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Transcript of
Sovran Self Storage
Third Quarter 2013 Earnings Release Conference Call
November 6, 2013

Participants

Diane Piegza – VP, Corporate Communications
David Rogers – CEO
Andrew Gregoire – CFO
Paul Powell – EVP, Real Estate Investment
Edward Killeen – EVP, Real Estate Management

Analysts

David Toti – Cantor Fitzgerald
Christy McElroy – Citigroup
Jana Galan – Bank of America Merrill Lynch
Brandon Cheatham – SunTrust Robinson Humphrey
RJ Milligan – Raymond James
Ross Nussbaum – UBS
Todd Thomas – KeyBanc Capital Markets
Paul Adornato – BMO Capital Markets
Paula Poskon – Robert W. Baird
Todd Stender – Wells Fargo
Ki Bin Kim – SunTrust Robinson Humphrey
Shahzeb Zakaria – Macquarie Group

Presentation

Operator

Greetings, and welcome to the Sovran Self Storage Third Quarter 2013 Earnings Release Conference call. At this time, all participants are in a listen-only mode. A brief question and answer session will follow the formal presentation. (Operator instructions.)

As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Diane Piegza, Vice President, Corporate Communications.

Diane Piegza – VP, Corporate Communications

Thank you, Rob, and good morning. Welcome to our Third Quarter 2013 conference call. Leading today's call will be David Rogers, Chief Executive Officer. Also participating are Andy Gregoire, Chief Financial Officer; Ed Killeen, Executive Vice President of Real Estate Management; and Paul Powell, Executive Vice President of Real Estate Investment.

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Each of you should have received a copy of our earnings release last evening. If you did not and you wish to be added to our distribution list, please e-mail invest@ sovranss.com.

As a reminder, the following discussion and answers to your questions contain forward-looking statements. Sovran's actual results may differ materially from projected results. Additional information concerning the factors that may cause such differences is included in our company's SEC filings. Copies of these filings may be obtained by contacting the company or the SEC.

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

David Rogers – CEO

Thanks, Diane. Good morning, everyone, and welcome to our call. Concerning 3Q results, occupancy remains high, rental rates are increasing, incentives are decreasing and costs are in line. Andy will provide the details, but the cliff note version is we had a really solid quarter.

As we have all been noticing, the acquisition market has come to a rolling boil with just a plethora of deals hitting the market. The recent low cap rate environment has enticed a new group of owners to list their properties, or at least entertain discussions to sell them, and we anticipate heightened activity into 2014.

During the quarter we acquired three Class A properties; two on Long Island, and one in Colorado for a total cost of $28 million. Last Friday we entered into an agreement to lease and operate four Class AAA properties in Connecticut and Long Island formerly known as Westy Self Storage. As mentioned in the related press release, the lease runs for 15 years, but we do have an option to enter the purchase outright, all four properties in 2015 or 2016.

We are very happy to add these high-end stores to our growing Tri-State presence, and we expect them to add a good $0.04 to FFO in 2014. As of this morning, we have three other properties totaling about $24 million under contracts: one in Toms River, New Jersey; one in Palm Beach, Florida; and the third in Austin, Texas. All are in various stages of due diligence and none can be assured of closing, but if they pass the test they will be fourth quarter deals.

We're looking at a good many other prospects in both portfolio and one-off form, and expect to have a busy start to next year. The overall picture of our sector is pretty much unchanged from the prior four or five quarters. The macro situation is very healthy, growth to new supply remains muted, demand is still ticking up and customer awareness continues to grow.

With regard to our company, specifically, we benefit greatly from size and scale, and with almost 500 stores flying the Uncle Bob's banner we have the ability to continually invest in the platforms most critical to running our business, namely a broad based/specifically targeted web marketing program, a state of the art customer care center, a data driven predictive revenue management system, and a sophisticated employee training process. These and other platforms and initiatives give us a terrific advantage over most of the industry, and I think it set us up for great growth in the quarters and year to come.

With that, I will let Andy give the specifics of our quarter.

Andrew Gregoire – CFO
Thanks, Dave. Regarding operations, same-store revenues were strong, increasing 7.3% over those of the third quarter of 2012. The 7.3% increase was on top of the 8% increase we experienced in the same quarter of last year. The growth was a result of the 250 basis point increase in average occupancy and a 3.6% increase in rates, as we saw pricing power continue to show in the rents collected.

Same-store occupancy at September 30 was 90.1%. We also saw a 24% increase in tenant insurance commissions in the third quarter of 2013 compared to 2012.

Total property operating expenses on a same-store basis increased by a modest 3% as a result of an expected increase in real estate taxes and insurance. Partially offsetting these increases was the continued decrease in yellow page spending and lower utility costs.

As a result of the continued strong revenue gains and controlled expenses, same-store net operating income increased a very solid 9.3%. This was our fifth consecutive quarter of same-store NOI increases of 9% or more.

G&A costs were $800,000 higher this quarter over that of the previous year. Aside from the $200,000 increase in internet advertising, the main reasons for the increase are the fact that we operated 23 more stores at the end of this quarter as compared to July of 2012, our continued investment in revenue management, and incentive compensation. Offsetting a portion of the overhead costs is an increase of approximately $200,000 in third party management fees earned this quarter.

Regarding properties, Dave had mentioned the three stores we purchased during the quarter for $28 million, and the now three stores we have under contract for $24 million as of this morning. On the disposition front, we didn't sell any properties during the quarter, but in October we sold our only property in Dayton, Ohio for $3.2 million resulting in a gain of approximately $300,000. We may look to prune a few more properties in 2013 and 2014.

From a balance sheet perspective, in September we borrowed $100 million on our delayed draw term loan to pay off our maturing $100 million term loans. This draw was contemplated in our $500 million bank term loan and line of credit refinancing completed in June. As previously disclosed, the interest savings from this refinancing will reduce our interest costs by an annualized $4.1 million. The refinancing also extends our maturity of our line of credit to June of 2018, and our bank term notes to June 2020.

We also issued almost 445,000 common shares under our ATM during the quarter resulting in net proceeds of $31.6 million. We used the proceeds to purchase the three properties in the quarter and to reduce the balance on our line of credit. At

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September 30, we had $9.7 million of cash on hand and $201 million available on our line of credit, including this accordion feature.

With regard to guidance, we have included in our release the expected ranges of revenues and expenses for the fourth quarter and the entire year. Same-store revenues for Q4 should be in the 7% to 8% range and NOI growth around 8% to 9%. Property taxes for the quarter are expected to increase between 8% and 9% as a result of the tough comparables to the fourth quarter of 2012, which saw a benefit from previous over-accruals. We are forecasting full-year property taxes to increase between 4.5% to 5.5%.

For the year, we have increased our same-store revenue estimate to between 7.5% to 8.5% and increased our NOI growth to 9% to 10%. Core G&A are projected at $36 million for 2013, including $5 million in internet advertising. We have not assumed any additional purchases or sales of properties in our guidance nor have we included the related acquisition costs incurred to-date or that could occur in the future. Our guidance assumes a weighted average diluted share count of 32 million common shares for the remainder of 2013. Although not included in guidance, we do expect a $1.7 million of fourth-quarter acquisition costs connected with the Westy lease transactions completed in November in the three properties we have under purchase contract. As a result of the above assumptions, we are increasing guidance and are forecasting funds from operations for the full year 2013 at between $3.77 and $3.79 per share and between $0.98 and $1.00 per share for the fourth quarter of 2013.

Rob, with that we'll open the call for questions.

Operator
(Operator instructions.) Our first question comes from the line of David Toti from Cantor Fitzgerald.

<Q>: Dave, I have a question for you, I just want to go back to some of the comments you made, I think everybody has been noticing the heated acquisition market, the heavy volumes. How do you think about 2014 relative to what is arguably a compressed cap rate environment versus the expectation to sort of pick up acquisition activity again, are you just basically underwriting lower cap rates with stronger forward growth? How do you think about the spend in this environment of sort of overactive transactions?

David Rogers – CEO
Well, we've been involved, and there has been a lot of activity and we've been pretty involved in all of it, and the cap rates have compressed considerably. We've been looking, though, as we always have, and not so much at the going in cap rate as to what we can do with the properties going forward, and we want to see opportunities. So that means making a forecast today on a 70% occupied property, and we like the way it's built and located and how it fits in with our footprint, we'll go for it and with the expectation that we are going to be there in 150, 200 basis points a year flicking up, so that by the end of year three we might be at a 7.5, 8.

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So, it isn't so much the going in cap rates. Now having said that, we looked at the big ones and we just didn't see the upside that we needed on those to justify a 5 cap, or a 5.25 cap. First of all, when you have a portfolio they're usually run pretty well. Not to say that the REITs platforms can't help, but there is a limit because some of those that were bought this year were quite well run. I think, David, to try to shorten it a little bit, it is more the opportunity we seek than it is the yield going in.

<Q>: The other question I wanted to ask was, you know, we don't hear much of about seasonality these days and based on the performance it seems like it is more muted. Do you think seasonality is more muted in this environment of higher occupancy and stronger demand?

David Rogers – CEO

I do. I also think as different markets have different seasonality too, and as you nationalize the portfolio it spreads that around a little bit but I think, yes, I think with occupancy being higher and length of stage being a bit longer, as that grows your quality of customer comes in and stays longer. That all needs the seasonality quite a bit.

Operator

Our next question is from the line of Christy McElroy of Citigroup.

<Q>: Sorry if I missed these numbers in the opening remarks, I just wanted to get a little bit more color on what you did in Q3 in regards to pricing. You have been making good progress on realized rent growth. I just wanted to get a sense for how street rents have changed year-over-year, if you're still reducing discounts, and then also the extent to which you're pushing existing customer rents today?

Edward Killeen – EVP, Real Estate Management

Looking at our asking rates, end July year-over-year we were running at plus 8%, August a little bit off that and September 7%. So quarter-over-quarter was plus 1.7% in asking rates and while we expect that delta to shrink a bit, we still think there is room with asking rates heading into the fourth quarter. With in place, we were very aggressive this quarter. As a matter of fact it was probably our most aggressive quarter, or was our most aggressive quarter with in place over the last several quarters, 9.6% of our customer base received increases versus 4.6% last quarter, and 7.3% year-over-year.

Our move out rate was a bit higher from 11.8% to 13%, but frankly that is by design looking at the quality of the customer and the retention rate, and our average rent increase was 9.5% versus 8.2% last quarter and 9.4% third quarter year-over-year. So, we are real strong with those two components, both asking and in place. And even with concessions, our concessions were down 45%, demand continues to be high, and we continue to be able to suppress those concessions quite a bit, 40% of our customers received concessions versus 48% last quarter and 56% year-over-year. So even going into our low season given where we are at with occupancy, we think we'll see concessions reduce over at least the next quarter and we'll see what happens heading into next year.

<Q>: With regard to your comment on the street rents delta shrinking going forward, I mean, your move ins were down about 6% year-over-year, do you think that's more a function of the normalization of that move in piece, or are you comfortable with that level or to your comment would you think you have pushed street a little too much?

David Rogers – CEO
We don't think we have pushed street a little too much. We are actually quite comfortable with the ins being down 5.9%. Again you can almost look at that as by design, I mean last year the play that we were making involved the two primary components being concession management and sort of balancing that with rates. Beginning in 2012, we were at $2.2 million in concessions, and we dropped that to $770,000 this quarter, I think. We're actually happy with those ins, and, again, it's sort of by design. Customers respond to concessions and low rates, it's important that we keep that quality customer, our customers that have been with us over a year have gone from 53%, this is end September, I believe, 53.8% to 56.5%. So those customers are paying us a higher rate. We're good with how we are balancing things and the fact that our ins are down just a bit.

Andrew Gregoire – CFO
We are trying to reduce the churn a little bit I think and it's working. The levers that we're pulling with regard to incentives and so forth are resulting in customers staying, customers not shopping the deal as much and really needing storage and willing to pay the long-term rates.

<Q>: Then just with regard to the additions to your property management platform recently, can you talk about sort of overall your efforts to market your management services? How proactive are you being to add properties to the platform and how do you see that growing in coming years?

Paul Powell – EVP, Real Estate Investment
We, our team, our Uncle Bob management team is out on the road pretty frequently. They attend all the state association shows and the national shows. They are doing a lot of cold calling. As we have said in the past, we are very selective on who we bring into our management just because we're looking for these to be acquisition opportunities down the road. Currently we have 23 properties under third party and then recently we've just contracted with two developments that should open up pretty soon, where we'll take over management ….

We're seeing a lot of enquiries regarding that type of management, whereby a developer or an owner opens up a property is looking for management day one. So those things have been ticking up quite a bit recently. The majority of our traffic is through the trade shows that we attend. So, we think there is going to be a lot more of that as development comes online. We're still fairly aggressive. Again, our team is on the road constantly, and we think there will be some good opportunities going into 2014.

<Q>: Is there a difference in the management fee structure on the newly developed properties versus the stabilized assets that you take under management?

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Paul Powell – EVP, Real Estate Investment
Not really. We do have a minimum that we require. That is negotiable depending on if it's a portfolio or if it's just one property, but typically, we require the 6% management fee and pass through some of the expenses through for our call center and for our internet presence and so forth. That is pretty much standard. There is some negotiation here and there, but that is de minimis.

David Rogers – CEO
What you might be asking, Christy, is on the lease up loans from zero to stabilization, we do get a minimum fee of 2500 or so a month, $2500 a month. So it's 6% on no dollars is a pretty rough way to operate a management company. We do get the minimum until the property is stabilized.

Operator
Our next question is from the line of Jana Galan, Bank of America Merill Lynch.

<Q>: I was wanting to follow up on the Westy Self Storage transaction and why choosing that structure of a triple net lease versus buying the properties outright. And then maybe if you can give us kind of estimated range of where the cap rates would look like with your management in '15 or '16?

Paul Powell – EVP, Real Estate Investment
Yes, it is a triple net lease that we signed just a few days ago. Our option period opens up in February 2015. We expect the NOI year one, going into 2014 to be somewhere between 700,000 to 725,000, 7 million to 725,000. Based on the $120 million option price that cap rate should be north of 6, probably the low 6 range and then we expect that to grow 50 basis points to 100 basis points out the next two years or so. We feel like it's a very good opportunity for us.

Andrew Gregoire – CFO
The net structure was driven by the tax situation of the owner at the time.

<Q>: Then kind of given the heightened activity and your pipeline probably being larger than you've seen in a while, how are you thinking about funding future deals?

Andrew Gregoire – CFO
We are going to continue to be aggressive with the ATM and match fund those acquisitions. We're keeping our balance sheet very nimble. Pay down that line of credit when we can, make sure we have the ability to take on those big acquisitions if they come along. We wouldn't fund a large acquisition, 100 plus million with an ATM, we'd do a traditional offering, but right now we're just going to be nimble and take these one-off deals and fund them with the ATM, match fund with the ATM and borrowings on our line of credit.

David Rogers – CEO
We have a total capacity on the line, Jana, of a quarter billion. We have drawn 49 million at the end of the quarter. There is quite a bit of capacity on the line, and I think our leverage ratio is basically doing what Andy said; keeping us nimble, flexible, and with a lot of fire power at hand.

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Andrew Gregoire – CFO
And the ATM has 90 million still on the current ATM program.

Operator
Our next question is from the line of Brandon Cheatham of SunTrust.

<Q>: When you think about the in place rents that you were able to push this quarter, I guess on a forward looking basis, what percent of the occupancy that you currently hold that you would feel comfortable pushing that forward? Should we expect to see similar ability to increase this in place rent?

Edward Killeen – EVP, Real Estate Management
Well, 9.6% is pretty strong right now as a percent of our customer base receiving increases. I would say that during the low season you're going to see us push down that number quite a bit. It's just heading into the low season overall. Sometimes it's not worth the risk for a potential move out, for those customers who may sort of fall into that grey area, and we are not 100% sure that they can be back filled. If they are paying near the asking rate, we're not going to get too pushy with the in place increases. We will, however, see that the rent increase average will sit between 8.5% and 9.5%. Those that do receive increases will receive, you know, hefty increases.

<Q>: Then on the property taxes comp you're expecting to experience in the fourth quarter, is there anything like that going into next year or should that level out at, I think you have about 4.5%, 5%?

Andrew Gregoire – CFO
It should level out next year. If we hit budget what we expect in the fourth quarter, next year should be very level throughout the year. Again, last year we had a little benefit come in the fourth quarter. So, the comparable looks odd, but to 3Q to 4Q, you won't see a bump, a big bump in property taxes, but year-over-year you will. So, next year if we hit budget, if it comes, if the rest of the Florida and Texas come in as we think they will, it should be pretty smooth next year. Again, it would be 4.5% to 5%.

<Q>: Just on the acquisitions you guys are looking at now, can you give us kind of the sense on cap rates on those?

Paul Powell – EVP, Real Estate Investment
Cap rates on what we bought in the third quarter range from about 5% to 7%. So, the Long Island deal's bills were just coming out of lease up. So, our going in cap rates to the two Long Island were around 5, and then the Colorado deal was a low 7 cap. So we expect those again to grow 50 basis points to 100 basis points over the next 12 to 16 months.

David Rogers – CEO
I think important though, Brandon, as we have always done, if you're looking at deals that are in lease up stage, 50%, 60%, 70% occupied, you're going to be talking a very, very low cap rate with opportunity to come. If you're talking stabilized, mature in a very high-end market, you're going to be looking at a 5%, 5.5% maybe for a Class A

property, and then it depends on the deal, it depends on the opportunity, it depends on the market. It's going to be a pretty wide range, I think, and the idea is to underwrite it with all those factors under consideration.

<Q>: So generally your market varies between 5% to 5.5% for something that is Class A stabilized?

Paul Powell – EVP, Real Estate Investment
We feel like there is still some runway left on those deals at that cap rate. Typically, I mean, we were targeting 6 to 7 cap for stabilized assets and core markets for some of the bigger MSAs. We're actually seeing some low 7 caps in some secondary markets that we are looking at but, yes, I think the low 6s and then some more opportunistic will be sub 6 going into 2014.

Operator
Our next question comes from the line of RJ Milligan of Raymond James.

<Q>: So with occupancy now in the 90s, and looking at public storage running their portfolio, at least over the past two quarters closer to 95, just curious what your thoughts are in terms of where you think you can bring peak occupancy within the portfolio, where you want to bring it and how long do you think it will take to get there?

Andrew Gregoire – CFO
We're looking at probably 93, 93.5 next year, 95 is probably a little too high. We're probably not taking the advantage of pushing rates and reducing concessions at 95. Turning away too many customers at 90%, at 95% we'd be turning away a lot more than we want to turn away. So, we want to be more aggressive rate wise and 93%, 93.5% is probably where we would max out. We hope to get there somewhere in the next season.

Edward Killeen – EVP, Real Estate Management
RJ, we're always concerned about the store occupancy for the overall portfolio occupancy, but really each store has its own particular balance at any time between the asking rates and the occupancy and the concessions, and that's going to vary micro level. So it all washes out and produces results at the end of the quarter but we would love to get 94%, but if it doesn't make sense that's not where we're going.

<Q>: Just curious, we haven't heard of a lot of new supply coming into the markets, just curious what you're seeing. Obviously there is a lot of talk about people wanting to develop, but as some of the peers have said, we haven't seen a whole lot go into the ground. I am just curious, in your specific markets, if you're seeing anything, hearing anything, anything that's concerning with you on the supply side?

Paul Powell – EVP, Real Estate Investment
Yes, there is certainly a lot of talk throughout the industry of new construction. Again, as I mentioned earlier, at the trade shows that we attend regarding the traffic is people coming up, talking about new development. They're mostly secondary markets. I think where you'll see the new supply or some of the bigger MSAs, or core markets, I think that will not be an issue, though, until mid 2015. In our markets, based on our

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research, we've got about 31 properties in immediate trade that are coming out of ground, and in the market in general there's another 26. So, we're tracking about 57 properties that would compete with us possibly over the next two or three years.

Again, that's very small compared to historical development pipeline in the early 2000s. We're still not that concerned, although I think as the economy continues to improve, and interest rates stay low, I think certainly a lot of this talk will turn into development, but we're just not that concerned at the moment.

Operator
Our next question is from the line of Ross Nussbaum from UBS.

<Q>: I hope you can clear up some confusion for me, so I looked at your realized rent growth of 3.6% this quarter. I looked at what it was in the second quarter and I think it was right around the same level, yet you talked about asking rents being up, I think it was 1.7% sequentially from Q2. Now running up 8% year-over-year, concessions are down, you're pushing existing customer rents more. I guess I'm confused as to why all of that didn't result in a more meaningful tick up in realized rent growth in the third quarter.

Andrew Gregoire – CFO
I think the biggest factor is that concession pull back. This was a tough comparable this quarter concession wise pull back. We had like a $600,000 reduction in total concessions. That was over $1 million last quarter. It was over a million dollars in the quarter before that. So that's the piece where you dropped off like that concession savings reduced by about half a million dollars, but that was the biggest driver of that number, and why it might have surprised you.

<Q>: As I look ahead here given where you're asking rents are, given what you're doing in place, if you didn't change those numbers over the next few quarters, should we all expect that that realized rent growth should continue to accelerate higher?

Andrew Gregoire – CFO
Yes, we would think that would continue to accelerate. We still have a couple of more quarters in concessions, about probably equal to what we did this quarter reduction. We think we have two of those left and the other drivers of rate will begin to show up, and you should see that 3.6 creep up.

<Q>: Does it creep up to—when we're having this conversation a year from now, does that number creep up to 5%? It's not going to get to the 8% that you're getting on asking rents, right?

Andrew Gregoire – CFO
Correct. Somewhere in the 4.5%, 5%.

<Q>: Second question is you guys have about 25% of your properties that are not in the same-store pool, can you give us a sense for how much the NOI has increased on those, at least for the ones that you have owned for about a year on a percentage basis, I mean—

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Andrew Gregoire – CFO
Those stores, they are about 80% occupied. The group that we bought in 2012 that is not in the same store pool is about 80% occupied. There is a lot of room to grow those stores yet. How much have they grown? In 2013 I think they've grown from 70% to 80%, so they have we figure another 10% to go on 2012 acquisitions.

David Rogers – CEO
Now, there is 55 stores that are in the JV pool that we don't report in our company's …, and those have done on balance as well, perhaps a shade better, depending on the quarter, but on balance about the same as ours over the last six or seven quarters. So that 55 stores, Ross, in that two JVs that are tracking our quarter. And then as Andy says the new stuff is a little more opportunistic than the mature portfolio we report on.

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

<Q>: Just a couple of follow-ups, I guess, on the Westy, the deal structure, is that something that you're discussing with other sellers, something that you'd be interested in doing more of?

Paul Powell – EVP, Real Estate Investment
No, this was a unique opportunity. We built a relationship with one of the owners of the Westy portfolio, and based on some tax issues on his side we wanted to tie this up; we didn't want to wait for his tax issue to work itself out. So, we suggested the lease scenario, which worked for him, it's a triple net lease. I mean it's certainly an opportunity we can or structure we could bring up going forward, but we're not in any current discussions with any other sellers at this point.

<Q>: Then Andy, can you just explain how this will flow through the P&L? I mean is this simply, you're going to collect all the operating income and expenses, and then just have a $6 million new line for a sort of lease payment, lease rent expense?

Andrew Gregoire – CFO
That is correct, Todd, and we operate them as Uncle Bobs, we take all the revenue, pay all expenses, the $6 million lease payment, it is a little unusual for GAAP purposes because it has escalators in it. We have to straight line that rent. So a GAAP expense we're going to have to show some $8 million a year. So actually from a GAAP point of view, it will be dilutive, but we'll have a street line rent adjustment to add back that $2 million of extra expense that we have to report for GAAP, because on a cash basis it will only be $6 million of rent expense.

<Q>: So year one your expectation is that it will be a positive cash flow of about 1.2 million if I heard you right.

Andrew Gregoire – CFO
Correct.

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<Q>: I may have missed it, but did you give an update on where occupancy was at the end of October?

Andrew Gregoire – CFO
At the end of October we were at 89.7%.

<Q>: Where does that stand year-over-year?

Andrew Gregoire – CFO
It was 87.9% at the end of October, so pretty typical seasonality.

<Q>: Then just lastly you talked about sort of culling the portfolio a bit more in terms of selling some properties. I was just wondering what we might expect in terms of the magnitude of these sales over the next 12 months or so; how much are you looking to dispose of?

Paul Powell – EVP, Real Estate Investment
We have got a couple of other properties that we're discussing with potential buyers. But at that point that's all we have. We do, on an annual basis, review our portfolio, and there could be other opportunities, or other disposition candidates going into 2014, but there is nothing at this point.

Andrew Gregoire – CFO
And those three, Todd, were probably less than $10 million total sales price for those three.

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

<Q>: I guess over time it seems like you guys have been able to move into higher demographic regions and I was wondering if you have any evidence or how you track the demographics of your customers?

David Rogers – CEO
It was not that I expected. Yes, the demographics of our customers, it's really tough. It's not like you can do in the apartment game where you get credit ratings and then financial histories and so forth from your tenants, ours is show a credit card and proof of who you are and you're in. We have to rely pretty much on the studies done by the industry. There was a recent one that just came out by the Self Storage Association, pretty well done actually. Had a large sample and it was very I think statistically valid, and they essentially come back and say that the typical customer is—I think this time around it was 54% of Self Storage customers, not business, but residential customers, 54% of those folks had household income of less than $50,000.

So, when you say that the income demographics—certainly population demographics are important. Income demographics we are not so convinced of at all. I mean certainly you're going to see it in Alexandria, Virginia, for example, or right in Boston, Mass. You're going to be able to charge higher rents because it's a higher rent neighborhood. But the fact that you've got people in a typical storage facility, the income factor or the income component of the demographic study we do is way down on the scale in terms of importance.

I think way more important is the number of households in the five mile plus radius. A lot of people measure three miles. Our study shows that much of our traffic has nothing to do with three mile radius. It's from points farther than that. We look pretty much at the five-mile radius in terms of density, but income is not a big factor.

<Q>: Maybe a related question is, as you think about branding and Uncle Bob's image, you know, have you now done any focus groups or kind of understand the presence of Uncle Bob in the market, and maybe another way to say it is Uncle Bob kind of the right guy to lead you to the next level?

Edward Killeen – EVP, Real Estate Management
We like Uncle Bob. We think he is the right guy. Our studies are certainly not scientific. We get a lot of feedback from our area managers, who get feedback from our managers, who are hearing directly from our customers. And while that name, Uncle Bob's, might not necessarily work on Wall Street, it really works on Main Street with our everyday customer. It is very folksy and everybody likes their uncle—usually they like their uncle. And Uncle Bob really plays well with our customer. They feel safe being with Uncle Bob, and storing with Uncle Bob for the name. The name really does play well and we think we'll keep it.

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

<Q>: Dave, I apologize, but I missed your introductory remarks when you were talking about the transaction environment. What do you think is bringing more sellers to market?

David Rogers – CEO
The low cap rates for sure. It's just the talk at the conventions and with brokers, and it's an opportunity. I think we're seeing people who had no interest at all in giving up on the business are selling. Certainly not two years ago, or three years ago when we were just coming out of operators having a rough go of it, but I think Paul will attest to the fact that we're hearing from more people who we thought were locked down and good forever running their own show.

Paul Powell – EVP, Real Estate Investment
I think that going into next year we're still going to see a pretty good influx of opportunity from people that, as Dave mentioned, probably weren't even considering selling at the beginning of the year. I know we've worked on some relationships over the last couple of years that you know we thought at some point they would be sellers, but they're coming out of the woodworks now.

We've got offers on the table for over $400 million right now on about 31 properties. A lot of those are off markets and just relationships we've built and all of a sudden we're seeing these cap rates and then they wanted to go down this road to see if they can sell their properties. So, the low cap rate environment, the low interest rate

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environment is going to create a lot of opportunity going into 2014. Then again, we're going to be somewhat disciplined. We're not going to get overly aggressive on some of these larger portfolios, but I expect we'll see some more of these $100 million plus portfolios come into market.

<Q>: Are you getting any inbound calls from private developers looking for financial partners? Are there opportunities for presale agreement as an example that we're seeing in other sectors.

Paul Powell – EVP, Real Estate Investment
Yes. We're not too interested in that. We're talking with some developers, where we're not financing them but they're going to build and we'll buy their C of O, or take over their management. So, we are not going to be too interested in doing financing. If there is a large JV developer out there that's looking to build a large portfolio that may be something we may do a joint venture with them on. There are a couple of discussions in progress now within that regard, but on one-offs and especially if they are inexperienced developers who don't have a track record we're not going to be too interested in financing their deals.

Operator
Our next question is from the line of Todd Stender with Wells Fargo.

<Q>: Most of my questions have been answered, but just to dig into that Westy portfolio, are the results going to be included in your owned portfolio, are we going to start to see occupancies amongst all your other owned stuff?

Andrew Gregoire – CFO
Yes, it will be included with our own portfolio. It won't be in same-store obviously, but it will be in our own portfolio.

<Q>: I don't know if I missed this, did you give the occupancies and the rent per square foot on those facilities?

Paul Powell – EVP, Real Estate Investment
Yes, they are all fairly highly occupied, averaged around 95%. The in place rents were around $24. Our asking rates are probably close to $25.

<Q>: How about the purchase price, has that already been determined or once you guys get in there, obviously you'll drive results. So theoretically the value would head higher.

Paul Powell – EVP, Real Estate Investment
No, it's a firm price, $120 million. That is our option price.

<Q>: Just lastly, what do you attribute the strong uptick in tenant insurance? Is that something you're driving more of and secondarily do you self-insure?

Andrew Gregoire – CFO

We do not self-insure. We do pass off that risk. We don't like the risk associated with that. Strong hurricanes and some fires and things like that you take a lot of risk when you take it on yourself, so, right now we still pass that off to a third party. We're pushing it hard. I mean, it is an initiative we have internally. We get a big share of those premiums collected. We're requiring our customers to carry insurance and we expect that to continue to grow into 2014 and 2015. We're going to see that continue to creep up.

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

<Q>: Just a couple of quick follow ups, on your acquisitions, … acquisitions or the options you purchased, just curious why the three that you can buy is only one year. And on a straight line basis, it looks like the payment you'll be making to the seller will be a 6.7% yield. So if you don't buy by 2015, isn't there a risk that you might be paying more than you're getting in?

David Rogers – CEO
It is risky. It's one of the things we're going to balance. Had we our druthers, we would have bought it today, and we're accommodating the seller and it's a good negotiation. The whole particulars of it opening the window in 2015, closing the window in 2016, it was all negotiated as part of the package, but given where we are today we would certainly execute the option. That's part of the reason why we're keeping our balance sheet as nimble as it is, and with the capacity we have so that we, when the time comes, we'll have presumably the markets won't crater. There won't be issues. But that would be our intention to purchase as soon as we could because you're right.

Now, one of the reasons we might not is if inflation runs away, and if that's the case, the 4% escalator starting in 2015 might not look so bad. But we don't know, but we're right now, we're keeping our options open. Our intent certainly is to take it down and to acquire it, and that's how it was negotiated.

<Q>: Is it fully at your option or do both parties have to ….

Paul Powell, EVP Real Estate Investment
It's fully in our option, Ki Bin. Actually we're required to give a 90 day notice so we can actually notify the seller in November of 2014 that we are going to exercise our option and hopefully acquire it as early as February of 2015, and it's strictly at our option.

<Q>: I just want to clarify the questions regarding street rates, I think you said street rate at a portfolio level year-over-year are up 8% this quarter. Is that correct?

Edward Killeen – EVP, Real Estate Management
Yes.

<Q>: What was that number last quarter? And when you made the comment that the delta—I'm not sure if you're mentioning in place or street rates, that it was going to

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shrink in the fourth quarter, maybe if you could clarify that if you're referring to street rates, and you know I wasn't sure what figure you were referring to?

Edward Killeen – EVP, Real Estate Management
Well, we don't think we are going to carry that 8% year-over-year right through the low season into the first quarter. We think that will shrink a bit, as Andy said, 4% or 5%. I shouldn't say that, because it probably will stay in 6%, 7% the first few months of the year, but we will see that shrink just a bit, the asking rates. And the last year, I'm not sure what the number was.

<Q>: No, I meant last quarter. Last quarter year-over-year.

Andrew Gregoire – CFO
It was 7% last quarter.

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Operator
Our next question is from the line of Shahzeb Zakaria from Macquarie Group.

<Q>: So going back to development you guys mentioned during the last earnings call that there were 30 assets that were new developments, all recently opened within the trade area of your portfolio and another 29 in the general markets where you operate. How have those figures changed since the last quarter?

Paul Powell, EVP Real Estate Investment
Again, this is based on research we do in the field and it's not an exact science, Shahzeb, but we do this on a quarterly basis and this is the most recent number was 31 in the trade, the immediate trade area, and then another 26 in either being developed or in the planning stage or, you know, we found it on the books within the planning board. So it's a total of 57 between the two.

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

David Rogers – CEO
Well, very good folks, we appreciate your time and interest in our company. We look forward to the dialog going forward and have a good rest of the year. Thank you.

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

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