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Transcript of Sovran Self Storage
Fourth Quarter 2014 Earnings Release Conference Call
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Participants
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Dave Rogers – Chief Executive Officer
Andy Gregoire – Chief Financial Officer
Paul Powell – Chief Investment Officer
Ed Killeen – Chief Operating Officer

Analysts
Todd Thomas – KeyBanc Capital Markets
Jon Litt – Citigroup
Jeremy Metz – UBS
Jana Galan – Bank of America Merrill Lynch
Ki Bin Kim – SunTrust Robinson Humphrey
George Hoglund – Jefferies
Paul Adornato – BMO Capital Markets
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Jonathan Hughes – Raymond James
Paula Poskon – D.A. Davidson
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Presentation

Operator
Greetings and welcome to the Sovran Self Storage Fourth Quarter 2014 Earnings Release Conference Call. At this time, all participants are in a listen-only mode. A brief 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 Diane Piegza, Vice President of Corporate Communications. Thank you, please go ahead.

Diane Piegza – Vice President, Corporate Communications
Thank you, Brenda, and good morning, everyone. Welcome to our fourth quarter and full year of 2014 conference call. Leading today's call will be David Rogers, Sovran's Chief Executive Officer. Also participating are Andy Gregoire, Chief Financial Officer; Paul Powell, Chief Investment Officer; and Ed Killeen, Chief Operating Officer. Our earnings release was issued yesterday after market. If you did not receive a copy, please visit our website at unclebobs.com.

As a reminder, the following discussion and answers to your questions contain forward-looking statements. Our actual results may differ substantially from those projected due to risks and uncertainties with the company's business. Additional information concerning these factors is included in the company's latest SEC filings.

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

Dave Rogers – Chief Executive Officer
Thank you, Diane, and good morning, everyone. Welcome to our call. Things pretty much went the way we expected this quarter. Occupancy increased a bit year-over-year but the real driver this period was rate growth. That's the lever that has to work for us in the coming quarters and hopefully the past few months were a good harbinger.

Operating costs were in line and as a bit of a bonus we landed on the right side of some property tax appeals, Andy will give the details in a few seconds but Q4 put a nice bow on a really good year. We bought some great properties into the portfolio adding to our presence in Chicago, New Orleans, Orlando, Houston and Austin. The Houston purchase was more or less of a swap; we sold our second store there in December, our second store of the year there in December, and the Chicago store is a C of O deal which was our third for the year. So all told 2014 was busy for our acquisition team. We bought a total of 33 stores at a cost of $292 million for our own account and another 14 totaling $187 million for one of our joint ventures.

We are remaining active in the transaction market; it's challenging in that good stores are commanding high prices and even those don't always bring sellers to the table. Self Storage landscape is pretty much the same as it has been for the past three or four years. Growth of new supply is measurable but still minimal, demand is picking up, customer awareness continues to grow and the large operators continue to press their advantages of scale, technology and brand. Specific to our company, we're able to leverage off the strength of the industry, let our marketing, customer service and rev man platforms help our people drive outsized results. Our balance sheet is in great shape. We have just raised our dividend again. Cash flow and liquidity are strong, so we're looking forward to a really good 2015.

Andy?

Andy Gregoire – Chief Financial Officer
Thanks, Dave. Last night we reported same-store revenues increased 6.3% over those of the fourth quarter of 2013. The growth was the result of a 60 basis point increase in average occupancy and a strong 5.2% increase in rental rates. Same-store occupancy increased over the prior year as expected and was 89% at December 31, 2014. Tenant insurance income for the same-store pool continued to show sold growth, increasing $387,000 in the fourth quarter of 2014 as compared to the same period in 2013. Total operating expenses on a same-store basis increased by 2.5%, primarily as a result of increased employee benefit costs and repair and maintenance expenses. The property tax expense percentage increase was lower than anticipated in 4Q and for the year as a result of successful property tax appeals settled in the fourth quarter. Same-store net operating income increased 8.1% for the quarter.

We have included summary information concerning operations of our stores in the Houston submarket. We are cognizant of the concern investors have regarding the impact of falling oil prices on that city and since 40 of the same-stores are located there, we will continue to break out these numbers. As we stated over the past few months we believe our scale and platforms as a large operator will reduce any adverse impact on our properties there and so far results have borne that out.

G&A costs were $2.2 million higher this quarter over that of the previous year. Aside from an increase in Internet advertising, the main reasons for the increase were the fact that we operated 40 more stores at the end of this quarter as compared to January 1, 2013. Our health benefit costs have increased and additional legal fees related to a New Jersey class action lawsuit and incentive compensation. Offsetting the impact of the increased

overhead was a $200,000 increase in third-party management fees earned and an acquisition fee earned of $241,000.

Regarding properties, Dave mentioned the five stores we purchased during the quarter for $55 million. These purchases were funded with proceeds from shares sold through our ATMs and draws on our line of credit. This month we purchased five properties, four of which were previously leased by us. The acquisitions totaled $127 million and were funded with draws on the line of credit.

From the balance sheet perspective, we finished the quarter in a nice position. During the quarter we issued 250,000 common shares through our ATM program at an average price of $84.69, resulting in net proceeds of $20.9 million. In December, we refinanced our line of credit which increased our capacity from $175 million to $300 million. It reduced the interest rate by 20 basis points and extended the maturity until December 2019. The amended agreement also reduced the interest rate on our $325 million of unsecured bank term notes by 25 basis points, leaving the maturity date of those items at June of 2020 which fits nicely into our staggered maturity schedule.

At December 31st, we had approximately $8.5 million of cash on-hand, $250 million available on our line of credit and approximately $151 million available under the ATM. The five properties we purchased thus far in 2015 were funded with our line of credit and we currently have $112 million available on the line. And regards to guidance we have included in our release the expected ranges of revenues and expenses for the first quarter and the entire year. Same-store revenue growth for Q1 should be in the 5% to 6% range and NOI around 6.5% to 7.5% for the quarter. Expenses outside of property taxes should increase between 3% and 4% with some pressure from snow removal and employee benefits. Property taxes for the quarter expect to increase between 2% and 3%.

We expect full-year revenues to range from 5% to 6% over 2014 and NOI to increase 6% to 7%. Our guidance assumes an additional $100 million of accretive acquisitions on top of the $120 million purchased for the four properties we have been leasing since November 2013. We have not included in guidance the related acquisition costs incurred to-date or that could occur in the future. As a result of the above assumptions, we are forecasting funds from operations for the full year 2015 at between $4.76 and $4.82 per share and between $1.06 and $1.08 per share for the first quarter of 2015.

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

Operator
(Operator instructions.) Our first question comes from the line of Todd Thomas with KeyBanc. Please go ahead with your questions.

<Q>: Good morning. First question on Houston, just curious if you could talk a little bit about what you're seeing there in some more detail to give you confidence with regard to your forecast, I guess what's happening there today on the ground in terms of leasing. Do you think that the forecast and your comments that generally apply to just a self storage business in Houston overall or do you think it's more Sovran specific just given the scale and platform advantages that you might have?

Andy Gregoire – Chief Financial Officer
It is hard to tell how much is our platforms and scale, Todd. This is Andy. The Houston stores started the year solid. I mean January was very strong, a little stronger than we had anticipated; we are just not seeing the effects. Leasing activity seems strong but, we believe part of it is our platforms and being a big operator makes a

difference anywhere we are. So we think if there is an adverse effect, we think we're going to hold up well but January was held very well.

<Q>: Is it your sense from your property managers or folks on the ground that overall self storage in the Houston market has not seen an adverse effect at all yet or—?

Ed Killeen – Chief Operating Officer
Todd, they are not seeing anything on the ground that would suggest there is any real deceleration while competition while there is a bit more competition and Paul will talk about that, no, we're not seeing any real indicators when it comes to store level.

<Q>: Then, Dave, you mentioned during the year, the company acquired 14 properties, $187 million in JVs. How much of that was for the 11 properties within the HF venture completed during the quarter? Was there any existing debt in place that was assumed by the venture for that transaction and what was the date of closing for that acquisition?

Dave Rogers – Chief Executive Officer
There was no existing debt, Todd, that came on that. Most of it was for the Houston portfolio and what happened was when we bought it we put $50 million worth of low I think it's 3.8, 3.7% interest-only mortgage debt on it and had another $130 or so million to fund between us and the JV partner. So that was lowly leveraged much like what—that almost hit the pattern of how we do it corporately. So that was for the Houston part for that venture.

Andy Gregoire – Chief Financial Officer
And it closed on November 10th, Todd.

<Q>: Then do you see yourself doing more with your joint venture partner or would you expect most of the investment activity to be done for the company's own book?

Dave Rogers – Chief Executive Officer
We've talked about this before as to when it makes sense to go that route, and in this case, they brought it to us so there wasn't even a question if we wanted to play it was with them certainly and that was good and we have a good relationship with them. Sometimes if a property has an awful lot of secured debt on it that we don't to bring on to our balance sheet, we will reach out to a JV partner. That's probably the main reason why we will be doing it in the future but situations like this come up. So, for the most part we're comfortable and wanting to buy for our own account, but on occasion these situations come up that makes it a win-win for both parties.

Operator
Our next question comes from the line of Smedes Rose with Citigroup. Please go ahead with your questions.

<Q>: Great, thanks. This is actually Jon here for Smedes. So, on acquisitions you factor in an additional $100 million, what sort cap rates have you been seeing or do you expect throughout the rest of this year? Is there a further compression that you are seeing in the market or can you give more color?

Paul Powell – Chief Investment Officer
John, this is Paul. It's hard to tell I am hoping the cap rate is not going to compress too much more in 2015. We saw a 25 to 50 basis point compression last year in 2014. So, we're still looking at the Class A infill, top MSA locations those cap rates should probably will be sub-6, 5.5 to 6 or maybe a little bit higher but we just haven't

seen the quality deals out there, one-offs or portfolios. It's been kind of slow beginning of the year but I expect we will see some decent opportunities. I don't think cap rates are going to compress too much more but time will tell.

<Q>: What about in terms of timing of the acquisitions? Do you have any idea if that's going to be backend loaded throughout the year or what are you expecting?

Paul Powell – Chief Investment Officer
Well right now we have under contract—we have about eight properties worth $63 million that we're looking at right now and then another six or seven that we're looking at with possible deals coming up that could be another $58 million. So, between the two some of these are CO deals; some are stabilized. So, as we mentioned in the press release we're hoping to do $100 million of accretive deals, and we're not going to get too carried away with CO deals unless we do have accretive opportunities on our plate as well.

Andy Gregoire – Chief Financial Officer
But Jon the guidance assumes that $100 million it is half year weighted.

<Q>: That's helpful. And then what about as a rule of thumb just doing like 70% match funding using the ATM?

Andy Gregoire – Chief Financial Officer
Correct.

<Q>: And then also regarding tenant insurance, 19% same-store increase over 4Q, how sustainable is that kind of growth rate?

Andy Gregoire – Chief Financial Officer
It gets tougher and we have a lot of levers to pull there but I would think it should stay double-digits but I think it will move towards the lower end of double-digits in 2015.

Operator
The next question comes from the line of Jeremy Metz with UBS. Please go ahead with your questions.

<Q>: Good morning. In terms of the same-store guidance, you guys have obviously done a solid job beating expectations these past couple of years but it seems like occupancy has been a big part of that beating expectation. So, as I am thinking about 2015 just what sort of gains do you have baked in to guidance there and do you see the gap re-widening at all perhaps as the same-store pool changes?

Ed Killeen – Chief Operating Officer
Jeremy, it's Ed. Well going into January, that gap actually has started to widen a bit over our average fourth quarter at 60 basis points. January showed us 90 basis points. It's a little early to tell before we head into the peak season what precisely is going to happen with occupancy. But we think that delta will continue to widen heading into the peak season and we might even see 75 to 100 and maybe even more basis points heading into that peak season.

<Q>: So, as we think about I guess the other components of your five to six same-store revenue growth if occupancy is sounds like 50 to 100 basis points of that could you just talk about what you are baking in for rents, lower discounting, tenant insurance?

Andy Gregoire – Chief Financial Officer

Yes, I think on the lower discounting I don't think you are going to see much of a change. In Q4, we were a little lower than last year's than '13's Q4 but I think we're going to be very similar. Q3 we may be able to reduce it a little bit but there is not a lot left there in the concession side. In-place, there is a lot of room on the in-place side that we're going to push pretty hard on the in-place customers but street rates really we will have to wait until we get to the busy season to tell that one.

Ed Killeen – Chief Operating Officer
And we're certainly going to get the majority out of rates and of those rates we're going to push in-place rents much harder than we did last year.

<Q>: So I think it was an average of eight to ten last year; so does that mean it would be even higher than that?

Ed Killeen – Chief Operating Officer
Eight to ten as far as the percentage increase?

<Q>: Yes.

Ed Killeen – Chief Operating Officer
Yes it will be higher than that.

<Q>: And then just one last one turning to the balance sheet, you guys obviously have the $150 million term loan that matures early next year at a pretty high rate. Is there an opportunity to pull that one forward and does guidance assume anything happens here in '15?

Andy Gregoire – Chief Financial Officer
The guidance doesn't assume anything happens and we can't prepay that debt. Our plan is to pop legal public offering and match some line of credit debt up at that time with that note. Yes, there is ability to reduce that rate quite a bit right now and hopefully it holds that way through April of 2016, but there is nothing in guidance regarding anything.

Operator
Our next question comes from the line of Jana Galan with Bank of America. Please go ahead with your questions.

<Q>: Thank you, good morning. Thanks for the color on Houston; I was wondering if you can maybe speak to some of your other markets. For example, Virginia seems to be a little bit weaker on the revenue and then in Massachusetts and I know this is small in Pennsylvania there were some occupancy decline there?

Ed Killeen – Chief Operating Officer
Hi, Jana, this is Ed. Regarding Virginia, that market is really I think a story of rate management and I don't think it's, or revenue management I should say and I don't think it's unique to us that market, that particular market is soft in virtually every sector. So, again I don't think we're experiencing anything different than anybody else might be; it's just become a little bit more, I wouldn't say more competitive but we're in markets that have softened a bit and it's a little bit of a challenge to be pushing in-place and asking rents. We are faring okay, but not great in that market. Regarding mass that unfortunately is a story of two, I'd say disastrous two fires and we have not been able to build those spaces back up again. So that's store-over-store; those two particular stores impacted the whole market.

And in Pennsylvania, we lost a large warehouse customer. What we've decided to do, instead of replace that warehouse customer, we decided to go forward with an E&E and build a two level climate control taking some parking and taking that warehouse space. So, in addition to the warehouse customer that we lost, we're also putting out parking customers so can get ready for that E&E and that's only two stores but you're seeing the impact.

<Q>: And then just curious any weather related impact from the northeast for your portfolio so far in January and February?

Andy Gregoire – Chief Financial Officer
We didn't see it in January and February. Obviously snow removal expenses jumped up. There is a little less activity in the northeast and the cold weather doesn't help in February but January it was fine, and February a little bit slower.

Ed Killeen – Chief Operating Officer
If you look at the impact of weather when it is this bad, yes, they can't move in and if you have good high yield customers that are in there paying they can't move in but they also can't move out. So, as bad as it is it actually turns out to be a pretty decent thing for us.

Operator
Our next question comes from the line of Ki Bin Kim with SunTrust. Please go ahead with your questions.

<Q>: Thank you. Just along the same lines I think this is the first time in a while that you actually saw some negative same-store NOI growth in some of the markets you mentioned but some others as well like Ohio and some weaker markets like Louisiana. And there seems to be a lot of moving parts to this right in some cases the revenue is weak but in other cases expenses are really high year-over-year. So, can you just continue along those same thoughts and just talk a little bit more about the variability that we are seeing in some of your markets?

Andy Gregoire – Chief Financial Officer
Ki Bin, this is Andy. Most of the variability in those markets Ohio, Louisiana were some property tax increases that were unexpected; those are in couple of markets that surprised us. So, in the quarter you'll see that activity it looks a little unusual. But if you look at the year-to-date, it smoothes it out a little bit more but the biggest expense side was the property taxes. We did have some R&M related to some items that also affected us but it really was property tax driven.

<Q>: Turning to your future revenue guidance, if we assume let's just say in 2015 market rents don't grow that much on a year-over-year basis including, understanding that there is seasonality right on a year-over-year basis market rents don't grow that much, but over the past couple of years I think you sold more than maybe even some of your self storage peers have been pushing the street rates pretty aggressively over the past two to three years. So I would imagine even if we don't see much market rent growth in 2015 there is probably embedded growth not just concerning rent increases to customers but rolling over lower rent customers to higher rent customers. So, if there isn't much market rent growth in 2015 what is the embedded rent growth that we can expect from your portfolio?

Andy Gregoire – Chief Financial Officer
If there is no market growth from today?

<Q>: You are right.

Andy Gregoire – Chief Financial Officer
So today, even right now in February we're still 4% higher than we were a year ago. So, even if we stood where we are today we have quite a few of our customers that are paying below that rate. So, we have a big group of customers that we can push rates on. Tough number to put a handle on but it's probably 4%.

<Q>: So 4% without having to have a much better market in 2015, is what you're saying right?

Dave Rogers – Chief Executive Officer
Static market yes, and a lot of that will come obviously from in-place and yes I think if you said the curtain comes down right now 4% would be fair. The funny thing about this is we're driving pretty good numbers; we all have been for the last three or four years. We used to drive numbers like this in the 90s as well and the inflation rate was considerably higher then, so that really wasn't nearly as impressive as what we're doing now in a very low inflation environment. So, the factor still is supply and if there are people that are meeting this demand is really picking up, supply really is pretty flat. So, we have got that nice dynamic, so that I don't think the scenario you described, Ki Bin, is real high on our list of concerns. I think we're going to enjoy a rising rate environment for at least six, eight perhaps many more quarters than that but certainly we could see a rising rate environment to continue.

<Q>: Yes, it was a hypothetical to see what is embedded in your current portfolio I think right now is why I asked that question. And just last quick one why didn't your other operating income come down?

Andy Gregoire – Chief Financial Officer
That was if you look at it the fourth quarter of 2014 was very comparable to previous quarters; '13 had some one-time items in it, so the comparable was high '14. You would normally expect it to come down when move-ins are down so as you have locks and boxes in there but we also had cell towers, and billboards and some other things and last year meaning 2013 4Q we had some special items. We didn't have those this year; I wouldn't expect them to have them going forward. So, it was a little unusual; couple 100 grand of nothing; it just looks like a big percentage.

Operator
Our next question comes from the line of George Hoglund with Jefferies. Please go ahead with your questions.

<Q>: Good morning. Just one question for the 1Q guidance the sequential decline so was that just primarily G&A and like higher snow removal costs?

Andy Gregoire – Chief Financial Officer
Yes, Q1 is usually high utilities and snow removal and you have gotten your new estimate for property taxes out there, so it's typical that that would happen in Q1 a little more utility and snow removal than normal though.

<Q>: And then on some of your recent acquisitions—what are you sort of projecting for stabilized yields on those?

Paul Powell – Chief Investment Officer
The acquisitions we had in the fourth quarter, 3 of them we bought in the low 6.2 to 6.5 cap rates. We expect over the next 12 to 16 months to either get to a 7 and to a 7.5 cap on those. We did buy one, as Dave mentioned

in his opening remarks, we kind of traded a property that we owned in Houston for another one in Houston. We agreed on the low valuation for both deals so that cap rate is showing close to an 8.

<Q>: And then just one what are you guys seeing in terms of the competitive landscape from the smaller competitors? Are they getting more adept using Internet marketing things and do you see them really sort of increasing their capabilities from an operating perspective?

Ed Killeen – Chief Operating Officer
Hi, George, this is Ed. From a pure operating perspective putting aside Web marketing just for a moment, no, we don't see any great increases in how they operate. It would come from becoming a little bit more adept at online marketing. But it certainly isn't them doing it themselves because that's where that big advantage is for all the REITs they just don't have the wherewithal to do the kind of things and to run this kind of ad campaigns that we can. But what they can do they can compete a little bit more favorably by aligning themselves with aggregators, but even then the cost of doing that and their ability to do that month in and month out is difficult. But from a pure operating standpoint, no, we see that gap widening between the REITs and the other major operators and the rest of the world. I don't think they are getting that much better. I think the REITs and the top operators are becoming significantly more sophisticated than the smaller guys.

Operator
Our next question comes from the line of Paul Adornato with BMO. Go ahead with your questions, please.

<Q>: Thanks. Given that rate increases will be driving a lot of the growth going forward, I was wondering if you could just talk a little bit about rate increases to the existing customers. I guess it's my understanding that you guys generally increase rates to existing customers after a certain length of stay. I was wondering if you were experimenting with or thinking about different ways of raising rates to existing customers either making it more seasonal or I don't any other ways of potentially thinking about rate increases to existing customers?

Ed Killeen – Chief Operating Officer
Hi, Paul, this is Ed. No, we're not considering making it more seasonal. We're going to be certainly more aggressive in 2015 come second quarter. Looking at fourth quarter, 4.3% of our customer base received increases versus 3.3% and they were much healthier increases and that has remained over the last eight quarters. But as far as how exactly and when we put in these rates, these rent increases, it’s very selective and that comes down to a customer-by-customer basis. We don’t look at one particular season, one particular part of the year and say we’re going to put in rate increases, or rent increases regardless.

We look at what the replacement value is for those customers because sometimes it makes sense and sometimes it simply does not make sense. We don’t see ourselves as an operator that’s going to put in any more than one rent increase more than or within a year’s period of time. We think we’re in this for the long haul and we believe the customers remember that kind of thing. We have healthy rent increases going in and for somebody to get banged with a rent increase five months after they move in, there is ways of reaching us and telling the world how bad of an experience they had and that is something we don’t want to be involved in.

<Q>: Thanks for that color. And then just one more on Houston, you said that you sold your second property there. I was wondering if you’re looking to decrease relative exposure to Houston or if that’s just part of normal [indiscernible]?

Dave Rogers – Chief Executive Officer

No, I wouldn't say we're looking at decrease in any of the markets we are in at, what we do like to do though is we have bought a number of stores in Houston both through our joint venture partner and on our own account and a lot of them have been great stores really state of the art brand new or close to new. And we have had a number of stores that even when we bought them 15 years ago they had some age on so we're trading out what I would call As and A+ for Cs and C+ and that we will continue to do I think in every market. If we've got an opportunity to bolster our presence by buying a new store even though it's in the shadow of an existing store we may just do what's effectively a trade. But no I don't think we're looking to reduce exposure in any of the markets that we're in.

Operator
Our next question comes from the line of Todd Stender with Wells Fargo Securities. Please go ahead with your questions.

<Q>: Thanks. I recall Westy net lease [ph] being done due to seller tax concerns, was that the case and if so how did you pay for the portfolio in the end?

Andy Gregoire – Chief Financial Officer
That was the case, Todd, and we drew on our line of credit that closed on February 2nd, I believe it was Paul?

Paul Powell – Chief Investment Officer
February 2nd.

Andy Gregoire – Chief Financial Officer
February 2nd that closed and he is happy I do believe the 1031 he is working on.

Paul Powell – Chief Investment Officer
Yes.

<Q>: And no OP units?

Paul Powell – Chief Investment Officer
No OP units.

<Q>: At the time you signed a lease, what was your calculation of what the going in cap rate would be had you bought it here in February and what is the going in cap rate now that we're here?

Paul Powell – Chief Investment Officer
The cap rate when we started the lease at the end 2013 or at the beginning of, yes the end of 2013, was we expected to do a low 6% yield and that's what we actually did the first year of operation. So we expected to pick up another 50, 75 basis points this year.

Dave Rogers – Chief Executive Officer
One thing to think of though, Todd, when you are looking at this, we bought out the, there is a transaction we just did is essentially about a five cap in the sense that the lease payments on this thing were $6 million just a little bit of an increase, $6 million a year that we paid the $120 million. So, we got the benefit of the NOI and the growth of that through 2014 and again into 2015, but if you are just looking at modeling the transaction we did on February 2nd, it was $120 million to replace the $6 million a year lease payment.

<Q>: So that's the P&L impact, you were collecting the rent and paying all the expenses the entire time and paying lease payment, but the lease payment is going to go away.

Dave Rogers – Chief Executive Officer
Correct.

<Q>: And no more straight line.

Andy Gregoire – Chief Financial Officer
No more straight line, there will be a little bit in Q1 because we had paid in January.

<Q>: Can you share what some of the occupancy rental rates are on the four properties?

Paul Powell – Chief Investment Officer
Yes, we bought one in New Orleans the—

Andy Gregoire – Chief Financial Officer
On the four Westy's?

<Q>: Yes, sorry.

Paul Powell – Chief Investment Officer
Yes, the four Westy's they were low, excuse me upper 80% low 90% occupied.

Andy Gregoire – Chief Financial Officer
I think the rents were about 20, 25 to 28 bucks a foot.

Paul Powell – Chief Investment Officer
On an average they were 23, 24 averages.

<Q>: That's helpful. And just kind of looking at your return expectations separately for your expansion enhancement program, any changes to that, any return expectations you guys are looking at?

Andy Gregoire – Chief Financial Officer
The returns we're looking at eight normally, there is some situations in certain bigger markets where we'll go sub eights as a return on those E&Es but normally we try to shoot for an eight so that's come down a little bit from what we've talked about in the past.

Dave Rogers – Chief Executive Officer
Part of the it, Todd, is this what we've talked about a little bit in the past is that we look certainly to add space and to add premium space but also a lot of times we have the opportunity to really upgrade the presence of our facility with a nicer frontage or even some landscaping. So sometimes the return is not measured only in what the NOI coming out is; it's what it can do, while we're in there with the construction crew and with the change to get these things through the permitting process and the city planners. Sometimes we have to spend quite a bit more than we might just to upgrade the aesthetics of the facility and in the end that's worth it, too, but you just can't measure that on the dollars in, dollars out for that particular expansion.

Operator

Our next question comes from the line of Jonathan Hughes of Raymond James. Please go ahead with your questions.

<Q>: Good morning. Again really appreciate all the detailed commentary on Houston; that was very helpful. Was hoping if you could give us some similar detail on your Lafayette, Louisiana properties given the dependence on the energy sector in that market. And that granted there are only 14 properties total in Louisiana but we noticed same-store NOI in the state was up only 0.7% albeit versus the difficult comp last year but slowing this year was certainly a 6% to 9% growth seen in the prior three quarters. So just wanted to get the impact there from slowing energy related hiring?

Andy Gregoire – Chief Financial Officer
No we really didn't see anything there again the NOI was impacted by some property tax that hurt us but we are not seeing a whole lot on the ground; I think it's similar to Houston where there is nothing that is—

Ed Killeen – Chief Operating Officer
The one other factor that impacted a little bit was the higher R&M costs just through property upgrades; we just a little bit more on those properties than we had in recent or prior years.

<Q>: And then turning to occupancy and rate strategy last year from 3Q '13 to 4Q '13 you were able to push rental rates slightly but overall occupancy was down about 120 bps; this year occupancy declined less while rental rates were flat. Just curious to hear your thoughts on that strategy of focusing on maintaining occupancy at the sake of rent growth this past quarter and if that gives you more optimistic outlook on 2015. Obviously you are guiding higher 2015 same-store NOI than you did in last year's initial 2014 NOI guidance but any color there would be helpful?

Dave Rogers – Chief Executive Officer
I think you lost us a little bit, Jonathan, when you described five quarters of flat rate I am not getting that I don't think we're hearing what you are saying; I don't know where we went flat rate. We've been pushing rate and getting rate increase pretty significantly quarter-over-quarter. Did we hear you right on that?

<Q>: Yes, I was just actually talking about the overall rental rate it was 11.20 in 3Q '13 and you pushed it a little bit compared from 3Q to 4Q while 3Q '14 it was at 12.19 per foot and that was the same number in 4Q '14, so was just curious how you kept rental rates flat while occupancy was stronger and just how that's going to affect your 2015 outlook?

Andy Gregoire – Chief Financial Officer
Yes I think we did a couple of things. Reducing the free rent in Q4 caused some of that; street rates actually declined in Q4 over Q3 which is different than what happened in '13 where we saw free rent get higher in Q4 which maybe some of what is causing the difference you are talking about. But going into '15 the free rent as we discussed earlier we think if there is a little bit of room there possibly in Q3 the rest of the quarters should be very similar. Rates are – rates - there is a question mark but they are holding starting the year strong and hopefully come May and June and they will be strong and help us push above actually what our guidance is but we really have to wait until we get there.

Operator
Our next question comes from the line of Paula Poskon with D.A. Davidson. Please go ahead with your questions.

<Q>: Thank you very much. Good morning, everyone. I wanted just to follow-up with a bigger picture question on the transaction environment relative to your portfolio strategy of keeping your market footprint but wanting to sell out of your earlier generation products in the suburbs and move to more recent product in in-fill locations. How is that progressing relative to the types of products and the quality of the products you are seeing come to market?

Paul Powell – Chief Investment Officer
This is Paul. Well we are pretty much out of all the markets that we wanted to get out of and we're continually looking at opportunities to get us into any new markets; of course, we need some scale. We are just not seeing the portfolios that would get us into any new markets at this time. We're, of course, looking at any opportunity for existing markets and we're looking for Class A, Class B plus properties and in-fill locations we're also working with some developers to hopefully get some CO deals off the ground in some of our bigger markets as well. So, I think over the years we have done well; we entered Chicago three years ago and have 14 stores there now and we would love to do that in some of other bigger markets that we're not in. We just haven't found the opportunity at this point.

Dave Rogers – Chief Executive Officer
And just to make it clear, Paula, we're not talking about a wholesale trade out here we like most of the stores we have suburban or not. The Houston deal just happened to be because it was close because the seller was interested in the older store and that was part of that and we have done it a few items I think in 2012 and 2013 in both Dallas and Houston where we had some really old stuff and it didn't pay to put the deferred into it or to knock them down and rebuild them but we were able to pick up some adjacent or close by stores. But it is not a strategy where just to make it clear that we're cashing out of some the suburban stores to go more urban into, we like most of the suburban markets we're in, too.

<Q>: How much of in the portfolio are those kinds of, where they either a little older, or the location is not right that you wouldn't want to continue to put more money in them? How many of those do you think do you still have what portion of the portfolio?

Dave Rogers – Chief Executive Officer
Well we sold in both for reasons, both of various small markets and older stores we sold about 35 over the last four years. I would think that there would be something less than 4% to 5% of our portfolio that's on the fence so that where it equates to maybe 20, 23, 24; stores most of which I think we will resolve by an E&E project rather than sell it outright. I think the markets are good, it's just that the stores have, I mean you've seen some of our stores that are 30 and 35 years old and they look pretty good; they're not what we're buying now, but they're certainly serviceable and they're performing very well. So, I would say it's not a very large part at all, 4% and 5%, and I think—I don't even think we'll even trade out that many. So, it would be something in the dozen range, perhaps that we would consider trading out or selling in the next 12 to 15 months.

Operator
Our next question comes from the line of Ki Bin Kim with SunTrust. Please go ahead with your questions.

<Q>: I just want to just a couple of follow-ups here. You mentioned that 4.3% of your customers would receive rent increase letters in 4Q '14, I believe, and 3.3% received it last year in 4Q '13.

M
Yes.

<Q>: What do you expect for the whole year in 2015?

Ed Killeen – Chief Operating Officer
Well, the way it looks now Ki Bin I think the first thing you have to look at it is our retention rate and 59% of our customers stay with us in the first year and then 42 of them in the second year. So that's the population of the customers that might be eligible for a rent increase. We would expect in 2015 it might be 18% to 20% of those customers of that 59% that would receive a rent increase. So I would say of those that are eligible, 40% of them are going to receive a rent increase some time in 2015 when they become eligible.

<Q>: And the Houston commentary in your guidance for 2015 if I remember correctly it's probably a couple of dozen projects going up in Houston; I'm not sure if they are all open or if they're going to open in '15 or '16. How does that configure into that guidance number you provided, does it include the risk of some projects coming up in that market?

Andy Gregoire – Chief Financial Officer
Yes, it does include that risk and I do believe within our three mile ring there is not a whole lot of what's coming on in Houston is within those three miles. So it doesn't concern us I think it did affect the couple of the stores where again we do grassroots budget up, creation of our budgets and the area managers and it was just a couple of stores where we would have a competition that would affect us. So it's not widespread in Houston.

<Q>: And if I can ask just a quick one here, you mentioned that in January your street rate was up 4% what was for the quarter and then that's it for me?

Andy Gregoire – Chief Financial Officer
Excuse me, Ki Bin, what was that again?

<Q>: Your street rate was up in the quarter year-over-year?

Andy Gregoire – Chief Financial Officer
At the end of the quarter we were 4.3% higher and January is very similar.

Operator
(Operator instructions.) Our next question comes from the line of Jeremy Metz with UBS. Please go ahead with your questions.

<Q>: It's Ross Nussbaum here with Jeremy. It looks like you had a little more occupancy seasonality in this Q4 on a sequential basis from Q3 than you did in 2013. Did that catch you a little by surprise? Was that expected given your push on rate? Can you just comment a little on that?

Andy Gregoire – Chief Financial Officer
A little bit of it was designed. We've reduced street rent; we said our concessions were lower Q4 of '14 versus '13 so we didn't want to bring in the low yielding customer and so in Q3 you heard us talk about trying to get some people in the door at higher rates. Q4 we didn't see a reason to bring in the short stay customers by offering them a free month. So it's a strategy; I think we paid off from the top-line, occupancy maybe not.

<Q>: Next question, if I look at New York which is one of your larger markets, if I look at your Q3 supplemental on a year-over-year basis you guys had call it flat occupancy. In Q4 occupancy was down about 270 bps year-over-year which is a pretty notable change one quarter to the next and I recognize the same-store revenue growth

held but can you talk a little bit about specifically is there something going on in New York that you intentionally let the occupancy fall off year-over-year? Did you push rate more aggressively there?

Andy Gregoire – Chief Financial Officer
We weren't any more aggressive than we had been Long Island just a little bit more seasonality in Long Island than we had seen in the last two years, but that was typical before the last two years. So but Long Island was a little bit of a dip more than we expected.

<Q>: Last question, Internet and marketing spend I believe you guys have most or all that cost running through G&A. Can you give us an idea of just sort of what that number was for the quarter and how that compares to the year ago period?

Andy Gregoire – Chief Financial Officer
Yes, for the quarter, we spent a $1.280 million in the supplemental you will see it under G&A, it is all in G&A, and that was up from a $1.155 million in Q4 2013. For the year we spent $5.57 million and we expect that to grow to over $6 million in 2015.

<Q>: And at this point is that all Internet or is there anything else going on besides Internet spend at this point?

Andy Gregoire – Chief Financial Officer
That is all Internet.

Dave Rogers – Chief Executive Officer
We do have advertising, Ross, but it's at the store level and it's primarily grassroots campaigns and that sort of thing, so the only thing that we break out, out of the store operating expense is the Internet.

Andy Gregoire – Chief Financial Officer
Yes and so at the store level all the grassroots is shown in the store NOI.

Operator
It does seem that we have no further questions at this time. I would like to turn the floor back to Dave Rogers for closing remarks.

Dave Rogers – Chief Executive Officer
Thank you everyone for paying attention to us on this call. We look forward to a good 2015 and to seeing you at the various events. Stay warm. Have a good day.

Operator
Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.