Transcript of
Life Storage
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Participants

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Presentation

Operator
Greetings and welcome to the Life Storage Third Quarter 2018 Earnings 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, David Dodman, Vice President of Investor Relations and Strategic Planning. Please proceed.

David Dodman – Vice President of Investor Relations and Strategic Planning
Good morning, and welcome to our Third Quarter 2018 Earnings Conference Call. Leading today's discussion will be David Rogers, Chief Executive Officer of Life Storage, and Andy Gregoire, Chief Financial 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 regarding these factors can be found in the company's SEC filings. A copy of our press release and quarterly supplement may be found on the Investor Relations page at lifestorage.com.

As a reminder, during today's question and answer session, we ask that you please limit yourself to two questions to allow time for everyone who wishes to participate. Please re-queue with any follow-up questions, thereafter.

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

David Rogers – Chief Executive Officer

Thanks, David, and welcome, everyone, to our call. Last night we reported adjusted FFO of $1.45 per share for the third quarter, driven by strong same-store top line growth and well controlled operating expenses, especially internet advertising. While we admittedly benefitted from a somewhat easy comp over last year's 3Q, we are seeing some headwinds in Houston as we passed the anniversary of Hurricane Harvey. All in all, though, we're pleased with our results.

Touching on a few macro industry topics, additional supply continues to dominate industry discussion. Life Storage markets that are most impacted with new deliveries are San Antonio, Dallas, Charlotte, Miami, Raleigh, Phoenix and Austin. Markets with less of a new construction issue, but still managing through a substantial absorption process, are the Chicago and Houston markets. In evaluating the dynamics of Chicago and Houston, the supply impact was maybe not so severe as we anticipated, given the quantity of space that has come on line since 2015. We believe this to be a function of the strength of our brand, the quality of our stores, and great customer service.

For the most part, demand remains pretty solid across most markets, and while attracting new customers is a competitive game, really competitive in some markets, existing customers continue to absorb rate increases.

We've been able to keep our operating expenses well under control so far this year, but we expect advertising and property maintenance costs to exert pressure on margins in 2019. Property taxes, of course, continue their relentless march on. Construction costs of all types—concrete, steel, labor—have risen considerably in the past 18 months. While not overly impactful to us, these do crimp the ROI on our expansions and enhancements program.

I'll list just a few of our company's highlights this quarter, aside from the strong property operating results. We announced the roll-out of our Rent Now initiative in early August; it's in place at almost 300 stores as of today, and we've just had our 1,000th customer take advantage of the program. Rent Now is expected to be in place at all 750 of our stores by mid-2019. We announced major enhancements to our Warehouse Anywhere storage and inventory management solution by expanding our product suite and offering added optionality for our B2B and B2C customers.

We acquired two stores during the quarter, and another in early October, for a total of $27 million. As of today, we're in contract to purchase five more properties at a further cost of about $50 million. All eight of these are in our key core markets: Atlanta, Boston Metro, the Greater New York Metro area, Orlando and Sacramento. We're still in the due diligence process on some of these and can't guarantee we'll be able to finalize them all, but these are the type of properties we like to put the Life Storage flag on. They're larger, they're newer, and they're in higher growth markets. We also brought on three properties via joint venture investments, one each in Phoenix, Miami and Brooklyn; again, adding Class A, third generation stores to markets we like.

On the third-party management front, we've experienced strong momentum and we're realizing some significant wins. This morning we're putting Life Storage signs on 42 high quality, stabilized stores in the southeast, primarily Louisiana, as we take over management for a significant new client. We're very excited about this transaction, and it puts our 3PM count at over 200 properties, a 110% increase since just yearend 2016.

Andy will speak more on this, but yesterday we entered into an agreement with our commercial bank group to extend the duration and improve the terms of our corporate line of credit facility. Our asset recycling program is underway, with the sale of some of our non-core properties expected by yearend into a joint venture in which we expect to own a minority interest and then manage the property going forward. We have a second group of assets that will be put on the market soon.

Attaining ever higher levels of operating scale, customer satisfaction and the application of data and technology are key drivers to profitable growth and NAV accretion. These occupy much of our focus, and the targets we're hitting this year bear this out. We don't plan on letting up.

Andy, do you want to take the rest?

Andy Gregoire – Chief Financial Officer
Thanks, Dave. As Dave mentioned, last night we reported adjusted quarterly funds from operations of $1.45 per share, a 4.3% increase compared to adjusted FFO of $1.39 per share for the same period in 2017. These results were above the high end of our forecast driven by better than expected same-store performance, as well as better than expected growth at our lease-up facilities. As a result of this strong performance, we have again increased our annual guidance, which I will review shortly.

Our same-store performance is highlighted by NOI growth of 4.2%, achieved by both improved revenue growth and controlled expenses. Specifically, same-store revenue rose 3.6% over the same period last year, driven by improvement in rental rates. Same-store realized rates per square foot increased 3.9% over the third quarter of 2017.

Third quarter same-store expenses, outside of property taxes, were well controlled, increasing only 0.04%. The strengthening of the Life Storage brand on the web over the last year allowed us to again reduce quarterly internet marketing spend, which decreased 9.6% versus the third quarter of 2017. In addition, our store and construction teams are doing a great job improving efficiencies at the stores, and this is showing up on the expense side. As we anticipated, the only significant expense pressure we are seeing is from property taxes, which increased 6.2% in the third quarter.

In addition to the improved performance of our same-store portfolio, we continue to see consistent growth trends at the properties that we purchased at Certificate of Occupancy or very early in the lease-up stage. With quarterly occupancy of 85.7%, these lease-up stores still have significant room to grow.

Our overall third quarter revenue increase also reflected a 10.6% increase in other operating income driven by an increase in Warehouse Anywhere sales.

Our balance sheet remains solid, and we continue to have significant flexibility to capitalize on attractive investment opportunities when they meet our return requirements. At quarter end we had cash on hand of $13.3 million, and $371 million available on our line of credit.

Earlier this week we closed on the refinancing of our bank credit facility, which included extending the maturity on the revolver to March 2023, and reducing the credit spread by 15 basis points at our current investment grade rating. Subsequent to this opportunistic refinancing, we have no debt maturities until June 2020. Our debt service coverage ratio was a healthy 4.9 times and our net debt to recurring EBITDA ratio improved to 5.2 times.

Regarding guidance, we are encouraged by the better than expected results in Q3 and have raised our guidance on annual same-store revenue ranges as well as our annual FFO guidance. Specifically, we significantly increased the midpoint of both our 2018 same-store revenue and NOI growth guidance, and the midpoint of our 2018 FFO per share by $0.04.

As we discussed last quarter, we had a tougher comp in Q4 as a result of new supply and the return to normal trends in Houston and certain Florida markets that benefited from hurricane-driven demand in late 2017. In addition, our Q4 2017 internet marketing spend was reduced substantially as the Life Storage brand relevancy improved, eliminating much of the comparative benefit we have seen year to date. Same-store revenue growth for Q4 is expected to be in the 2.5% to 3% range, and for the year revenue growth is now expected at 3% to 3.5%. Our expense guidance was also reduced slightly.

As a result of these changes to our same-store guidance, we are forecasting adjusted funds from operations for the full year 2018 to be between $5.46 and $5.52 per share, and between $1.35 and $1.39 per share for the fourth quarter of 2018.

With that operator, we can open up the call for questions.

Operator
Thank you. At this time, we will be conducting a question and answer session. [Operator instructions]. Our first question comes from the line of Juan Sanabria with Bank of America/Merrill Lynch. Please proceed with your question.

Q: I was just hoping you guys could give us a little bit of color on same-store revenues on a go-forward basis and how we should think about occupancy particularly with the comps from the hurricanes, which you mentioned. Maybe if you could give us how results are trending to date on a year-over-year basis, as well as the benefit of expansion? It seems like it's been 40 basis points at or thereabouts the last couple of quarters, if that should continue into the foreseeable future.

Andy Gregoire – Chief Financial Officer
Revenue, I think if you look at our guidance we are looking at a tougher comp Q4. With the Houston and Florida markets in 2017, Q4 were very strong from the hurricane-driven demand. Now this year obviously that's a tough comp so we would expect some deceleration. That really showed up in the occupancy at the end of the quarter; we were down 110 basis points, and 70 basis points of that was just related to the hurricane-affected stores.

Other stores were down 40 basis points; we expect that to continue. The easier comp from an occupancy point of view should come late in Q1 when those people moved out. But occupancy-wise, I would expect more than 110% in the fourth quarter just because of tough comp revenue as we have shown 2.5% to 3% in Q4. We're not giving any guidance for next year but I would expect Q1 to be a tough comp just from the hurricane zone.

Q: And then the benefit that you're getting from the renovations and expansion, should that continue that roughly 40 basis points or how sustainable is that or when does that comp become an issue if at all?

Andy Gregoire – Chief Financial Officer
Yes, it's not a perfect calculation but 30 to 40 basis points is probably a reasonable estimate of how it's affecting the revenue. I wouldn't expect any changes. We have a great team down there working on those expansions; they're keeping the flow of them pretty consistent.

So until the total point where we stop doing those, I would think the effect would be very similar because as we take stores, we'll take buildings out of services. As we knock those down, we lose the revenue on them and then it's usually six months to a year later before we replace that revenue with something new. So the net effect by taking some out of service, putting some on, it's been about 30 to 40 basis points and I would expect it to continue.

Q: And then just one more from me on the supply side, can you give us any sense on a three-year rolling basis how the store exposure percentage of total stores changes as you go from 2018 into 2019 if there's any increase/decrease or if it stays the same and by what amount?

David Rogers – Chief Executive Officer

I think for the most part, and balanced across the portfolio, it doesn't change very much. As we mentioned in the prepared remarks, Chicago and Houston are absorbing now, they don't seem, at least as far as we could tell, they have a lot of new supply coming; that'll abate. Dallas and some of the other markets we mentioned are still getting deliveries but by the end of 2019 they'll be pretty much in the absorption phase.

We probably expect some to go to other markets for more secondary or suburban. I think on balance it's pretty consistent 2018, 2019 into 2020. It's just market specific. It rolls as far as what's coming, what's being absorbed, what's past.

Operator
Our next question comes from the line of Jeremy Metz with BMO Capital Markets. Please proceed with your question.

Q: Andy, I just wanted to go back, you talked about Houston and Florida impacts on the Q4 revenue. You mentioned that they'll carry into the first quarter next year. But just as we look past that should we almost think about that as sort of a trough here for revenue?

Andy Gregoire – Chief Financial Officer
It's tough to say right now but definitely in those markets I would think that would be the trough.

Q: And then switching gears you mentioned the joint venture sale progress. It sounds like that first slug will be done by yearend. Just wondering if you can give a little more color on that in terms of the number of assets that's in the first bucket there what sort of proceeds to you guys are we talking about? Are you going to use those for acquisitions and then any sort of goal posts on the yield would be helpful?

David Rogers – Chief Executive Officer
Yes, I think we're in the plus or minus tight range around $100 million expected by yearend. The proceeds are already spoken for by properties we have under contract. I think in terms of accretion/dilution, I think we're in a good spot. I think the assets we're selling we are hoping, we are expecting to keep as third-party managed and in the joint venture. So our part of that joint venture and the fee income should basically take away the dilution you would ordinarily expect by selling stabilized properties and core stores versus the type of properties we're getting.

So, I think just in terms of what you're asking, figure $100 million we expect by yearend to be slightly accretive on that pool. There's a fairly large second pool that we'll be taking to market very soon. We hope to have the same end results to get them into a joint venture or at least third-party management basis, take the proceeds into core plus stores in markets that we already have our presence or maybe even enter a new one.

So, I think for 2019 we would expect again that much or more with the same accretive effect.

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

Q: I just wanted to follow up on the comments around occupancy. You mentioned that it's down on a seasonal basis also year-over-year given the hurricane comps, and I suppose some new capacity entering the system, some new supply growth. Any indication where you might see occupancy portfolio-wide sort of bottom out during the off peak season, and then when does occupancy typically trough in your portfolio?

Andy Gregoire – Chief Financial Officer

Yes, the trough and occupancy is normally at the end of January to mid-February is the low point. So we don't see any changes in that. That's what we would expect. The new supply obviously is a piece of that drop in occupancy but majority of it right now is occurring because of the hurricane-driven demand from the prior year.

Q: Okay. Any thoughts around where you might see that bottom out in late January?

David Rogers – Chief Executive Officer
I would hope it wouldn't be—we're 40 bps down now, so I would hope that would not increase much. This time of year we sort of fight for occupancy so the pressure on street rates comes back a little bit, the incentives go up little bit. So I think at this level we're willing to fight for occupancy and we will. So I would not expect much of a dip from the prior year to the upcoming slower season.

Q: And then switching over to existing customer rent increases and sort of the program there, you've mentioned previously that the company wasn't really increasing rents to in-place customers above street rates in the portfolio and I think now you've changed that policy and strategy. It seems like there would be some upside there just based on sort of the stickiness of the customer. And I was just curious given the churn and the seasoning of the portfolio if you have a sense of how much upside that can present and if you can sort of quantify and help us understand what that opportunity looks like over the next year or two?

Andy Gregoire – Chief Financial Officer
Todd, we do believe there's more upside so this year we did go above street rate. We did have a limit on how much above street rate we would go. So we have the ability to push more above street rates and maybe a little bit higher above that. We're also this year we did a lot of testing of where in the curve, meaning how late after they move in do we give them that first increase. We like some of the results we see so we have more potential there next year.

Impact on revenue? It's difficult to point to that. It's anywhere from 1% to 2% right now. I would expect probably very similar next year.

Q: So when you say 1% to 2%, what exactly does that mean? So the current yield on an average asset you think that there is a 100 or 200 basis points upside as you change the strategy and the rent mix for some of these customers?

Andy Gregoire – Chief Financial Officer
To clarify, 1% to 2% is what I mean the impact, we think, and it's not a perfect science remember because there's move outs and how you replace those customers and what free rent is offered. There's no exact way to calculate the impact of rent increases, but of our rent growth we believe 1% to 2% this year came from that and we think we can get a similar number from that next year.

Operator
Our next question comes from the line of Smedes Rose with Citi. Please proceed with your question.

Q: I wanted to ask you first of all just as you look at acquisition opportunities if you're seeing any change in pricing or cap rates, if you would expect to. It just seems like with an upward bias in interest rates now maybe that should be playing out in the private market and just kind of how you're thinking about external growth now.

David Rogers – Chief Executive Officer
Yes, we wish, Smedes, it was that quick. But overall the cycle, the rises and rates have really eventually trickled through but it takes several quarters. There is also—so we haven't seen any change at all in asking prices and

what owners expect. Sort of exacerbating that is the fact that there's a lot of private capital wanting to get in the space, there just is. It's remarkable the pressure on prices.

So from last quarter to the quarter before to last summer there has been almost no perceptible change in cap rates for properties, especially stabilized. That's probably the best barometer because a lot of the variables are taken out of the equation when you're valuing them.

But we have seen, as is evidenced by some of the purchases we made this quarter by the pipeline that we have, Joe Saffire pretty much realigned our team in-house here over the past year. So we have sort of a coordinated effort with our third-party management solicitation team and our acquisitions team finding properties; we've had good relationships with a lot of people over 25 plus years. We were able to bring in one of our third-party managed stores; we have another one under contract that we're bringing in.

So they're there but the pencil has to be sharp; it has to fit. I think that's really where it makes sense, as we get some synergies by buying properties in markets where we already have a presence. We're doing a lot of one-off now which our history has shown that pretty much when we take a property that hasn't been exposed to platforms, we can get the return up there but it's tough. And the short answer is there has been no perceptible move.

We don't really expect one for the next few quarters. Even if interest rates were to grow by 30 to 60, 70 basis points I don't think you're going to see that much of a change in pricing in the near future.

Q: And I guess I just wanted to ask you, could you maybe just talk about what you saw in the third quarter on street rates versus in-place rates and maybe what you're seeing thus far in the fourth quarter?

Andy Gregoire – Chief Financial Officer
Sure, Smedes. Street rates in 3Q were up about 1.6% increase over the prior year. Free rent was up as well, so it was up from 2.8% of revenue in 2017 Q3 to 2.9% in this quarter, down from last quarter's 3%, but 2.9 this quarter. So, the net effect is we're about 50 basis—about 0.5% up effective rent, very similar so far in the fourth quarter.

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

Q: Can we go back to the existing customer rate increase program? It seems like to me that change in the philosophy of that program to increase the number of tenants getting it and the level of increase as well contributing 100 to 200 basis points of same-store revenue growth is pretty important. My question is basically can you recap how many more customers are getting this increase, what the level of increase is versus what it has been? And when does that benefit actually start to wind down? I know it can take a while because of the season customers enter that program. When should we expect that to tail off?

Andy Gregoire – Chief Financial Officer
Sure, Ki Bin. The number of customers year-to-date have—the increase we put out were 149,000 versus last year 63,000, so obviously we've done a lot more. We've moved in the curve where we do them, pushing customers above street rate has changed how many we do so that has changed. The actual percentage increase they're receiving has not changed much. Last Q3 it was 9.8%, this Q3 9.6%, so still pretty significant increases going to those current customers.

Move-out rates been relatively consistent other than the ones we do earlier in the curve, which we would expect it to be higher because most of our customers are—I shouldn't say, half of customers are gone by six-and-a-half months, so when we put them earlier in the curve you're hitting customers that would have moved out anyway. So the move-out rate did tick up year-over-year but we attribute that to where we did those in the curve.

Q: So when should this benefit tail off?

Andy Gregoire – Chief Financial Officer
I think we have some more strategic items we can do on that side of the ledger next year. So we're comfortable that we have some good tailwinds pushing us into next year.

Q: And just last question, how much money are you making in absolute dollar terms roughly in the Warehouse Anywhere program in the third quarter? I'm just trying to get a sense of where that is and where it can grow to.

Andy Gregoire – Chief Financial Officer
I have the annualized numbers in front of me. So when you look at the Warehouse Anywhere, there's two pieces of it. There's the rental of the space, and it's about $4 million a year the rental of the space that those customers are in. And then on top of that, the fees we receive from our customers, whether they be in the retail side or on the equipment side, those that service the ATMs, those fees that we get are about $7.5 million on an annualized basis. So, we're about $11.5 million total revenue coming from all assets of that program including the rent part.

Q: And how do you balance that versus taking some inventory out from just the regular retail customer?

David Rogers – Chief Executive Officer
Well I think what it does, Ki Bin, is it adds pressure to the system in terms of we got more occupancy, we got good customers that we know we can raise rates to. We like commercial customers first, and the less things we have, the more we can charge for those who want to get in.

So it's not a justification of taking it away from retailers, basically filling our spaces and making the incremental rates on those spaces more valuable.

Operator
[Operator instructions]. Our next question comes from the line of Jonathan Hughes with Raymond James. Please proceed with your question.

Q: So growth in the third-party management platform has been very strong. Can you just talk about why the owner of the 42 property platform left one of your competitors? Was it strictly pricing related, maybe performance related? I'm just trying to understand the switch which is great for you and a vote of confidence in your platform.

David Rogers – Chief Executive Officer
We've known the owner for a long time. Our acquisition guys have kept in touch with him. We know the markets; we've been down there since probably 1996. So, I think we have—when he put it up for bid, we were happy to go down. Joe took a team down there and we sort of meshed culturally in a very good way.

So I think this is one where we were happy to get a pool of 42 established and stabilized stores and because we know the market, because we like the properties, because we got on the same page with the owner knowing what his objectives are, I think it was a good fit. He's a quality operator, he's got good stores, he's going to be demanding—all of our third party clients are demanding—but we think we're on the same page, and we have a good cultural fit.

I think you're going to see, Jonathan, more of this. And these assets are big dollar value; they're a big part of most of our clients' net worth. Given the fact now that there are options for them to go to, they're going to say, geez, I've had you here for four or five years, and not so much on this type but a lot of times on the development deals, you see a fair amount of impatience. And when these things were penciled out and put to paper and then put into the ground, these owners have very high expectations. We tried—and I heard the other guys on their call say the same thing—we try to temper the expectations. A lot of the low hanging fruit's been taken. But yes, these guys are anxious to see their stores do very well.

It's like a football coach or a hockey coach, you do so much for so long and they say you know what it's not going the way quite the way I thought, time to change. I got to say I don't know that we're all that different but nonetheless the owners are wanting to see responses there, so they want to see results and they want to see a culture fit.

So we were able to go in with some of the things that we've done, Rent Now, our B2B, those kinds of things. I think that's how we won this particular deal and our experience in the market. But it's a competitive game and it's going to be that way I think going forward more and more.

Q: Are you scheduled to operate the eight properties that are under construction that are going to open over the next year-and-a-half or so?

David Rogers – Chief Executive Officer
Yes, that's part of, I think, the overall plan. It would be crazy not to, but yes.

Q: And then just one more, but looking at the 22 stores that are in lease-up and outside of the same-store bucket, I know your threshold for adding is the second year after reaching 80% occupancy and when I look at that I only see 3 that are not there. So, fair to assume that 19 of those 22 are going to be added to the pool next year?

Andy Gregoire – Chief Financial Officer
No, I don't think you would see that many. You'd probably see half. Not only do they have to be at stable occupancies above 80 but they have to be at stable rates, Jonathan. So we haven't made that decision yet but we'll look back at the date and see what was stable. But we'll be clear with you on which ones we're going to add come February when we give our guidance for next year.

Q: And then actually just one more, can you just talk about the sequential revenue growth acceleration in Atlanta? That's a market that's seen a lot of new supply. I'm just curious if there's strength there. Maybe that new supply is not in your sub-markets but the acceleration from last quarter just caught my eye. Thanks.

Andy Gregoire – Chief Financial Officer
Atlanta, it's a strong market for us. It had a tough comp last quarter and it had an unusual benefit of some cell tower income. So there was an unusual item in the cell tower income in 2017, so Q2 2018 actually was negative in Atlanta. But Atlanta has been strong for us; we have good stores in Atlanta. Yes, there's a lot of competition but our stores are not as affected as others in that market. I think we're over 4% revenue growth there. It's a strong market and we like that market.

Operator
Our next question comes from the line of Eric Frankel with Green Street Advisors. Please proceed with your question.

Q: Just one quick question. In your guidance, can you just explain why your fourth quarter NOI growth range is a little bit tighter than your annual NOI growth range, or wider rather?

Andy Gregoire – Chief Financial Officer
Yes, I think the wideness happens because of property taxes. In one quarter when you can have the swing in property taxes, which a lot of our Florida and Texas markets solidify in the fourth quarter, and we adjust those estimates, that's what swings and could swing the NOI a lot. You can really easily go from high end to low end of that property tax range.

Q: Right, I'm sorry. I was just—I got my terminology mixed up. I mean your annual guidance is wider than your fourth quarter guidance. I would think it would be the opposite.

Andy Gregoire – Chief Financial Officer
No, I think it's the same explanation. It's the way property taxes can come in and we try to put a range out there to give people an idea where the midpoint would be; it's tough to always keep that guidance tight. You want to give yourself some flexibility.

Q: Right. But if three quarters of your full-year guidance is already baked in, I wasn't sure why that number isn't a little bit more predictable.

Andy Gregoire – Chief Financial Officer
I think it's just again looking at the midpoint and putting a range around there. I think there's no science to it.

Operator
Our next question comes from the line of Samir Khanal with Evercore. Please proceed with your question.

Q: I'm sorry if I missed this but on the non-core properties that you're putting into the JV with the two pools, did you say anything about sort of pricing or maybe where pricing is coming in versus maybe your expectations?

David Rogers – Chief Executive Officer
It is good or better than we expected. We had some pretty good data points with a couple of the big deals that came out of what we actually, and I think our buyer, considered perhaps lesser quality than we even put out. So we got a little bit of a portfolio premium. So they're definitely market priced and they're core properties but they're market priced. So they came in where we had hoped.

Operator
Our next question comes from the line of Omotayo Okusanya with Jefferies. Please proceed with your question.

Q: I just had a quick question around C of O deals. Just given all the concern about rising supply, construction delays, things of that sort, are you underwriting C of O deals any differently now versus say 6 to 12 months ago?

David Rogers – Chief Executive Officer
Well, we're hardly underwriting any and those that we are have been up and running a bit. So we kind of got out of the CO game a couple years ago just because the spreads were unattractive to us. It seemed like they came in and they'd pay—we were getting the value we were able to create was less than the valuation put on the lease-up part of the equation, just shrunk to an untenable amount.

So some of them stuff we're buying though and that we have under contract is in the 30% to 60% lease-up stage. One of those is one that we're managing. I do think it's tougher. You're seeing construction costs go up, you're seeing lease-up times go up, you're seeing rents being more competitive. So, there's still enough C of O deals out there, obviously, but we have not been too enticed by any of them.

We'll take them on as management of course but as far as buying them given the risk-reward ratio and the amount that developers really want to keep to themselves it's gotten away from us a bit.

Operator
This is our final question. Ladies and gentlemen, we have reached the end, and I would like to turn the call back over to Mr. David Rogers for closing remarks.

David Rogers – Chief Executive Officer
All right. Well thank you, everyone, for your call. We look forward to seeing you in San Francisco next week. I honestly don't think we're going to have much of a different story to tell but we will look forward to seeing you next week. And safe travels, see you there. Thank you.