

***Transcript of***  
***Sovran Self Storage***  
**First Quarter 2016 Earnings Release Conference Call**  
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## Participants

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

## Analysts

Jeremy Metz – UBS  
David Toti – BB&T Capital Markets  
Gwen Clark – Evercore ISI  
Ian – SunTrust Robinson Humphrey  
Gaurav Mehta – Cantor Fitzgerald  
Todd Thomas – KeyBanc Capital Markets  
Jana Galan – Bank of America Merrill Lynch  
Smedes Rose – CitiGroup  
George Hoagland – Jefferies Group  
Jonathan Hughes – Raymond James  
Ryan Burke – Green Street Advisors  
Todd Stender – Wells Fargo  
Ki Bin Kim - SunTrust Robinson Humphrey

## Presentation

### **Operator**

Greetings, and welcome to the Sovran Self Storage First Quarter 2016 Earnings 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, Investor Relations, for Sovran Self Storage. Thank you. You may begin.

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

Thank you, Melissa, and good morning, everyone. Welcome to our First Quarter 2016 Earnings Call. Leading today's call will be David Rogers, Sovran's Chief Executive Officer. Also participating are Andy Gregoire, Ed Killeen, and Paul Powell.

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 certain risks and uncertainties with the company's business. Additional information concerning these factors is included in the company's SEC filings.

At this time, I will turn the call over to Dave.

**David Rogers – Chief Executive Officer**

Thanks, Diane, and good morning, everyone. Welcome to our call. We enjoyed a very busy quarter and it was a good one on all fronts. We bought a lot of properties, we grew our debt capacity and our equity base, and we posted solid operating results. Andy will give the specifics, but hitting the high points our same-store topline grew 6.7%, we continue to contain operating expenses, and we even got a break on some seasonal costs. Q1, same-store NOI came in at a healthy 9.9%. Almost all of our larger markets showed same-store revenue growth north of 5%, and some, like Atlanta at 10.3%, and San Antonio at 10.1%, did much better. As has been the case lately, our stores in New England and the New York Metro area once again put up really good results. Fundamentals across the board are strong.

A big part of our story this quarter was the announcement in January that we were in contract to acquire 30 properties for \$400 million. We're happy to report that as of today, 29 of them are, in the words of Stevie Wonder, *Signed, Sealed, Delivered*, and absorbed into our portfolio. The 30<sup>th</sup> is scheduled to close early next week. We were also able to acquire two more stores in addition to those 30. One in L.A., which is now our 9<sup>th</sup> in that market, and a CO deal in Miami. This was our busiest quarter ever in terms of acquisition volume, and the onboardings went smoothly.

Our pipeline, while not as robust as the first quarter pace, is decent, with seven properties under contract. Three of these are stabilized and valued at \$20 million, and we have four CO deals lined up for \$40 million. We expanded disclosure of our CO properties in one of the exhibits to our press release so that includes those that are under contract awaiting completion, in addition to the listing of acquired stores in lease-up.

Regarding the overall acquisition front, there are more and more deals available, but high quality stores in primary markets are trading at low cap rates, and decent stores in secondary markets are priced pretty rich as well. Andy will describe our balance sheet transactions for the quarter, but I'd like to point out that the dividend payment that went out this month was increased by almost 12% over last year's payouts. We'd like this to signal our confidence in our company and our business. We've got a good thing going here, and we're looking forward to another strong performance in 2016.

Andy?

**Andy Gregoire – Chief Financial Officer**

Thanks, Dave. Last night, we reported same-store revenues increased 6.7% over those of the first quarter of 2015. The drivers behind the revenue growth were a 90 basis point increase in average occupancy, and a 5.4% increase in rental rates. Same-store occupancy increased to 91% at March 31, 2016, as compared to 90.3% in 2015. Total property operating expenses increased less than 1% on a same-store basis. This was a result of significant reduction in utility and snow removal expenses due to the milder weather in Q1 of '16 versus '15. Same-store property taxes for the quarter came in as expected, increasing 6.8%.

Our same-store revenue growth and controlled expenses led to higher than expected, 9.9% increase in same-store net operating income. G&A costs were \$1.1 million higher this quarter over that of the previous year. The main reasons for the increase were additional legal fees, taxes on our taxable REIT subsidiary, and the fact that we operated 41 more stores in this quarter, as compared to last year's first quarter.

Our balance sheet remains strong. During the quarter we issued 2.6 million common shares through an overnight offering at a price of \$105.75 per share, resulting in net proceeds of approximately \$270 million which were used to fund a portion of the acquisitions Dave discussed. Also in January, we increased the capacity in our line of credit from \$300 million to \$500 million, further expanding our liquidity position. At March 31<sup>st</sup>, we had

approximately \$6 million of cash on hand, \$359 million available on our line of credit, and approximately \$59 million available under the ATM program.

With regard to guidance, same-store revenue growth for Q2 should be in the 6% to 7% range, and NOI around 7% to 8%. Expenses outside of property taxes should increase between 3.5% and 4.5% for the quarter. Property taxes are forecasted to increase 5.5% to 6.5% over 2015 levels for Q2, and our annual property tax expense increase remains unchanged at 6% to 7%.

Our guidance assumes the previously announced acquisitions are completed on schedule, and an additional \$60 million of accretive acquisitions are completed over the remainder of 2016. We have not included in guidance the related acquisition costs incurred to date or that will occur in the future. As mentioned last quarter, our guidance also assumed \$0.07 to \$0.08 of FFO per share dilution from the certificate of occupancy deals we have completed to date, or that are expected to be completed in 2016. As a result of the above assumptions, we are increasing our funds from operation for the full year 2016 to between \$5.49 and \$5.55 per share, and between \$1.37 and \$1.39 per share for the second quarter of 2016.

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

**Operator**

Thank you. At this time we'll be conducting a question and answer session. (Operator instructions.)

Our first question comes from the line of Jeremy Metz with UBS. Please proceed with your question.

**Q:** Hi, guys. Good morning. I was just wondering if you can give us—I know you've only owned the California stuff for a little while at this point, but just if you can give us kind of an update on how operations are going so far there? What sort of rate growth you're achieving, both in terms of market rents and renewals?

**Ed Killeen – Chief Operating Officer**

Hi, Jeremy, it's Ed. So far, it's pretty early to tell. The first wave came on in January, and the second wave came on just recently. But overall, we're performing very well. Integration was smooth. We're experiencing some great rate growth early on. Given the sophistication of our operating system and the fact that we're now able to install it literally Day 1, we haven't really experienced any dip in occupancy. As a matter of fact, a couple stores are experiencing great occupancy increases. One of them, specifically a 20% occupancy increase. So, all in all, integration has been real smooth, and they're performing well.

**Q:** All right. Thanks, appreciate that. And in then in Houston, just wondering, you dropped your guidance there after only one quarter. So I'm just wondering what you're seeing down there that's worse than you expected, just two months ago? How confident are you in being able to hit that 5% to 6% rent growth, just given the pressures you're still seeing there in the occupancy front? And then just generally, did you have any issues from the flooding that was going on?

**Ed Killeen – Chief Operating Officer**

You know, we are very comfortable with the guidance that we just put out. As a matter of fact, we've actually shrunk the occupancy gap December to March year-over-year, and we're quite comfortable with where we are right now. We're not going to over-react to the slight softening of the economy there. We're going to continue to let your RevMan system optimize the revenues without any interference. I think something to keep in mind versus 2008, we're in a much stronger position than we were in terms of our operating system and our revenue management platform, the ability to attract and retain customers, and we think we really have sort of shielded ourselves from the subtle ebb and flow of market conditions there. So, we are not over-reacting; we are very comfortable with the performance there right now.

And as far as the most recent devastation from the floods, by and large we escaped unscathed. We had some minor flooding in a few locations. There has been very few customer issues thus far, and we don't expect any. One store was hit hard out our 41 properties in the area, and frankly, we were really a victim of collateral damage. The tornado came through and decimated a building right next door; took out part of our roof, took out some doors. But aside from that, that one store, we again fared well.

**Q:** Okay, and then one last quick one on occupancy. You know the gap slipped about 70 basis points at quarter end. I think you were targeting 100 basis points for the year. I'm just wondering, is that still what's expected in guidance, and maybe where things stood in April? Thanks.

**Andy Gregoire – Chief Financial Officer**

Hi, Jeremy, it's Andy. We did say we'd go somewhere between 75 and 100 basis points in occupancy this year. It really is—the revenue management system will play out and maximize revenue. I still feel comfortable saying 75 to 100 basis points for the year. We could carry, but it really will be a function of optimizing revenue and that's where we'll end up, but I'm comfortable with the 75 to 100 basis points.

**Q:** Thanks, guys.

**Andy Gregoire – Chief Financial Officer**

You're welcome

**Operator**

Thank you. Our next question comes from the line of David Toti with BB&T Capital Markets. Please proceed with your question.

**Q:** Good morning, guys. A couple of sort of abstract questions. I'm sort of wondering if you can kind of describe the progress of pricing power in the context of rising occupancies across your portfolio. Specifically, in locations where there's low inventory, how do you manage the absolute rent level? Are you thinking about pricing along the lines of an airline ticket or a hotel room? Or, are you really sort of bound by kind of market rent levels?

**David Rogers – Chief Executive Officer**

Well, I think it does offer challenges when you're approaching 93% and 94% because you're working with less units. And we're talking about store-wide occupancy at 94%, and the more popular units are going to be 100% or with a waiting list sometimes. So, in that sense, and for those units, you do think of it more like airlines. We will bump those next customers, but I think pretty much we're there when there are three units left, we're very close to peak pricing. As we get down to that number we ask for credit card verification and so forth to reserve the unit, which is something we don't do when we have a lot of units.

So there is a little different attitude as we have unit sizes in specific stores that are approaching 100% or at 100%. It's a little different when you're at 90%, and you've got 10 or 12 units of a particular size. That's where the special might come in; that's where you can't really force the credit card reservation system. So, it depends and as we get into May, June, July, we're going to have more of those unit sizes that are at or near 100% occupancy, so, it puts a little bit of a stress. Ed's talked about this before, when you approach the ceiling, it's tougher to manage your business. But I think we've got it down pretty good.

**Q:** When you get into those situations, do you find that you are potentially inducing customers to move out? Do you push rents to such an extent that you create inventory?

**David Rogers – Chief Executive Officer**

That's the idea, sure. That's what we want. You've got somebody sitting there—and that's when we're more aggressive with our in-place raises as well; when you've got a waiting list or high demand, certainly we're pushing the rates to those in-place tenants a lot harder.

**Q:** Okay, and then just one follow up question, which is, how would you characterize the difference in performance from a revenue growth perspective between your best and your worst assets in terms of absolute spread? And then also, has that spread narrowed as the cycle has become more protracted?

**David Rogers – Chief Executive Officer**

Well, that's something we haven't thought about specifically, but certainly, I've got to say that in the four years plus that we've had RevMan, every store has benefited. We're on top of things like we've never been before. So, if you're saying our best store in our best market, it's operated a little bit differently say than a lease-up store, or a turnaround store in a weak market. But, I don't think any of us can quantify how much better the best store in the good market is doing. But I can certainly say that all stores benefit significantly from the system we put in place. It's something to chew on, David; we'll get back to you on that I think, if we can get a handle on it.

**Q:** Yes. I think what I'm just trying to get at, is if in such a long sort of cycle of positive fundamentals, if it sort of doesn't lift all boats in a way, to such an extent that even the sort of lower performing assets are now kind of firing pretty well.

**Ed Killeen – Chief Operating Officer**

Oh, well, you know, David, you bring up a good point with the sophistication of a revenue management system that we have, and that our peers have. Of course, those stores that are experiencing lower occupancy, we're going to be able to lift those stores at a much quicker rate than those stores that are experiencing that higher occupancy, because of that gap. You're pushing up against 100%--I shouldn't say 100%; 95%, 96%, 97%. So, I'd say overall, sure, that gap is probably shrunk with the lower end occupancy stores just pushing up a little bit higher, pushing up against those higher occupancy stores. So, with that system, yes, we're going to experience some of that.

**David Rogers – Chief Executive Officer**

One thing we said Dave, before; we are at this point with, as you say, the rising tide lifting all the boats. We are at a point where our systems provide us the least advantage that they have through the cycle. When times are tougher, the guys at the platforms will really shine. I think in this time right now, with the lack of new supply, with high demand, with everybody doing pretty well, the benefits of our platforms are giving us the least benefit. When the tide goes out, is when they really will shine. That's what was happening in 2010, 2011, 2012. We far, far exceeded the industry in terms of results. Right now, it's a little harder to stand out from the mid-size operators, but when the tide goes out—if it does—that's when I think the systems again, start really showing what they have.

**Q:** Okay. Thanks for the details, Dave.

**Operator**

Thank you. Our next question comes from the line of Gwen Clark with Evercore ISI. Please proceed with your question.

**Q:** Hi, guys. Good morning. You guys have been really active on the CO front over the last year, but it looks like you only have one project in the pipeline for '17. Can you talk about what you think that could go to?

**Paul Powell – Chief Investment Officer**

Hi, Gwen, this is Paul. Yes, we're still looking at some potential CO deals in some of our bigger markets. We're just being very selective, and somewhat conservative. We've seen the cap rate compression drop to a point

where some of these deals that were being put in front of us are not making sense. So, going in to 2017, as you mentioned, we've got one expected to open. I would say by the end of the year, we hope to have another three to five that would take us into 2017. Nothing on the books right now, but we are looking and there is some deals that I think could come to fruition that would take us into 2017.

**Q:** Okay, separately, can you give us some color how the deals are leasing up relative to expectations thus far this year? It looks like the Sunbelt ones are doing particularly strong.

**Ed Killeen – Chief Operating Officer**

Hi, Gwen, right now they are performing well. I wouldn't say they're performing at the same level as some of our recent acquisitions, those in California, but overall, early indicators show that we're performing real well. We're performing to expectations.

**David Rogers – Chief Executive Officer**

This is the time, Gwen, of kind of the low-hanging fruit, right? The supply has been muted for a few years; the deals that are coming on line are well placed and well thought out. So, this time and the lease-up cycle for most CO deals, I think is quicker than ever in history, especially when you put the benefit of the web marketing and rate management systems in place. So, as far as what we have, the lease-up, too, is one part of the story.

The other part is then getting market rates. As pretty much any sophisticated operator does, we're in this to get them occupied. And once the occupancy gets there, then the RevMan guys can take control of it and start raising the rates. It may look really fast in the sense that at you lease these up in 18 or 20 months. That's only part of the story, though. They're not leased to stabilization because the rates are a bit low until you get them full and can put RevMan to work.

**Q:** Okay, got it. Thank you.

**Operator**

Thank you. Our next question comes from the line of Ki Bin Kim with SunTrust Robinson Humphrey. Please proceed with your question.

**Q:** Hi, guys, this Ian, actually, on for Ki Bin. Just wanted to ask about Street rates in the first quarter versus were they are in April?

**Ed Killeen – Chief Operating Officer**

Well, we ended street rate at 5.9% over last year, with an average of 5.6% and right now we're trending upwards, so it's quite early to tell, but asking rates are strong right now.

**Q:** Okay. And just a followup question on that. Are you seeing the spring leasing season shaping up similar to last year, or is there some slight moderation?

**David Rogers – Chief Executive Officer**

It is pretty early, we're about 10, 12 days into it. So, there are no warning flags, certainly, but it's pretty hard. We like to get into May. It starts pretty much mid-April, and we're—all signs are good, but it's hard to put numbers to it, especially without a month-end to reconcile to.

**Q:** Okay. Thank you.

**Operator**

Thank you. Our next question comes from the line of Gaurav Mehta with Cantor Fitzgerald. Please proceed with your question.

**Q:** Yes, thanks, good morning. Going back to your comments on the CO pipeline, and you mentioned cap rate compression as one of the reasons why you have one deal so far in 2017, but I was just wondering from your own platform capacity, is like \$0.07 to \$0.08 dilution that you're expecting in 2016, is that kind of a target number that caps out how many CO deals you can have at a time?

**David Rogers – Chief Executive Officer**

Yes, Gaurav, we've sort of set a policy here that if we can find good deals, we'll take them, but we probably don't want to dilute by more than 1.5% to 2% or so, which is somewhere in the range of \$0.07 to \$0.10 per share. So, we might go a little bit over that, but we want to mute it. We see the deals, we like the deals, but we don't want to stretch the operations too much. So, I think that's pretty much the level we've been at is probably as fast a pace as we'll go with CO deals.

**Q:** Okay. And followup on CO deal, I was wondering if you would provide your expectations on the deals that you signed in 1Q?

**David Rogers – Chief Executive Officer**

The cap rate expectations at stabilization, is that what you mean?

**Q:** Yes.

**Andy Gregoire – Chief Financial Officer**

Yes, Gaurav, we underwrite to 7.5% to 8% at stabilization, which is our underwrite goes out 3, 3.5 years. So, that's pretty much where we've underwritten all these CO deals to.

**Q:** Great, and lastly, Atlanta seemed like one of the top performing markets in 1Q, but if I look at the occupancy, it declined 50 basis points. I was just wondering if you could provide some color as to what drove 10.3% revenue growth in the quarter?

**Ed Killeen – Chief Operating Officer**

Well, Gaurav, if we looking at occupancy, yes, there was a very slight decrease, but in Atlanta, we've been able to really push rates quite a bit. That's where you see the strong NOI. At the same time, when you do push rates, sometimes there's a bit of a pricing sensitivity, and you're not quite getting the activity. But all the pricing signals and the final rate signal out of RevMan suggest that in Atlanta, we're able to push rates real hard and give up just a little bit of occupancy. You can see that in the revenues in Atlanta. So it's always there's just a subtle change in a blend of whether it's occupancy or revenue that we're looking for, but what we're always looking for is revenue growth, and that's what we saw in Atlanta.

**Q:** Great. Thanks for taking my questions.

**Operator**

Thank you. Our next question comes from the line of Todd Thomas with KeyBanc Capital Markets. Please proceed with your question.

**Q:** Hi, good morning. Dave, you mentioned that this was the busiest quarter ever for the company on the acquisitions front, and I know you have a \$60-million assumption embedded in guidance for the balance of the year. Maybe you could just talk about what the pipeline looks like, if there's anything sizeable out there or is it

mostly 1s and 2s? Can you elaborate a little bit also, on the pricing you touched on for high quality A properties, and those in secondary markets?

**Paul Powell – Chief Investment Operator**

Hi, Todd, this is Paul. Yes, we're still seeing some [audio disruption] opportunity out there. I think the bigger portfolios, there's none that I'm aware of right now that we're looking at. There are a couple mid-size portfolios in some markets that we wouldn't be interested in. But nothing like we saw at the beginning of the year.

We are staying busy looking at opportunity. The markets are not really—we're not that interested in some of them. The ones that are in markets where we are interested, they are very expensive; there are a few Class A projects out there. Again some of the pricing that we're seeing on some deals that have been done that we were involved with have actually been sub-5, and we just don't see the—it doesn't make sense to us at that cap rate.

So it is still—it's a very aggressive effort. Cap rates, I think over the last year, have continued to drop maybe so much as 50 basis points. We're going to be very selective. As I mentioned, we are looking at a lot, but the quality's not probably what it has been in the past six to eight months. So, we're being selective. I think we'll do the \$60 million that we put in for our guidance, how much more, I'm not sure.

**Q:** Okay, and so for the A properties, it sounds like pricing's fairly competitive. Who's selling? Are they smaller operators looking to sell at this point in the cycle? Are you seeing any uptick in activity here, or would you characterize it as more of a steady flow?

**Paul Powell – Chief Investment Operator**

It's more of a steady flow, Todd. And again, it's smaller operators, ones and twosies, a few three-packs here and there. And again, like I said, there are some little bit larger portfolios, five to seven properties, but they're just in parts of the country where we don't have a presence, and where we're not interested in going to. And again, those cap rates are even dropping from what we're seeing, but again, we just don't have too much interest in those.

**Q:** Okay, and then just in terms of operations, or in terms of demand, I guess. Both web and call center traffic to your stores; any pockets of strength or weakness throughout the portfolio in any markets? And then I know you utilize SpareFoot. Are you able to share how much of your web rentals or reservations are generated through leads from SpareFoot versus your own web efforts?

**Ed Killeen – Chief Operating Officer**

Sure, Todd, I'll answer the first question first. Right now, all of the web performance metrics are very positive. We certainly remain highly relevant online, and continue to analyze and optimize all our campaigns. Our unique visits are up, our traffic on paid is up, the resulting ins from traffic on paid, organic search is up. So, we're doing quite well in our web efforts.

In regards to SpareFoot, the ins in SpareFoot this quarter were up 61%, that's over Q4, but only 4% year-over-year. It's sort of an instant trend, because, we're seeing how our very aggressive pay per click campaigns may be taking away from some of our SpareFoot move-ins. Which as you can imagine, isn't a bad thing. You have much more control over it when they're coming through our channels. So, I don't have the exact number in front of me what the breakout is this quarter for the percentage of move-ins, but it's certainly under 10% from SpareFoot.

**Q:** Okay, great. Thank you.

**Operator**



Thank you. Our next question comes from the line of Jana Galan with Bank of America Merrill Lynch. Please proceed with your question.

**Q:** Thank you, good morning. I was wondering if you could provide an update on supply in your markets, and if you could comment on any kind of changes or trends in the availability of capital for development? Maybe one way to kind of gauge that is for the C of O deals that the public REITS pass on. Is there plenty of private capital available, or does it just not get done unless the seller's reset pricing expectations?

**Ed Killeen – Chief Operating Officer**

Hi, Jana, it's Ed. I'll start with the first question. In regards to new supply in our markets and immediate trade area, it remains muted. We're not seeing a whole heck of a lot of new development. The major markets for new development are for us, Raleigh, the Phoenix area, Dallas, Houston, and Chicago. But even then, of those 108 projects that are either in construction or in planning right now, only about half of them are located in our immediate trade area. So, we continue to see not too much new supply coming in that's going to have great impact on our operations.

**David Rogers – Chief Executive Officer**

I think, Jana, the story still is entitlement. We just got word last night that a property in St. Louis we were working with a guy on through our third party management company, shockingly was turned down on almost a fait accompli approval process. He's got to go all the way back to square one. He's been working on the deal for two years, and we were set to work with him to help him construct it and then manage it. That's pretty common across the board. The financing is easier than it was two and three and four years ago; it's still not easy, but it's easier. But the entitlement process is really gumming up the works in a lot of markets.

So, when we talk about 108 stores in all of our markets in the planning and early construction phase, a lot of those in the planning phase have to take a step backward. Overall, we still think somewhere in the range—I think most of the industry is on board with a number of 600 to 750 stores this year coming on. Mostly in markets where it's needed. I don't know if that'll last forever, but it's still a pretty good story.

**Q:** Thank you, and given that the supply data is difficult to come by, just curious; the stuff that is getting built now, in terms of number of units, is it significantly larger than kind of current storage facilities out there today?

**Paul Powell – Chief Investment Officer**

Jana, this is Paul. I wouldn't say it's significantly larger. We are tracking some developments in the boroughs of New York, and we think that may be getting a little heavy with development, but some of these projects are quite large. I guess it's just to make the deal work because the land's so expensive. But other than that, I'm not really seeing any great increase in storage size.

**David Rogers – Chief Executive Officer**

I think maybe the reason that perception is out there is because the stuff that public is doing. For the most part, when they build now, they're building mega-stores, I think. The ones we've seen anyway, but I think on balance, most developers are still in the sweet spot of 65,000 to 80,000 feet perhaps.

**Q:** Thank you.

**Operator**

Thank you. Our next question comes from the line of Smedes Rose with CitiGroup. Please proceed with your question.

**Q:** Hi, thanks. I wanted to just follow up on what you just said, because yesterday PSA did say that they felt there were significant supply overbuilding in New York. I know you're not directly in the city or the boroughs, but it is in your sort of larger trade area. Could you maybe just comment a little more of what you're seeing here, and how you think about demand growth in the greater New York area?

**David Rogers – Chief Operating Officer**

We do certainly see demand growth, and we think it's kind of funny that for a lot of years, everybody's concerned about the secondary markets, and the susceptibility of those markets to have construction come into the low barrier's entry. But of late, the supposed high barrier to entry markets have been the ones that are most impacted by new construction. I'll let Paul give a little color, maybe to the boroughs.

**Paul Powell – Chief Investment Officer**

Well, I guess we've got some potential development JVs in the boroughs, so I've been there a lot recently, and I've met with a lot of folks in the business and toured a lot of potential sites. Just from what we're seeing from folks that we've been talking with there, there just seems to be a lot on the books planned to be developed, and they're all fairly large projects. So, whether this actually all gets built is yet to be seen, but there's certainly a lot of talk in—Long Island City, where in particular, I think is going to be over built.

Of course, there's a lot of multi-story apartment complexes being developed there as well. I think historically, the supply has been low in the boroughs, and you're not going to—the demand is not going to be the average that you have nationwide, which is 7.5, 8. It's going to be less than that, but still, I think it's the supply needs to catch up a little bit. But just from I've been seeing, it could possibly get overbuilt in especially Queens, in Brooklyn, and Long Island City market.

**Q:** Okay, thank you. I also just wanted to ask you, I know it's you haven't been in California for that long, but now that you are there, are you starting to get more calls just sort of on a local basis, or be included in deal flow for maybe onesies and twosies that maybe you wouldn't necessarily have been on a broker's short list, if you will?

**David Rogers – Chief Executive Officer**

Yes. That's very true. I mean, a lot of brokers that we've known for years that focus on the west coast; they've known in the past we wouldn't be interested in one or two here and there, now they're starting to let us know when they're working on a listing or when they have a listing. We're one of the first that they've let know. So, yes. We're looking at a lot of one-offs or small portfolios. Again, the quality is not quite what we bought earlier in the year. Even the markets are not exactly where we want to be, but we're going to be looking pretty aggressively out there. So, yes. To answer your question, we are seeing a bit more deal flow out on the west coast.

**Andy Gregoire – Chief Financial Officer**

We did pick up our ninth store, Smedes. We had eight in the deal that we announced, and that was part of the rationale; was to get scale in L.A., so that we could take advantage of the one-offs and two-offs that Paul had previously turned down. And sure enough, we didn't even close the eighth from the original package when we got one in Irvine, a pretty nice store. So, it should be working.

**Q:** All right. That's it for me. Thank you.

**Operator**

Thank you. Our next question comes from the line of George Hoglund with Jefferies. Please proceed with your question.

**Q:** Hi, good morning, guys. Is there anything new you're seeing in the competitive environment or you could be seeing pressure in terms of either new players who are growing quickly in your markets, or you're seeing any increase in competition from valet storage, or anything else that we haven't heard of?

**David Rogers – Chief Executive Officer**

There's more publicity to the valet stores, the pickup and delivery type stuff. As far as new operators of traditional, no, I don't think we're seeing much of that all. As a matter of fact, in a very glacier sense, I guess, there is consolidation actually happening in our sector with regard to that. The boutique stuff, it's getting a lot more publicity. It's kind of fun to talk about as far as these guys, there have been a couple of rounds of venture capital being put into two or three that I've read about, but you're talking something on the order of \$10 million to \$20 million dollars of valuation or capitalization.

It should work; millennials in very densely populated areas—you're talking some of these entities bringing a Tupperware tub of maybe a 30-gallon cooler size to your door, and you're paying to put a couple of coats in it, or I'm not sure exactly what—but it really is pretty far from our traditional business. We monitor it, we look at the price—the real killer is all these deals going way back to Shurguard to Go and Public's Pickup And Deliver has been the operating costs and the labor costs, especially.

So, we monitor it. We were surprised to see one such customer cheaper than us on a pickup and delivery basis in Atlanta; one sub-market of Atlanta. It's the only one out of all the ones that we've tested, and that didn't last for long. It must have been a lost leader or something to that effect. So, it's out there, it's on the fringes, and it's sort of like—I can't think of what the carrier one was with all the little boxes around. Pods. Sort of like Pods.

Pods has been around for, I don't know, 15, 16 years, never made money, changed owners 3, 4, 5 times and we considered it a threat back in 2002, and took it off the threat list in 2003. We don't mean to be arrogant about it, but it's not our business, and it gets a lot of publicity and over punches its weight, I think, in terms of actual deliverability and profitability.

**Q:** Okay, thanks. And then just also on the acquisition front in terms of are you seeing any new competition when you're looking to buy properties? Also, are you running into NSA at all when you're looking at either one-off deals or portfolios?

**Paul Powell – Chief Investment Officer**

George, you know, most of the time we don't really know who we're competing against. Usually the quality deals or the quality properties we assume that we're up against our peers with those. I don't think we've been up against NSA. They might have been involved earlier with some of these portfolios that we bought earlier the first quarter. But typically, our markets don't overlap. I don't think NSA is out there competing against us. It's mainly our peers in potentially some private equity that's doing a JV with one of the REITs.

**Q:** Okay, thanks, guys.

**Operator**

Thank you. Our next question comes from the line of Jonathan Hughes with Raymond James. Please proceed with your question.

**Q:** Hi, thanks guys, and good morning. Looking at your New York and Chicago portfolios, you reported pretty solid bumps in the same store revenues there for the quarter, but it looks like it was largely occupancy-driven. Could you just comment on the trajectory you're expecting for rental rate growth in those two markets as we enter the summer leasing months?

**Ed Killeen – Chief Operating Officer**

You know, I don't think it's going to be much different than the guidance that we provided overall. It might be a bit higher in that those are strong stores for us; it's a strong market for us. But I don't think it's anything exceptional. Those stores, they are on what is our list of great rate strength, as opposed to meeting guidance. So, they'll certainly help us but nothing extraordinary.

**Q:** Okay, and then are there any recent facility openings in direct competition to those properties that could impact leasing or rates this summer?

**Ed Killeen – Chief Operating Officer**

We don't see that right now, no.

**Q:** No, okay. All right, and then just one more. I want to clarify the 7.5 to 8 demand figure Paul mentioned earlier. What exactly was that referring to?

**Paul Powell – Chief Investment Officer**

Just the national average for—the SSA puts that out. It's just the average demand is 7.5 to 8 square feet per capita.

**Q:** Okay. That's what I thought. All right, that's it. Thank you, guys.

**Operator**

Thank you, our next question comes from the line of Ryan Burke with Green Street Advisors. Please proceed with your question.

**Q:** Thanks, just wanted to touch on the C of O pipeline, real quick again. I noticed about 30% of the total cost there is in Chicago. You just alluded to the fact that your Chicago stores are performing pretty well. We see it from a revenue growth perspective in your numbers, but we have seen some pretty meaningful downside pressure thorough your peers. So, what exactly are you seeing on the ground that is different for you than your peers, and do you expect that you'll increase your development exposure there over time even further?

**Dave Rogers, Chief Executive Officer**

You know, this is proof that if nothing else, Ryan, that this is a micro market business. Especially in a densely packed urban area like Chicago. We've had the good fortune when we bought the four stores plus the one we manage at the end of 2012, I believe it was, to get some good spots there and we're working with a pretty quality developer who had a lot of stuff in the pipeline for a number of years that he was working to build.

So, part of it's spots, part of it's even though we wait until they get stabilized, we took some stores that were maybe not managed as well as what we do so they've benefitted from the platforms continuing into year two and year three. So, yes, we hear the stories, we're certainly very careful as to what we're doing there. I think we've taken the foot off the gas a bit as far as development in Chicago after these. I won't say none, but it'll have to be a pretty much a home run before we get into it.

So, we like Chicago, we're doing well there. We like the stores we picked, they're going to be built really well. We're not in a bubble; we see what's going on with the peers and as I said, our neighborhoods are terrific, and the way that these stores are performing hasn't surprised us, but it's certainly pleased us.

**Q:** Okay, thanks. And then separately, can you provide an update on the Corporate Alliance program? How it's performing relative to your expectations, and what type of general customer you find that it's ended up serving?

**Ed Killeen – Chief Operating Officer**

It is meeting our expectations right now. We continue to grow it, we continue to build staff, to take care of these corporate customers. They are just that, Ryan. They are the corporate customers that are utilizing multiple spaces in multiple states, and we provide them with the added value features that those companies like, so they can control their storage from a central location. Corporate Alliance has never been about discounting; it's always been about adding value and we look forward to continuing to grow that part of our business.

**Q:** Okay. Thanks. Do you have a view on how the impact or the advance of eCommerce could upset that business line over time?

**Ed Killeen – Chief Operating Officer**

It's going to have a great effect on how we operate. It already is. Like I said, it's easy to go out and provide a discount for corporate customers, but what you want to provide them is with sophistication with the operating system that we have allowing them to manage their storage. When you say eCommerce, I guess to me it means providing the ability to manage storage online with great ease. Sure, right now technology is what really is driving the Corporate Alliance program.

**David Rogers – Chief Executive Officer**

I think, Ryan, I'm not sure if you're getting at what Dean used to call "the last mile" in eCommerce. That a Corporate Alliance isn't that; where we're helping the supplier get stuff to a UPS station and so forth. This is more helping the businesses manage their inventory in multiple states, but it's not that—I might be reading too much into it, but I remember that used to be a pretty big buzz word in the early 2000s with the "last mile" type of thing, and this is not that.

**Q:** Okay. It was an open-ended question, so appreciate the response, and that's all I have.

**Operator**

Thank you. Ladies and gentlemen, as a reminder, if you'd like to ask a question, please press star one at this time. Our next question comes from the line of Todd Stender with Wells Fargo. Please proceed with your question.

**Q:** Hi, guys, just a couple of quick ones on capex. Your recurring number looks like about \$22 million this year. Just want to see is that earmarked for the in-place portfolio? I wondered if it could ramp, just to account for the new \$400 million of properties that you've already closed on pretty early in the year.

**Andy Gregoire – Chief Financial Officer**

Todd, we expect our recurring capex to be in the \$0.45 to \$0.50 per square foot. That's some \$14 million to \$15 million. We're doing some rehabs and some other improvements to stores to make them more relevant; that might drive that up this year and that's why you see the higher number this year.

**Q:** Okay, that's—No; go ahead. Sorry.

**David Rogers – Chief Executive Officer**

I was going to say with regard to the \$400 million that we bought, those stores were in really good shape; so there was not a lot set aside for those. Certainly you reserve, but there won't be a big impact from the 30 stores that we bought this year. They were in exceptional shape.

**Q:** Okay, thanks, Dave. And then just as we model out C of O deals that come online, they stabilize. When do you start to account for capex for a new property? Is that counted in years? When do we start to look at that kind of stuff?

**Andy Gregoire – Chief Financial Officer**

You don't see a whole lot before three years, Todd. Obviously, the new stores, they don't require a whole lot. Three years you may start seeing a little bit. But really, the major capex is not for many years down the road. You're paving and your roofs, you're 15, 20 years.

**Q:** Got it. Okay. Thanks, guys.

**Operator**

Thank you. Our next question comes from the line of Ki Bin Kim with Sun Trust. Please proceed with your question.

**Q:** Thank you. I'm not sure if this has already been answered or not, but so, in 2014, the second quarter, you guys had a really good quarter on the Street, rates were up 9%. And second quarter last year, Street rates were up 8%. I know it's early into the spring leasing season, but are you noticing any incremental changes in customer behavior when they receive a rent increase letter, or are you noticing customers becoming more price-sensitive at all as we raise over overall [indiscernible] increase?

**Ed Killeen – Chief Operating Officer**

Keegan, what we're experiencing right now is quite the opposite. We're seeing that those that receive increases that sensitivity has actually gone down. The average increase went from 9.7% versus 13.2%, yet our retention rate remains strong. And the move out rate for those customers in particular that received increases was down about 200 basis points down to 9.3%. Putting that in perspective, if you go back 2 years ago, 2.5 years ago, the move out rate for in place was in the neighborhood of mid-teens, 14% to 16%. So, when we look at it right now, our customers are receiving increases are actually less sensitive. So, again, things are real positive when it comes to putting in these increases.

**Q:** Okay, thank you.

**Operator**

Thank you. Mr. Rogers, there are no further questions at this time. I'd like to turn the floor back to you for final remarks.

**David Rogers – Chief Executive Officer**

Thanks, everyone, for your interest in our company and your time this morning. We look forward to seeing you NAREIT. Take care.