

**Transcript of  
Life Storage  
First Quarter 2018 Earnings Release Conference Call  
May 3, 2018 - Edited**

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## Participants

David Rogers – Chief Executive Officer  
Diane Piegza – Vice President, Investor Relations  
Andrew Gregoire – Chief Financial Officer

## Analysts

Juan Sanabria – Bank of America/Merrill Lynch  
Jeremy Metz – BMO Capital Markets  
Todd Thomas – KeyBank Capital Markets  
Stephen Gould – SunTrust Robinson Humphrey  
George Hogle – Jefferies  
Robert Simone – Evercore  
Todd Stender – Wells Fargo

## Presentation

### Operator

Greetings, and welcome to Life Storage First 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.

It is now my pleasure to introduce your host, Diane Piegza, Vice President, Investor Relations of Life Storage. Thank you, you may begin.

### Diane Piegza – Vice President, Investor Relations

Thank you and welcome to our First Quarter 2018 conference call. Leading today's discussion will be Dave Rogers, our Chief Executive Officer, along with Andy Gregoire, our 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 supplements can be found on the Investor Relations page at [lifestorage.com](http://lifestorage.com).

During today's question and answer session, we ask that you limit yourself to two questions to allow time for everyone who wishes to participate. You may re-queue with any follow questions.

With that, I'll turn the call over to Dave.

### David Rogers – Chief Executive Officer

Thanks, Diane, and welcome, everyone, to our call. Last night we reported adjusted FFO of \$1.30 per share for the first quarter showing pretty significant improvement in most of our markets. We see good demand across the portfolio. Even during the slower season of our rental cycle, signs remain encouraging. We've also been able to augment our residential tenants with greater penetration into the business sector, especially at the 120 new stores we added in 2016. There's good opportunity for us there because prior management didn't exploit this market segment very effectively.

We ended the quarter with 91.2% same store occupancy, which is 110 bps higher than last year's Q1 end and a record for us at this time of the year. By every measure, our customer base is strong. They're absorbing rate increases well, accounts receivables balances remain in check, frequency of customers taken to auction is unchanged, and ancillary income sales are higher.

The rebranding issues we experience last summer and fall are behind us. Our web presence is where it should be and we look forward to getting in front of our customers with some great advertising programs themed around the Life Storage brands this busy season.

Concerning store performance, we had, as expected, really solid growth in the markets we entered via the Life Storage transaction – Las Vegas, Sacramento and L.A. Most of Florida, Beaumont, TX, upstate New York and New England are also performing well. Houston had a nice quarter, but we might see some slippage there later in the year as the bump we got from Hurricane Harvey abates.

Regarding our "watch" markets – those where we forecast less than portfolio wide growth – San Antonio, Dallas and Austin are fighting their way through the supply issues we've talked about over the past few quarters, and Chicago and Miami are feeling some influx. We don't expect these two though to take nearly the punch that Texas has, at least relating to our specific properties in those markets.

Looking at the transaction market, valuations remain high and we see little movement in asset pricing over the past few quarters. There aren't a lot of data points, although a few mid-sized, reduced quality portfolios are on the market right now. There is continued strong interest from the private sector for storage properties of all classes.

Our third party management platform, Life Storage Solutions, continues to ramp up, and while only a net of 10 stores were added this quarter, a lot of owners have entered into contracts with us for starts later in the year. Most of these are development properties, so the exact commencement dates are a bit fluid, but we remain on track to add up to 75 new stores to the program this year.

Several important changes have been made to our Board of Directors and to our senior management team. Two of the founders of our Company, Robert Attea, Executive Chairman of the Board, and Kenneth Myszka, President, are now stepping down and retiring from the Board after having led Life Storage for over 35 years. Bob, Ken, along with our other co-founder, Chuck Lannon, and I, have worked together since acquiring our very first storage facility in 1985, and we thank them for their leadership and guidance in building this Company.

With their retirement, Dana Hamilton and Edward Pettinella, two seasoned and highly respected REIT veterans, and I, have been appointed to the Board. We join Carol Hansell, a corporate governance expert who was added to the Board in late 2017, and our four incumbent directors to guide the growth and improvement of our Company going forward.

To sum up, let me state that we're entering 2Q and the rest of the year at record high occupancy. We have a solid customer base and a growing B2B market. We have a great brand driven by a rejuvenated marketing platform. Our Life Storage Solutions division is driving new opportunities. Our balance sheet is rock solid, and

our debt maturity and liquidity positions are excellent. And we have a newly refreshed and outstanding Board of Directors with a diverse and critical set of REIT focused skills. So, we're really pretty bullish as we move into 2018's busy season.

Andy, go ahead.

**Andrew Gregoire – Chief Financial Officer**

Thanks, Dave. As Dave mentioned, last night we reported quarterly adjusted funds from operations of \$1.30 per share compared to adjusted FFO of \$1.26 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 C of O and lease up store growth that exceeded our estimates.

Same store quarterly revenue grew 2.5% as a result of occupancy gains and a slight improvement in rental rates. Same store occupancy at March 31st was a first quarter record high for our company at 91.2%, a 110-basis point increase over 2017's March occupancy.

First quarter same store expenses outside of property taxes were well controlled, increasing less than 1%. As expected, the Life Storage brand has gained significant presence on the web and allowed us to reduce internet marketing spend by approximately 18% versus the first quarter of 2017. As we anticipated, property taxes increased 6% in the first quarter, with significant increases expected in Houston, Austin, Chicago, St. Louis and certain Florida markets.

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. Even though Q1 is the traditionally slower season, occupancy for these lease-up stores increased 390 basis points from December 31, 2017 to March 31, 2018. With quarter end occupancy of 81.6%, these lease-up stores have significant room to grow. Our overall first quarter revenue increase also reflected a 31.7% increase in management fee income to \$2.4 million, as the strength of the Life Storage brand is resonating with independent owners and developers.

Our balance sheet remains very strong. At quarter end we had cash on hand of \$7.8 million, and \$370 million available on our line of credit.

We have no debt maturities until December 2019. Our debt service coverage ratio was a healthy 4.6 times and our net debt to recurring EBITDA ratio was 5.7 times.

With regard to guidance, we are encouraged by the better than expected results in Q1 and have raised our annual same store revenue guidance ranges and our annual FFO guidance. We do expect headwinds in the second half of the year as a result of new supply and the normalization of the Houston market. Same store revenue growth for Q2 is expected to be in the 2.25% to 3.25% range, and for the year revenue growth is now expected at 1.75% to 2.75%. Our expense guidance remains unchanged.

As a result of the changes to our same store guidance, we are forecasting adjusted funds from operations for the full year 2018 to be between \$5.36 and \$5.43 per share, and between \$1.32 and \$1.36 per share for the second quarter of 2018.

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

**Operator**

Thank you. The floor is now open for questions. [Operator instructions]. Our first question is coming from Juan Sanabria of Bank of America/Merrill Lynch.

**Q:**

Good morning. Thanks for the time. Just on the bumps to existing customers, can you give us an update on where you are? You previously talked about maybe becoming more aggressive. Did you take advantage of that or did you do that in the first quarter, and what's assumed in guidance for the balance of the year?

**Andrew Gregoire – Chief Financial Officer**

Yes, we did take advantage of being more aggressive with those in place customers. In Q1, the actual ones that went into effect were about 26,000 versus about 5,000 last year; Q2 we sent out letters to significantly more than we did a year ago.

Move out rate picked up a little bit, so the impact on revenue, we're still monitoring that move out rate because obviously it's very sensitive to the move out rate. So, we'll monitor that move out rate and as we go through we expect to be aggressive, but that move out rate will tell us how much more aggressive we could be in Q2.

**Q:**

Can you just comment on what the impact of that change and strategy was your same store guidance for the year?

**Andrew Gregoire – Chief Financial Officer**

We didn't put it in guidance and we figured in Q1, based on our calculations, it was about 10 to 15 basis points. Some of that will burn off because we saw additional move outs after the end of the quarter, but about 10 to 15 basis points during the quarter.

**Q:**

And then just on the net effective street rates, could you give us a sense of what that was in the first quarter throughout the quarter, January versus March, and what the trend is in April today?

**Andrew Gregoire – Chief Financial Officer**

We started the year slightly negative, about half a percentage point negative. It turned positive in February. March was positive about 3% and very similar in April.

**Q:**

Thank you very much.

**Operator**

Our next question is coming from Jeremy Metz of BMO Capital Markets.

**Q:**

Good morning. I had a question on your same store revenue. If I step back and look at it simplistically, your same store revenue, it's basically the change in your realized rent here plus a change in your occupancy. Maybe you get a small benefit from the tenant insurance [indiscernible] those metrics. On that basis it implies about 1.6% growth, 1.7% versus your reported 2.5%. The difference I believe is the expansions, the addition of that square footage to the pool in 2018 versus 2017. So I guess whether it's 70 or 80 basis points, it appears again an outside benefit relative to your peers, the math implied similar level of benefit last quarter.

So can you talk a little bit about this dynamic? Is this a benefit that we should expect to carry forward through the year? Then maybe stepping back, how do you determine when to add or remove this from the same store pool?

Not sure if there's maybe a square footage special here, but it seems to suggest a pretty material impact or increase to the square footage.

**Andrew Gregoire – Chief Financial Officer**

Jeremy, you are correct, the square footage went up by about 200,000 square feet year-over-year. But I think what it does, when you add that square feet, it underestimates the occupancy growth, because that square foot goes into zero occupancy. So our occupancy change, when you look at it, would have been larger had we not included some of those expansions. So over time, it's been relatively, we expect it to be consistent in '18 and '19. In 2017, we were about 35 million, we expect to do about 50 million this year, so there is some impact from that.

If we take a store out of service, there's two stores that we demoed and are rebuilding, those come out of the same store, but normally we're taking down 10,000 square feet and adding climate control or converting to climate control a new building, sometimes going two stories up with 20,000 square feet. We do not take them out of the same store pool.

**David Rogers – Chief Executive Officer**

So essentially what we're doing is we're pulling stores, we're taking spaces out of service, replacing it. Because these jobs are so small on balance, a building here 6,000 feet, we sometimes grow to 12,000 feet; sometimes we just add climate control to it. Because the jobs are so small this effects 50, 60 stores between a two year period while you're into construction and the reopening, and we take a hit as we're working on them and we take a benefit if the stores from the prior year come in. As long as the amount of expansion is pretty consistent year to year, it really is neutral impact. On occupancy it's a bit of a detriment, on revenue it's a bit of a plus, but it's diminimous.

I think when we would really have to watch it is if we go through a period of years like we expect to, 50, 60 million a year of additions and then stop. Then we would get only benefit in the year that we stopped and no pain. So we've tried to watch it, but we can wind up with significantly smaller same store pool if we took out every store that we touched for an addition of 6,000 or 7,000 feet here or there. But you're right, the square footage comes in bigger at the end, but for a lot of the year that square footage is out of service.

**Q:**

Okay. I guess that goes to Andy's point about the occupancy being that it actually held back occupancy. That sort of suggests that possibly they're still vacant in this period or you're saying the hold back?

**Andrew Gregoire – Chief Financial Officer**

Correct. A portion of those are still vacant.

**Q:**

Okay. Thanks, guys.

**Operator**

Our next question is coming from Todd Thomas of KeyBank Capital Markets.

**Q:**

Hi, thanks. Good morning. A question on guidance. You beat the high end of your first quarter guidance by \$0.02 a share and only increased the midpoint of the full year range by about \$0.03. I think the board and G&A charge is excluded from the revised range, which is on an adjusted basis, so really just about a penny or so in the budget despite the higher run rate here. What else changed or what are you expecting in the remaining quarters here to act as an offset?

**Andrew Gregoire – Chief Financial Officer**

I don't expect much change. I think what you look at, we were pleased with what we saw in Q1, but I think we are not in the busy season yet. It's tough to look out and change the back half of the year right now. We have some headwinds from Houston, obviously we had the benefit from Houston last year and that will burn off. We have a lot of new supply coming on. I think we have to get through Q2 before we really make an adjustment for the rest of the year.

**Q:**

Okay. Are the headwinds that you discussed in the second half of '18 that you're anticipating, are you expecting them to be a little worse now than you did when you initially issued guidance?

**Andrew Gregoire – Chief Financial Officer**

No, I don't think it made it any worse. I think the first quarter made us more comfortable that the low end could be moved up, but I don't think it changed our second half guidance or what we expect in the second half.

**Q:**

Okay. Then I'm just curious if you could give us an update on your thinking around investments here. You pulled back over the last several quarters on both investments and C of O deals, your cost of capital has improved over the last few months and I'm just wondering if you're seeing any opportunities out there or thinking differently about deploying capital and whether or not we should expect to see you get a little more active here.

**David Rogers – Chief Executive Officer**

I think so. We certainly never stop looking, Todd. That's what we do, right? But as we said at the top of the call, the pricing of assets, even modest or lower quality assets, has not moved much. They're still pretty rich. Yes, our cost of capital has improved a bit, but we're certainly not at this point comfortable with equity raises. We do have \$70 million to \$75 million of free cash flow that we're deploying into the E&E's. We're looking at, again, some joint venture deals. Those are targeted for what we go after. We have a lot of assets that we're in discussion with, we're considering putting into either a disposition or contribute to joint venture. These are all things that we are looking at and nothing's definitive yet, but as we look at where our capital costs are, what our opportunities are.

The opportunities to buy on the open market, wholly owned properties, are pretty slim right now. And just to clarify, you mentioned the C of O properties, we sort of stepped aside from those even when the cost of capital was considerably cheaper just because we thought the risk reward ratio on those prices were out of line.

So, I would say right now we are looking. There's opportunities, not great ones, on the open market, but our internal growth based on expansions and enhancements perhaps seeding or getting into some JV's, those are our main focus, at least right now as we sit with market prices being what they are and our share price being what it is.

**Q:**

Great. In light of that, can you just add a little color to the comments around the dispositions or the potential to seed a new joint venture? Is that a new joint venture or would that be additional properties that you would contribute to an existing joint venture? Maybe just put some context around that comment.

**David Rogers – Chief Executive Officer**

I should reiterate, in the very early stages, we just had our second board meeting on the topic, so we're flushing it out. You'll hopefully see some of this activity during the summer. There are some markets that are smaller and have maybe worn themselves out as far as being in our portfolio, so we would be looking to move some of those off. Then either contribute some stores to a joint venture or in combination with some new stores and our stores.

We've talked to a number of people, we will be talking to more people and this [audio disruption] hopefully in the coming quarter, quarter and a half.

**Q:**

Great. And nothing on that front is contemplated in guidance, though, is that correct?

**David Rogers – Chief Executive Officer**

That's correct.

**Q:**

Thank you.

**Operator**

Our next question is coming from Ian Gaule of SunTrust Robinson Humphrey.

**Q:**

This is Ki Bin. Good morning. So, there's obviously been a few changes. I know it's early, but can you talk about maybe would there be a shift in focus in different areas of the company or capital deployment or balance sheet or anything like that?

**David Rogers – Chief Executive Officer**

I'm not quite sure, following on to Todd's question and my answer, do you mean?

**Q:**

No, what I mean is with the board changes, should we expect any type of incremental shifts in focus?

**David Rogers – Chief Executive Officer**

I don't think so. We've rejuvenated the board, certainly, but we just had our full board meeting with the whole team this week, our first meeting with the whole team this week, and there's a lot of opportunity here, we have a lot of strength, but I would not expect any radical shifts in the way we act going forward in terms of our business strategy. We're always looking to optimize shareholder value, and to that end we look at different things, but right now we have, we think, a pretty good year ahead of us and then pretty good opportunities. So, no, there should be nothing dramatic at all.

**Q:**

Just from the street rates you mentioned, plus 3%, is that net effective after promotions or is that just advertised street rates?

**Andrew Gregoire – Chief Financial Officer**

That is advertised street rates. Promotions were a little bit higher in Q1, 2.6% of revenue versus about 2.1% last year and then I think April they were right on top of each other.

**Q:**

Last question. The in place customer rate increase program, you mentioned that 26,000 letters went into effect, but I'm assuming that it went into effect later in the quarter, right? So there's probably a little bit more tailwind going into the second quarter. So maybe you could just give a broad commentary on how many letters that you're planning to send out this year versus last year, and so far what has been the – I know it's early – but what's been the acceptance rate?

**Andrew Gregoire – Chief Financial Officer**



We would see us sending probably about three times as many letters as we did a year ago. That being said, the move out rate did pick up a little bit. They were heavily weighted towards the later part of Q1, but we saw an uptick in the move out rate, which that's what really drives the revenue growth from that process. And that uptick definitely eats into the impact on revenue growth. So, we saw some move outs in Q1, we saw additional move outs in April. WE have to give people time sometimes. They don't move out right away when they get the letter. So, we're keeping a close eye on it and we'll update as we go forward.

**Q:**

And when you say three times more letters, you mean in the first quarter or are you talking about full year expectations?

**Andrew Gregoire – Chief Financial Officer**

Full year expectations.

**Q:**

Okay. Thank you.

**Operator**

Your next question is coming from Smedes Rose of Citigroup.

**Q:**

Thanks. I wanted to ask you just a little bit more about the Houston and Chicago markets, since they're a large part of your earnings. You mentioned that you would expect continued burn off of hurricane activity in Houston. Are you seeing that thus far in the second quarter? And could you just comment on the supply outlook in Houston?

**Andrew Gregoire – Chief Financial Officer**

We're actually in the burn off. I think Q4, if you looked at our occupancy, I think the delta was over 400 basis points year over year and Q1 is 200 basis points, approximately. I would expect that to burn off probably in the next quarter to two, then we would have headwinds. I would expect occupancy then would actually be lower in Houston than it was a year ago.

**David Rogers – Chief Executive Officer**

The thing with Houston is we did expect this. What gave us a good benefit, though, was we did get pricing power started mid-4Q right into now. So, that was the benefit we expected. We figured four to five quarters, maybe, of occupancy uptick; we're in the three now, but the real benefit to that was for a little while and even now we feel like we have some pricing power where we're not discounting as heavily, we have been able to raise rates, we've felt comfortable boosting in-place customers in Houston where for the prior year and a half we did not.

**Q:**

Okay, and then if you could just talk about your thoughts on the Chicago market. Obviously down a little bit in the quarter. Just maybe update some of your strategy there and what you're seeing on the supply outlook.

**David Rogers – Chief Executive Officer**

As we've talked about before, we're in the northern suburbs and the northern part of Chicago, which had some supply growth later, I think, than other parts of Chicago, but not impacting us nearly as bad as Houston did. It's a little more stealth in Chicago in that the warehouses have been converted and our tracking at least is maybe not as good as when you're getting a new zoning and new entitlement process you can follow and see what's coming. Sometimes with warehouse conversions it comes in under the radar and all of a sudden you only have a few weeks or months to know that it's coming ahead. But, not as bad as Houston.



I think a lot of it has been delivered, which is contrast say to Dallas or Miami or the Burroughs where the deliveries are just now ramping up or hitting their peak. Chicago, yes, we've slipped back a little bit. Andy, you might have the numbers on just how many.

**Andrew Gregoire – Chief Financial Officer**

Chicago, we're tracking in the last two years within five miles of our stores 20 have opened and there's 5 more under construction.

**David Rogers – Chief Executive Officer**

So I think the delivery impact is pretty well done. We're fighting through, of course, the lease up of these things, but yes, we're down a bit and we'll stay down about where we are. Perhaps the summer might dip a tad lower, but we're not overly concerned. We know how to fight through it and it's just going to impact rate increases and probably drive specials a little bit harder, but it's not a Houston by any means.

**Q:**

Are you just seeing in general any change in the ability for developers to access capital for new development? Any changes on that front?

**David Rogers – Chief Executive Officer**

I think we're seeing a lot more of the family office type. I don't think we're seeing big capital players come in and put in big programmable deals that we had feared or thought was going to happen before. There seems to be an awful lot of activity, we get a lot of pitches and people coming in with more or less family offices, smaller companies, but laying out between \$50 million to \$200 million over a two or three year period [indiscernible]. So, I would say the big hitters, not so much, but there's a lot of these smaller family offices and smaller investment groups that have – So, yes, I would say on balance probably more real money coming in as opposed to less likely big hits.

Financing, on the lending side, I don't think it's improved much for them. But the equity piece is there and it continues.

**Q:**

Thank you.

**Operator**

Our next question is coming from George Hoglund of Jefferies.

**Q:**

Good morning. You guys had decent growth in the third party business and you're scheduled to have solid growth for the rest of the year. The properties that you're adding, if you can give us some color on what markets these are in and how often are you competing with Cube and EXR for contracts, or are these kind of markets where those guys don't have a presence?

**David Rogers – Chief Executive Officer**

Well, we tend only to entertain contracts in markets where we have a presence. So there's a bunch that may be going to Cube, may be going to EXR that we don't even know about. So, we're pretty well focused. We're not going to be able to help a new client if we only have one or two stores in a market. The whole part of this thing is scale. So, we do run across, though, both Cube and EXR often and I'm sure they run across us more lately than they have. It's competitive, there's no question about it, and I think EXR especially is not necessarily afraid to go

into a market where they don't have a presence and they'll start one up, where we are not at that point yet. We want to have scale in the market.

**Q:**

Then of the properties that you expect to add for the rest of the year, how many of these are from programmatic developers where you're getting a lot of repeat business versus one-off's?

**David Rogers – Chief Executive Officer**

Right now we have pockets of – we don't have big programmable developments. They may turn into that and it may be that the guys that we're quoting three and four deals on could go into ten or twelve, but right now we're only topping out at what's hard, what's there. I think we're negotiating right now a little over 300 active leads. Of those, about 55 are development leads and 50 some are in PMA, property management agreement status, negotiating the agreements. Those are developing leads.

Out of the existing facilities, those that are up and running, we have 11 in negotiation and another 40 or so that we're following up on leads. So, it's about a 18% or 20% mix of existing properties versus development lease up, but as far as big hits and big clients coming in, we don't have any of that going on. It's more folks with two and three and four, presumably with more expected.

**Q:**

Thanks for the color.

**Operator**

[Operator instructions]. Our next question is coming from Robert Simone of Evercore.

**Q:**

Thanks for taking the question. This kind of ties into an earlier question about revenue growth. I was just wondering if you can talk broadly about how your revenue management and pricing initiatives are kind of progressing and what impacts may have been seen in the quarter. And if there was no impact, but when should investors start to expect or look for a pickup in rate growth, for example? I just wanted to get your broad thoughts on that.

**David Rogers – Chief Executive Officer**

I think part of the issue we had with our revenue growth last year was, as we've talked about, a lack of high visibility on the web for our organic search. So, while we had decent call volume for much of the busy season last year, we were pricing in slow season mode, if you will. So what that did was it sort of had our system tell us, hey, you need to offer specials, you need to capture the calls as they're coming in; be more aggressive on using your incentives and not raising rates and especially not kicking existing customers up. So, some people point to our revenue management system as not being up to par and there's a lot of factors that go into that. There's also the fact that our biggest markets for our company specifically, are in Texas, which are as competitive as it gets.

So, the revenue management system in a lot of ways acted exactly how it should. You have to capture the leads you get and make it work; price it so that it's going to get those.

Having the Texas, at least as far as Houston goes, supply issue abate at least for the coming couple quarters, having our presence on the web really where it should be right now, I think the whole revenue management system has moved over and has given us a lot of comfort. As Andy said, we feel very comfortable popping out three times, 3X what we did last year in rate increases. Our incentive lever hasn't been pulled any harder than it was last year. So we're real comfortable with revenue management. We think we have a good product there, we think it reacts the way it's supposed to, it predicts the way it's supposed to, it's pricing now for where we should be

in June and July, we're seeing where we expect to be. We want to have the data point that we're going to get in the busy season. A lot of this has been done since the fix from October to now, which is the slow time of year.

So, we're confident. We think we have it going pretty good. And given the markets we're in and the competitive nature of where we are, we think we're in a good spot.

**Q:**

That's great color. Thanks, guys.

**Operator**

Our next question is from Todd Stender of Wells Fargo.

**Q:**

Thanks for the comments on Houston and Chicago. Can we hear a few others, maybe New York, New Jersey where maybe you're experiencing a little more pricing power that you noted in Houston after being down for a couple of quarters? Two, any weakness that you're seeing in any markets in the spring selling season that may have surprised you.

**David Rogers – Chief Executive Officer**

I'll take the weakness, how is that? Then Andy can answer your question on an upper note.

Certainly, as we've talked about Dallas, Dallas is experiencing its delivery peak we think right now. There are more stores coming on in Dallas than we would like, there's more stores to come, so the delivery impact is yet to be felt. Then, of course, after that we have to worry about absorption.

Miami is, as we've talked about also, pretty tough market. We're not as exposed there by any means, but that's going to be a little difficult.

We see a lot of development in Phoenix. Not all of it touches our stores, but Phoenix is a very busy place as it pertains to us and there are other parts of the country that are exper – Portland and San Diego are a couple. We're not there, so we won't worry about those.

I think New York is sort of a conundrum is that everybody's waiting for it to happen. We're not too exposed in the Burroughs. We're all around. We're in southern Connecticut, we're on the Island, we're northern New Jersey, and that's holding up okay.

Certainly the worst on our radar is Dallas. San Antonio, Austin and later Houston are not out of the woods, but those are the lows.

**Andrew Gregoire – Chief Financial Officer**

Todd, you can really see the winners there. You see the Vegas', the Sacramento's, rates are up double-digits, occupancy is strong and obviously the revenue growth is strong there. We're seeing the same in New England, Upstate New York, so we have a lot of markets where rates are up double-digit.

Yes, they're going to be dragged down by some of the ones Dave mentioned, but we're comfortable with what we're seeing in the stronger markets and what we can do with rates, and you'll see that start to show in the realized rent per square foot. Occupancy gap will start to decrease and you'll see it on the rent per square foot side.

**Q:**

That's helpful. On your business customer mix, any anecdotes you can share on pricing power, ability to push rate on existing customers, and then any marketing efforts that you have been rolling out lately? Just the landmark business customers.

**David Rogers – Chief Executive Officer**

The initiative that we've had for quite some time we call it "Warehouse Anywhere". We used to call it corporate alliance. And that's a set up where essentially we arrange for big corporate customers, the pharmaceutical companies, some of the equipment suppliers, medical equipment suppliers and so forth, where we arrange for them to have storage throughout the country, whether it be in our facilities or arrangements we've made with what we call "preferred providers" to be our sub links, essentially, and we will work with those customers, those corporate clients, to satisfy their storage needs throughout the country with one bill, one invoice and we arrange all of the leases and so forth downstream with our own properties, preferably, and preferred providers elsewhere.

So that has continued to ramp up. We've developed more corporate clients. We don't purposely help our storage brethren by giving them leases, but it works out that we collect the fee from the customer and a bit of a leasing commission from the preferred provider. So that continues to grow. We've always said, that's what we call our corporate customer.

Our business customers at the stores, those that are local, subcontractors, small retailers, all that kind of thing, those are customers who have been our bread and butter. We've cultivated those customers from day one when we started our business in the northeast and residential customers weren't as, percentage-wise, as common as they are in the sunbelt. So, we learned how to cultivate the small business customer. We love them. They're there, it's part of their day, it's part of their business. Our storage facility is there for them. So they are the ones that we have been able to put rent increases through, even in the leaner times. They stick. It's a good thing for storage, we need it.

**Q:**

Thank you.

**Operator**

At this time I would like to turn the floor back over to management for any additional or closing comments.

**David Rogers – Chief Executive Officer**

Thank you, everyone, for your interest and confidence in us. We look forward to seeing many of you at NAREIT in a month or so. In the meantime, enjoy spring.