 6,651 |
| Additions to consolidated subsidiary | 1,815 |
| Net increase in construction in progress | 6,106 |
| Dispositions | (696) |
| Ending balance | $2,832,986 |
| Accumulated Depreciation: | |
| Beginning balance | $ 465,195 |
| Additions during the period | 15,255 |
| Dispositions | (591) |
| Ending balance | $ 479,859 |

The Company acquired 25 facilities during the three months ended March 31, 2016. The acquisition of one store that was acquired at certificate of occupancy was accounted for as an asset acquisition. The cost of this store, including closing costs, was assigned to its land, building, equipment and improvements components based upon their relative fair values. The assets and liabilities of the other 24 storage facilities acquired in 2016, which primarily consist of tangible and intangible assets, are measured at fair value on the date of acquisition in accordance with the principles of FASB ASC Topic 820, "*Fair Value Measurements and Disclosures*" and were accounted for as business combinations in accordance with the principles of FASB ASC Topic 805 "Business Combinations." The purchase price of the 25 facilities acquired in 2016 has been preliminarily assigned as follows:

| State (dollars in thousands) | Number of Properties | Date of Acquisition | Purchase Price | Consideration paid: Cash Paid | Consideration paid: Value of Operating Partnership Units Issued | Consideration paid: Net Other Liabilities (Assets) Assumed | Acquisition Date Fair Value: Land | Acquisition Date Fair Value: Building, Equipment, and Improvements | Acquisition Date Fair Value: In-Place Customer Leases | Acquisition Date Fair Value: Closing Costs Expensed |
|---|---|---|---|---|---|---|---|---|---|---|
| **2016** | | | | | | | | | | |
| Florida | 4 | 1/6/16 | $ 20,350 | $ 20,246 | $ — | $ 104 | $ 6,646 | $ 13,339 | $ 365 | $ 366 |
| California | 4 | 1/21/16 | 78,750 | 78,562 | — | 188 | 27,876 | 49,860 | 1,014 | 327 |
| New Hampshire | 5 | 1/21/16 | 54,225 | 53,941 | — | 284 | 12,902 | 40,428 | 895 | 569 |
| Massachusetts | 1 | 1/21/16 | 11,375 | 11,350 | — | 25 | 4,874 | 6,335 | 166 | 64 |
| Texas | 3 | 1/21/16 | 42,050 | 41,894 | — | 156 | 23,487 | 18,000 | 563 | 247 |
| Arizona | 1 | 2/1/16 | 9,275 | 9,261 | — | 14 | 988 | 8,224 | 63 | 119 |
| Florida | 1 | 2/12/16 | 11,274 | 11,270 | — | 4 | 2,294 | 8,980 | — | — |
| Pennsylvania | 1 | 2/17/16 | 5,750 | 5,732 | — | 18 | 1,768 | 3,879 | 103 | 147 |
| Colorado | 1 | 2/29/16 | 12,600 | 12,549 | — | 51 | 4,528 | 7,915 | 157 | 170 |
| California | 3 | 3/16/16 | 68,832 | 63,965 | 4,472 | 395 | 22,647 | 45,371 | 814 | 260 |
| California | 1 | 3/17/16 | 17,320 | 17,278 | — | 42 | 6,728 | 10,339 | 253 | 115 |
| Total acquired 2016 | 25 | | $ 331,801 | $326,048 | $ 4,472 | $ 1,281 | $114,738 | $ 212,670 | $ 4,393 | $ 2,384 |

All of the properties acquired were purchased from unrelated third parties. The operating results of the facilities acquired have been included in the Company's operations since the respective acquisition dates. Of the $326.0 million paid at closing for the properties acquired during 2016, $2.5 million represented deposits that were paid in 2015 when certain of these properties originally went under contract. In addition to the closing costs expensed on 2016 acquisitions, the Company also incurred $345,000 of acquisition costs in 2015 related to facilities acquired in 2016. Non-cash investing activities during 2016 include the issuance of $4.5 million in Operating Partnership Units.

The Company measures the fair value of in-place customer lease intangible assets based on the Company's experience with customer turnover. The Company amortizes in-place customer leases on a straight-line basis over 12 months (the estimated future benefit period). In-place customer leases are included in other assets on the Company's balance sheet as follows:

| (Dollars in thousands) | Mar. 31, 2016 | Dec. 31, 2015 |
|---|---|---|
| In-place customer leases | $ 26,714 | $ 22,320 |
| Accumulated amortization | (22,192) | (21,017) |
| Net carrying value at the end of period | $ 4,522 | $ 1,303 |

Amortization expense related to in-place customer leases was $1.2 million and $1.0 million for the three months ended March 31, 2016 and 2015, respectively. The Company expects to record $5.2 million and $0.5 million of amortization expense for the years ended December 31, 2016 and 2017, respectively.

During 2016, the Company acquired 25 properties. The following pro forma information is based on the combined historical financial statements of the Company and the 25 properties acquired, and presents the Company's results as if the acquisitions had occurred as of January 1, 2015:

| | Three months ended March 31, 2016 | Three months ended March 31, 2015 |
|---|---|---|
| Total revenues | $ 101,551 | $ 90,871 |
| Net income attributable to common shareholders | $ 31,745 | $ 20,173 |
| Earnings per common share | | |
| Basic | $ 0.81 | $ 0.52 |
| Diluted | $ 0.81 | $ 0.51 |

The following table summarizes the revenues and earnings related to the 25 properties since the acquisition dates that are included in the Company's consolidated statements of operations for the three months ended March 31, 2016.

| | Three months ended March 31, 2016 |
|---|---|
| Total revenues | $ 3,754 |
| Net loss attributable to common shareholders | $ (1,760) |

The above net losses attributable to common shareholders were primarily due to the acquisition costs incurred in connection with the 2016 acquisitions.

**Property Dispositions**

During 2015 the Company sold three non-strategic properties purchased in 2014 and 2015 with a carrying value of $5.1 million and received cash proceeds of $4.6 million, resulting in a $0.5 million loss on sale. The following table summarizes the revenues and expenses up to the dates of sale of the three properties sold in 2015 that are included in the Company's consolidated statements of operations for 2015.

| (Dollars in thousands) | Jan. 1, 2015 to Mar. 31, 2015 |
|---|---|
| Total revenues | $ 40 |
| Property operations and maintenance expense | (16) |
| Real estate tax expense | (5) |
| Depreciation and amortization expense | (9) |
| Loss on sale of storage facilities | (7) |
| | $ 3 |

## 5. UNSECURED LINE OF CREDIT AND TERM NOTES

Borrowings outstanding on our unsecured line of credit and term notes are as follows:

| (Dollars in thousands) | Mar. 31, 2016 | Dec. 31, 2015 |
|---|---|---|
| Revolving line of credit borrowings | $141,000 | $ 79,000 |
| Term note due April 26, 2016 | 150,000 | 150,000 |
| Term note due June 4, 2020 | 325,000 | 325,000 |
| Term note due August 5, 2021 | 100,000 | 100,000 |
| Term note due April 8, 2024 | 175,000 | 175,000 |
| Total term notes payable | $750,000 | $750,000 |

On December 10, 2014, the Company amended its existing unsecured credit agreement. In January 2016, the Company exercised the expansion feature of such credit agreement and increased the revolving credit limit from $300 million to $500 million. The interest rate on the revolving credit facility bears interest at a variable rate equal to LIBOR plus a margin based on the Company's credit rating (at March 31, 2016 the margin is 1.10%), and requires a 0.15% facility fee. The amended agreement also reduced the interest rate on the $325 million unsecured term note maturing June 4, 2020, with the term note bearing interest at LIBOR plus a margin based on the Company's credit rating (at March 31, 2016 the margin is 1.15%). The interest rate at March 31, 2016 on the Company's line of credit was approximately 1.53% (1.72% at December 31, 2015). At March 31, 2016, there was $359 million available on the unsecured line of credit. The revolving line of credit has a maturity date of December 10, 2019.

On April 8, 2014, the Company entered into a $175 million term note maturing April 2024 bearing interest at a fixed rate of 4.533%. The interest rate on the term note increases to 6.283% if the Company is not rated by at least one rating agency or if the Company's credit rating is downgraded. The proceeds from this term note were used to repay the $115 million outstanding on the Company's line of credit at April 8, 2014, with the excess proceeds used for acquisitions.

In 2011, the Company entered into a $100 million term note maturing August 5, 2021 bearing interest at a fixed rate of 5.54%. The interest rate on the term note increases to 7.29% if the notes are not rated by at least one rating agency, the credit rating on the notes is downgraded or if the Company's credit rating is downgraded. The proceeds from this term note were used to fund acquisitions and investments in unconsolidated joint ventures.

The Company has maintained a $150 million unsecured term note maturing April 26, 2016 bearing interest at 6.38%. The interest rate on the $150 million unsecured term note increases to 8.13% if the notes are not rated by at least one rating agency, the credit rating on the notes is downgraded or the Company's credit rating is downgraded. The Company used a draw on the line of credit to pay off the balance of this note on April 26, 2016.

During April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which amends the requirements for the presentation of debt issuance costs and requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. ASU No. 2015-03 is effective for fiscal years, beginning after December 15, 2015 and interim periods within those fiscal years. The implementation of this update did not cause any material changes to our consolidated financial statements other than the reclassification of $3.2 million and $3.4 million of debt issuance costs from assets to a reduction of term notes on our consolidated balance sheets at March 31, 2016 and 2015, respectively.

In August 2015, the FASB issued Accounting Standards Update 2015-15, "Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements" ("ASU 2015-15"). ASU 2015-15 codifies an SEC staff announcement that entities are permitted to defer and present debt issuance costs related to line-of-credit arrangements as assets. ASU No. 2015-15 is effective for fiscal years, beginning after December 15, 2015 and interim periods within those fiscal years. The implementation of this update did not cause any material changes to our consolidated financial statements.

The line of credit and term notes require the Company to meet certain financial covenants, measured on a quarterly basis, including prescribed leverage, fixed charge coverage, minimum net worth, limitations on additional indebtedness and limitations on dividend payouts. At March 31, 2016, the Company was in compliance with its debt covenants.

We believe that if operating results remain consistent with historical levels and levels of other debt and liabilities remain consistent with amounts outstanding at March 31, 2016 the entire availability on the line of credit could be drawn without violating our debt covenants.

The Company's fixed rate term notes contain a provision that allows for the noteholders to call the debt upon a change of control of the Company at an amount that includes a make whole premium based on rates in effect on the date of the change of control.

## 6. MORTGAGES PAYABLE AND DEBT MATURITIES

Mortgages payable at March 31, 2016 and December 31, 2015 consist of the following:

| (dollars in thousands) | March 31, 2016 | December 31, 2015 |
|---|---|---|
| 5.99% mortgage notes due May 1, 2026, secured by one self-storage facility with an aggregate net book value of $4.3 million, principal and interest paid monthly (effective interest rate 6.24%) | 1,959 | 1,993 |
| Total mortgages payable | $ 1,959 | $ 1,993 |

The table below summarizes the Company's debt obligations and interest rate derivatives at March 31, 2016. The estimated fair value of financial instruments is subjective in nature and is dependent on a number of important assumptions, including discount rates and relevant comparable market information associated with each financial instrument. The fair value of the fixed rate term notes and mortgage notes were estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. These assumptions are considered Level 2 inputs within the fair value hierarchy as described in Note 8. The carrying values of our variable rate debt instruments approximate their fair values as these debt instruments bear interest at current market rates that approximate market participant rates. This is considered a Level 2 input within the fair value hierarchy. The use of different market assumptions and estimation methodologies may have a material effect on the reported estimated fair value amounts. Accordingly, the estimates presented below are not necessarily indicative of the amounts the Company would realize in a current market exchange.

| | Expected Maturity Date Including Discount | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (dollars in thousands) | 2016 | 2017 | 2018 | 2019 | 2020 | Thereafter | Total | Fair Value |
| Line of credit - variable rate LIBOR + 1.10% (1.53% at March 31, 2016) | — | — | — | $141,000 | — | — | $141,000 | $141,000 |
| Notes Payable: | | | | | | | | |
| Term note - fixed rate 6.38% | $150,000 | — | — | — | — | — | $150,000 | $153,184 |
| Term note - variable rate LIBOR+1.15% (1.59% at March 31, 2016) | — | — | — | — | $325,000 | — | $325,000 | $325,000 |
| Term note - fixed rate 5.54% | — | — | — | — | — | $100,000 | $100,000 | $112,467 |
| Term note - fixed rate 4.533% | — | — | — | — | — | $175,000 | $175,000 | $186,337 |
| Mortgage note - fixed rate 5.99% | $ 108 | $151 | $160 | $ 170 | $ 181 | $ 1,189 | $ 1,959 | $ 2,096 |
| Interest rate derivatives – liability | — | — | — | — | — | — | — | $ 26,846 |

## 7. DERIVATIVE FINANCIAL INSTRUMENTS

Interest rate swaps are used to adjust the proportion of total debt that is subject to variable interest rates. The interest rate swaps require the Company to pay an amount equal to a specific fixed rate of interest times a notional principal amount and to receive in return an amount equal to a variable rate of interest times the same notional amount. The notional amounts are not exchanged. Forward starting interest rate swaps are also used by the Company to hedge the risk of changes in the interest-related cash outflows associated with the potential issuance of long-term debt. No other cash payments are made unless the contract is terminated prior to its maturity, in which case the contract would likely be settled for an amount equal to its fair value. The Company enters into interest rate swaps with a number of major financial institutions to minimize counterparty credit risk.

The interest rate swaps qualify and are designated as hedges of the amount of future cash flows related to interest payments on variable rate debt. Therefore, the interest rate swaps are recorded in the consolidated balance sheet at fair value and the related gains or losses are deferred in shareholders' equity as Accumulated Other Comprehensive Loss ("AOCL"). These deferred gains and losses are recognized in interest expense during the period or periods in which the related interest payments affect earnings. However, to the extent that the interest rate swaps are not perfectly effective in offsetting the change in value of the interest payments being hedged, the ineffective portion of these contracts is recognized in earnings immediately. Ineffectiveness was de minimis for the three months ended March 31, 2016, and 2015.

The Company has interest rate swap agreements in effect at March 31, 2016 as detailed below to effectively convert a total of $325 million of variable-rate debt to fixed-rate debt, and $150 million notional pre-issuance swap agreements to hedge the risk of changes in interest-related cash outflows associated with a potential issuance of long-term debt.

| Notional Amount | Effective Date | Expiration Date | Fixed Rate Paid | Floating Rate Received |
|---|---|---|---|---|
| $125 Million | 9/1/2011 | 8/1/18 | 2.3700% | 1 month LIBOR |
| $100 Million | 12/30/11 | 12/29/17 | 1.6125% | 1 month LIBOR |
| $100 Million | 9/4/13 | 9/4/18 | 1.3710% | 1 month LIBOR |
| $100 Million | 12/29/17 | 11/29/19 | 3.9680% | 1 month LIBOR |
| $125 Million | 8/1/18 | 6/1/20 | 4.1930% | 1 month LIBOR |
| $50 Million | 5/31/16 | 5/31/26 | 2.1560% | 3 month LIBOR |
| $50 Million | 5/31/16 | 5/31/26 | 2.1875% | 3 month LIBOR |
| $25 Million | 5/31/16 | 5/31/26 | 2.0330% | 3 month LIBOR |
| $25 Million | 5/31/16 | 5/31/26 | 1.9390% | 3 month LIBOR |

The Company may issue long-term debt in May 2016. The $150 million pre-issuance swap agreements are designated to hedge the risk of interest rate changes associated with this debt issuance. The swaps are intended to be settled on May 31, 2016 and any resulting gain or loss on the swaps at that time will be deferred and recorded as interest expense over the term of the related debt. If the issuance of the debt occurs on a date other than May 31, 2016, there could be ineffectiveness related to the swap agreements which may be recorded as expense at that time.

The interest rate swap agreements are the only derivative instruments, as defined by FASB ASC Topic 815 "*Derivatives and Hedging*", held by the Company. During the three months ended March 31, 2016 and 2015, the net reclassification from AOCL to interest expense was $1.2 million and $1.4 million, respectively, based on payments made under the swap agreements. Based on current interest rates, the Company estimates that payments under the interest rate swaps will be approximately $10.8 million for the 12 months ended March 31, 2017. Payments made under the interest rate swap agreements will be reclassified to interest expense as settlements occur. The fair value of the swap agreements, including accrued interest, was a liability of $26.8 million at March 31, 2016, and an asset of $550,000 and a liability of $15.3 million at December 31, 2015.

The Company's agreements with its interest rate swap counterparties contain provisions pursuant to which the Company could be declared in default of its derivative obligations if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender. The interest rate swap agreements also incorporate other loan covenants of the Company. Failure to comply with the loan covenant provisions would result in the Company being in default on the interest rate swap agreements. As of March 31, 2016, the Company had not posted any collateral related to the interest rate swap agreements. If the Company had breached any of these provisions as of March 31, 2016, it could have been required to settle its obligations under the agreements at their net termination cost of $26.8 million.

The changes in AOCL for the three months ended March 31, 2016 and March 31, 2015 are summarized as follows:

| (dollars in thousands) | Jan. 1, 2016 to Mar. 31, 2016 | Jan. 1, 2015 to Mar. 31, 2015 |
|---|---|---|
| Accumulated other comprehensive loss beginning of period | $ (14,415) | $ (13,005) |
| Realized loss reclassified from accumulated other comprehensive loss to interest expense | 1,197 | 1,358 |
| Unrealized loss from changes in the fair value of the effective portion of the interest rate swaps | (13,293) | (5,345) |
| Loss included in other comprehensive loss | (12,096) | (3,987) |
| Accumulated other comprehensive loss end of period | $ (26,511) | $ (16,992) |

## 8. FAIR VALUE MEASUREMENTS

The Company applies the provisions of ASC Topic 820 "*Fair Value Measurements and Disclosures*" in determining the fair value of its financial and nonfinancial assets and liabilities. ASC Topic 820 establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration. Level 3 inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Refer to Note 6 for presentation of the fair values of debt obligations which are disclosed at fair value on a recurring basis.

The following table provides the assets and liabilities carried at fair value measured on a recurring basis as of March 31, 2016 and December 31, 2015 (in thousands):

| | Asset (Liability) | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| March 31, 2016 | | | | |
| Interest rate swaps | (26,846) | — | (26,846) | — |
| December 31, 2015 | | | | |
| Interest rate swaps | 550 | — | 550 | — |
| Interest rate swaps | (15,343) | — | (15,343) | — |

Interest rate swaps are over the counter securities with no quoted readily available Level 1 inputs, and therefore are measured at fair value using inputs that are directly observable in active markets and are classified within Level 2 of the valuation hierarchy, using the income approach.

During 2016, assets and liabilities measured at fair value on a non-recurring basis included the assets acquired and liabilities assumed in connection with the acquisition of 25 storage facilities (see note 4). To determine the fair value of land, the Company used prices per acre derived from observed transactions involving comparable land in similar locations, which is considered a Level 2 input. To determine the fair value of buildings, equipment and improvements, the Company used current replacement cost based on information derived from construction industry data by geographic region which is considered a Level 2 input. The replacement cost is then adjusted for the age, condition, and economic obsolescence associated with these assets, which are considered Level 3 inputs. The fair value of in-place customer leases is based on the rent lost due to the amount of time required to replace existing customers which is based on the Company's historical experience with turnover at its facilities, which is a Level 3 input. Other assets acquired and liabilities assumed in the acquisitions consist primarily of prepaid or accrued real estate taxes and deferred revenues from advance monthly rentals paid by customers. The fair values of these assets and liabilities are based on their carrying values as they typically turn over within one year from the acquisition date and these are Level 3 inputs.

## 9. INVESTMENT IN JOINT VENTURES

The Company has a 20% ownership interest in Sovran HHF Storage Holdings LLC ("Sovran HHF"), a joint venture that was formed in May 2008 to acquire self-storage properties that are managed by the Company. The carrying value of the Company's investment at March 31, 2016 and December 31, 2015 was $44.3 million and $44.6 million, respectively. Twenty-five properties were acquired by Sovran HHF in 2008 for approximately $171.5 million and 14 additional properties were acquired by Sovran HHF in 2014 for $187.2 million. In 2008, the Company contributed $18.6 million to the joint venture as its share of capital required to fund the acquisitions. In 2012 the Company contributed an additional $1.2 million to the joint venture. In 2013 the Company received a return of capital distribution of $3.4 million as part of the refinancing of Sovran HHF. In 2014 the Company contributed an additional $28.6 million in cash to the joint venture as its share of capital required to fund acquisitions. In 2015 the Company contributed an additional $0.4 million in cash to the joint venture as its share of capital required to fund certain capital expenditures and property taxes related to 2014 acquisitions. As of March 31, 2016, the carrying value of the Company's investment in Sovran HHF exceeds its share of the underlying equity in net assets of Sovran HHF by approximately $1.7 million as a result of the capitalization of certain acquisition related costs in 2008. This difference is included in the carrying value of the investment, which is assessed for other-than-temporary impairment on a periodic basis. No other-than-temporary impairments have been recorded on this investment.

The Company has a 15% ownership interest in Sovran HHF Storage Holdings II LLC ("Sovran HHF II"), a joint venture that was formed in 2011 to acquire self-storage properties that are managed by the Company. The carrying value of the Company's investment at March 31, 2016 and December 31, 2015 was $13.9 million. Twenty properties were acquired by Sovran HHF II during 2011 for approximately $166.1 million. During 2011, the Company contributed $12.8 million to the joint venture as its share of capital required to fund the acquisitions. Ten additional properties were acquired by Sovran HHF II during 2012 for approximately $29 million. During 2012, the Company contributed $2.4 million to the joint venture as its share of

capital required to fund the acquisitions. In 2015 the Company contributed an additional $1.7 million in cash to the joint venture as its share of capital required to fund the payoff of a mortgage note. The carrying value of this investment is assessed for other-than-temporary impairment on a periodic basis and no such impairments have been recorded on this investment.

As manager of Sovran HHF and Sovran HHF II, the Company earns a management and call center fee of 7% of gross revenues which totaled $1.2 million and $1.2 million for the three months ended March 31, 2016 and 2015, respectively. The Company's share of Sovran HHF and Sovran HHF II's income for the three months ended March 31, 2016 and 2015 was $0.8 million and $0.6 million, respectively.

The Company has a 49% ownership interest in Iskalo Office Holdings, LLC, which owns the building that houses the Company's headquarters and other tenants. The carrying value of the Company's investment is a liability of $0.5 million at March 31, 2016 and December 31, 2015, and is included in accounts payable and accrued liabilities in the accompanying consolidated balance sheets. For the three months ended March 31, 2016, and 2015, the Company's share of Iskalo Office Holdings, LLC's income was $59,000 and $58,000, respectively. The Company paid rent to Iskalo Office Holdings, LLC of $0.3 million during the three months ended March 31, 2016 and 2015.

The Company holds an 85% equity interest in Urban Box Coralway Storage, LLC (Urban Box), a joint venture with an unrelated third party. Urban Box was formed in 2015 and is currently developing a self-storage property in Florida. During 2015, the Company contributed $4.0 million to Urban Box as its share of capital to develop the property, which primarily consists of the acquisition of land in 2015. Urban Box will enter into a non-recourse mortgage loan in order to finance the future development costs. The Company and the other joint venture member have participation rights which require the agreement of both members in order to implement the activities of Urban Box which are most significant to its economic performance. Accordingly, the interest is recorded using the equity method.

The Company will perform property management services for Urban Box in exchange for a management fee based on 6% of property revenues. There were no management fees in 2016 or 2015.

The Company holds a 5% equity interest in SNL/Orix 1200 McDonald Ave., LLC (McDonald), a joint venture with an unrelated third party. The joint venture for McDonald was executed in 2016 and is currently developing a self-storage property in New York. During 2016, the Company contributed $0.4 million of common capital and $2.3 million of preferred capital to McDonald as its share of capital to develop the property. McDonald will enter into a non-recourse mortgage loan in order to finance the future development costs. In accordance with the terms of the McDonald joint venture agreement, the Company has the ability to assert influence over certain business matters. Accordingly, the interest is recorded using the equity method.

The Company will perform property management services for McDonald in exchange for a management fee based on property revenues. There were no management fees in 2016 or 2015.

A summary of the unconsolidated joint ventures' financial statements as of and for the three months ended March 31, 2016 is as follows:

| dollars in thousands) | |
|---|---|
| Balance Sheet Data: | |
| Investment in storage facilities, net | $527,662 |
| Investment in office building | 5,007 |
| Other assets | 17,238 |
| Total Assets | $549,907 |
| Due to the Company | $ 672 |
| Mortgages payable | 223,401 |
| Other liabilities | 6,006 |
| Total Liabilities | 230,079 |
| Unaffiliated partners' equity | 257,098 |
| Company equity | 62,730 |
| Total Partners' Equity | 319,828 |
| Total Liabilities and Partners' Equity (Deficiency) | $549,907 |
| Income Statement Data: | |
| Total revenues | $ 18,005 |
| Property operating expenses | (5,951) |
| Administrative, management and call center fees | (1,303) |
| Depreciation and amortization of customer list | (3,106) |
| Amortization of financing fees | (89) |
| Income tax expense | (58) |
| Interest expense | (2,574) |
| Net income | $ 4,924 |

The Company does not guarantee the debt of Sovran HHF, Sovran HHF II, Iskalo Office Holdings, LLC, Urban Box, or McDonald.

We do not expect to have material future cash outlays relating to these joint ventures outside our share of capital for future acquisitions of properties.

**10. INCOME TAXES**

The Company qualifies as a REIT under the Internal Revenue Code of 1986, as amended, and will generally not be subject to corporate income taxes to the extent it distributes its taxable income to its shareholders and complies with certain other requirements.

The Company has elected to treat one of its subsidiaries as a taxable REIT subsidiary. In general, the Company's taxable REIT subsidiary may perform additional services for tenants and generally may engage in certain real estate or non-real estate related business. A taxable REIT subsidiary is subject to corporate federal and state income taxes. Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities.

For the three months ended March 31, 2016 and 2015, the Company recorded federal and state income tax expense of $0.6 million and $0.4 million, respectively. At March 31, 2016 and 2015, there were no material unrecognized tax benefits. Interest and penalties relating to uncertain tax positions will be recognized in income tax expense when incurred. As of March 31, 2016 and 2015, the Company had no interest or penalties related to uncertain tax positions. Net income taxes payable and the deferred tax liability of our taxable REIT subsidiary are classified within accounts payable and accrued liabilities in the consolidated balance sheet. As of March 31, 2016, the Company's taxable REIT subsidiary has current prepaid taxes of $0.1 million and a deferred tax liability of $1.3 million. The tax years 2013-2015 remain open to examination by the major taxing jurisdictions to which the Company is subject.

## 11. EARNINGS PER SHARE

The Company reports earnings per share data in accordance ASC Topic 260, "*Earnings Per Share*." Effective January 1, 2009, FASB ASC Topic 260 was updated for the issuance of FASB Staff Position ("FSP") EITF 03-6-1, "*Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*", or FSP EITF 03-6-1, with transition guidance included in FASB ASC Topic 260-10-65-2. Under FSP EITF 03-6-1, unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents, whether paid or unpaid, are participating securities and shall be included in the computation of earnings-per-share pursuant to the two-class method. The Company has calculated its basic and diluted earnings per share using the two-class method. The following table sets forth the computation of basic and diluted earnings per common share utilizing the two-class method.

| (in thousands except per share data) | Three Months Ended Mar. 31, 2016 | Three Months Ended Mar. 31, 2015 |
|---|---|---|
| Numerator: | | |
| Net income attributable to common shareholders | $ 28,339 | $ 22,451 |
| Denominator: | | |
| Denominator for basic earnings per share – weighted average shares | 38,411 | 34,330 |
| Effect of Dilutive Securities: | | |
| Stock options and non-vested stock | 252 | 225 |
| Denominator for diluted earnings per share – adjusted weighted average shares and assumed conversion | 38,663 | 34,555 |
| Basic earnings per common share attributable to common shareholders | $ 0.74 | $ 0.65 |
| Diluted earnings per common share attributable to common shareholders | $ 0.73 | $ 0.65 |

Not included in the effect of dilutive securities above are 130,573 unvested restricted shares for the three months ended March 31, 2016, and 171,220 unvested restricted shares for the three months ended March 31, 2015, because their effect would be antidilutive.

## 12. SHAREHOLDERS' EQUITY

The following is a reconciliation of the changes in total shareholders' equity for the period:

| (dollars in thousands) | Three Months Ended March 31, 2016 |
|---|---|
| Beginning balance of total shareholders' equity | $ 1,202,315 |
| Net proceeds from the issuance of common stock | 274,298 |
| Exercise of stock options | — |
| Earned portion of non-vested stock | 1,866 |
| Stock option expense | 46 |
| Deferred compensation - directors | 23 |
| Adjustment to redemption value on noncontrolling redeemable Operating Partnership units | (1,584) |
| Net income attributable to common shareholders | 28,339 |
| Change in fair value of derivatives | (12,096) |
| Dividends | (31,204) |
| Ending balance of total shareholders' equity | $ 1,462,003 |

On January 20, 2016, the Company completed the public offering of 2,645,000 shares of its common stock at $105.75 per share. Net proceeds to the Company after deducting underwriting discounts and commissions and offering expenses were approximately $269.7 million. The Company used the net proceeds from the offering to repay a portion of the indebtedness outstanding on the Company's unsecured line of credit.

On May 12, 2014, the Company entered into a continuous equity offering program ("Equity Program") with Wells Fargo Securities, LLC ("Wells Fargo"), Jefferies LLC ("Jefferies"), SunTrust Robinson Humphrey, Inc. ("SunTrust"), Piper Jaffray & Co. ("Piper"), HSBC Securities (USA) Inc. ("HSBC"), and BB&T Capital Markets, a division of BB&T Securities, LLC ("BB&T"), pursuant to which the Company may sell from time to time up to $225 million in aggregate offering price of shares of the Company's common stock. Actual sales under the Equity Program will depend on a variety of factors and conditions, including, but not limited to, market conditions, the trading price of the Company's common stock, and determinations of the appropriate sources of funding for the Company. The Company expects to continue to offer, sell, and issue shares of common stock under the Equity Program from time to time based on various factors and conditions, although the Company is under no obligation to sell any shares under the Equity Program.

During the three months ended March 31, 2016 and 2015, the Company did not issue any shares of common stock under the Equity Program. As of March 31, 2016, the Company had $59.3 million available for issuance under the Equity Program.

In 2013, the Company implemented a Dividend Reinvestment Plan. The Company issued 44,018 shares under the plan during the three months ended March 31, 2016.

## 13. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers,” which supersedes the revenue recognition requirements in “Revenue Recognition (Topic 605),” and requires an entity to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company has the option to apply the provisions of ASU 2014-09 either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the new guidance recognized at the date of initial application. The Company has not yet completed its assessment of the impact that the adoption of ASU 2014-09 will have on its consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12, “Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period,” which requires a reporting entity to treat a performance target that affects vesting and that could be achieved after the requisite service period as a performance condition. ASU 2014-12 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. ASU 2014-12 may be adopted either prospectively for share-based payment awards granted or modified on or after the effective date, or retrospectively, using a modified retrospective approach. The modified retrospective approach would apply to share-based payment awards outstanding as of the beginning of the earliest annual period presented in the financial statements on adoption, and to all new or modified awards thereafter. The adoption of ASU 2014-12 by the Company did not have a material impact on its consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, “Consolidation (Topic 810): Amendments to the Consolidation Analysis”. This ASU is effective for annual reporting periods beginning after December 15, 2015 including interim periods within that reporting period. ASU 2015-02 amends the current consolidation model specifically as it relates to variable interest entities (“VIE’s”) and provides reporting entities with a revised consolidation analysis procedure. The adoption of ASU 2015-02 by the Company did not have a material impact on its consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, “Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments”. ASU 2015-16 requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. ASU 2015-16 is effective for fiscal years, and interim reporting periods within those fiscal years, beginning after December 15, 2015. The adoption of ASU 2015-16 by the Company did not have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)". This guidance revises existing practice related to accounting for leases under Accounting Standards Codification Topic 840 *Leases* (ASC 840) for both lessees and lessors. The new guidance in ASU 2016-02 requires lessees to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). The lease liability will be equal to the present value of lease payments and the right-of-use asset will be based on the lease liability, subject to adjustment such as for initial direct costs. For income statement purposes, the new standard retains a dual model similar to ASC 840, requiring leases to be classified as either operating or finance. For lessees, operating leases will result in straight-line expense (similar to current accounting by lessees for operating leases under ASC 840) while finance leases will result in a front-loaded expense pattern (similar to current accounting by lessees for capital leases under ASC 840). While the new standard maintains similar accounting for lessors as under ASC 840, the new standard reflects updates to, among other things, align with certain changes to the lessee model. ASU 2016-02 is effective for fiscal years and interim periods, within those years, beginning after December 15, 2018. Early adoption is permitted for all entities. The Company has not yet completed its assessment of the impact that the adoption of ASU 2016-02 will have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-06, "Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments". ASU 2016-06 simplifies the embedded derivative analysis for debt instruments containing contingent call or put options by removing the requirement to assess whether a contingent event is related to interest rates or credit risks. The new standard will be effective for us on January 1, 2017. The Company has not yet completed its assessment of the impact that the adoption of ASU 2016-06 will have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-07, "Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting". ASU 2016-07 eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an adjustment must be made to the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The new standard will be effective for us on January 1, 2017. The Company has not yet completed its assessment of the impact that the adoption of ASU 2016-07 will have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting" as part of its simplification initiative, which involves several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company has not yet completed its assessment of the impact that the adoption of ASU 2016-09 will have on its consolidated financial statements.

## 14. COMMITMENT AND CONTINGENCIES

At March 31, 2016, the Company was under contract to acquire 13 self-storage facilities for aggregate consideration of approximately $146.4 million. Six of the facilities were acquired in April and May of 2016 for $86.7 million. The Company has not yet determined the assignment of the purchase prices of these six facilities to the individual assets acquired. These acquisitions were funded with draws on the Company's line of credit. The purchase of the remaining facilities by the Company is subject to customary conditions to closing, and there is no assurance that these facilities will be acquired.

On or about August 25, 2014, a putative class action was filed against the Company in the Superior Court of New Jersey Law Division Burlington County. The action seeks to obtain declaratory, injunctive and monetary relief for a class of consumers based upon alleged violations by the Company of the New Jersey Truth in Customer Contract, Warranty and Notice Act, the New Jersey Consumer Fraud Act and the New Jersey Insurance Producer Licensing Act. On October 17, 2014, the action was removed from the Superior Court of New Jersey Law Division Burlington County to the United States District Court for the District of New Jersey. The Company brought a motion to partially dismiss the complaint for failure to state a claim, and on July 16, 2015, the Company's motion was granted in part and denied in part. The Company intends to vigorously defend the action, and the possibility of any adverse outcome cannot be determined at this time.

## 15. SUBSEQUENT EVENTS

On April 1, 2016, the Company declared a quarterly dividend of $0.95 per common share. The dividend was paid on April 26, 2016 to shareholders of record on April 14, 2016. The total dividend paid amounted to $37.3 million.

On April 26, 2016, the Company repaid the outstanding balance of the maturing $150 million term note with a draw on its line of credit. The line of credit balance outstanding after the funding of this repayment and six acquisitions was $390 million.

On April 13, 2016, the Company entered into a contract to sell 8 self-storage facilities for a total sales price of $35.0 million. The sale of the facilities by the Company is subject to customary conditions to closing, and there is no assurance that these facilities will be sold.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of the Company's consolidated financial condition and results of operations should be read in conjunction with the unaudited financial statements and notes thereto included elsewhere in this report.

## DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

When used in this discussion and elsewhere in this document, the words "intends," "believes," "expects," "anticipates," and similar expressions are intended to identify "forward-looking statements" within the meaning of that term in Section 27A of the Securities Act of 1933 and in Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking statements. Such factors include, but are not limited to, the effect of competition from new self-storage facilities, which would cause rents and occupancy rates to decline; the Company's ability to evaluate, finance and integrate acquired businesses into the Company's existing business and operations; the Company's ability to effectively compete in the industry in which it does business; the Company's existing indebtedness may mature in an unfavorable credit environment, preventing refinancing or forcing refinancing of the indebtedness on terms that are not as favorable as the existing terms; interest rates may fluctuate, impacting costs associated with the Company's outstanding floating rate debt; the Company's ability to comply with debt covenants; any future ratings on the Company's debt instruments; regional concentration of the Company's business may subject it to economic downturns in the states of Florida and Texas; the Company's reliance on its call center; the Company's cash flow may be insufficient to meet required payments of operating expenses, principal, interest and dividends; and tax law changes that may change the taxability of future income.

## RESULTS OF OPERATIONS

FOR THE PERIOD JANUARY 1, 2016 THROUGH MARCH 31, 2016, COMPARED TO THE PERIOD JANUARY 1, 2015 THROUGH MARCH 31, 2015

We recorded rental revenues of $91.5 million for the three months ended March 31, 2016, an increase of $12.7 million or 16.0% when compared to rental revenues of $78.9 million for the same period in 2015. Of the increase in rental revenue, $5.1 million resulted from a 6.5% increase in rental revenues at the 428 core properties considered in same store sales (those properties included in the consolidated results of operations since January 1, 2015, excluding the properties we sold in 2015 and excluding stores not yet stabilized). The increase in same store rental revenues was a result of a 90 basis point increase in average occupancy and a 5.4% increase in rental income per square foot. The remaining increase in rental revenue of $7.6 million resulted from the revenues from the acquisition of properties completed since January 1, 2015 and stores not yet stabilized. Other operating income, which includes merchandise sales, insurance administrative fees, truck rentals, management fees and acquisition fees, increased by $1.1 million for the three months ended March 31, 2016 compared to the same period in 2015 primarily as a result of increased administrative fees earned on customer insurance and an increase in management fees.

Property operations and maintenance expenses increased $2.3 million or 11.2% in the three months ended March 31, 2016 compared to the same period in 2015. The 428 core properties considered in the same store pool experienced a $0.4 million or 1.8% decrease in operating expenses as a result of reduced utilities and snow removal costs. In addition to the same store operating expense decrease, operating expenses increased $2.7 million from the acquisition of properties completed since January 1, 2015 and stores not yet stabilized. Real estate tax expense increased $1.6 million as a result of a 6.8% increase in property taxes on the 428 same store pool and the inclusion of taxes on the properties acquired in 2016 and 2015.

Net operating income increased $9.8 million or 17.5% as a result of a 9.9% increase in our same store net operating income and the acquisitions completed since January 1, 2015.

Net operating income or "NOI" is a non-GAAP (generally accepted accounting principles) financial measure that we define as total continuing revenues less continuing property operating expenses. NOI also can be calculated by adding back to net income: interest expense, impairment and casualty losses, operating lease expense, depreciation and amortization expense, acquisition related costs, general and administrative expense, and deducting from net income: income from discontinued operations, interest income, gain on sale of real estate, and equity in income of joint ventures. We believe that NOI is a meaningful measure of operating performance because we utilize NOI in making decisions with respect to capital allocations, in determining current property values, and in comparing period-to-period and market-to-market property operating results. NOI should be considered in addition to, but not as a substitute for, other measures of financial performance reported in accordance with GAAP, such as total revenues, operating income and net income. There are material limitations to using a measure such as NOI, including the difficulty associated with comparing results among more than one company and the inability to analyze certain significant items, including depreciation and interest expense, that directly affect our net income. We compensate for these limitations by considering the economic effect of the excluded expense items independently as well as in connection with our analysis of net income. The following table reconciles NOI generated by our self-storage facilities to our net income presented in the consolidated financial statements for the three months ended March 31, 2016 and 2015.

| (dollars in thousands) | Three Months ended March 31, 2016 | 2015 |
|---|---|---|
| Net operating income | | |
| Same store | $ 58,877 | $ 53,565 |
| Other stores and management fee income | 6,839 | 2,364 |
| Total net operating income | 65,716 | 55,929 |
| General and administrative | (10,464) | (9,406) |
| Acquisition related costs | (2,384) | (582) |
| Operating leases of storage facilities | — | (683) |
| Depreciation and amortization | (16,425) | (14,181) |
| Interest expense | (9,134) | (9,161) |
| Interest income | 6 | 2 |
| Loss on sale of real estate | — | (7) |
| Equity in income of joint ventures | 915 | 646 |
| Net income | $ 28,230 | $ 22,557 |

Our 2016 same store results consist of only those properties that were included in our consolidated results since January 1, 2015, excluding three stores purchased prior to January 1, 2015 that have not yet stabilized. The following table sets forth operating data for our 428 same store properties. These results provide information relating to property operating changes without the effects of acquisitions.

Same Store Summary

| (dollars in thousands) | Three Months ended March 31, 2016 | 2015 | Percentage Change |
|---|---|---|---|
| Same store rental income | $ 83,591 | $ 78,482 | 6.5% |
| Same store other operating income | 4,578 | 4,143 | 10.5% |
| Total same store operating income | 88,169 | 82,625 | 6.7% |
| Payroll and benefits | 7,535 | 7,270 | 3.6% |
| Real estate taxes | 9,409 | 8,813 | 6.8% |
| Utilities | 2,763 | 3,216 | -14.1% |
| Repairs and maintenance | 3,493 | 3,995 | -12.6% |
| Office and other operating expenses | 2,952 | 2,766 | 6.7% |
| Insurance | 1,082 | 1,117 | -3.1% |
| Advertising and yellow pages | 306 | 355 | -13.8% |
| Internet marketing, | 1,752 | 1,528 | 14.7% |
| Total same store operating expenses | 29,292 | 29,060 | 0.8% |
| Same store net operating income | $ 58,877 | $ 53,565 | 9.9% |
| | | | Change |
| Quarterly same store move ins | 40,604 | 42,210 | (1,606) |
| Quarterly same store move outs | 37,674 | 37,424 | 250 |

We believe the decrease in same store move ins was a byproduct of our increased occupancy, leaving fewer spaces to rent.

General and administrative expenses for the three months ended March 31, 2016 increased $1.1 million or 11.2% compared with the three months ended March 31, 2015. The key drivers of the increase were a $0.3 million increase in professional fees, a $0.2 million increase in income taxes, and a $0.2 million increase in salaries and benefits.

Acquisition related costs were $2.4 million in the three months ended March 31, 2016 as a result of the acquisition of 25 stores during that period. Acquisition related costs for the three months ended March 31, 2015 were $0.6 million for the six stores acquired during that period.

The operating lease expense for storage facilities in 2015 relates to leases which commenced in November 2013 with respect to four self storage facilities in New York (2) and Connecticut (2). We completed the purchase of these four facilities on February 2, 2015, which eliminated the lease payment at that time.

Depreciation and amortization expense increased to $16.4 million in the three months ended March 31, 2016 from $14.2 million in the same period of 2015, primarily as a result of depreciation on the properties acquired in 2015 and 2016.

Interest expense remained relatively flat for the three months ended March 31, 2016 as compared to the same period in 2015 as a result of lower interest rates on the slightly higher borrowings.

During the three months ended March 31, 2015 we sold one storage facility in Missouri for net proceeds of approximately $691,000, resulting in a $7,000 loss on sale. There were no sales in the three months ended March 31, 2016.

**FUNDS FROM OPERATIONS**

We believe that Funds from Operations (“FFO”) provides relevant and meaningful information about our operating performance that is necessary, along with net earnings and cash flows, for an understanding of our operating results. FFO adds back historical cost depreciation, which assumes the value of real estate assets diminishes predictably in the future. In fact, real estate asset values increase or decrease with market conditions. Consequently, we believe FFO is a useful supplemental measure in evaluating our operating performance by disregarding (or adding back) historical cost depreciation.

FFO is defined by the National Association of Real Estate Investment Trusts, Inc. (“NAREIT”) as net income available to common shareholders computed in accordance with generally accepted accounting principles (“GAAP”), excluding gains or losses on sales of properties, plus impairment of real estate assets, plus depreciation and amortization and after adjustments to record unconsolidated partnerships and joint ventures on the same basis. We believe that to further understand our performance FFO should be compared with our reported net income and cash flows in accordance with GAAP, as presented in our consolidated financial statements.

In October and November of 2011, NAREIT issued guidance for reporting FFO that reaffirmed NAREIT’s view that impairment write-downs of depreciable real estate should be excluded from the computation of FFO. This view is based on the fact that impairment write-downs are akin to and effectively reflect the early recognition of losses on prospective sales of depreciable property or represent adjustments of previously charged depreciation. Since depreciation of real estate and gains/losses from sales are excluded from FFO, it is NAREIT’s view that it is consistent and appropriate for write-downs of depreciable real estate to also be excluded. Our calculation of FFO excludes impairment write-downs of investments in storage facilities.

Our computation of FFO may not be comparable to FFO reported by other REITs or real estate companies that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently. FFO does not represent cash generated from operating activities determined in accordance with GAAP, and should not be considered as an alternative to net income (determined in accordance with GAAP) as an indication of our performance, as an alternative to net cash flows from operating activities (determined in accordance with GAAP) as a measure of our liquidity, or as an indicator of our ability to make cash distributions.

*Reconciliation of Net Income to Funds From Operations (unaudited)*

| (in thousands) | Three Months Ended Mar. 31, 2016 | Three Months Ended Mar. 31, 2015 |
|---|---|---|
| Net income attributable to common shareholders | $ 28,339 | $ 22,451 |
| Net income attributable to noncontrolling interest | 130 | 106 |
| Depreciation of real estate and amortization of intangible assets | 16,034 | 13,911 |
| Depreciation and amortization from unconsolidated joint ventures | 573 | 618 |
| Loss on sale of storage facility | — | 7 |
| Funds from operations allocable to noncontrolling redeemable Operating Partnership Units | (206) | (174) |
| FFO available to common shareholders | $ 44,870 | $ 36,919 |

**LIQUIDITY AND CAPITAL RESOURCES**

Our line of credit and term notes require us to meet certain financial covenants measured on a quarterly basis, including prescribed leverage, fixed charge coverage, minimum net worth, limitations on additional indebtedness, and limitations on dividend payouts. At March 31, 2016, the Company was in compliance with all debt covenants. The most sensitive covenant is the leverage ratio covenant contained in certain of our term note agreements. This covenant limits our total consolidated liabilities to 55% of our gross asset value. At March 31, 2016, our leverage ratio as defined in the agreements was approximately 34.6%. The agreements define total consolidated liabilities to include the liabilities of the Company plus our share of liabilities of unconsolidated joint ventures. The agreements also define a prescribed formula for determining gross asset value which incorporates the use of a 9.25% capitalization rate applied to annualized earnings before interest, taxes, depreciation and amortization and other items (“Adjusted EBITDA”) as defined in the agreements. In the event that the Company violates its debt covenants in the future, the amounts due under the agreements could be callable by the lenders and could adversely affect our credit rating requiring us to pay higher interest and other debt-related costs. We believe that if operating results remain consistent with historical levels and levels of other debt and liabilities remain consistent with amounts outstanding at March 31, 2016, the entire availability under our line of credit could be drawn without violating our debt covenants.

Our ability to retain cash flow is limited because we operate as a REIT. In order to maintain our REIT status, a substantial portion of our operating cash flow must be used to pay dividends to our shareholders. We believe that our internally generated net cash provided by operating activities and the availability on our line of credit will be sufficient to fund ongoing operations, capital improvements, dividends and debt service requirements.

Cash flows from operating activities were $37.9 million and $30.9 million for the three months ended March 31, 2016, and 2015, respectively. The increase in operating cash flows in the 2016 period compared to the 2015 period was primarily due to the increase in net income.

Cash used in investing activities was $342.6 million and $140.0 million for the three months ended March 31, 2016 and 2015, respectively. The increase in cash used in investing activities in the 2016 period compared to the 2015 period was due to the increased dollar value of acquisitions in 2016 as compared to the same period in 2015.

Cash provided by financing activities was $304.0 million for the three months ended March 31, 2016 compared to $110.9 million for the three months ended March 31, 2015. On January 20, 2016, the Company completed the public offering of 2,645,000 shares of its common stock at $105.75 per share. Net proceeds to the Company after deducting underwriting discounts and commissions and offering expenses were approximately $269.7 million, and when combined with proceeds from the sale of common stock through our dividend reinvestment plan, resulted in net cash proceeds from the sale of common stock of $274.3 million. The Company used the net proceeds from the offering to repay a portion of the indebtedness outstanding on the Company's unsecured line of credit which had been used to fund acquisitions. Additional borrowings were incurred in the three months ended March 31, 2016 to fund acquisitions completed subsequent to this equity offering.

On March 3, 2015, the Company completed the public offering of 1,380,000 shares of its common stock at $90.40 per share. Net proceeds to the Company after deducting underwriting discounts and commissions and offering expenses were approximately $119.5 million, and when combined with the exercise of stock options, and the sale of common stock through our dividend reinvestment plan, resulted in net cash proceeds from the sale of common stock of $122.6 million. The Company used the net proceeds from the offering to repay a portion of the indebtedness outstanding on the Company's unsecured line of credit.

We paid dividends of $31.2 million in the three months ended March 31, 2016, which increased in comparison to dividends of $25.6 million in the same period of 2015 period primarily because of an increase in our common shares outstanding and an increase in our dividend rate.

On December 10, 2014, the Company amended its existing unsecured credit agreement. In January 2016, the Company exercised the expansion feature of such credit agreement and increased the revolving credit limit from $300 million to $500 million. The interest rate on the revolving credit facility bears interest at a variable rate equal to LIBOR plus a margin based on the Company's credit rating (at March 31, 2016 the margin is 1.10%), and requires a 0.15% facility fee. The amended agreement also reduced the interest rate on the $325 million unsecured term note maturing June 4, 2020, with the term note bearing interest at LIBOR plus a margin based on the Company's credit rating (at March 31, 2016 the margin is 1.15%). The interest rate at March 31, 2016 on the Company's line of credit was approximately 1.53% (1.72% at December 31, 2015). At March 31, 2016, there was $359 million available on the unsecured line of credit. The revolving line of credit has a maturity date of December 10, 2019.

On April 8, 2014, the Company entered into a $175 million term note maturing April 2024 bearing interest at a fixed rate of 4.533%. The interest rate on the term note increases to 6.283% if the Company is not rated by at least one rating agency or if the Company's credit rating is downgraded. The proceeds from this term note were used to repay the $115 million outstanding on the Company's line of credit at April 8, 2014, with the excess proceeds used for acquisitions.

In 2011, the Company entered into a $100 million term note maturing August 5, 2021 bearing interest at a fixed rate of 5.54%. The interest rate on the term note increases to 7.29% if the notes are not rated by at least one rating agency, the credit rating on the notes is downgraded or if the Company's credit rating is downgraded. The proceeds from this term note were used to fund acquisitions and investments in unconsolidated joint ventures.

The Company has maintained a $150 million unsecured term note maturing April 26, 2016 bearing interest at 6.38%. The Company used a draw on the line of credit to pay off the balance of this note on April 26, 2016.

Our line of credit facility and term notes have an investment grade rating from Standard and Poor's and Fitch Ratings (BBB), as well as Moody's (Baa2).

In addition to the unsecured financing mentioned above, our consolidated financial statements also include a $2.0 million mortgage payable that is secured by a storage facility.

On May 12, 2014, the Company entered into a continuous equity offering program ("Equity Program") with Wells Fargo Securities, LLC ("Wells Fargo"), Jefferies LLC ("Jefferies"), SunTrust Robinson Humphrey, Inc. ("SunTrust"), Piper Jaffray & Co. ("Piper"), HSBC Securities (USA) Inc. ("HSBC"), and BB&T Capital Markets, a division of BB&T Securities, LLC ("BB&T"), pursuant to which the Company may sell from time to time up to $225 million in aggregate offering price of shares of the Company's common stock. Actual sales under the Equity Program will depend on a variety of factors and conditions, including, but not limited to, market conditions, the trading price of the Company's common stock, and determinations of the appropriate sources of funding for the Company. The Company expects to continue to offer, sell, and issue shares of common stock under the Equity Program from time to time based on various factors and conditions, although the Company is under no obligation to sell any shares under the Equity Program.

During the three months ended March 31, 2016 and 2015, the Company did not issue any shares of common stock under the Equity Program. As of March 31, 2016, the Company had $59.3 million available for issuance under the Equity Program.

In 2013, the Company implemented a Dividend Reinvestment Plan. The Company issued 44,018 shares under the plan during the three months ended March 31, 2016.

Future acquisitions, our expansion and enhancement program, and share repurchases are expected to be funded with draws on our line of credit, issuance of common and preferred stock, the issuance of unsecured term notes, sale of properties, and private placement solicitation of joint venture equity. Should the capital markets deteriorate, we may have to curtail acquisitions, our expansion and enhancement program and share repurchases.

## ACQUISITION AND DISPOSITION OF PROPERTIES

In the three months ended March 31, 2016, the Company acquired 25 self-storage facilities comprising 2.0 million square feet in Arizona (1), California (8), Colorado (1), Florida (5), Massachusetts (1), New Hampshire (5), Pennsylvania (1), and Texas (3) for a total purchase price of $331.8 million. Based on the trailing financial information of the entities from which the properties were acquired, the weighted average capitalization rate was 4.3% on these purchases and ranged from 0% on recently constructed facilities to 6.7% on mature facilities.

In 2015, we acquired 27 self storage facilities comprising 2.0 million square feet in Arizona (1), Connecticut (2), Florida (6), Illinois (2), Massachusetts (1), New York (6), North Carolina (1), Pennsylvania (1), South Carolina (6) and Texas (1) for a total purchase price of $281.2 million. Based on the trailing financial information of the entities from which the properties were acquired, the weighted average capitalization rate was 5.3% on these purchases and ranged from 0% on recently constructed facilities to 6.4% on mature facilities. Four facilities acquired in Connecticut and New York in 2015 had been leased by the Company since November 1, 2013 and the operating results of these four facilities have been included in the Company's operations since that date.

We did not sell any properties during the three months ended March 31, 2016. During the three months ended March 31, 2015 we sold one non-strategic storage facility in Missouri for net proceeds of approximately $691,000, resulting in a loss on sale of $7,000.

On April 13, 2016, the Company entered into a contract to sell 8 self-storage facilities for a total sales price of $35.0 million. The sale of the facilities by the Company is subject to customary conditions to closing, and there is no assurance that these facilities will be sold. We may seek to sell additional properties to third parties or joint venture partners in 2016.

## FUTURE ACQUISITION AND DEVELOPMENT PLANS

Our external growth strategy is to increase the number of facilities we own by acquiring suitable facilities in markets in which we already have operations, or to expand into new markets by acquiring several facilities at once in those new markets. We are actively pursuing acquisitions in 2016, and at March 31, 2016, we were under contract to acquire 13 self-storage facilities for aggregate consideration of approximately $146.4 million. Six of the facilities were acquired in April and May of 2016 for $86.7 million.

In the three months ended March 31, 2016, we added 31,500 square feet to existing properties for a total cost of approximately $1.3 million. We plan to complete an additional $28.7 million of expansions and enhancements to our existing facilities in 2016.

We also expect to continue making capital expenditures on our properties. This includes roofing, paving, and remodeling of store offices. For the first three months of 2016 we spent approximately $6.7 million on such improvements and we expect to spend approximately $15.0 million for the remainder of 2016.

## REIT QUALIFICATION AND DISTRIBUTION REQUIREMENTS

As a REIT, we are not required to pay federal income tax on income that we distribute to our shareholders, provided that we satisfy certain requirements, including distributing at least 90% of our REIT taxable income for a taxable year. These distributions must be made in the year to which they relate, or in the following year if declared before we file our federal income tax return, and if they are paid not later than the date of the first regular dividend of the following year. As a REIT, we must derive at least 95% of our total gross income from income related to real property, interest and dividends.

Although we currently intend to operate in a manner designed to qualify as a REIT, it is possible that future economic, market, legal, tax or other considerations may cause our Board of Directors to revoke our REIT election.

## UMBRELLA PARTNERSHIP REIT

We are formed as an Umbrella Partnership Real Estate Investment Trust ("UPREIT") and, as such, have the ability to issue Operating Partnership Units in exchange for properties sold by independent owners. By utilizing such Units as currency in facility acquisitions, we may obtain more favorable pricing or terms due to the seller's ability to partially defer their income tax liability. As of March 31, 2016, 209,638 Units are outstanding. These Units had been issued in exchange for self-storage properties at the request of the sellers.

## INTEREST RATE RISK

The primary market risk to which we believe we are exposed is interest rate risk, which may result from many factors, including government monetary and tax policies, domestic and international economic and political considerations, and other factors that are beyond our control.

We have entered into interest rate swap agreements in order to mitigate the effects of fluctuations in interest rates on our variable rate debt. The LIBOR base rates have been contractually fixed on $325 million of our debt through the interest rate swap termination dates. See Note 7 to our consolidated financial statements appearing elsewhere in this quarterly report on Form 10-Q.

Based on our outstanding unsecured floating rate debt of $466 million at March 31, 2016, and taking into account our interest rate swap agreements, a 100 basis point increase in interest rates would have a $1.4 million effect on our annual interest expense. These amounts were determined by considering the impact of the hypothetical interest rates on our borrowing cost and our interest rate swap agreements in effect on March 31, 2016. These analyses do not consider the effects of the reduced level of overall economic activity that could exist in such an environment. Further, in the event of a change of such magnitude, we would consider taking actions to further mitigate our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no changes in our capital structure.

## INFLATION

We do not believe that inflation has had or will have a direct effect on our operations. Substantially all of the leases at the facilities are on a month-to-month basis which provides us with the opportunity to increase rental rates as each lease matures.

## SEASONALITY

Our revenues typically have been higher in the third and fourth quarters, primarily because self-storage facilities tend to experience greater occupancy during the late spring, summer and early fall months due to the greater incidence of residential moves and college student activity during these periods. However, we believe that our customer mix, diverse geographic locations, rental structure and expense structure provide adequate protection against undue fluctuations in cash flows and net revenues during off-peak seasons. Thus, we do not expect seasonality to affect materially distributions to shareholders.

## RECENT ACCOUNTING PRONOUNCEMENTS

See Note 13 to the financial statements.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

The information required is incorporated by reference to the information appearing under the caption "Interest Rate Risk" in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" above.

## Item 4. Controls and Procedures

### Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, has been conducted under the supervision of and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer. Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective at March 31, 2016. There have not been changes in the Company's internal controls or in other factors that could significantly affect these controls during the quarter ended March 31, 2016.

### Changes in Internal Control over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as defined in 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934) that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. Other Information

### Item 1. Legal Proceedings

On or about August 25, 2014, a putative class action was filed against the Company in the Superior Court of New Jersey Law Division Burlington County. The action seeks to obtain declaratory, injunctive and monetary relief for a class of consumers based upon alleged violations by the Company of the New Jersey Truth in Customer Contract, Warranty and Notice Act, the New Jersey Consumer Fraud Act and the New Jersey Insurance Producer Licensing Act. On October 17, 2014, the action was removed from the Superior Court of New Jersey Law Division Burlington County to the United States District Court for the District of New Jersey. The Company brought a motion to partially dismiss the complaint for failure to state a claim, and on July 16, 2015, the Company's motion was granted in part and denied in part. The Company intends to vigorously defend the action, and the possibility of any adverse outcome cannot be determined at this time.

### Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and operating results.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

### Item 3. Defaults Upon Senior Securities

None

### Item 4. Mine Safety Disclosures

Not Applicable

### Item 5. Other Information

None

**Item 6. Exhibits**

| | |
|---|---|
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended. |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended. |
| 32 | Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016, formatted in XBRL, as follows: |

(i) Consolidated Balance Sheets at March 31, 2016 and December 31, 2015;

(ii) Consolidated Statements of Operations for the three months ended March 31, 2016 and 2015;

(iii) Consolidated Statements of Cash Flows for the three months ended March 31, 2016 and 2015;

(iv) Consolidated Statements of Comprehensive Income for the three months ended March 31, 2016 and 2015; and

(v) Notes to Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Sovran Self Storage, Inc.

By: /S/ Andrew J. Gregoire
Andrew J. Gregoire
Chief Financial Officer
(Principal Accounting Officer)

May 4, 2016
Date

**Exhibit 31.1**

**Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act, as amended**

I, David L. Rogers, certify that:

1. I have reviewed this report on Form 10-Q of Sovran Self Storage, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:
   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles;
   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: May 4, 2016

/S/ David L. Rogers
David L. Rogers
Chief Executive Officer

**Exhibit 31.2**

**Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act, as amended**

I, Andrew J. Gregoire, certify that:

1. I have reviewed this report on Form 10-Q of Sovran Self Storage, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)), for the registrant and have:

    a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles;

    c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a) all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: May 4, 2016

/S/ Andrew J. Gregoire
Andrew J. Gregoire
Chief Financial Officer

**Exhibit 32**

**Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Each of the undersigned of Sovran Self Storage, Inc. (the “Company”) does hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that:

1) The Quarterly Report on Form 10-Q of the Company for the period ended March 31, 2016 (the “Report”) fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 4, 2016

/S/ David L. Rogers
David L. Rogers
Chief Executive Officer

/S/ Andrew J. Gregoire
Andrew J. Gregoire
Chief Financial Officer