FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the fourth-quarter 2008 Extra Space Storage Incorporated earnings conference call. My name is Geri, and I'll be your operator for today. At this time, all participants are in a listen-only mode. We will conduct a question-and-answer session towards the end of the conference. (Operator Instructions). As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the call over to Mr. James Overturf with Extra Space Storage. You may proceed, sir.

James Overturf - *Extra Space Storage Inc. - IR*

Thank you, Geri. With us today are CEO and Chairman of the Board, Kenneth Woolley; President, Spencer Kirk; CFO, Kent Christensen; and COO, Karl Haas. In addition to our press release, we have also furnished unaudited supplemental financial information on our website. Please remember that management's prepared remarks and answers to your questions contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements address matters which are subject to risks and uncertainties that may cause actual results to differ from those discussed today.

Examples of forward-looking statements include statements related to Extra Space Storage's development and acquisition programs, revenues, net operating income, FFO, and guidance. We encourage all of our listeners to review more detailed discussion related to these forward-looking statements contained in the company's filings with the SEC. These forward-looking statements represent management's estimates as of today, Thursday, February 19, 2009. Extra Space Storage assumes no obligation to update these forward-looking statements in the future because of changing market conditions or other circumstances. I'd now like to turn the call over to our Chairman and CEO, Kenneth Woolley.

Kenneth Woolley - *Extra Space Storage Inc. - Chairman & CEO*

Thank you, James. Hello and good morning, everyone. Before I begin commenting on the fourth-quarter results, I want to talk to you about my upcoming departure from Extra Space Storage. As was announced on February 2, I have accepted the opportunity to serve a three-year voluntary mission for my church, the Church of Jesus Christ of Latter Day Saints. The mission is located in Moscow, Russia and it will be a great challenge for me and my family. The invitation to serve this mission came as somewhat of a surprise. This is an assignment -- is not one that you lobby for or apply for. You are asked to serve, and as a good Latter Day Saint, you really feel obligated to do so when you are asked. Needless to say, my departure comes at a challenging time for not only our business, but many businesses. And this assignment has come after great thought and introspection on my part.

The decision was made a lot easier when I considered the team that we have assembled here at Extra Space. Our senior management team -- most of our senior management team has been with us for 20 years now. When we merged with Storage USA 3.5 years ago, we also brought on our team Buck Brown, Karl Haas, and Samrat Sondhi, which really has augmented our management team.

I will still be involved as a nonexecutive director and will attend board meetings over the phone. I won't be there in person, and will be an advisor to the company as needed during the coming years. I hope I can use my knowledge that I've gained in the last 30 plus years in this industry to continue to help the company.

My partner, Spencer Kirk, has been appointed as our new CEO. I would like you to know a little about Spence. I first met him 20 years ago when I joined the board of his company, Megahertz Corporation, which he was then CEO of. That company grew from a very small base to over $250 million in sales and 1,500 employees. Its business was in the high tech world, marketing modems for notebook computers. It was a very successful company. The company was taken public in 1993 and it was later merged into US Robotics Company.

At the time, 20 years ago, I was 42 years old and Spencer was about 27, and I was amazed at the maturity of this young businessman and his ability to lead a group of people much older than he was and bring a company from out of nothing into the big league. He was very successful in growing the company.

In 1998, after Spencer retired from Megahertz, I twisted his arm to go from high tech to no tech. And after taking a look at storage and realizing that it had a lot of potential, he joined me as my partner. And he was my partner really all the way through the whole last ten years. He also left for three years and served a mission for our church just about the time we went public in 2004, and he has come back about a year and seven months ago and joined us as our President.

We're very happy to have him. He is a great leader. He's a person who understands this business. He was really the person responsible for assembling our management team and most of our high tech initiatives, and I think as you investors get to know him on road shows and in various investor conferences, you'll have a great deal of respect for his knowledge and his ability.

Also the rest of our management team, including Kent and Karl, are staying with him and being very supportive of Spencer as he takes the reins. So as I leave the company, which I will actually be leaving to go to Russia around the end of June -- I'll officially leave being the CEO on April 1 but I'll be here at the company on and off until the end of June -- I feel like I'm leaving the company in great hands with the strength of management and still many great opportunities in the future. With that, I'm going to turn it over to Spencer to tell you more about the results.

Spencer Kirk - *Extra Space Storage Inc. - President*

Thanks, Ken. Hello, everyone. For the past decade, I've had the pleasure of being partners with a very capable individual in Ken as we have sought to build a premier storage company. Ken started this business in 1977 with a commitment to excellence. I would say today that tradition continues, and as the incoming CEO leading our very capable management team, we will ensure that Extra Space will have the best properties, the best people, and the best processes and technology.

Ken, I speak for all of us. We wish you well in your new assignment. You will have a great and positive impact on all those with whom you have contact. I personally appreciate the support of our board of directors and our team, and I look forward to becoming better acquainted with all of you in the coming months.

Now, let's take a minute and talk about the fourth quarter. Our storage turned in another positive quarter despite weakening operating fundamentals. We generated $0.37 per diluted share of FFO, including a $0.09 gain from our repurchase of $40 million principal amount in exchangeable senior notes. FFO for the quarter included approximately $0.02 of development property lease-up dilution and $0.01 in dilution from our sale of common stock in a registered direct placement.

Excluding the one-time gain, development drag, and offering dilution, FFO was $0.31 per diluted share. That's in line with our estimate for the quarter and about level with the $0.30 we turned in last quarter. It compares with $0.29 for Q4 '07.

Our storage performed positively, showing once again the relative strength of the product type during economic downturns. Same store NOI, including tenant insurance income increased 2.5%. Revenues were up 1.4% and our expenses were down 0.7% compared to last year. For the same year, NOI came in at 3.4% growth, with revenue growth of 2.3% and expense growth of 0.3%. Same store rentals in Q4 2008 were 1.3% higher than in Q4 2007, and they were essentially flat for the year when compared to 2007. Our team is doing an excellent job of controlling expenses and keeping focused on the efficient operations of our properties.

In addition to focusing on the operations of our properties, we are concentrating on our upcoming debt maturities and fortifying our balance sheet. It is our top priority. We've made good progress on the financing front. We have closed a $10 million term loan and a $50 million revolver in the past few days. We are having meaningful discussions with several other banks regarding loans on our unencumbered assets and development projects. We'll talk about that in greater detail. As of today, we currently have enough capacity in place to enable us to satisfy all of our debt maturities through September 2010.

Earlier this week, our board of directors made the decision to keep the dividend at $0.25 per share for the first quarter. I know this is a hot topic and not a decision we are taking lightly. However, with the progress being made on our debt maturities combined with our current property performance, we are comfortable about the level of our dividend at this time. We are watching this on a quarterly basis, and if circumstances change, then we'll certainly put all the options back on the table.

I would now like to turn the call over to Karl Haas, our Chief Operating Officer, who will give you more detail on our property performance and our operations.

Karl Haas - *Extra Space Storage Inc. - COO*

Thanks. I think the best way to characterize our property performance in the fourth quarter is to say that we're hanging in there, but the going is tough. Competition is fierce in many areas. Including tenant reinsurance income, same store revenue increased 1.4% and net operating income rose 2.5% for the quarter. For the year, revenue increased 2.3% and net operating income was up 3.4%.

Excluding tenant reinsurance income, same store revenue increased 0.7% and NOI increased 1.4% for the quarter. For the year, revenue was up 1.6% and NOI gained 2.3%. The operations team is doing a great job of keeping a handle on our controllable expenses, and our year-over-year expense growth was minimal.

Rentals at our same stores were up 1.3%, which is a positive sign considering all the economic distress in the marketplace. Move-outs increased 5.8% compared to last year. However, we have not seen a spike in move-outs in any particular group of tenants, including those receiving rate increases and long-term customers.

As counter-intuitive as it sounds, we continue to realize increased rates on in-place customers without causing materially higher move-out levels. We are monitoring this closely for any sign of deterioration. Overall, our seasonal occupancy dropped between September 30 and December 31. In prior years it was approximately 3%. In 2008, that drop in the third quarter was 3.5%, an increase of about 0.5%.

Not surprisingly, rates to incoming customers are lower than this time last year. Self storage, just like just about any other product or service these days, is on sale, with rental rates to new customers down approximately 5%. Our revenue management team continues to implement strategies utilizing learnings from pricing and discounting tests. In 2008, we ran over a dozen separate statistical pricing studies on over 75,000 customers.

The knowledge of our revenue management team combined with our technology system gives us a leg up on the vast majority of the operators in this industry, and we will continue to be data driven and disciplined when it comes to our pricing and discounting strategy.

We held pricing on our stronger units and properties, while lowering prices on our lower demand units and in softer markets. Our overall discounting dollars remain at a similar level when compared to last year.

Our top performing markets for the year were Chicago, Dallas, Denver, Houston, and San Francisco. For the quarter, top performers were Albuquerque, Denver, Houston, and San Francisco. Our four largest markets -- Boston, Los Angeles, New York, New Jersey, and Baltimore/DC had revenue increases between 0% and 3% in the fourth quarter.

In addition to our pricing and discounting strategies, our new internal call center is helping us make the most out of each potential sales opportunity. Almost all of our 700 properties now have their sales calls going directly to the call center. We finished the technology and telecommunications rollout faster than we expected, and the call center team is now concentrating on improving the closing percentages of sales opportunities. Our representatives' sales skills are improving rapidly, and we are already seeing higher close rates than we experienced with our third-party vendor.

The percentage of our customers using the Internet to shop for self storage is steadily increasing, and we responded by making the Internet a very high priority in our overall marketing mix. The Internet lets us cast a wider net, since the average online customer drives 20% further than those who rent from other sources of advertising. To this end, we recently entered and won a competition sponsored by Google to enable us to access resources that fully analyze and assess our current website. The recommendations and learning we gain will positively impact our overall conversion rates.

When looking out to 2009, we see continued year on year erosion in the marketplace and until at least the mid-year. At the moment, we see that being driven by the supply side; in other words, a continued price competitive environment for new move-in customers. As I said the demand side is hanging in there. That will continue to do so as long as the price is right and that is the budgeting assumption we are using internally.

The best strategy we can adopt is to control what we can control. We've done a good job controlling expenses, as evident by our sector leading expense control. I've already talked about what we are doing in the marketing sales and technology sides. Most importantly, and something we can't lose sight of -- the operations team is very committed to capturing every sales opportunity, providing a quality product at a fair price and giving the best overall service to our customers -- in other words the best value in the self storage industry. With that, I'd like to turn it over to our CFO, Kent Christensen.

Kent Christensen - *Extra Space Storage Inc. - CFO*

Thanks, Karl. As I did in the third quarter, let me start out by giving an update of where we are with regards to our balance sheet and funding requirements, and then I'll get into our fourth-quarter earnings and forward-looking guidance.

As of the end of 2008, we had approximately $64 million in cash, $93 million in undrawn loan facilities, and $73 million of availability on our line of credit with GE for a total capacity of $230 million.

Since the end of the year, we have drawn an additional $50 million on our credit line with GE. We successfully closed on one term loan of $9.1 million and a $50 million revolver. We have paid off one of our 2009 loan maturities two months early for a total of $74.4 million. By paying off this particular CMBS loan, we freed up an additional 20 properties on which we can place debt.

We were also able to swap one of our variable rate loans of $64.5 million to a fixed rate of 4.2% for 4.5 years. With these adjustments considered, as of today, we have cash and undrawn loans of $183 million consisting of approximately $66 million in cash, $44 million in undrawn term and construction loans, and $23 million of availability on our line with GE, and then $50 million of availability on our new revolver.

Our additional 2009 funding requirements consist of one $111 million CMBS maturity. We have a $62 million loan due in June which we can extend for five years. We have four single property loans due later this year totaling $13 million, which can be extended until late 2010, and we have a $23 million loan which was due at the end of 2008 which can be extended until December 31 of 2010.

Our 2010 funding requirements are $169 million, with most of that coming due in August of 2010. With our current capacity, we have all maturities accounted for through late August 2010, when we have $100 million coming due.

At this point, we are making progress obtaining additional financing. We are very encouraged that the loan market is open to us and that our properties are particularly attractive to regional and local banks who know the markets where these properties are situated. However, this is by no means an easy process. We have contacted banks across the country and are currently having discussions with 40 banks that are interested in self storage product type due to the smaller loan sizes, the consistent cash flow, and the reputation and operational acumen of Extra Space Storage.

We are currently working through 26 term sheets, of which five have been signed, totaling $48 million. At this time, we believe that we are going to be able to obtain new financing to cover all of our upcoming loan maturities.

To give you an idea of our current financing capability, we have a pool of 54 unencumbered properties on which to place loans. When we use our current cash and undrawn loans to pay off the 2009 and early 2010 maturities totaling $157 million, we will have an additional 34 properties for a total of 88 unencumbered properties and a total of approximately $47 million of NOI. Using a 7.5% cap and 70% loan to value, these properties should be able to garner approximately $440 million in loans. This should be more than adequate to cover our late 2010 and 2011 maturities.

In addition to the stabilized property loans, we are working on financing our development properties. In the fourth quarter, we closed two construction loans for a total of $22 million, and have signed term sheets for 11 properties for a total of $79 million. We currently have term sheets on all but four of our properties which are under construction or about to start construction.

For the quarter we achieved $0.37 per diluted share of FFO, including a $0.09 gain from a repurchase of $40 million in exchangeable senior notes. The $0.37 includes approximately $0.02 in development property lease-up dilution and $0.01 in dilution from our sale of common stock in a registered direct placement.

Excluding the one-time gain, development dilution, and our sale of common stock, FFO was $0.31 per diluted share compared to $0.29 in the fourth quarter last year.

For the year we achieved FFO of $1.18 per diluted share including the one-time gain. FFO for the year was reduced by $0.02 from unrecovered acquisition costs, $0.06 related to the carrying costs associated with our company's development program, $0.02 due to the loss on the sale of our auction rate securities, and approximately $0.08 in dilution from our May and October 2008 sales of common stock. Excluding our development dilution, offering dilution, unrecovered acquisition costs, and the loss on the sale of our auction-rate securities, and the one-time gain, our FFO would have been $1.26 per share.

For the year, our net income rose to $46.9 million from $36.1 million in 2007, or an increase of nearly 30%. Net G&A or total G&A less management fees collected from our JV and managed properties was $19.5 million. This overhead and G&A number includes all of the costs for our employees and other overhead costs, except for the direct site personnel.

Acquisition activity was much lower this year than in previous years. For the year, we acquired 11 properties on a wholly-owned basis. Eight of these properties for $57 million were acquired during the fourth quarter. These properties acquired during the fourth quarter were under contract to purchase prior to the bottom falling out of the credit markets. As a management team, we believe it is valuable for Extra Space to maintain its reputation as a reputable ethical buyer, and so we decided to consummate these acquisitions. These properties are high quality and well located in our core markets, and we purchased them at attractive cap rates. Due to the environment, we have not put any acquisitions into our guidance for 2009.

Our development team is scheduled to deliver 14 properties for approximately $155 million in total development costs in 2009. Self storage development projects face a longer entitlement process than the majority of other real estate types. These properties scheduled to open in 2009 have already been in the development process between two and three years, and stopping them at this point does not make sense. Our 2010 pipeline consists of 12 properties at this time, and we are evaluating potentially putting some of them on hold, pending improvements in market visibility.

Our annual FFO guidance for 2009 is being impacted heavily by two factors. First, we expect a challenging operating environment, and correspondingly flat if not negative revenue and NOI growth. Any trend in correlation between the performance of the overall economy and the performance of the business during 2009 is not currently apparent.

The full-year expectations in particular assume no significant change in the relationship between the overall economy and our business trends that existed in the fourth quarter of 2008 and those apparent in 2009 so far -- namely, a relatively mild flattening of same store revenue growth as many aspects of the economy deteriorate.

Second, we will have a large amount of excess cash that will be earning low returns and therefore will be dilutive.

With these factors in mind, we currently estimate that the fully diluted FFO per share will be between $1.01 and $1.06 before losses on our recently opened development properties. After development dilution, we expect fully diluted FFO per share to be between $0.96 and $1.01. These ranges do not include a $0.05 per share non-cash adjustment due to the new APB 14-1 accounting standard relating to our exchangeable senior notes.

In addition, we estimate that our lease-up properties, when stabilized, would generate an additional $21 million of FFO or $0.23. For the quarter, we estimate fully diluted FFO per share to be between $0.24 and $0.25 before losses on our recently opened projects. After development dilution, we estimate our fully diluted FFO per share to be between $0.23 and $0.24. For further assumptions underlying this outlook, please refer to our earnings press release. With that, I would like to turn the call back to Ken.

Kenneth Woolley - *Extra Space Storage Inc. - Chairman & CEO*

Thank you, Kent. I appreciate your very in-depth discussion of our financing and where we are on our operations.

We are living through extraordinary times. Many of our investors have asked me, how does self storage do in a recession? And in my business -- in my time in this business, I've really seen the recession of the early '80s, the one in the early '90s, and the one last time around 2001, 2002, and this current recession. This is clearly the most difficult one for the country. It's not clear that is the most difficult one for our properties, however.

In the past recessions, particularly the earlier ones, the self storage property type was relatively newer and less mature. So it had natural growth that was going on as a result of the business of self storage gaining market share from an unknown to a known business. More recently, however, it's a much more mature industry, and therefore we are really seeing the effects today of how a downturn can really affect the business.

We believe that self storage is less affected than retail and office and industrial and possibly even residential in terms of its strength and its revenue retention strength. And part of that is because self storage demand comes from life changes such as marriage, divorce, birth, death, graduation, job changes -- even foreclosures, natural disasters. And many of these demand factors have nothing to do with the economy. And you can see by our results that we actually had an increase in the number of rentals slightly in the fourth quarter over a year ago in the fourth quarter.

However, what the economy seems to be doing is that it's causing a little higher move-outs because people are figuring out when they pay that check every month, that maybe they can make an adjustment in their lifestyle and get rid of some of that stuff. So the initial demand seems to be there, but the long-term demand seems to be a little bit less, and that means in order for us to keep our occupancy and our revenues going, we have to be more successful in our marketing efforts.

We do believe, however, that because of the strength of our national platform, our management, our call center, our Internet, and frankly our revenue management, that we are in a relatively better space -- position to go through this difficult time than some of the smaller companies in our business. And we are very happy that we have these natural advantages. We think some of our other competitors do as well.

So we expect the business to do reasonably well in a difficult time for many businesses. That doesn't mean that we are confident that we are going to have a 10% revenue increase on a same store basis next year, because we don't expect that, as we've said.

You need to remember that Americans continue to be accumulators. We have too much stuff in this country, and that stuff doesn't go away just because the economy goes down. It's still there. And the only place it can go if it's not in the self storage is into the landfill dump, and we don't see the demand for dumps going up. So we think it's going to stay in the self storage.

As the economy braces for further mortgage defaults, which it probably is going to have, you ask yourself, well, how do mortgage defaults affect us? I think it's very interesting that we had excellent rental growth in Michigan and Ohio this past year, and these are areas that were among the hardest hit for foreclosures, mostly in occupied homes. So we think there is a positive demand factor which comes out of the terrible things that are happening due to foreclosures and job losses.

Given the challenges we are having today, people have asked me, is it a hard time for you to leave Extra Space Storage? And my answer is definitely yes. It's very difficult for me personally. I've been involved in this industry really for over 32 years. I love the business. I find it fascinating. It gives new challenges daily. I've enjoyed working with many of our investors and analysts and interfacing with you in good times and in bad. I would say that my decision to serve an LDS mission has more to do with my faith and my religious beliefs than it does anything to do with the economy or our ongoing business prospects.

I do think that basically as a person, I'm an optimist. I think our country will get through these difficult times and our business will as well. And that in the future we'll see a lot of blue skies and sunny skies and lots of opportunity.

Also, our company is really I believe an industry leader, with not only its portfolio but best in class operational and revenue management systems, and this will I think continue to put us at the very forefront of our business.

We thank you for the support. We don't like seeing our stock down. We think that's not a result of our performance, but we do recognize that it's hurt a lot of our shareholders, including us. We are doing our best to perform and to run the business well, and to run our balance sheet conservatively and in a way that takes careful note of what's going on in the credit markets on the overall basis.

And with that I am going to turn the time now to questions. Thank you very much.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Your first question comes from the line of Michael Salinsky with RBC Capital Markets. You may proceed.

Michael Salinsky - *RBC Capital Markets - Analyst*

Good morning. And Ken, best of luck on your new endeavors.

Kenneth Woolley - *Extra Space Storage Inc. - Chairman & CEO*

Thank you.

Michael Salinsky - *RBC Capital Markets - Analyst*

First question here, can you talk about the pricing on the fourth-quarter transactions? And also where asset pricing is in the market right now for things you are looking at?

Kent Christensen - *Extra Space Storage Inc. - CFO*

This is Kent. The properties that we acquired, we acquired at around a 7% cap. Some of those were a little higher, some a little lower. But as I stated, those were things that were put under contract before the credit crisis, so we felt an obligation to close on those transactions. We've been pleased with how those properties have performed and they are adding to our portfolio. So like I said, they came in on actual performance at about a 7% cap.

Michael Salinsky - *RBC Capital Markets - Analyst*

Okay. That's helpful. Secondly, in your supplemental, it shows a little bit more development drag in 2009 and 2010 than you had shown last quarter. Is that related to mix or are you seeing a little bit of slowing in the lease-up times on those or what was the driver behind that?

Kent Christensen - *Extra Space Storage Inc. - CFO*

The driver is mostly the delaying on some of the properties opening, and those openings being pushed into later years. There is a slight -- there's been on a few of our properties a little more slowdown on getting some properties leased up. But on some of our other properties they are on budget or slightly ahead of budget. So on a total, we are not seeing a dramatic slowdown in the lease-up of our properties. As I said, there are some a little faster, some a little slower.

Michael Salinsky - *RBC Capital Markets - Analyst*

Switching over to operations, Karl, what level of renewal increases are you guys pushing along right now? Where is the delta right now between Street rates and renewals?

Karl Haas - *Extra Space Storage Inc. - COO*

The existing customer increases are running 7%. They're slightly down from earlier in the year and last year. I don't have in front of me the delta -- it's around 10%.

Michael Salinsky - *RBC Capital Markets - Analyst*

Around 10%. Okay. And going forward here, in terms of the focus for 2009 is it -- are you going to continue to push rates or is the focus more so on maintaining occupancy at this point?

Karl Haas - *Extra Space Storage Inc. - COO*

We are working on occupancy. Once we have the customers in, we feel like we still can do rate increases and we have a chance to bring the customers back up to prices where we want them to be. And like we said earlier, the surprising part is while you do get some -- if we didn't do any rate increases, we probably would have some vacates that wouldn't happen. But everything we have looked at has indicated that our existing customer rate increases are netting us a plus. And you can't increase people if you don't get them in in the first place. So our focus right now is being aggressive to get customers in.

Michael Salinsky - *RBC Capital Markets - Analyst*

Great. Thanks for the help.

Operator

Your next question comes from the line of Michael Knott with Green Street Advisors.

Michael Knott - *Green Street Advisors - Analyst*

Hi guys. Ken, best of luck to you. Kent, could you talk about the terms of the new financing that you secured, maybe in the fourth quarter or after subsequent to the end of the year?

Kent Christensen - *Extra Space Storage Inc. - CFO*

I can give you a general indication. As I stated in my prepared speech, we are currently negotiating with these 40 banks that we are working with. So I am not going to get very detailed on the call as to what the exact terms are that we are discussing with each of these banks. But what I can say is that the terms are favorable and are comparable to some of the loans that we closed late last year. And we are not seeing any spike or substantial changes in the kinds of terms and conditions we are getting from the different banks.

Michael Knott - *Green Street Advisors - Analyst*

And then can you just give a little more color on the level of the dividend discussion and the possibility of stock in lieu of cash for a portion of the dividend?

Spencer Kirk - *Extra Space Storage Inc. - President*

This is Spencer. I'll take that. The dividend is one question that we view daily, if I could be honest with you. We just had a board meeting and we had an in-depth discussion about it. What it boils down to is our earnings visibility over the next few quarters is difficult to predict, as has been proven over the last six months. We do feel that we are making progress on our financing, and we do have the capacity to pay our previously stated annual dividend of $1. We are not blind to the circumstances, and we are trying to take everything into account.

To retain the REIT status, we would have to pay in the range of $45 million to $50 million this year. That would allow us to save some cash. However, with that being said, we believe that in paying a dividend to our investors, we would -- if we cut it or eliminate it, we would be taking away a positive element for many investors and some future investors as to the appeal of our security.

We are walking a fine line, and we'll keep you apprised on the situation. If I could just footnote that, this analysis will be done on a quarterly basis, and we are not going to comment or guarantee on any future dividend payout in the future. We will analyze it as is appropriate and as circumstances change within this company.

Michael Knott - *Green Street Advisors - Analyst*

Okay. And last question and I'll get back in the queue. Ken, on your last comments before handing it over to Q&A, you talked about alluding to the past comments you made about characterizing Americans as being packrat -- having packrat-itis. Do you feel despite the fact that there are many life change-driven sources of demand, do you feel like the discretionary demand is set for potentially protracted change or reduction just based on the potential for significantly less consumption in this country over the next few years as savings rates increase, consumption declines, et cetera? Can you just talk about how your portfolio would break down between maybe discretionary and nondiscretionary usage?

Kenneth Woolley - *Extra Space Storage Inc. - Chairman & CEO*

Well, first of all, the fact that our rentals were up in the fourth quarter, 1.3%, is an indication to me that there's not a slacking of new demand for the use of self storage. So I'm not going -- I don't want to have you put words in my mouth to say that I see a big change in discretionary consumer demand. I don't think most of self storage usage is discretionary. I think that many analysts who have critiqued our business think it's more discretionary than it actually seems to be. Most of it is really need driven, not discretionary.

Now if you look at the stuff that goes in self storage, that stuff is there in our houses, it's there all over the country. And if you say that consumers are going to buy less stuff at Wal-Mart, well, I think they are buying just as much today as they were a year ago.

Obviously, we are not building so many houses, and that will have an effect, but I don't think it's a big number. Also, the businesses that we have right now are using -- we have seen no falloff whatsoever of our business customers in our self storage business. None at all.

Michael Knott - *Green Street Advisors - Analyst*

No change in length of stay there. Can you remind us what that figure is? The average.

Kenneth Woolley - *Extra Space Storage Inc. - Chairman & CEO*

It is in the range of 2.5 to three years for the businesses, for the commercial.

Michael Knott - *Green Street Advisors - Analyst*

But over, on the whole for your portfolio?

Kenneth Woolley - *Extra Space Storage Inc. - Chairman & CEO*

It's a very difficult number because if you look at our portfolio today, and you look at all 350,000 or so customers, and you said how long have they been there? The answer is I think about 28 months. That's how long they've been there.

If you then ask a different question -- and that's the question of, if you look at over the last five years every person who moved in and moved out, because in order to know their true length of stay you have to have them move out, then the answer is something like 11 months. So they are two different numbers, but the average tenant has been there 28 months. So they've been there over two years. And we think that that length is quite interesting, because I think if you look at apartment complexes, you wouldn't find it to be a lot longer. Even though we are month-to-month rental.

Michael Knott - *Green Street Advisors - Analyst*

Okay. Thanks.

Operator

(Operator Instructions) Your next question comes from the line of Jordan Sadler with KeyBanc Capital Markets. You may proceed.

Jordan Sadler - *KeyBanc Capital Markets/McDonald Investments, Inc. - Analyst*

Good morning. Here with Todd Thomas. Congrats, Ken. Good luck.

Kenneth Woolley - *Extra Space Storage Inc. - Chairman & CEO*

Thank you.

Jordan Sadler - *KeyBanc Capital Markets/McDonald Investments, Inc. - Analyst*

Sure. The first question -- just coming back to the dividend question, I guess I'm a little bit -- can you maybe reconcile the reasoning behind paying out or returning 35% of your dividend as return capital? Can you maybe reconcile that with the need to continue to raise capital, which seems a very difficult task and almost a bit of a scramble, I would say in this environment?

Kenneth Woolley - *Extra Space Storage Inc. - Chairman & CEO*

First of all we don't have to raise a whole lot of new capital right now. What we are doing right now is we are recycling the capital. We are paying off CMBS loans with bank loans. We are not raising a whole lot. We are not doing a whole lot of new things. So I think that's one issue.

Secondly, when you look at the return on our stock, you need to look at it in light of the stock value and the dividend itself, and the shareholder right now is valuing our stock at, I don't know, $6.50 a share, which means it implies they want to earn 15% or something on our company. If they feel like they can earn 15%, maybe they would rather have cash than just use that money to pay off a debt that costs 6%.

So if you think of that as logic, you could say it's better to have the dividend and let those shareholders who feel like they like our stock to use that dividend to buy the stock, rather than using something that apparently has a value of 15% just on a cash basis to pay off a debt at 6%. That's sort of the logic.

Now, clearly we've had differences of opinion. As we've talked to many of our lead investors, and I would say it's equally split. Some of our investors have said we think you should cut your dividend and use all your cash.

We have other investors who have said -- and these are major institutional investors who have said -- cutting your dividend is like someone signs up to own your company. You are producing cash flow. Your NOI hasn't gone down. Your cash flow hasn't gone down. And you suddenly say I'm going to take a 35% slice out of what we dividend or pay out. It seems like a little bit of lack of faith with the shareholder.

And we think that long run companies who maintain their dividend and who have a policy of being consistent, I think are going to win in the long run. Now, I know that many analysts, probably including you, would criticize us for that. And I guess in the end we'll have to see how that works out.

Jordan Sadler - *KeyBanc Capital Markets/McDonald Investments, Inc. - Analyst*

Right. No, point taken. The other point of view, though, I would say is your stock has maybe underperformed your peers and maybe one of the reasons for that, may be your balance sheet or your liquidity need as opposed to the quality of your portfolio, and you may have the ability to rectify that internally. And I guess that would be more of a comment than a criticism to think about.

The other question that I had was just maybe coming back to the forward-looking demand -- have you guys thought about the impact on demand of Obama's housing plan? I know you mentioned that you saw in 2008 stronger than anticipated rental rate growth in some markets, as a result of maybe foreclosures. It seemed like we had big foreclosure markets.

Kenneth Woolley - *Extra Space Storage Inc. - Chairman & CEO*

I have to tell you I don't understand Obama's housing plan. And I think that his housing plan is death for banks, because to the extent that he causes banks not to foreclose, he's going to hurt the balance sheets of banks more than helping them. So on the one hand he wants to help the consumer by pushing out foreclosures and saying the banks can't foreclose, and they have got to help these poor people out that aren't paying their debts. And on the other hand, he is beating up the banks and the whole market is because they have problems.

Well, if you want to have more problems, then tell people they don't have to pay their debts when due. So I frankly don't know how that is going to work or how that's going to affect us. I am very disappointed in Obama and his housing plan.

Jordan Sadler - *KeyBanc Capital Markets/McDonald Investments, Inc. - Analyst*

I guess my thought was it seems like it would keep more people in their homes and reduce foreclosure rates, which I was just guessing, would that --

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Kenneth Woolley - *Extra Space Storage Inc. - Chairman & CEO*

I don't know if it is going to keep more people in their homes or not. But if the people are better off because they are in their home, maybe they'll have more money because the government gave it to them to spend on self storage, and that's the other part. I just don't know the answer to that.

Jordan Sadler - *KeyBanc Capital Markets/McDonald Investments, Inc. - Analyst*

Makes sense. I think Todd has one.

Todd Thomas - *KeyBanc Capital Markets/McDonald Investments, Inc. - Analyst*

Just a quick question. Two parts. Just wondering if you had an occupancy update through January or mid February? And then also looking at last year in the first quarter, the quarter-end occupancy rate was higher, I guess as usual seasonality at the end of March as things start to pick up. And I was wondering if you think that will be the case again at the end of this quarter?

Kenneth Woolley - *Extra Space Storage Inc. - Chairman & CEO*

The seasonality in our business will remain. I will say this. We did have a positive revenue growth month in the month of January on a same store basis.

Todd Thomas - *KeyBanc Capital Markets/McDonald Investments, Inc. - Analyst*

Okay. Do you have an occupancy figure?

Kenneth Woolley - *Extra Space Storage Inc. - Chairman & CEO*

We haven't seen any further -- I don't have the number right now.

Karl Haas - *Extra Space Storage Inc. - COO*

This is Karl. We did have a slight dip in the delta to the prior year. Our occupancy delta to the prior year, the negative occupancy delta to the prior year grew slightly.

Todd Thomas - *KeyBanc Capital Markets/McDonald Investments, Inc. - Analyst*

Okay. Thank you.

Operator

Your next question comes from the line of Lou Taylor with Deutsche Bank. You may proceed.

Lou Taylor - *Deutsche Bank - Analyst*

Hi. Thank you. I'm sorry. Spencer, can you talk about development spending for 2009? I know you have got the completions coming on this year, but you alluded to the dozen or so projects that you may start this year. Can you maybe just give a little bit of your rationale in terms of what projects could start and what the development spend could be this year?

Kent Christensen - *Extra Space Storage Inc. - CFO*

This is Kent. Again our development process -- these projects that we are talking about have been properties that we've been working on for two to three years. And the properties that are in our pipeline that we'll be working on in 2012 I think add up to about $130 million. And of those, as long as we can get the financing put in place, we would need say 30% or between $30 million and $40 million to be able to build those properties.

And so in that we have -- as long as we can continue getting our loans refinanced and we can continue getting construction loans on our properties, we think that as we come out of this and two and three years from now when these properties are filling up and the economy is doing better, there are going to be very few self storage properties that are going to be opening and leasing up. We will be one of those that has a few of those. And so we are being very selective and we are being very careful about this. It's not something that we are taking lightly, similar to our dividend discussions. But as we take each one of them on a case-by-case basis, we look in whether or not we think this is something we should go forward with. That's where our development process is right now.

Lou Taylor - *Deutsche Bank - Analyst*

Okay.

Kenneth Woolley - *Extra Space Storage Inc. - Chairman & CEO*

I'll make a note and that is that all the properties which are going to open this year are already under construction. And we actually haven't started any new construction I don't believe in the last three months. So depending on the credit markets and how things are, we could slow down and say okay, we won't construct something. But right now the commitments we have -- the amount of capital that we have to spend on the construction this year -- I think has already been mentioned, hasn't it been, Kent?

Kent Christensen - *Extra Space Storage Inc. - CFO*

Yes.

Lou Taylor - *Deutsche Bank - Analyst*

Oka. And then Kent, you had gone over your unencumbered asset -- not capability, but availability if you will. Can you go through that math again? I think I missed some of the numbers.

Kent Christensen - *Extra Space Storage Inc. - CFO*

As far as the number of properties that we have that are available?

Lou Taylor - *Deutsche Bank - Analyst*

I think you mentioned it was $47 million of NOI?

Kent Christensen - *Extra Space Storage Inc. - CFO*

Yes, today, we have with all of the $183 million of availability on our lines and our cash -- in addition to that, we have 54 properties that are still unencumbered. And when we take the $183 million that we have and we pay off loans coming due this year and early next year -- so of the $183 million, we use $157 million of that to pay off loans this year and next year. Once we do that, we'll have an additional 34 properties or a total of 88 total unencumbered properties. And those 88 properties today are backward looking at the end of December, generating a $47 million net operating income.

Lou Taylor - *Deutsche Bank - Analyst*

Okay. So I think what is it, a 7% cap rate and a 70% LTV you got --?

Kent Christensen - *Extra Space Storage Inc. - CFO*

I did a 7.5% cap, 70% loan to value. That would be $440 million of potential of loans. And what we would need to use that $440 million of loans is to pay off $100 million loan coming due in August of next year, and then $74 million coming due in 2011. So we have $170 million coming due, out of which $440 million. Now once we pay off the loan coming due next year, we have additional properties and additional capacity that would allow us to still have between $400 million and $500 million of capacity.

Spencer Kirk - *Extra Space Storage Inc. - President*

So what it boils down to is that at all times right now, because when you pay off the $170 million that you have in 2010 and 2011, that frees up more unencumbered properties which actually increases your capacity above $440 million. So the reality is you're sitting on capacity roughly of between $450 million and $500 million of unencumbered properties at any one time to be able to leverage yourself more if you need to. That's the financial situation of the company.

Lou Taylor - *Deutsche Bank - Analyst*

Great. Thank you.

Operator

Your next question comes from the line of Tayo Okusanya with UBS. You may proceed.

Tayo Okusanya - *UBS - Analyst*

Good morning, Ken. Best of luck in Russia. A couple of quick questions. Kent, I just wanted to clarify something with your most recent dealings with the banks. The $48 million number you mentioned -- that is additional financing you have gotten on top of the $59.1 million from last quarter. Correct?

Kent Christensen - *Extra Space Storage Inc. - CFO*

It's $48 million of signed term sheets that we have not yet closed on, but we are working through the process of closing on that. So that's not done. But the term sheets have been signed. And we go through a pretty detailed process before we sign a term sheet. And so these are term sheets that have been substantially negotiated with the banks before we sign them. So we feel like we have put all of the terms, very important terms and conditions on the table before we sign a term sheet. So we can't represent that we will for sure close on these, but a lot of work has already been done with these five.

Tayo Okusanya - *UBS - Analyst*

Great. Then the second thing, the deals that were closed on in fourth quarter at around 7% cap rate -- you committed to all of this stuff pre the credit crunch. But now that we are smack in the middle of the credit crunch, what are you seeing in regards to the cap rate?

Kent Christensen - *Extra Space Storage Inc. - CFO*

There are still properties that are for sale. We have still not seen any substantial number of distressed properties come to the market. The ones that are for sale, the sellers are still asking in the 7s. So they have increased their cap rate from the 6s to the 7s, but that's still where they are expecting. Not many of them have closed.

The only transaction that we are aware of any sizable amount that closed, it closed in December of last year. And it closed in a backward-looking in the 6s and a forward-looking in the 7s because there was some lease up properties in the portfolio that was acquired. It's a portfolio we looked at, we bid on, but did not close on. So that's how come we know what the date is on that portfolio. The one real sizable portfolio of about $100 million that closed, closed in a forward-looking in the low 7s.

Tayo Okusanya - *UBS - Analyst*

Great. Very helpful. Thank you very much.

Operator

You have a follow-up question from Jordan Sadler with Keybanc Capital Markets. You may proceed.

Jordan Sadler - *KeyBanc Capital Markets/McDonald Investments, Inc. - Analyst*

Thanks. I guess this one would be for Karl or maybe Kent. Just I am trying to reconcile in the guidance -- I think you said that self storage is on sale like everything else and rents are down 5% to new customers. I'm just trying to reconcile that, how that flows through your guidance on rental rate growth -- what the mix is of new customers in 2009 who see a 5% cut versus new customers who stay in place and get an increase? How does that sort of work out?

Karl Haas - *Extra Space Storage Inc. - COO*

Other than telling you that the existing customers, which is a much larger base, is getting in the range of a 7% increase which then -- and the customers that are coming in at that 5% sales price are getting after seven months a 6% or 7% increase. I'm sorry -- after five months, they get a 7%, and then we are increasing them again within 9 to 12 months. So when you blend all that together, you offset that 5% decrease in rates. Plus we are also anticipating being able to hold, and hopefully our goal with being aggressive on rates is that we are going to gain some occupancy.

Jordan Sadler - *KeyBanc Capital Markets/McDonald Investments, Inc. - Analyst*

So in guidance, you are assuming some occupancy uplift in 2009?

Karl Haas - *Extra Space Storage Inc. - COO*

It's a mix because I'm not sure we budgeted -- when we do the budgeting, it's a blend, and both the occupancy and the rates -- we are shooting kind of for an overall increase in revenue and the breakdown is not quite as sophisticated as having, especially with what's -- the market has changed since we've done the budgets in September.

Jordan Sadler - *KeyBanc Capital Markets/McDonald Investments, Inc. - Analyst*

That's fair. On the discounting on the 5% cut, did you start at 5%? Or did you start at 3% and move to 5%? I'm just curious on where it's headed.

Karl Haas - *Extra Space Storage Inc. - COO*

It's really all over the place. It depends on the market, and we really price based on what we see the demand. And we are going to continue to get -- where we have to get more aggressive, we'll get even more aggressive to gain occupancy and hold occupancy.

Kent Christensen - *Extra Space Storage Inc. - CFO*

This is Kent. One point on that is when Karl talks about the number being at 5%, it's at a point in time. We are moving the rental rates of our existing customers on a daily basis. So at one point in time, that would be the number. But on any given day it could be higher or lower than that based on what our revenue management system is doing in generating what we think is the proper price to be charged at each one of our different sites and at every different sized unit.

Jordan Sadler - *KeyBanc Capital Markets/McDonald Investments, Inc. - Analyst*

But that comment about the 5% was at what point -- ?

Karl Haas - *Extra Space Storage Inc. - COO*

That's where we were at the end of December in comparison to the prior year.

Jordan Sadler - *KeyBanc Capital Markets/McDonald Investments, Inc. - Analyst*

Okay. That's helpful. Thank you.

Operator

There are no additional questions at this time.

Kenneth Woolley - *Extra Space Storage Inc. - Chairman & CEO*

Okay. Thank you very much, everybody, for participating in this conference call. We appreciate your interest in our company and we hope to do a good job for all of you in the future. And many of you we'll see at the conference in Naples, Florida coming up here in a few weeks. Thank you. Bye bye.

Operator

Thank you for your participation in today's conference. This concludes your presentation. You may now disconnect. Have a good day.