Precision IR Group

PrecisionIR Group
9011 Arboretum Pkwy
Suite 295
North Chesterfield, VA
23236

Phone: 804-3273400
Fax: 804-327-7554

www.precisionir.com
www.investorcalendar.com
www.companyspotlight.com

Transcript of
Sovran Self Storage
Second Quarter 2014 Earnings Release Conference Call
July 31, 2014

Participants

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

Analysts

Christy McElroy – Citigroup
Todd Thomas – KeyBanc Capital Markets
Ki Bin Kim – Suntrust Robinson Humphrey
Gaurav Mehta – Cantor Fitzgerald
Ross Nussbaum – UBS
Jeremy Metz – UBS

Presentation

Operator
Greetings and welcome to the Sovran Self Storage Second Quarter 2014 Earnings Release conference call. At this time, all participants are in a listen-only mode. A question and answer session will follow the formal presentation. (Operator instructions.) As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Ms. Diane Piegza, Vice President, Corporate Communications for Sovran Self Storage.

Diane Piegza – VP of Corporate Communications
Thank you, Melissa, and good morning everyone. Thank you and thank you for coming to our second quarter 2014 conference call. Leading today's call will be Dave Rogers, Sovran's Chief Executive Officer. Also participating are Andy Gregoire, Chief Financial Officer; Paul Powell, Executive Vice President of Real Estate Investment and Ed Killeen, Executive Vice President of Real Estate Management.

Our earnings release was issued yesterday aftermarket. If you did not receive a copy, please visit our website unclebobs.com. As a reminder, the following discussion and answers to your questions contain forward-looking statements. Sovran's actual results may differ substantially from those projected due to risks and uncertainties with the company's business. Additional information concerning these factors is included in the company's latest SEC filings.

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

PrecisionIR Group
9011 Arboretum Pkwy
Suite 295
North Chesterfield, VA
23236

Phone: 804-3273400
Fax: 804-327-7554

www.precisionir.com
www.investorcalendar.com
www.companyspotlight.com

David Rogers – Chief Executive Officer

Thank you, Diane and good morning everyone. Q2 was another really strong quarter surprising us a bit again to the upside which is always kind of nice, and as we said over and over, we really never know for sure how the year is going to go until we get a feel for call volume and rate push at the start of the busy season.

Well, this year's busy season is for real and it's provided us with the opportunity to deliver higher occupancies and increasing rental rates. Andy will give the details, but this second quarter has positioned us to have far and away our best year ever.

We are happy with our acquisition performance as well. Through June, we have acquired twenty-three stores for our own portfolio at a cost of $190 million and three for one of our joint ventures totaling $34 million.

All of the stores are in markets we already play in and while they weren't inexpensive we love the fact that they all have great upside potential. We acquired one additional store after quarter's end for about $12 million and are in negotiations for quite a few more as we speak. It's a remarkably competitive environment with a lot of players willing and able to pay big for quality properties in quality markets. At the risk of being a bit redundant, I'll update our thoughts on the industry.

Demand continues to trend up. New supply will be coming to some markets, but most of it appears to be demand-driven and pretty sensibly thought out. We expect the impact on us and the industry to be de minimis at least for the next couple of years.

More than ever, we believe the bigger operators with a scale to afford and run an integrated set of marketing, RMS, and customer service platforms should win an outside share of the market. I'll say it again. Times are good, and we expect that to continue.

With that, I'll let Andy take over the details of the quarter.

Andrew Gregoire – Chief Financial Officer

Thanks, Dave. Last night we reported same-store revenues increased 8.6% over those of the second quarter of 2013. The growth was the result of a 270 basis points increase in average occupancy and a 4.4% increase in rental rates. Same-store occupancy increased as expected and was 91.8% at June 30th. Tenant insurance income for the same-store pool continued to show strong growth increasing almost $500,000 in the second quarter of 2014 as compared to the same period in 2013.

Total property operating expenses on a same-store basis increased by 5.7% primarily as a result of increased repairs and maintenance expenses that were delayed from Q1's harsh weather. Also as expected property taxes showed a double-digit increase for the quarter.

In regard to property taxes, we expect same-store growth in 3Q and 4Q of 2014 to be in the 5% to 6% range lower than the 11% to 12% experienced in the first half of 2014. This is due to the fact that in 3Q and 4Q of 2013, we began to experience property tax increases and therefore the comparable results are a lower percentage increase, although dollars in Q3 and Q4 should be similar to what we saw in Q2.

Same-store net operating income increased 10% for the quarter. We again have included in our release some additional data on previous same-store pools to give our investors more color as to the performance of our maturing stores.

PrecisionIR Group
9011 Arboretum Pkwy
Suite 295
North Chesterfield, VA
23236

Phone: 804-3273400
Fax: 804-327-7554

www.precisionir.com
www.investorcalendar.com
www.companyspotlight.com

G&A costs were $1.4 million higher this quarter over that of the previous year. Aside from an increase of a $161,000 in internet advertising, the main reasons for the increase were the fact that we operated 40 more stores at the end of this quarter as compared to January 1, 2013, our continued investments in revenue management and incentive compensation.

Offsetting a portion of the overhead costs was an increase of approximately $230,000 in third-party management and acquisition fees earned this quarter. From a balance sheet perspective, we finished the quarter in a solid position.

During the quarter, we issued 250,000 common shares through our ATM program resulting in net proceeds of $19 million. And issued a $175 million, 10 year fixed rate term note to fund the acquisition of our 16 stores and to pay down the balance on our line of credit. At June 30, we had approximately $7 million of cash on hand, $241 million available on our line of credit including its accordion feature and approximately $206 million available on our ATM program.

With regard to guidance, we have included in our release the expected ranges of revenues and expenses for the third quarter and the entire year. Same-store revenue growth for Q3 should be in the 6.5% to 7.5% range and NOI around 8.5% to 9.5% for the quarter.

The expenses outside of property taxes should increase between 2.5% and 3.5% and property taxes for the quarter are expected to increase 5% to 6%. Our guidance assumes an additional $50 million of acquisitions weighted equally over the next 6 months. We have not included in guidance the related acquisition costs incurred to date or that could occur in the future. As a result of the above assumptions, we are increasing guidance and are forecasting funds from operations for the full year 2014 at between $4.32 and $4.36 per share and between $1.14 and $1.16 per share for the third quarter of 2014.

With that Melissa, we will open the call for questions.

Operator
(Operator instructions.) Our first question comes from the line of Christy McElroy with Citigroup.

<Q>: In looking at your realized rent, realized rent for occupied square foot growth here at 4.4% year-over-year today on a same-store basis, between existing customer rent growth, street rent growth and changes in discounting, can you sort of breakdown that number in terms of what had been the biggest drivers behind the 4.4% and maybe in each of those factors can you talk a little bit about what happened with them during the quarter?

Andrew Gregoire – Chief Financial Officer
The street rates, Christy, were the biggest driver of that growth. Probably, 0.5% of that comes from in-place customer increases, we are still very strategic on how we do that when we push that current customer, we think what we do works very well. The system that was built that our analysts work with to push those customers or those current customer increases is producing the results we expect it to produce. Probably a little more conservative than some others in the industry, but it's a top line…it's all about maximizing revenue and we believe what we do does maximize revenue but the street rate is really the story. At June 30th, our street rates were up 9.3% over last June 30th. So that's where most of the growth is coming from. Yes, we would expect

PrecisionIR Group
9011 Arboretum Pkwy
Suite 295
North Chesterfield, VA
23236

Phone: 804-3273400
Fax: 804-327-7554

www.precisionir.com
www.investorcalendar.com
www.companyspotlight.com

that to come down as occupancy comes down in the slower season of the year, but the street rate is really where it's coming from.

<Q>: So when you are pushing street, by that much you are not seeing a consequential impact on move-ins at this point?

Andrew Gregoire – Chief Financial Officer
At this occupancy level, yes, it does, we turned away more people this quarter than we did last year for a couple of reasons. We didn't have the space available for them and sometimes they said our price was too high. But that's okay when you have one left, we want to get that next call that's going to pay us that extra 9%, the call that we turned away. So we are comfortable. It does cause some people to turn away because the price is too high, but that's by design and to maximize revenue we think it's the right thing to do.

<Q>: Then looking at occupancy, you are at 91.8% at quarter end, a record high for your company. Given that you, you probably have some visibility here for the rest of the summer, where do you think you could peak out in Q3? And in your sort of own philosophy on revenue management, where do you see that optimal level of occupancy for your portfolio as it stands today?

Ed Killeen – Executive Vice President of Real Estate Management
Christy, I don't know. I don't know, if we really ever look at an optimal occupancy level, it all depends on what the revenue management system will give to us and all the other metrics are probably the more important pieces whether it's the in-place rents, the discounting, the asking rates. Our guess is right now, we'll probably land somewhere around—end July, we are at 92.3. I don't think we are going to grow that much more and that will taper down at the gap from last year is going to shrink a bit, but we don't see shrinking too much but I can't see pushing 93%. I don't think we are going to grow for the next three, four weeks; it will just taper down a little bit.

<Q>: Then just lastly, Andy, I think you talked a little bit about expense comps in the second half. You've been able to hold same-store revenue growth fairly steady in the mid-8% range over the last two quarters but your guidance suggests a decline in that growth rate. Is it effectively just that decline and the year-over-year occupancy delta where realized rent growth is expected to hold steady?

Andrew Gregoire – Chief Financial Officer
Yes, if rates can stick as high they are now, that may be conservative, but, yes, we are expecting that the delta gets very tough on the occupancy side.

David Rogers – Chief Executive Officer
Plus, Christy, we've had last year's Q3 over 2012's Q3 was pretty remarkable and it makes for a tougher comp each time and the Q3 seems to be a real bell weather.

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

<Q>: Question about discounting in the quarter. I was just wondering if you can share with us the amount of free rent that was given during the quarter and then how much more you think you can dial back on free rent going forward, maybe if you can give us that on a year-over-year basis that would be helpful.

PrecisionIR Group
9011 Arboretum Pkwy
Suite 295
North Chesterfield, VA
23236

Phone: 804-3273400
Fax: 804-327-7554

www.precisionir.com
www.investorcalendar.com
www.companyspotlight.com

Ed Killeen – Executive Vice President of Real Estate Management
Well, we are down about $580,000 about 40% in discounts year-over-year and 46% from the previous year. I don't know, as we said on our last meeting, I don't know if we can burn off much more than that. It might shrink to just a touch more but being down 40%, $580,000, and I think we are at what our discount was $850,000. It's not going to shrink much more than that.

<Q>: Then, as you talked about occupancy being sort of at a peakish level during the peak leasing season. As the strong leasing season winds down, I was just curious if you could share with us how you are thinking about pricing and occupancy into the back half of the year. What's the company's strategy like with regard to pricing and rent increases given where occupancy is today?

Andrew Gregoire – Chief Financial Officer
Todd, I think it really comes down to maximizing revenue and I think the delta in occupancy will shrink some probably in the 150% to 200% range for the rest of the year. So, rates are the driver and we expect that will remain strong for the rest of the year.

<Q>: Then just last question, on acquisitions, I know that you mentioned there is $50 million of additional acquisitions sort of embedded in guidance. And if you do that additional $50 million, $250 million for the year it's a solid number obviously if you get those deals done. But, the pipeline appears to sort of be thinning a bit, is that a fair assessment and maybe you could just talk a little bit about what you are seeing out there today?

Paul Powell – Executive Vice President of Real Estate Investment
Right now, our guidance is showing $50 million for the second half of the year and currently under considerations about $63 million that we are looking at right now. The pipeline has thinned somewhat mainly due to the quality of properties we are seeing out there. I expect at the end of the summer, we'll see some better quality and even maybe some bigger portfolios come into market. I expect we'll do about $100 million more in the second quarter, if these that we are looking at now come to fruition. So, but it should pick up later at least in the fourth quarter going into 2015 I would think.

David Rogers – Chief Executive Officer
It's always hard to give guidance Todd, and we've always shied away from it certainly as we get deeper into the year and then stuff that we don't even have under contract, yet, if we do pull it in, it's going to have a de minimis effect on certainly the FFO for the year and so forth. But just to say we are guiding at $50 million doesn't mean we are not looking at a whole bunch of stuff, it's just that's the number we picked for the balance of the year.

<Q>: So, $63 million is what you are sort of evaluating today, but, and you've assumed $50 million of that closes and then obviously there is like a pipeline behind that you are looking at, is that right?

David Rogers – Chief Executive Officer
That's correct.

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

PrecisionIR Group
9011 Arboretum Pkwy
Suite 295
North Chesterfield, VA
23236

Phone: 804-3273400
Fax: 804-327-7554

www.precisionir.com
www.investorcalendar.com
www.companyspotlight.com

<Q>: Just want to clarify one quick comment, when you say street rates were up 9.3%, was that a 2Q average number or end of 2Q or a July number?

Ed Killeen – Executive Vice President of Real Estate Management
That was end of June that 9.3%, our asking rate at the end of June. We're at 9.3%, over last year, end June.

<Q>: I know, someone already asked this question, but your guidance does seem to imply some sort of deceleration. How much of that is just a pure occupancy number that mathematically is as hard to get again versus you guys being a little conservative on street rate growth for the second half?

Andrew Gregoire – Chief Financial Officer
I think part of it is the occupancy, Ki Bin, the 150 basis points is the average delta we can maintain for the rest of the year. So it's just tough comps on the occupancy side. Rates are a wild card and they've surprised us for the first half, we'll see what happens in the second half.

<Q>: I see, and it seems like, I am not sure if we guys have looked at some of the CMBS related self-storage deals that are coming to maturity in 2015 and 2016 and it seems like it's quite a bit maybe close to $5 billion? And it doesn't necessarily prompt sales, but have you guys proactively approached some of these, so three or four owners of these properties?

David Rogers – Chief Executive Officer
There was a similar bubble, Ki Bin, about five years ago and we all thought it was going to be a great opportunity and some of them went down the pretended expend route and some of them just were able to—the quality properties were able to refi. So certainly, we know a lot of them, we keep in touch, both we and our folks over at Locke Group keep in touch with a lot of sellers of the properties that we're interested in. So, yes, certainly you don't want to have those guys lock up on another 7 to 10 years if you are interested in the property, but I don't think it's going to be a great boon to acquisitions. We thought it would be five years ago; it wasn't and this is seller-by-seller.

<Q>: I heard in Texas, there seems to be a lot of deals that people are talking about and maybe some are closer to actually breaking ground on new supply and in Houston especially. I was wondering if you guys have an updated view that you can share with us.

Paul Powell – Executive Vice President of Real Estate Investment
Yes, Ki Bin, in our second quarter survey that we do by our area managers, they're showing only about 55 either recently opened or in construction or some form of entitlement process going on and actually the majority—the most in any one state is in Texas and it is Houston. Houston, it's easy to build; there's still a lot of land, lot of growth going out there, a lot of net migration, positive net migration to that state.

So, yes, we are seeing a little bit of an uptick in development out there. We are still not that concerned at this point. We think going into 2016 second half, we may see some of these deals that we are hearing about actually open, but at this point, we are not too concerned.

<Q>: And was that 55 under development? What was that number like last year, just as a point of reference?

Paul Powell – Executive Vice President of Real Estate Investment
I don't have it in front me, but I believe it was between 35 and 40 if I remember correctly.

David Rogers – Chief Executive Officer
This is all of our markets, Ki Bin, within the trade area of our stores nationally. Do you have Houston's number?

Paul Powell – Executive Vice President of Real Estate Investment
I don't have it broken out, we just show 11 in Texas.

David Rogers – Chief Executive Officer
Eleven in Texas, okay.

Operator
Our next question comes from the line of Gaurav Mehta with Cantor Fitzgerald.

<Q>: A couple of questions on the expenses. I think in your prepared remarks, you said that part of the uptick in G&A was driven by internet advertising and RMS. Could you provide any more details on that expanding and what kind of impact are you seeing on your operations as a result of that?

David Rogers – Chief Executive Officer
Do you have the number?

Andrew Gregoire – Chief Financial Officer
Yes, the internet spend was up mostly in the first half of 2Q we could pull back as occupancies grew, so we could pull back some of that spend and you will see that spend become more in line in 3Q compared to last year. But it's really, it's just strategic where we place our ads.

Ed Killeen – Executive Vice President of Real Estate Management
Gaurav, most of that spend is in paid search and we are spending a lot more time and effort in optimizing that paid search. So that's where you see the biggest difference.

<Q>: Then on the operating expense growth side, as you think about the expenses over next few years, when do you expect that to level off from the current run rate of 5% to 6%?

Andrew Gregoire – Chief Financial Officer
Yeah, I think really when property taxes come back in line, which we think this year is probably going to be the worst year for us from a same-store point of view and once those come back in line, a longer term range, maybe somewhere on a 5% then you'll see our overall growth in total expenses be in that 3.5% to 4.5%.

<Q>: Last question I have is on transactions. Are you currently seeing any deals in the market that are currently under construction or starting to get occupancy deals and out of the 19 assets that you acquired in 2Q were there any assets with potential lease ups?

Andrew Gregoire – Chief Financial Officer
Yes, Gaurav, we did purchase in the second quarter one CO deal in Chicago. The $63 million that we are looking at right now, three of those are potential CO deals, one of them or actually two of them probably would not open until 2015.

PrecisionIR Group
9011 Arboretum Pkwy
Suite 295
North Chesterfield, VA
23236

Phone: 804-3273400
Fax: 804-327-7554

www.precisionir.com
www.investorcalendar.com
www.companyspotlight.com

PrecisionIR Group
9011 Arboretum Pkwy
Suite 295
North Chesterfield, VA
23236

Phone: 804-3273400
Fax: 804-327-7554

www.precisionir.com
www.investorcalendar.com
www.companyspotlight.com

Operator
(Operator instructions.) Our next question comes from the line of Jeremy Metz with UBS.

<Q>: It's actually Ross Nussbaum here with Jeremy. Following up on that last question, what stabilized yields are you underwriting to on these CO development acquisitions?

Paul Powell – Executive Vice President of Real Estate Investment
Ross, we are looking at lease-up periods of anywhere from three to four years. At stabilizations we look for around a 9% cap, depending on which market we are looking in. We kind of base it on if we were going to buy a property in that market today, let's say it's a 6% cap or a 6.5% cap, at stabilization we like to have a 3% spread there. Our models are showing a 9% to 9.5% cap at stabilization.

<Q>: And same question on stabilized properties, where do you think the market, or let's talk about what is the market in your view underwriting to on stabilized acquisitions at institutional quality properties, and what are you guys targeting on the deals that you are winning?

Paul Powell – Executive Vice President of Real Estate Investment
Well, as an overall cap rate average for the 16 we bought in the second quarter, trailing cap rate was around 5.7% and we are expecting year one growth another 40 or 50 basis points to about a 6.3% or 6.4% cap. And then we expect the second year to be another 50 basis points. So, for core deals, and in core markets, that cap rate is going to be at 6% and possible below 6%, but we do hope to grow those things 40, 50 basis points in the first year and then another 40, 50 in the second year.

<Q>: Are those stabilized from an occupancy perspective or are these deals at somewhere in the 80s?

Paul Powell – Executive Vice President of Real Estate Investment
Excluding the CO deal, the occupancies of the 16 we bought was about 82%. So there was some upside, but that is kind of skewed by a portfolio that we bought that had little occupancy.

<Q>: So you are really still shooting for, call it a stabilized deal that hopefully is close to 7% as you can get, is that a reasonable way to think about it?

Paul Powell – Executive Vice President of Real Estate Investment
That's correct.

<Q>: The other question I had is, is a little more of a clarification on the asking rents. I believe you guys said you did 9.3% is where street rents were on June 30th. I just want to make sure we are not getting, perhaps a little overly optimistic on that number, because if I go back to the second quarter of last year, and correct me if these numbers aren't right. But I am showing that your street rents running up about 7.5% as of the end of the second quarter of 2013 and then by the end of third quarter of 2013, your street rents were only up 1.7%. So, I just want to sort of dive in to say, is that 9.3% number you are doing at June 30th, I mean is that a very sort of peak of the season, peak occupancy kinds of ambitious rent growth number and we should expect that asking street rate growth will diminish as we enter the back half of the year?

PrecisionIR Group
9011 Arboretum Pkwy
Suite 295
North Chesterfield, VA
23236

Phone: 804-3273400
Fax: 804-327-7554

www.precisionir.com
www.investorcalendar.com
www.companyspotlight.com

Ed Killeen – Executive Vice President of Real Estate Management
Ross, we will see that diminish in the back half of the year and that is certainly peak. I mean we climbed there from April when we are at 6.2% in asking and May it was at 8% and in June, it was 9.3%. So, yes, that is certainly a peak number. You are going to see that delta shrink as we climb in the middle of third quarter and fourth quarter.

<Q>: And based on, I know, June is ending today, have you already backed that number down in, starting in July?

Ed Killeen – Executive Vice President of Real Estate Management
It's backed down just a touch.

<Q>: So to really ask you the summer swing that you start backing off on it.

Paul Powell – Executive Vice President of Real Estate Investment
Absolutely, yes.

<Q>: I think Jeremy Metz had a question as well. Jeremy: I was just wondering, can you just talk a little bit about your penetration rate on tenant insurance and just how much more room to go? Or how much more room there is to go there as you are obviously – it's been benefiting your results?

Ed Killeen – Executive Vice President of Real Estate Management
Well, Jeremy, we were up a point in penetration rates for this quarter year-over-year and we don't know if there is that much more room. I mean, you've got to take in account the churn and delinquents and students and I think it's a pretty good number where we are at right now 58.8%, and we don't see it going much higher than that at this point.

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

David Rogers – Chief Executive Officer
Thank you everyone for participating in our call. We look forward to talking to you again early November and then perhaps meeting many of you at NAREIT. In the meantime, have a great summer. Thank you.

Operator
This concludes today's teleconference. You may disconnect your lines at this time and have a wonderful day. We thank you for your participation.