

***Transcript of***  
***Sovran Self Storage***  
**Third Quarter 2015 Earnings Release Conference Call**  
**October 29, 2015 - Edited**

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## **Participants**

Diane Piegza – Vice President, Investor Relations  
Dave Rogers - Chief Executive Officer  
Andy Gregoire - Chief Financial Officer  
Paul Powell – Chief Investment Officer  
Ed Killeen – Chief Operating Officer

## **Analysts**

Todd Thomas - KeyBanc Capital Markets  
Jeremy Metz - UBS  
Gaurav Mehta - Cantor Fitzgerald  
Jana Galan - Bank of America Merrill Lynch  
Ki Bin Kim - SunTrust  
John Pawlowski - Green Street Advisors  
George Hogle - Jefferies

## **Presentation**

### **Operator**

Greetings and welcome to the Sovran Self Storage Third Quarter 2015 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 Diane Piegza, Vice President of Investor Relations. Thank you, you may begin.

### **Diane Piegza – Vice President, Investor Relations**

Thank you, Rob, and good morning, everyone. Welcome to our third quarter 2015 conference call. Leading today's call will be Dave Rogers, our Chief Executive Officer. Also participating are Andy Gregoire, Chief Financial Officer; Paul Powell, Chief Investment Officer; and Ed Killeen, our Chief Operating Officer.

As a reminder, the following discussion and answers to your questions contain forward-looking statements. Our actual results may differ 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 will turn the call over to Dave.

### **Dave Rogers - Chief Executive Officer**

Thanks, Diane. Good morning, all. With regard to company's performance this quarter, it was really good. Against last year's tough Q3 comp, we again achieved our highest ever occupancies, our highest rates per square foot, our highest NOI. Andy will provide the details in a few minutes.

We bought \$65 million worth of property the way we like to buy it, good stores and good markets where we have a strong presence with the ability to apply our technology and our management to drive big upsides to those purchases. We remain active in the acquisition arena with opportunities coming up to buy some high quality established stores as well as the number of great C of O deals.

With regard to the Self-Storage sector at large, a good analogy of the current conditions might be Led Zeppelin's the song remains the same because the same unit supply exists in most markets, the same power and the scale in branding power of the large operators exists, and the same continued steady uptick in demand continues.

So fundamentals are strong, our company is in great shape and I think the rest of 2015 and 2016 are going to be great.

Andy, why don't you give us some details?

**Andy Gregoire - Chief Financial Officer**

Thanks, Dave. Last night we reported same store revenues increased 6.5% over those of the third quarter of 2014. This was a nice acceleration from the 5.7% in Q1 and the 5.8% in Q2 same-store revenue growth and shows the continued strength of our platforms and the sector. The drivers behind the revenue growth were an 80 basis point increase in average occupancy and a 5.1% increase in rental rates. Same store occupancy increased to 91.4% at September 30<sup>th</sup>. Tenant insurance income for the same store pool continued to show double digit growth, increasing 12.8% in the third quarter of 2015 as compared to the same period in '14.

Total property operating expenses continued to be well controlled, increasing only 2.6% on a same store basis, primarily as a result of increased payroll and related benefits, real estate taxes and internet marketing. Same store net operating income increased 8.4% for the quarter which was an acceleration from the 7.8% experienced in Q2.

Our revenue growth, controlled expenses and the performance of our acquisitions led to a strong 12.8% increase in adjusted FFO per share. We have included summary information for our same store pool by both market and by state to provide additional color on not only our largest market, Houston, but all of our major markets.

In regards to Houston, as we stated over the past few quarters, we believe our scale and platforms will reduce any adverse impact of lower oil prices on our properties there. Once again our results have borne this out with same store revenue and NOI experiencing increases of 6.9% and 9.2% respectively for the quarter compared to the same period in 2014.

G&A costs were \$656,000 higher this quarter over that of the previous year. The main reasons for the increase were higher taxes on our taxable REIT subsidiary, additional legal fees related to a lawsuit in New Jersey and the fact that we operated more stores at the end of this quarter as compared to last year's third quarter. Offsetting the impact of the increased overhead, costs were a \$325,000 increase in third-party management fees earned this quarter.

Regarding properties, Dave mentioned the 11 stores we purchased during the quarter for approximately \$66 million. The stores were mature properties in Syracuse, New York and North and South Carolina. We have continued to maintain our conservative balance sheet. During the quarter we issued approximately 300,000 common shares through our ATM at an average price of \$96.13 per share, resulting in net proceeds of \$28.5 million which were used to fund a portion of the 11 stores acquired.

At September 30<sup>th</sup>, we had approximately \$6.1 million of cash on hand, \$186 million available on our line of credit and approximately \$104 million available under the ATM program.

With regard to guidance, same store revenue growth for Q4 should be in the 6.25% to 6.75% range and NOI around 6.5% to 7.5% for the quarter. Expenses outside of property taxes should increase between 2% and 3%. Property taxes for the quarter are expected to increase between 14% and 15% as a result of a benefit that we recorded in the fourth quarter of 2014, making for a tough quarterly comparison.

On a sequential basis, we expect same store property taxes in Q4 to be similar to Q3 in total dollars and continue to expect same store property tax growth for the year to be in the 5% to 6% range. We expect full year revenues to grow between 5.75% and 6.75% over 2014 and NOI to increase 7% to 8%. Our guidance assumes no additional accretive acquisitions in 2015. We've not included in the guidance any related acquisition costs incurred to date or could occur or that could occur in the future.

As a result of the above assumptions, we are increasing our forecast of adjusted funds from operations for the full year 2015 to between \$4.91 and \$4.93 per share and between the \$1.26 and the \$1.28 per share for the fourth quarter of 2015.

And with that, Rob, we will open the call for questions.

**Operator**

(Operator instructions.) Our first question comes from the line of Todd Thomas with KeyBanc Capital Markets. Please proceed with your question.

<Q>: Good morning. My first question, Andy, regarding Houston, you talked about Houston a bit with revenue up 6.9%, but curious, occupancy was lower by 180 basis points year-over-year. So higher rents and lower discounts but lower occupancy and that's different than what you're seeing in most markets right now. Has the demand profile in the Houston MSA changed at all on the margin? And then as you think about maximizing revenue in Houston, is the occupancy versus rate decision different in that market today?

**Andy Gregoire - Chief Financial Officer**

I don't think it's any different. It is a store-by-store process with our revenue management system. I think we felt last year, we were a little ahead of ourselves on occupancy. We thought it was a little bit too high; we're pulling the rate level much harder in Houston right now and reducing that free rent. So I think it's just a way we're maximizing revenue. In occupancy, we don't shoot for an occupancy point; we try to that build that revenue. So it's a combination of those different levers of street rates in place and the free rent that we're pulling that lowered occupancy a little bit, but still very strong at 92 plus.

**Ed Killeen, Chief Operating Officer**

Todd, just something else with our rental rates being at 5.1%, in Houston our rates are actually 7.5%. So things are real strong and they continue to look strong in Houston.

<Q>: Do you expect to see occupancy in the market recovering your portfolio into '16? And also with regard to existing customers, are you increasing rents in that market at the same pace that you are elsewhere in the portfolio?

**Ed Killeen, Chief Operating Officer**

Yes, we certainly are, as far as in place rate increases in Houston, they're not lagging behind any other market. Just to add further to that as far as in place overall 8.3% of our customers received a rent increase versus 4.5% last year and 6.8% the previous quarter. And those in place increases going in remain double digit and the customers are stickier than last quarter, so the rent increases that are going in are real strong and the same goes for Houston.

<Q>: Okay and then a question on guidance just regarding the acquisitions, I think the \$270 million of completed investments that's included in the guidance for the full year that does not include the impact from any properties under contract today. I know that the impact may be minimal throughout the balance of the year. I'm just trying to clarify though the guidance is just that \$275 million that's being completed. Is that correct?

**Andy Gregoire - Chief Financial Officer**

That is correct. What's under contract and I think Paul's going to add some color to this. This is expected to close in January, so we have a due diligent period here and in part to satisfy the current owners request to delay till January.

**Paul Powell - Chief Investment Officer**

Yeah, right, Todd. We've got \$67 million for nine properties under contract and some of those are C of O deals that will open up, one may open up at the end of this year, another in the first quarter of next year and then some of the more operating properties will close in the first quarter and then we have got a couple other C of Os that will go out into 2016.

<Q>: Okay, great. And then just last question, Dave, when you ran through some of the same conditions that you're seeing today versus what you've seen over the last couple of years, you talked about an uptick in demand. What's causing that increase in demand industry-wide? Have the demand drivers of the industry changed in any way, any new sources of demand that you're seeing or were your comments just about something more broad?

**Dave Rogers - Chief Executive Officer**

I think as population grows and most of our markets fortunately are experiencing population growth, that's all it takes. I mean it's such a generic and wide reaching industry that if population grows, we get our commensurate share. But also the usual suspects where we drive into trying to encourage commercial use. We spread our tentacles into different areas of commercial customers and so forth, that helps, too. It isn't anything—tectonic shift here or anything, but the steady growth of population equates almost [indiscernible] to steady growth in storage demand.

<Q>: Okay, has the commercial segment in your portfolio changed at all over the last several years?

**Dave Rogers - Chief Executive Officer**

It's as we add new stores, the overall portfolio on a season basis, say a store or a group of stores that we've owned for five or six years, no. We've got a pretty good base in there but as when we add new stores we usually increase the commercial percentage in those stores.

**Operator**

Our next question is from Jeremy Metz with UBS. Please proceed with your question.

<Q>: Hey, good morning, guys, I'm on with Ross [ph]. Last quarter you talked about being a little slower to push rates going in, you were a little nervous about some of the rate growth you've been pushing the past few years

you took your foot off the gas a little bit, but then you noted seeing some solid acceleration at the end and heading into 3Q. So I'm just wondering how rates trended throughout the quarter, where are rates today versus this time last year and do you think you pushed hard enough here?

**Andy Gregoire - Chief Financial Officer**

Yeah, I think, sorry, Jeremy, it's Andy. The rates during the quarter I think, the asking rates range from being up plus 8% to up 4%, it's a pretty big range and we vary that month-to-month. It's really a lot levers we're pulling. It's the free-rent that we've really been ratcheting back that we really didn't think we had much more in that lever and we continue to ratchet that back. Rates are strong when you look at the overall, pushing in place stronger than we have in the past and pushing street rates and the free rent reduction continues, which was a big surprise to us.

**Ed Killeen, Chief Operating Officer**

And Jeremy, that really was—that's been the trend for the last six, seven months when we had talked about sort of taking our foot off the gas a little bit, I had mentioned that that was actually late 2014, very early 2015 and at that point we recognized that we could continue to push. So that was very early on in the year where that was the position that we were taking.

<Q>: And you mentioned the discounting being a positive right now, could you just kind of give us some details on where that was versus last year? Is there more room to go here or are we kind of starting to peak out here in terms of limiting discounts?

**Ed Killeen, Chief Operating Officer**

Well, we think there's more room to go and we're down nearly 38% in discounting about \$0.5 million as well a smaller population of customers received free rent 40% versus 47%. Really that fluctuates a little bit quarter-to-quarter, but we see that there's more room there, that will trend downward.

**Andy Gregoire - Chief Financial Officer**

Yeah, I think we have a lot—there's a lot of room left, Q4, Q1 of next year, of course we said the same thing last year and we didn't think we'd get much out of it Q2 and Q3 this year, but we did. But Q1 and Q4 are the biggest ones, but Q2 and Q3 next year, there's still some room. We gave away \$828,000 for Q3 compared to \$1.3 million last year; there's still room that we reduce that 828,000.

<Q>: Okay and then just one for Paul here. Just wondered if you can talk about the dynamics in the investment market today, how things change in terms of cap rates and competition and level of deal flow you're seeing today?

**Paul Powell - Chief Investment Officer**

Hi, Jeremy. Yes the third quarter we've seen a pretty good uptick in deal flow. The brokers have brought a lot of one-offs to the market and two or three larger portfolios that we've been looking at. So I'm comfortable that going into Q1 next year, we'll have enough deal flow to get some deals done. We've got quite a few deals we're looking at right now that we're negotiating contracts on. We've got some C of O opportunities that we hope to bring or get under contract within this fourth quarter, and it will be probably be end of next year or into 2017 before they open. So I'm feeling pretty confident that going into 2016, we'll have some decent deal flow.

**Operator**

The next question comes from Gaurav Mehta with Cantor Fitzgerald. Please proceed with your question.

<Q>: I think you mentioned in your prepared remarks that there's not much supply in the sector overall, but if you look across your markets, would you say that there is more supply in some of the markets than others or it's fair to say that there is no supply in any of your markets?

**Dave Rogers - Chief Executive Officer**

Yeah, I'll start with just an overview. We're still thinking that for 2015 that there are maybe 400 to 450 stores that came on line across the nation. We don't see a major uptick from that into next year. Surprisingly a lot of the markets where the entrees are coming are the three to four low barrier to entry or high barrier to entry markets. And how that impacts our own specific markets, I'll let Paul take a shot at here.

**Paul Powell - Chief Investment Officer**

Yes, Gaurav, we do a survey on a quarterly basis with our area managers and what we found in the third quarter this year was that there were 139 projects either open or in construction or in the planning stage within our markets, of significance were 44 in Texas, 34 in North Carolina, which was surprising. We didn't expect to see that quite a big uptick in new development there, but 10 in Phoenix and 7 in Florida. So we're seeing an uptick, every quarter we're identifying a few more but it's still as Dave alluded to, we're not too concerned, but there certainly is an uptick in new development.

<Q>: Okay and second question on the occupancy side. Your portfolio was 93.1% occupied in July. So if you think about your portfolio overall, would you say that sort of maximum occupancy that you're going to gain?

**Andy Gregoire - Chief Financial Officer**

No, I think, we look at October, Gaurav, and we're at 130 basis points ahead of last year's October. We're at 91.1. We think we'll pull out another 75 to 100 basis points next year we think. There's more room in occupancy.

**Operator**

Our next question comes from Jana Galan with Bank of America Merrill Lynch. Please proceed with your question?

<Q>: Thank you, good morning. I'm sorry if I missed this, but did you provide cap rates on the 11 stores you acquired this quarter?

**Paul Powell - Chief Investment Officer**

Hi, Jana. It's on the 11, on a weighted average; it was about 6.8 cap after year one operation.

<Q>: Thank you and I guess overall in the market how are kind of cap rates trending?

**Paul Powell - Chief Investment Officer**

Well, they certainly haven't gone up. I would say for the Class A product or the portfolios you may even have a little further compression in cap rates 15 to 25 basis points. So it's very aggressive out there but yes, I thought they would may be level out after the second quarter but I think they're still compressing minimally but there is still a compression going on.

<Q>: And are you seeing more competition in may be a little lower density markets following the pricing of this Smart Stop acquisition?

**Paul Powell - Chief Investment Officer**

Yes, I think in the secondary markets even the tertiary those cap rates are compressing as well again as I mentioned earlier, deal flows, things, have picked up and a lot of these are in the secondary and in the tertiary markets. We are not looking too hard at the tertiary markets; secondarily we're looking at them. We are involved with them; we're going to be very disciplined. We're not going to overpay for them but I am seeing a compression in cap rates in those markets as well.

**Operator**

Our next question is coming from Ki Bin Kim with SunTrust. Please proceed with your question.

<Q>: Thanks good morning, so it looks like you are going to end the year around 6.25%, same store revenue growth based on your guidance. I am not asking for a guidance for next year but as we look forward you know what has to happen to keep things at that level versus maybe up a hundred basis points or conversely maybe below a hundred?

**Dave Rogers - Chief Executive Officer**

Well I think you know we're entering into a pretty solid rate driven model right now. As Andy said, Ed said, that we have 75 to 100 basis points maybe for occupancy, have a little room especially in Q4 and Q1 for incentive erosion. So it's mainly going to be a rate driven model and really the whole tide is lifting everybody. So the competition that people can shop is not going to be as detrimental as it was say in 2011 and 2012 even. So I think a rate driven model I think we're all well poised to do that. The rates we're pushing are sticking; we're becoming more aggressive both in place and with street rates especially as April and May come in. So I think its classic economics 101, the supply is muted, the demand is there and we continue to raise rates and tenants stick. So I think it's more likely than not that we'll have a year like this. I'm not sure that we'll guide there but I think we don't see any reason not to be optimistic and bullish going into 2016 that's for sure.

<Q>: That's good to hear. What was your street rates this quarter year-over-year?

**Andy Gregoire - Chief Financial Officer**

They range from during the quarter they were 8 plus down to 4 plus, so there is a big range there and we'll play that month by month see how it falls. I think today there are 3+% but that varies month by month so it's hard to look at today they might be three plus and at the beginning month they might change. So there is some variation there but we expect very similar next year; in the slower time of the year you pull back a little bit and you push really hard as you get into the April, May, in the summertime.

<Q>: Okay and the last question on taxes, I guess we're going to see a nice pop in taxes in the fourth quarter. Next year's fourth quarter should we expect that—is that a volatile number or is that the back to the 2% to 3% historic norms? I am not sure what should we expect on that line item.

**Andy Gregoire - Chief Financial Officer**

I think for the year you're still probably looking five plus in 2016 for property taxes. You won't see that big pop in 4Q. If this 4Q comes in as we're expecting we won't have an easy comparable or a tough comparable. So it should show pretty flat throughout the year, next year, if things end the year the way we are. Our concentration in Florida and Texas we haven't received any Florida bills yet. We received the assessments and fought those assessments. We're waiting on the invoices from Florida. Texas has come in and we're comfortable where we're at. So fourth quarter still has some open there. If it comes in like we expected it will be 14 to 15 but next year we would not expect that. It would be just like every other quarter into the 5% range.

**Operator**

(Operator instructions.) Our next question is from John Pawlowski with Green Street Advisors. Please proceed with your question.

<Q>: Thank you, could you share what MSAs the nine stores under contract you are in?

**Paul Powell - Chief Investment Officer**

The stores that we have properties under contract are in Florida, mainly Orlando market, Phoenix, some outside of Chicago and Miami.

<Q>: Okay, great thank you. The comments on the secondary MSAs and little bit of cap rate compression, could you mind me how you define the secondary MSAs, is that top 25 to 50 in terms of population density, any color there?

**Dave Rogers - Chief Executive Officer**

Pretty much, John, we look at markets a million and up as secondary. We find it somewhat amusing sometimes and read research reports that consider Chicago or Houston a secondary market. We would consider those primary, but I would say really the top twenty markets I guess would be your primary and say 60, 65 up to 21 would be secondary.

**Operator**

There are no further questions at this time. At this point I would like to turn the call back to management for any closing remarks.

Excuse me we do have someone that just popped into the queue, George Hoglund with Jefferies. Please proceed with your question.

<Q>: Yes, sorry to sneak one in there at the end I thought I was in the queue. I guess there's two questions one on terms of the acquisitions, the amount closed in 2Q was little bit less what you had under contract, or closed in 3Q is a little less than what you had under contract at the end of 2Q. And I know you'd mentioned that some are getting pushed into 2016 then also some are C of O deals that may take a little longer. But in general are you seeing any change in the time it is taking to close a deal once it's under contract?

**Paul Powell - Chief Investment Officer**

Hey George, this is Paul, yes, there were two stores in the second quarter that we mentioned were under contract; they are C of O deals that have not opened yet. One is expected to open fourth quarter this year and the other is first quarter of next year. Yes, doing the C of O deals is a long process as far as finding the right deal, making sure the developer's experienced and getting our specs in the hands of the developer and just going through that whole process just takes time. And then the development stage does seem to be protracted. Some developers seem to be able to do it a lot quicker than others, so we're doing some deals where they can get built in eight months others they're like fourteen months. And again it's also timing, if it's in the northeast you don't really have a whole lot of—the weather is going to affect the development in the northeast. So, depending on where we're doing these deals that could change the timeline.

<Q>: Okay and then just one last one in terms of the new occupants, sorry, new development that's occurring in some of your markets, do you guys plan to be the third-party manager of any those properties? Are you seeing any change in sort of your view on maybe expanding third-party management business?



**Paul Powell – Chief Investment Officer**

Yes, we're certainly talking with the developers, they're reaching out to us, we're reaching out to them. Our UBM arm has been very active over the last quarter in discussions and some of these we have already signed contracts for. So yes, we will certainly be managing some of them, you can't say all of them, but we are very active in trying to solicit that business.

**Dave Rogers - Chief Executive Officer**

And George that's where the action is for our third-party platform, it's pretty much in new development and C of O deals that we hope to buy. We're not overly active in existing stores, just because in large part the type of stores that we would want to manage or being managed pretty much by the owner operator. So we're comfortable in the C of O deals and the new development and working with those folks as perhaps a conduit to future acquisition.

**Operator**

There are no further questions at this time. At this point I would like to turn the call back over to management for any closing remarks.

**Dave Rogers - Chief Executive Officer**

We thank everyone for your time on this call and we'll probably see most of you in the next few weeks out in Las Vegas. Have a good couple of weeks everybody.