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EXR - Q1 2015 Extra Space Storage Inc Earnings Call

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R.J. Milligan *Robert W. Baird - Analyst*

Dave Bragg *Green Street Advisors - Analyst*

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Extra Space Storage Inc. first quarter 2015 earnings call. (Operator Instructions). As a reminder, today's conference is being recorded for replay purposes. I'd now like to turn the conference over to your host for today, Mr. Jeff Norman, Senior Director of Investor Relations. Sir, you may begin.

Jeff Norman - *Extra Space Storage, Inc. - Senior Director IR*

Thank you, Ben. Welcome to Extra Space Storage's first quarter 2015 conference call. In addition to our press release, we have furnished unaudited supplemental financial information on our website. Please remember that management's prepared remarks and answers to your questions may contain forward-looking statements as defined in the Private Securities Litigation Reform Act. Actual results could differ materially from those stated or implied by our forward-looking statements due to risks and uncertainties associated with the Company's business.

These forward-looking statements are qualified by the cautionary statements contained in the Company's latest filings with the SEC which we encourage our listeners to review. Forward-looking statements represent management's estimates as of today, Thursday, April 30, 2015. The Company assumes no obligation to revise or update any forward-looking statements because of changing market conditions or other circumstances after the date of this conference call.

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

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

Hello, everyone. In our recently released annual report we told our shareholders that they can expect more from Extra Space. I am pleased to announce that we delivered on that promise in the first quarter. We reached a record high occupancy of 92.5% while producing same store revenue growth of 8.3%. Year over year, NOI grew 11.4% and FFO as adjusted grew 21%, impressive for what has historically been the slowest time of the year.

As of today we have closed on $277 million in acquisitions and we continue to build our national portfolio. It was an excellent quarter for Extra Space and I am confident in our position heading into the rental season.

I'd now like to turn the time over to Scott.

Scott Stubbs - *Extra Space Storage, Inc. - CFO & EVP*

Thanks, Spencer. Last night, we reported FFO of $0.68 per share for the quarter. Excluding costs associated with acquisitions and non-cash interest, FFO as adjusted was $0.69 per share, exceeding the high end of our guidance by $0.02. The beat was primarily the result of better than expected property performance and tenant reinsurance income.

Our same store revenue growth was driven by increased occupancy and higher street rates. 120 basis points of this increase in revenue came from the change in our same store pool. Specifically, the addition of our 2013 acquisitions which have performed extremely well.

We've been busy deploying capital. We have closed on 8 stores for $84 million in the quarter. Subsequent to the end of the quarter we acquired 24 stores for $193 million which included a portfolio in Dallas. In addition, we have 4 operating stores under contract for $32 million. These acquisitions should close in the next 90 days.

We have another 16 certificate of occupancy stores under contract. The total purchase price of these stores is $175 million of which $58 million is expected to close in 2015. Additional details related to our C of O deals can be found in our supplemental package posted on our website.

Based on our strong first quarter results, we've increased our full-year 2015 guidance to be $2.90 to $2.98 per share. FFO as adjusted is estimated to be $2.94 to $3.02 per share. Our guidance includes dilution from our certificate of occupancy deals and acquisitions that operate below our portfolio average. Accretion on certain acquisitions will be limited in year one as we bring them up to our performance standards. Our long term strategy is to leverage our operating expertise and to maximize our shareholder return.

I'll now turn the time back to Spencer.

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

Thanks, Scott. We continue to invest heavily in our customer acquisition platform and our mobile strategy. This is driving more higher value customers to our stores. The pervasive use of the smartphone and our ability to reach and capture the mobile user has further shifted the competitive landscape in our favor. We continue building our portfolio through acquisitions and the expansion of our third party management services. Our balance sheet has never been stronger and we continue to execute on our business plan at a very high level. This is evidenced by our 18th consecutive quarter of double digit FFO growth.

So I will end the way I started, by saying our shareholders can expect more from Extra Space. And with that, I'd like to turn the time back to Jeff to start our Q&A session.

Jeff Norman - *Extra Space Storage, Inc. - Senior Director IR*

Thank you, Spencer. In order to ensure we have adequate time to address everyone's questions, I would ask that everyone keep your initial questions brief and, if possible, limited to two. If time allows we will address follow on questions once everyone has had an opportunity to ask their initial questions. With that we will turn it over to Ben to start our Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). George Hoglund, Jefferies.

George Hoglund - *Jefferies & Co. - Analyst*

Spencer, I was wondering if you could give an updated view on the overall pipeline for new deliveries in 2015.

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

You're talking specifically our C of O or you're talking holistically throughout the whole country?

George Hoglund - *Jefferies & Co. - Analyst*

Holistically.

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

I continue to maintain that the supply is muted. I personally believe that we are in the hundreds, and I think that's going to continue into 2016, George. We are at a fraction of the supply that we saw about 8 or 10 years ago. When I talk fraction, 20%, 25%, 30%, pick a number, but we are at a fraction of that. I think that the muted supply is going to bode well for all storage operators, not only in 2015, but through 2016.

George Hoglund - *Jefferies & Co. - Analyst*

Okay. Can you talk about some of the cap rates on the deals done? And also how you're underwriting the C of O deals now in terms of what are stabilized cap rates and what's your assumptions in terms of timing to stabilization?

Scott Stubbs - *Extra Space Storage, Inc. - CFO & EVP*

Yeah, George, this is Scott. Our cap rates have been what I would tell you all over the place. And what I mean by that is our certificate of occupancy deals obviously don't have any yield at day one. We'll do some of those this year. We've done some over the past couple of years. We typically target a cap rate in the low to mid sixes for a year one cap rate and some of the acquisitions have been at or better than that and some of them have been lower than that depending on the operator and if we felt like there was upside. So sorry to be as general as that, but I think that's really the way we view them and kind of what we've been doing.

As far as the overall market, things are competitive still. I think you're seeing the REITs be probably the winner of a lot of these acquisitions. If something gets marketed, they typically have the lowest cost of capital and are getting the majority of the deals.

George Hoglund - *Jefferies & Co. - Analyst*

Okay, then just one last one. In terms of the third party management business, how important do you view it as rebranding properties as Extra Space when you bring something onto your platform? Because obviously you demand that they get rebranded, I'm just wondering how much of a difference you think it would make it you didn't rebrand it?

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

George, the difference is huge. When you spend seven figures on a monthly basis trying to build a brand and an awareness, our philosophy is that there needs to be a consistency of experience from cradle to grave. And you can only achieve that to the highest and most optimal level with a single brand strategy. There are many ways to operate strategy. We just happen to prefer a single brand strategy. It's huge.

Operator

Vikram Malhotra, Morgan Stanley.

Vikram Malhotra - *Morgan Stanley - Analyst*

Thank you. I just had a question on your thoughts -- every year we kind of keep talking about structure occupancy and maybe in some cases moving that up a bit. Just kind of getting -- I wanted to get a sense of how you're viewing that going into the summer months. And was there any impact in your mind either in move-ins or move-outs, from, just from the winter?

Scott Stubbs - *Extra Space Storage, Inc. - CFO & EVP*

Vikram, this is Scott. We actually finished the quarter at record high occupancy from us. So we feel like it's going to be a good summer. Our internal estimates are we feel like we can top out at just over 94% and we feel like it's going to be a good leasing season. As far as the winter months, I mean clearly it affected people's ability to move in, but it also affected people's ability to move out. So if you look at our net rentals for the first quarter, it was actually a good quarter for us.

Vikram Malhotra - *Morgan Stanley - Analyst*

Okay, great, thanks. And then just a clarification on one of the earlier questions. Assuming that there is call it 300, 400 or 500 units out there, what percent of that do you view as kind of competition for your own properties?

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

It's a great question. With 50,000 plus stores in the US, we'd have to break that down into which markets we're talking about, Vikram. And our presence in the market and what that new supply coming into the market -- because not all markets are seeing the same surge of supply. There are vastly different starts depending on which municipality you're talking about. So sorry for the general answer to the specific question, but that would be on a case by case basis

Operator

Jeremy Metz, UBS.

Jeremy Metz - *UBS - Analyst*

Hey guys, good morning. Obviously had a great start to the year. Just wondering if you can talk a little bit about what you're seeing on the rate side today in terms of where you're pushing renewals and in terms of new rents. And then also kind of as we look at the portfolio, how, where are realized rents today versus your in-place leases?

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

Okay, so let me take a couple of those. Last question first, in-place versus achieved, it's kind of a mid to high single digits delta. There is a little bit of a roll down, that depends on the seasonality. Obviously in the slower part of the year it's going to be more and in the peak season as we're pushing rates, it's going to be less. So we think it's manageable and it has been manageable and we don't think it's a major issue. On the existing customer rate increases, Jeremy, we continue to put out rate increases to about 10% of our existing customers every single month. So that's 65,000 give or take. It's averaging between 9% and 10% and we think it is working well.

And your first question was --

Jeremy Metz - *UBS - Analyst*

Just about street rents today versus where, how much higher versus last year.

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

They're higher. And our strategy, just to put a little color on that, Jeremy, has been in the slow season to maintain occupancy. And we were the beneficiaries of something where not only did we maintain our occupancy, but we grew our occupancy and we also saw some buoyance in the rates that we've been able to get because of those occupancy levels. That gives us confidence going into this prime rental season.

I think you're going to see us in the summertime on the street rates be able to push things as much as high single digits and during the year hopefully we'll end up somewhere around an overall rate increase of about 5%.

Jeremy Metz - *UBS - Analyst*

And have you been able to squeeze more on the discounting as well?

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

Discounts are down. Yes.

Jeremy Metz - *UBS - Analyst*

Okay, and then just one other one maybe for Scott. On the acquisition front, obviously also off to a very strong start here with over $300 million either closed or under contract. Just thinking about the guidance of $450 million for the year, just given the activity you've had already, would you be disappointed if you don't do more than that at this point?

Scott Stubbs - *Extra Space Storage, Inc. - CFO & EVP*

I think our expectation is to be able to meet our guidance of $500 million right now. Our guidance is broken into two components. It's $450 million for outside acquisitions and then $50 million for C of O deals. And we're comfortable with that at this time.

Operator

Ki Bin Kim, SunTrust Robinson.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

Thank you. And congrats on a really good quarter. So it seems like obviously business is doing really well and I doubt the entire industry is increasing same store revenues at 8.3%. And I would say versus just market expectations, one, I would probably assume that we're kind of getting over that camel's hump in terms of the pace and trend in terms of revenue growth. Just curious, what have you changed up or altered in terms of like the way you advertise on the Internet or mobile or maybe as a pricing strategy that has allowed you to really push same store revenue this high?

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

Ki Bin, it's Spencer. A couple of things. I think the ascendency of the mobile device has been something that we foresaw. We invested aggressively and heavily and I think we've been the beneficiary of that early and significant investment. It's a complex world to go after, all of the different mobile platforms and devices and ways that people can get to us. And our goal has been, as I said in my opening remarks, to drive more higher value customers to our facilities. And so to that end there has been tremendous effort inside Extra Space to rationalize, harmonize and optimize the call center, revenue management and the interactive marketing departments under one central nervous system so that we can truly produce the highest and best results. And I would say it's not one single thing we're doing, it's an execution on a lot of different disparate elements to make sure that we drive, as I said, the best value, highest value customers to our facilities. Because every customer is not created equally.

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

Would you say the Internet advertising way of doing business that you guys do is maybe a bigger weight of that equation versus just purely optimizing pricing day to day?

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

It's all harmonized. You can't single out any one element. It's got to work together hand in hand. You can't have your interactive marketing people working at odds with revenue management. That's been a major initiative over the last two years here at Extra Space is to bring that all into one single department and have one cohesive strategy. And it seems to be working

Ki Bin Kim - *SunTrust Robinson Humphrey - Analyst*

And just last one, what percent of your customers are receiving some type of promotion this quarter?

Scott Stubbs - *Extra Space Storage, Inc. - CFO & EVP*

It varied a little bit during the quarter. It was as high as 85% and as low as 69% through the quarter. And that's month by month. So the majority, call it three quarters of our new customers coming in the door, get some type of promotion. Now the type of promotion they're getting is less than it has been in the past, but the majority of them are getting a promotion.

Operator

Todd Thomas, KeyBanc Capital Markets.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Hi. Thanks. Good afternoon. Just first question, appreciate the detail on page 20, the operations of the C of O deals. In terms of the lease up at these sites, obviously it's just 4 properties in 4 very different markets, but you're getting the occupancy up fairly quickly it seems. Where would you say rates are at these sites relative to market? And what kind of concessions are your offering to new customers?

Scott Stubbs - *Extra Space Storage, Inc. - CFO & EVP*

So in terms of the lease up of the properties, these properties are leasing up quicker than our initial estimates. Typically we have estimated 3 to 4 years. I mean I think these are on pace to do more 2 to 3. In terms of rates, I think they're similar to what we were expecting. We typically enter the market being kind of the low cost provider or the low price option to try to get more than our share of the market, to increase our occupancy quicker. And then in terms of discounts, we are discounting almost every unit coming in the door.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Do you have a sense for where, how far below market the rates are?

Scott Stubbs - *Extra Space Storage, Inc. - CFO & EVP*

You might be 10%.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay. And then we came across the disposition in Brooklyn, it was picked up by some local papers, I guess the joint venture asset that was sold at a pretty nice price. Are there any other assets in the ventures that you and your partner might look to sell? Was there any thought to buying out your partner's interest there? Or just not at that price?

Scott Stubbs - *Extra Space Storage, Inc. - CFO & EVP*

We have a few assets that we might look to sell. It's more market driven. Typically we're of the attitude that we're trying to build a portfolio. We are always interested in, we enjoy partners, but we're always interested in buying out our partners. This particular asset you're talking about, an outside buyer approached us and offered us a price that was very difficult to refuse.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay, and then just one more. Thinking about the technology and how the industry has evolved, it looked like in the quarter you sold some web assets, I think Storage.com, and I'm just curious how that sort of plays into your thoughts and view around the technology for the industry, if you can share some thoughts and maybe some details on that.

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

Todd, it's Spencer. We continue to invest in digital real estate. The fact of the matter is, our core business is not being an aggregator. And we think aggregation has its role for certain assets in certain markets, but since it's not our core business, we decided to take Storage.com and 15 other domain names, package them up and sell them off to a company. And my understanding is they're doing well with those assets and it's their core business and we're focused on what we do best.

Todd Thomas - *KeyBanc Capital Markets - Analyst*

Okay, are you able to share any of the terms or economics on the transaction at all?

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

I apologize, but there's an NDA and I can't.

Operator

Varav Meta, Cantor Fitzgerald.

Varav Meta - *Cantor Fitzgerald - Analyst*

Thank you. Spencer, I want to go back to your comments on Internet and driving higher value customers to Extra Space. So when you say higher value, is it the rent that the customers are paying or the average length of stay? And how do you define higher value for Extra Space?

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

It's defined by a lot of things. Length of stay would be at the top of the list. As I've said several times, college kids aren't the highest value customer and why we would spend a lot of money going after them or offering a discount or a promotion defies logic. A customer coming to us in November is likely to have a length of stay that is considerably longer. And if you start looking at auto-pay and a few of the other things, whether they're using a credit card or not, you can pretty well start to figure out that a segmentation of your customer base is probably healthy and will yield a better result than just assuming that the market is one homogenous environment where everybody gets the same discount, they get the same price, they get the same everything. Our goal, as I've said many times, is to deliver the right customer at the right time with the right concession, with the appropriate price to maximize our revenue and that's what we've been doing.

Varav Meta - *Cantor Fitzgerald - Analyst*

Okay. And my second question is on certificate of occupancy deals. So it seems like it's growing for Extra Space, last quarter you had 13, this quarter you have 16. How big is the pipeline, your pipeline for Extra Space? And how big, how many properties do you want to have in that pipeline?

Scott Stubbs - *Extra Space Storage, Inc. - CFO & EVP*

Varav, this is Scott. Our focus is more on dilution and how much we're willing to accept on an annual basis. We've targeted kind of 2% to 3% of our annual FFO and so that is more of the governor for us. We're saying we want to grow, we want to grow this part of the business, we think it's healthy, we think that they have good yields if we can find the right one. But at the same time, we recognize that we don't want to have too much dilution on an annual basis.

Operator

Todd Stender, Wells Fargo.

Todd Stender - *Wells Fargo - Analyst*

Thanks, guys. You're entering peak season at arguably very high occupancy. Number one, is this above your expectation? And where I'm going with this is that it's high enough where you could actually see occupancy dip a little bit this year because your pricing is on the aggressive side which ultimately drives revenues that much better.

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

Obviously we're pleased with the result. We also think that there is some more upside, Todd, coming into the peak season. We don't think that our pricing is going to cause a dip in occupancy. As we forecast what might happen in the coming months, we're optimistic that not only might there be a couple hundred basis points left in the occupancy hitting the peak, but a little bit of rate. Our goal, once again, is to maximize revenue. It's not about rate, it's not about occupancy, it's about maximizing revenue.

Todd Stender - *Wells Fargo - Analyst*

Thank you, Spencer. And then just finally, your deal flow has been excellent. Lots of visibility on where the acquisitions are coming from. You've got the biggest third party management platform out there. Where are ultimately the deals coming from? Are folks calling you up? And the folks you're meeting at conferences, are they truly coming from third party management?

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

All of the above. We are doing outbound efforts. We do take a lot of inbound calls. I think most sellers know that a call to any and all of the REITs is a really good place to start because they've got the cost of capital advantage that Scott alluded to earlier. Our management platform continues to be a strategic acquisition pipeline. And I want to highlight that the portfolio in Dallas we got done subsequent to the end of the quarter happened to be an OP unit transaction. Issuing OP units and selling the benefits of that to prospective sellers has been a competitive advantage and it's been one that we have used successfully for several years now.

Operator

R.J. Milligan, Robert W. Baird.

R.J. Milligan - *Robert W. Baird - Analyst*

Thanks. Scott, a question for you in terms of the C of O deals that you're seeing out there. Are you seeing more lenders enter the marketplace looking to make development loans? Or is that still holding off the new supply?

Scott Stubbs - *Extra Space Storage, Inc. - CFO & EVP*

We feel like it's still holding off the new supply. As we talk to banks, we obviously talk to them all the time, I think they're willing to make loans to well capitalized individuals, individuals that they have loans with or relationships with. But typically the terms aren't anywhere near what they were in the heyday. They're looking for people to have equity at risk, real equity versus just putting up their land. And so we think it still absolutely is a limiting factor in development.

R.J. Milligan - *Robert W. Baird - Analyst*

Okay, and then as you guys think about new supply coming online over the next couple of years, which is still expected to be small, do you anticipate the bulk of that will be in sort of what's traditionally been the high barrier to entry markets given where rents are? Or do you expect to see more development outside of the top 25 MSAs?

Scott Stubbs - *Extra Space Storage, Inc. - CFO & EVP*

I think you'll see it both places. I mean clearly people want to get things done in the top MSAs, but it's tough to get things done there and it's easier to get things done in maybe a more suburban area.

Operator

Dave Bragg, Green Street Advisors.

Dave Bragg - *Green Street Advisors - Analyst*

Thank you. Good morning, and thank you for the disclosure on the same store pool on page 16. And our question relates to that. It looks as though there was a 200 basis point benefit to NOI growth in the quarter from the inclusion of new same store assets as you grow NOI growth there at a tremendous rate, above 20% with these newly added assets. But can you reconcile that figure to the 50 basis point estimate that you suggested for the full year on the last conference call?

Scott Stubbs - *Extra Space Storage, Inc. - CFO & EVP*

So on an annual basis you're going to see that decline. So for instance, during the quarter, you had 120 basis points of revenue, half of which was occupancy. But you can see in that same table our ending occupancy at the end of Q1 for both pools is the exact same. And it actually was about the same by midyear last year. So you're going to see that benefit go away very quickly. I think it might be slightly higher than the 50 basis points we originally said, but it's not going to be anywhere near the 200 you saw in the quarter or the 120 basis points of revenue.

Dave Bragg - *Green Street Advisors - Analyst*

Okay, I don't see that occupancy disclosure but we'll look on a different page for that. So you're saying that the benefit from newly added same store assets is somewhere around 100 basis points of NOI growth in 2015? Is that a fair estimate?

Scott Stubbs - *Extra Space Storage, Inc. - CFO & EVP*

When we were talking benefit, we were focusing more on the revenue piece and how it flowed down. We're assuming the expense benefit would not be there and I think you'll see that even out more throughout the year. As far as the occupancy disclosure, that was a change that was pushed later last night. So if you look at the latest version of the supplementals, it does have that latest occupancy for both pools in it.

Dave Bragg - *Green Street Advisors - Analyst*

Okay, thank you for that. And next question relates to cap rates. In your November NAREIT presentation you included a chart. It was really just directional in nature but it suggested that cap rates had stabilized or maybe creeped up a little in 2014. Can you just update us on cap rate trends as you've seen them?

Scott Stubbs - *Extra Space Storage, Inc. - CFO & EVP*

I think you're seeing cap rates somewhat bottomed out. We haven't seen a significant tick up, but I think that they've largely bottomed out.

Dave Bragg - *Green Street Advisors - Analyst*

Okay, thanks. One more question if I may. Just going back to, I think this might tie to the Storage.com sale, but it appears as though you've gone in on SpareFoot.com, something that you haven't really utilized in the past. Can you talk about that decision?

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

Sure, so we've had our own internal aggregation business, Storage.com, which we've talked about. We've been out there competing with SpareFoot. And we simply did a test with SpareFoot with certain assets in certain markets to see what it might yield. And as I said just moments ago, Dave, we think aggregation has its role and it can be a tool, but our primary effort is not aggregation, it's not relying on a third party to supply our customers, and we're certainly not putting our destiny in the hands of a third party. We have invested very heavily in our own strategy and I think our results speak for themselves.

Dave Bragg - *Green Street Advisors - Analyst*

Thank you. Could you just talk a little bit about the cost to acquire a customer through a forum such as SpareFoot versus organically?

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

It varies depending on what kind of customer you're going after, David. I would say our belief is internally our CPA, cost per acquisition for a customer, is below that of what the aggregators would charge us, which is why we spend the majority of our marketing dollars internally, not externally.

Operator

(Operator Instructions). Michael Salinsky, RBC Capital Markets.

Michael Salinsky - *RBC Capital Markets - Analyst*

Good afternoon, guys. Spencer or Scott, can you just comment on the amount of total projects you're seeing on the market right now, inclusive of third parties, inclusive of third parties as well as your JVs? And of that, how much of that is price sensitive? Meaning if they don't get the price, they'll just pull it off the market versus actively being marketed right now?

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

I think that what we're seeing on the market today is pretty similar to what we've seen in the past in terms of first quarters. Typically at the start of the year it's a little bit slower. We have seen some get pulled, but they have been a couple of larger deals. Typically they do transact if they go, especially if it's brokered. I mean something that is more just an inquiry might not transact, but if it's brokered, they typically transact.

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Michael Salinsky - *RBC Capital Markets - Analyst*

Okay, that's helpful. Then just my second question, I mean three months into the year right now, how do you feel about supply in 2016? I know you commented that the lack of financing is really driving it, but we've had several good years of great growth, we've also seen assets transact well above replacement cost. How long do you think we have until you start to see maybe private capital or someone else enter the arena to kind of make up for that funding gap?

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

You know, this is really interesting, Michael. There is an awful lot of talk about development. Trade shows, meeting with people across the country, everybody wants to get onto the self-storage train because it's a great business. I would say talk is cheap and execution is really tough. Financing is tough. Paying up for land that's going to be suitable is tough. And one of the biggest things that I'm not sure that everybody has calculated into this is, it's great to get a build. Once you get a build, how are you going to compete against the REITs? So you're going to start paying management fees and probably giving up some or all of your tenant insurance. And the risk versus return curve has shifted and I don't think it's as compelling to do this. So yeah, there's a lot of activity in New York. Let's talk about the lack of activity in LA and San Francisco where we're talking single digit property counts coming out of the ground. So for me, 2015, supply is not an issue. 2016, not an issue. Let's get a little closer to 2017 and we'll see if it's going to be impactful.

The point I made earlier, Michael, is during the mid-2000s, more than 2,600 properties a year were fed into the market. Today we are at a fraction of that. And in 2016 it will still be a fraction, in 2017 it will still be a fraction. So supply is a factor. I just don't believe that the supply chain is going to deliver up product fast enough to have a material impact for the next 18 months and maybe beyond.

Operator

(Operator Instructions). I'm showing no further questions. I'd like to turn the conference back over to Mr. Spencer Kirk for any closing remarks.

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

Thank you, Ben. We appreciate your interest in Extra Space today. We look forward to next quarter's call. Thank you and have a good day.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program and you may all disconnect. Have a great rest of your day.
