

November 1, 2018



# National Storage Affiliates Trust Reports Third Quarter 2018 Results

GREENWOOD VILLAGE, Colo.--(BUSINESS WIRE)-- National Storage Affiliates Trust ("NSA" or the "Company") (NYSE: NSA) today reported the Company's third quarter 2018 results.

## Third Quarter 2018 Highlights

- Earnings per share was \$0.03 for the third quarter of 2018.
- Core funds from operations ("Core FFO") was \$0.36 per share for the third quarter of 2018, an increase of 9.1% compared to the third quarter of 2017.
- Same store net operating income ("NOI") was \$44.4 million for the third quarter of 2018, an increase of 5.0% compared to \$42.3 million for the third quarter of 2017, driven by a 4.0% increase in same store total revenues and a 2.0% increase in same store property operating expenses.
- Completed an offering of 5,900,000 common shares resulting in net proceeds of approximately \$176 million.
- Formed a new joint venture (the "2018 Joint Venture"), with NSA as a 25% owner, which acquired a \$1.3 billion portfolio of self storage properties from Simply Self Storage, a portfolio company of a private real estate fund managed by Brookfield Asset Management.
- Subsequent to quarter end, added Southern Self Storage of Palm Beach Gardens, Florida as NSA's ninth Participating Regional Operator ("PRO").

Arlen Nordhagen, Chairman and Chief Executive Officer, commented, "Third quarter 2018 was a transformational growth period for NSA with our new 2018 Joint Venture and its successful acquisition of the Simply Self Storage portfolio. The integration of these new properties under our iStorage brand and management platform is progressing well, and we couldn't be more excited about these properties and team members joining NSA. In addition, the Company invested \$107 million in wholly-owned properties in the third quarter, six of which are located in Puerto Rico and seven of which are located in NSA's existing U.S. markets. Finally, we are extremely pleased to announce that we have entered into agreements to add our ninth PRO, Southern Self Storage, which is led by Bob McIntosh and Peter Cowie, who are active real estate operators with more than 30 years of self storage industry experience."

Tamara Fischer, President and Chief Financial Officer, added, "Operating results for the third quarter 2018 were in-line with our expectations with a 5.0% increase in same store NOI

driven by solid rental rate increases across several key markets. These operating results combined with the growth of our portfolio over the past year generated a 9.1% increase in third quarter 2018 Core FFO per share. During the third quarter, NSA invested over a quarter of a billion dollars in our joint ventures and wholly-owned self storage property acquisitions. With the completion of our follow-on common share offering in July, we continue to maintain the financial flexibility to successfully finish out 2018 and look ahead to another strong year in 2019."

## Financial Results

(\$ in thousands, except per share and unit data)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	Growth	2018	2017	Growth
<b>Net income</b>	<u>\$16,829</u>	<u>\$11,226</u>	<u>49.9%</u>	<u>\$41,843</u>	<u>\$33,983</u>	<u>23.1%</u>
<b>Funds From Operations ("FFO")<sup>(1)</sup></b>	<u>\$31,083</u>	<u>\$23,650</u>	<u>31.4%</u>	<u>\$84,177</u>	<u>\$67,102</u>	<u>25.4%</u>
Add back acquisition costs and NSA's share of unconsolidated real estate venture acquisition costs	141	140	0.7%	471	472	(0.2)%
<b>Core FFO<sup>(1)</sup></b>	<u>\$31,224</u>	<u>\$23,790</u>	<u>31.2%</u>	<u>\$84,648</u>	<u>\$67,574</u>	<u>25.3%</u>
<b>Earnings (loss) per share - basic and diluted</b>	<u>\$ 0.03</u>	<u>\$ 0.03</u>	<u>—</u>	<u>\$ 0.25</u>	<u>\$ 0.09</u>	<u>177.8%</u>
<b>FFO per share and unit<sup>(1)</sup></b>	<u>\$ 0.36</u>	<u>\$ 0.32</u>	<u>12.5%</u>	<u>\$ 1.01</u>	<u>\$ 0.92</u>	<u>9.8%</u>
<b>Core FFO per share and unit<sup>(1)</sup></b>	<u>\$ 0.36</u>	<u>\$ 0.33</u>	<u>9.1%</u>	<u>\$ 1.01</u>	<u>\$ 0.93</u>	<u>8.6%</u>

(1) Non-GAAP financial measures, including FFO, Core FFO and NOI, are defined in the Glossary in the supplemental financial information and, where appropriate, reconciliations of these measures and other non-GAAP financial measures to their most directly comparable GAAP measures are included in the Schedules to this press release and in the supplemental financial information.

Net income increased \$5.6 million for the third quarter of 2018 and increased \$7.9 million year-to-date as compared to the same periods in 2017. The increase was primarily the result of incremental NOI generated from 81 self storage properties acquired between October 1, 2017 and September 30, 2018 and same store NOI growth, partially offset by increases in depreciation and amortization and interest expense.

Third quarter 2018 basic and diluted earnings per share remained flat at \$0.03 per share and for the nine months ended September 30, 2018 ("year-to-date") basic and diluted earnings per share increased \$0.16 per share. The increases in year-to-date basic and diluted earnings per share resulted from decreases in net income attributable to noncontrolling interests as compared to the same period in 2017, due to the allocation of net income to noncontrolling interests pursuant to GAAP. Additional information on NSA's allocation of net income (loss) can be found in the Glossary to the supplemental financial information under "Hypothetical Liquidation at Book Value Method."

Third quarter 2018 FFO per share increased 12.5% and Core FFO per share increased 9.1%, and year-to date FFO per share increased 9.8% and Core FFO per share increased 8.6%. The increases in FFO and Core FFO were primarily the result of incremental NOI from 81 self storage properties acquired between October 1, 2017 and September 30, 2018 and same store NOI growth, partially offset by higher interest expense and the payment of dividends on preferred shares issued during the fourth quarter of 2017 to fund the Company's growth.

## Same Store Operating Results (376 Properties)

(\$ in thousands, except per square foot data)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	Growth	2018	2017	Growth
Total rental and other property-related revenue	\$64,640	\$62,140	4.0%	\$187,860	\$180,718	4.0%
Property operating expenses	20,237	19,835	2.0%	59,713	58,092	2.8%
<b>Net Operating Income (NOI)</b>	<b>\$44,403</b>	<b>\$42,305</b>	<b>5.0%</b>	<b>\$128,147</b>	<b>\$122,626</b>	<b>4.5%</b>
<b>NOI Margin</b>	<b>68.7%</b>	<b>68.1%</b>	<b>0.6%</b>	<b>68.2%</b>	<b>67.9%</b>	<b>0.3%</b>
<b>Average Occupancy</b>	<b>90.3%</b>	<b>90.4%</b>	<b>(0.1)%</b>	<b>89.3%</b>	<b>89.4%</b>	<b>(0.1)%</b>
<b>Average Annualized Rental Revenue Per Occupied Square Foot</b>	<b>\$ 12.15</b>	<b>\$ 11.70</b>	<b>3.8%</b>	<b>\$ 11.91</b>	<b>\$ 11.47</b>	<b>3.8%</b>

Year-over-year same store total revenues increased 4.0% for the third quarter of 2018 and year-to-date. The increases in both periods were driven primarily by a 3.8% increase in average annualized rental revenue per occupied square foot partially offset by a 10 basis point decrease in average occupancy.

Year-over-year same store property operating expenses increased 2.0% for the third quarter of 2018 and 2.8% year-to-date. These increases primarily resulted from increases in property taxes and personnel costs.

## Investment Activity

During the third quarter of 2018, NSA formed the 2018 Joint Venture with an affiliate of Heitman America Real Estate REIT LLC (the "2018 JV Investor"). The 2018 Joint Venture was capitalized with approximately \$639.7 million in equity (approximately \$159.9 million from NSA in exchange for a 25% ownership interest and approximately \$479.8 million from the 2018 JV Investor in exchange for a 75% ownership interest) and proceeds from a \$643.0 million interest-only secured debt financing with an interest rate of 4.34% per annum and a maturity of 10 years.

In September, the 2018 Joint Venture completed the acquisition of a portfolio of 112 self storage properties located across 17 states and Puerto Rico, consisting of over 8 million rentable square feet configured in over 68,000 storage units for an aggregate purchase price of approximately \$1.325 billion (the "2018 JV Acquisition"). Immediately following the closing of the 2018 JV Acquisition, the 2018 Joint Venture distributed six self storage properties in the 2018 JV Acquisition located in Puerto Rico and a single self storage property located in Ohio to NSA. Substantially all of the properties that remain in the 2018 Joint Venture are operated by NSA's management platform under the iStorage brand. Additional information about the 2018 Joint Venture and the 2018 JV Acquisition are available on NSA's website at [www.nationalstorageaffiliates.com](http://www.nationalstorageaffiliates.com) under Investor Relations > Corporate Presentations.

In addition to the seven self storage properties acquired by NSA from the 2018 Joint Venture discussed above, during the third quarter of 2018, NSA also acquired six wholly-owned self storage properties located in six states. In total, these 13 self storage properties consist of approximately 0.9 million rentable square feet configured in approximately 8,000 storage units. Consideration for these acquisitions included approximately \$102.0 million of net cash, the issuance of approximately \$3.7 million of OP equity and the assumption of approximately \$0.9 million of other working capital liabilities.

During the third quarter of 2018, NSA's 2016 Joint Venture acquired two self storage properties and an expansion project adjacent to an existing property, consisting of approximately 0.1 million rentable square feet configured in approximately 900 storage units for \$19.0 million. The 2016 Joint Venture financed these acquisitions with capital contributions from the 2016 Joint Venture members, of which NSA contributed approximately \$4.9 million for its 25% proportionate share.

## **Balance Sheet**

NSA completed an offering of 5,900,000 common shares in July 2018. The shares were issued at a price of \$29.86 per share, resulting in net proceeds of approximately \$176 million. The Company used a portion of the proceeds from this offering to repay borrowings outstanding under its revolving line of credit and to make capital contributions to the 2018 Joint Venture.

## **Common Share Dividends**

On August 23, 2018, NSA's Board of Trustees declared a quarterly cash dividend of \$0.29 per common share, which was paid on September 28, 2018 to shareholders of record as of September 14, 2018.

## **2018 Guidance**

Although NSA expects certain assumptions included in its previously provided guidance to be affected by the formation of the 2018 Joint Venture, closing of the 2018 JV Acquisition, and the dilution due to the July 2018 equity issuance, NSA reaffirms its previously provided guidance estimate for Core FFO per share for the year ended December 31, 2018.

## **Supplemental Financial Information**

The full text of this earnings release and supplemental financial information, including certain financial information referenced in this release, are available on NSA's website at <http://ir.nationalstorageaffiliates.com/quarterly-reporting> and as exhibit 99.1 to the Company's Form 8-K furnished to the SEC on November 1, 2018.

## **Non-GAAP Financial Measures & Glossary**

This press release contains certain non-GAAP financial measures. These non-GAAP measures are presented because NSA's management believes these measures help investors understand NSA's business, performance and ability to earn and distribute cash to its shareholders by providing perspectives not immediately apparent from net income (loss). These measures are also frequently used by securities analysts, investors and other interested parties. The presentation of FFO, Core FFO and NOI in this press release are not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. In addition, NSA's method of calculating these measures may be different from methods used by other companies, and, accordingly, may not be comparable to similar measures as calculated by other companies that do not use the same methodology as NSA. These measures, and other words and phrases used herein, are defined in the Glossary in the supplemental financial information and, where appropriate, reconciliations of these measures and other non-GAAP financial

measures to their most directly comparable GAAP measures are included in the Schedules to this press release and in the supplemental financial information.

### **Quarterly Teleconference and Webcast**

The Company will host a conference call at 11:00am Eastern Time on Friday, November 2, 2018 to discuss its financial results. At the conclusion of the call, management will accept questions from certified financial analysts. All other participants are encouraged to listen to a webcast of the call by accessing the link found on the Company's website at [www.nationalstorageaffiliates.com](http://www.nationalstorageaffiliates.com).

#### Conference Call and Webcast:

Date/Time: Friday, November 2, 2018, 11:00am ET  
Webcast available at: [www.nationalstorageaffiliates.com](http://www.nationalstorageaffiliates.com)  
Domestic (Toll Free US & Canada): 877.407.9711  
International: 412.902.1014

#### Replay:

Domestic (Toll Free US & Canada): 877.660.6853  
International: 201.612.7415  
Conference ID: 13646795

A replay of the call will be available for one week through Friday, November 9, 2018. A replay of the webcast will be available for 30 days on NSA's website at [www.nationalstorageaffiliates.com](http://www.nationalstorageaffiliates.com).

### **Upcoming Industry Conferences**

NSA management is scheduled to participate in the Nareit REITworld 2018 Annual Conference on November 7-8, 2018 in San Francisco, California.

### **About National Storage Affiliates Trust**

National Storage Affiliates Trust is a Maryland real estate investment trust focused on the ownership, operation and acquisition of self storage properties located within the top 100 metropolitan statistical areas throughout the United States. The Company currently holds ownership interests in and operates 669 self storage properties located in 34 states and Puerto Rico with approximately 42.5 million rentable square feet. NSA is one of the largest owners and operators of self storage properties among public and private companies in the U.S. For more information, please visit the Company's website at [www.nationalstorageaffiliates.com](http://www.nationalstorageaffiliates.com). NSA is included in the MSCI US REIT Index (RMS/RMZ), the Russell 2000 Index of Companies and the S&P SmallCap 600 Index.

### ***NOTE REGARDING FORWARD LOOKING STATEMENTS***

Certain statements contained in this press release constitute forward-looking statements as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and such statements are intended to be covered by the safe harbor provided by the same. Forward-looking statements are

subject to substantial risks and uncertainties, many of which are difficult to predict and are generally beyond the Company's control. These forward-looking statements include information about possible or assumed future results of the Company's business, financial condition, liquidity, results of operations, plans and objectives. Changes in any circumstances may cause the Company's actual results to differ significantly from those expressed in any forward-looking statement. When used in this release, the words "believe," "expect," "anticipate," "estimate," "plan," "continue," "intend," "should," "may" or similar expressions are intended to identify forward-looking statements. Statements regarding the following subjects, among others, may be forward-looking: market trends in the Company's industry, interest rates, the debt and lending markets or the general economy; the Company's business and investment strategy; the acquisition of properties, including those under contract, our ability to execute on our acquisition pipeline; the timing of acquisitions under contract; and the Company's guidance estimates for the year ended December 31, 2018. For a further list and description of such risks and uncertainties, see the Company's most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission, and the other documents filed by the Company with the Securities and Exchange Commission. The forward-looking statements, and other risks, uncertainties and factors are based on the Company's beliefs, assumptions and expectations of its future performance, taking into account all information currently available to the Company. Forward-looking statements are not predictions of future events. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

**National Storage Affiliates Trust**  
**Consolidated Statements of Operations**  
(in thousands, except per share amounts)  
(unaudited)

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>REVENUE</b>				
Rental revenue	\$ 79,547	\$ 64,715	\$226,577	\$182,713
Other property-related revenue	2,687	2,145	7,557	6,071
Management fees and other revenue	3,148	1,998	7,464	5,978
Total revenue	<u>85,382</u>	<u>68,858</u>	<u>241,598</u>	<u>194,762</u>
<b>OPERATING EXPENSES</b>				
Property operating expenses	26,552	21,618	76,962	61,170
General and administrative expenses	8,848	7,480	25,614	22,066
Depreciation and amortization	22,469	18,463	66,226	54,946
Total operating expenses	<u>57,869</u>	<u>47,561</u>	<u>168,802</u>	<u>138,182</u>
Income from operations	<u>27,513</u>	<u>21,297</u>	<u>72,796</u>	<u>56,580</u>
<b>OTHER (EXPENSE) INCOME</b>				
Interest expense	(10,656)	(9,157)	(30,763)	(24,788)
Equity in earnings (losses) of unconsolidated real estate ventures	242	(710)	290	(2,260)
Acquisition costs	(141)	(139)	(471)	(450)
Non-operating income (expense)	153	(9)	69	(75)
Gain on sale of self storage properties	—	106	391	5,743
Other expense	<u>(10,402)</u>	<u>(9,909)</u>	<u>(30,484)</u>	<u>(21,830)</u>
<b>Income before income taxes</b>	<u>17,111</u>	<u>11,388</u>	<u>42,312</u>	<u>34,750</u>
Income tax expense	<u>(282)</u>	<u>(162)</u>	<u>(469)</u>	<u>(767)</u>
<b>Net income</b>	<u>16,829</u>	<u>11,226</u>	<u>41,843</u>	<u>33,983</u>
Net income attributable to noncontrolling interests	<u>(12,435)</u>	<u>(9,955)</u>	<u>(21,098)</u>	<u>(29,790)</u>
<b>Net income attributable to National Storage Affiliates Trust</b>	<u>4,394</u>	<u>1,271</u>	<u>20,745</u>	<u>4,193</u>
Distributions to preferred shareholders	<u>(2,588)</u>	<u>—</u>	<u>(7,763)</u>	<u>—</u>
<b>Net income attributable to common shareholders</b>	<u>\$ 1,806</u>	<u>\$ 1,271</u>	<u>\$ 12,982</u>	<u>\$ 4,193</u>
<b>Earnings (loss) per share - basic and diluted</b>	<u>\$ 0.03</u>	<u>\$ 0.03</u>	<u>\$ 0.25</u>	<u>\$ 0.09</u>
<b>Weighted average shares outstanding - basic and diluted</b>	<u>55,722</u>	<u>44,269</u>	<u>52,189</u>	<u>43,967</u>

**National Storage Affiliates Trust**  
**Consolidated Balance Sheets**  
(dollars in thousands, except per share amounts)  
(unaudited)

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
<b>ASSETS</b>		
Real estate		
Self storage properties	\$ 2,584,066	\$ 2,275,233
Less accumulated depreciation	(226,086)	(170,358)
Self storage properties, net	2,357,980	2,104,875
Cash and cash equivalents	15,045	13,366
Restricted cash	4,704	3,041
	1,503	2,185
Debt issuance costs, net		
Investment in unconsolidated real estate ventures	250,769	89,093
Other assets, net	85,417	52,615
Assets held for sale	—	1,555
Total assets	<u>\$ 2,715,418</u>	<u>\$ 2,266,730</u>
<b>LIABILITIES AND EQUITY</b>		
Liabilities		
Debt financing	\$ 1,229,241	\$ 958,097
Accounts payable and accrued liabilities	36,036	24,459
Deferred revenue	15,787	12,687
Total liabilities	1,281,064	995,243
Equity		
Preferred shares of beneficial interest, par value \$0.01 per share. 50,000,000 authorized, 6,900,000 issued and outstanding at September 30, 2018 and December 31, 2017, at liquidation preference	172,500	172,500
Common shares of beneficial interest, par value \$0.01 per share. 250,000,000 shares authorized, 56,555,690 and 50,284,934 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	565	503
Additional paid-in capital	842,679	711,467
Distributions in excess of earnings	(87,903)	(55,729)
Accumulated other comprehensive income	22,679	12,282
Total shareholders' equity	950,520	841,023
Noncontrolling interests	483,834	430,464
Total equity	1,434,354	1,271,487
Total liabilities and equity	<u>\$ 2,715,418</u>	<u>\$ 2,266,730</u>



# Reconciliation of Net Income to FFO and Core FFO

(in thousands, except per share and unit amounts) (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Net income</b>	<b>\$16,829</b>	<b>\$11,226</b>	<b>\$41,843</b>	<b>\$33,983</b>
Add (subtract):				
Real estate depreciation and amortization	22,164	18,187	65,332	53,773
Company's share of unconsolidated real estate venture real estate depreciation and amortization	1,954	2,042	4,709	5,832
Gain on sale of self storage properties	—	(106)	(391)	(5,743)
Company's share of unconsolidated real estate venture loss on sale of properties	205	—	205	—
Distributions to preferred shareholders and unitholders	(2,711)	—	(8,106)	—
FFO attributable to subordinated performance unitholders <sup>(1)</sup>	(7,358)	(7,699)	(19,415)	(20,743)
<b>FFO attributable to common shareholders, OP unitholders, and LTIP unitholders</b>	<b>31,083</b>	<b>23,650</b>	<b>84,177</b>	<b>67,102</b>
Add:				
Acquisition costs	141	139	471	450
Company's share of unconsolidated real estate venture acquisition costs	—	1	—	22
<b>Core FFO attributable to common shareholders, OP unitholders, and LTIP unitholders</b>	<b>\$31,224</b>	<b>\$23,790</b>	<b>\$84,648</b>	<b>\$67,574</b>
<b>Weighted average shares and units outstanding - FFO and Core FFO: <sup>(2)</sup></b>				
Weighted average shares outstanding - basic	55,722	44,269	52,189	43,967
Weighted average restricted common shares outstanding	29	27	30	24
Weighted average OP units outstanding	28,910	26,361	29,009	25,984
Weighted average DownREIT OP unit equivalents outstanding	1,835	1,835	1,835	1,835
Weighted average LTIP units outstanding	715	603	689	1,095
<b>Total weighted average shares and units outstanding - FFO and Core FFO</b>	<b>87,211</b>	<b>73,095</b>	<b>83,752</b>	<b>72,905</b>
<b>FFO per share and unit</b>	<b>\$ 0.36</b>	<b>\$ 0.32</b>	<b>\$ 1.01</b>	<b>\$ 0.92</b>
<b>Core FFO per share and unit</b>	<b>\$ 0.36</b>	<b>\$ 0.33</b>	<b>\$ 1.01</b>	<b>\$ 0.93</b>

(1) Amounts represent distributions declared for subordinated performance unitholders and DownREIT subordinated performance unitholders for the periods presented.

(2) NSA combines OP units and DownREIT OP units with common shares because, after the applicable lock-out periods, OP units in the Company's operating partnership are redeemable for cash or, at NSA's option, exchangeable for common shares on a one-for-one basis and DownREIT OP units are also redeemable for cash or, at NSA's option, exchangeable for OP units in the Company's operating partnership on a one-for-one basis, subject to certain adjustments in each case. Subordinated performance units, DownREIT subordinated performance units, and LTIP units may also, under certain circumstances, be convertible into or exchangeable for common shares (or other units that are convertible into or exchangeable for common shares). See footnote(3) for additional discussion of subordinated performance units, DownREIT subordinated performance units, and LTIP units in the calculation of FFO and Core FFO per share and unit.

# Reconciliation of Earnings (Loss) Per Share - Diluted to FFO and Core FFO Per Share and Unit

(in thousands, except per share and unit amounts) (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Earnings (loss) per share - diluted</b>	<b>\$ 0.03</b>	<b>\$ 0.03</b>	<b>\$ 0.25</b>	<b>\$ 0.09</b>
Impact of the difference in weighted average number of shares <sup>(3)</sup>	—	(0.02)	(0.10)	(0.04)
Impact of GAAP accounting for noncontrolling interests, two-class method and treasury stock method <sup>(4)</sup>	0.14	0.14	0.25	0.41
Add real estate depreciation and amortization	0.25	0.25	0.78	0.74
Add Company's share of unconsolidated real estate venture real estate depreciation and amortization	0.02	0.03	0.06	0.08
Subtract gain on sale of self storage properties	—	—	—	(0.08)
FFO attributable to subordinated performance unitholders	(0.08)	(0.11)	(0.23)	(0.28)
<b>FFO per share and unit</b>	<b>0.36</b>	<b>0.32</b>	<b>1.01</b>	<b>0.92</b>
Add acquisition costs and Company's share of unconsolidated real estate venture acquisition costs	—	0.01	—	0.01
<b>Core FFO per share and unit</b>	<b>\$ 0.36</b>	<b>\$ 0.33</b>	<b>\$ 1.01</b>	<b>\$ 0.93</b>

(3) Adjustment accounts for the difference between the weighted average number of shares used to calculate diluted earnings per share and the weighted average number of shares used to calculate FFO and Core FFO per share and unit. Diluted earnings per share is calculated using the two-class method for the company's restricted common shares and the treasury stock method for certain unvested LTIP units, and assumes the conversion of vested LTIP units into OP units on a one-for-one basis and the hypothetical conversion of subordinated performance units, and DownREIT subordinated performance units into OP units, even though such units may only be convertible into OP units (i) after a lock-out period and (ii) upon certain events or conditions. For additional information about the conversion of subordinated performance units and DownREIT subordinated performance units into OP units, see Note 10 to the Company's most recent Annual Report on Form 10-K, filed with the Securities and Exchange Commission. The computation of weighted average shares and units for FFO and Core FFO per share and unit includes all restricted common shares and LTIP units that participate in distributions and excludes all subordinated performance units and DownREIT subordinated performance units because their effect has been accounted for through the allocation of FFO to the related unitholders based on distributions declared.

(4) Represents the effect of adjusting the numerator to consolidated net income (loss) prior to GAAP allocations for noncontrolling interests, after deducting preferred share and unit distributions, and before the application of the two-class method and treasury stock method, as described in footnote(3).

## Net Operating Income

(dollars in thousands) (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Net income</b>	<b>\$ 16,829</b>	<b>\$ 11,226</b>	<b>\$ 41,843</b>	<b>\$ 33,983</b>
(Subtract) add:				
Management fees and other revenue	(3,148)	(1,998)	(7,464)	(5,978)
General and administrative expenses	8,848	7,480	25,614	22,066
Depreciation and amortization	22,469	18,463	66,226	54,946
Interest expense	10,656	9,157	30,763	24,788
Equity in (earnings) losses of unconsolidated real estate ventures	(242)	710	(290)	2,260
Acquisition costs	141	139	471	450
Income tax expense	282	162	469	767
Gain on sale of self storage properties	—	(106)	(391)	(5,743)
Non-operating (income) expense	(153)	9	(69)	75
<b>Net Operating Income</b>	<b>\$ 55,682</b>	<b>\$ 45,242</b>	<b>\$ 157,172</b>	<b>\$ 127,614</b>

**EBITDA and Adjusted EBITDA**

(dollars in thousands) (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Net income</b>	<b>\$16,829</b>	<b>\$ 11,226</b>	<b>\$ 41,843</b>	<b>\$ 33,983</b>
Add:				
Depreciation and amortization	22,469	18,463	66,226	54,946
Company's share of unconsolidated real estate venture depreciation and amortization	1,954	2,042	4,709	5,832
Interest expense	10,656	9,157	30,763	24,788
Income tax expense	282	162	469	767
<b>EBITDA</b>	<b>52,190</b>	<b>41,050</b>	<b>144,010</b>	<b>120,316</b>
Add (subtract):				
Acquisition costs	141	139	471	450
Company's share of unconsolidated real estate venture acquisition costs	—	1	—	22
Gain on sale of self storage properties	—	(106)	(391)	(5,743)
Company's share of unconsolidated real estate venture loss on sale of properties	205	—	205	—
Equity-based compensation expense <sup>(1)</sup>	1,022	921	2,808	2,844
<b>Adjusted EBITDA</b>	<b>\$53,558</b>	<b>\$ 42,005</b>	<b>\$147,103</b>	<b>\$117,889</b>

(1) Equity-based compensation expense is a non-cash item that is included in general and administrative expenses in NSA's consolidated statements of operations.

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