

Transcript of Sovran Self Storage

Fourth Quarter 2013 Earnings Release Conference Call February 26, 2014

Participants

Diane Piegza – Vice President, Corporate Communications
Dave Rogers – Chief Executive Officer
Andy Gregoire – Chief Financial Officer
Ed Killeen – Executive Vice President, Real Estate Management
Paul Powell – Executive Vice President, Real Estate Investment

Analysts

Gaurav Mehta – Cantor Fitzgerald
Christy McElroy – Citi
Jana Galan – Bank of America Merrill Lynch
Shahzeb Zakaria – Macquarie
Todd Thomas – KeyBanc Capital Markets
Paula Poskon – Robert W. Baird
Ki Bin Kim – SunTrust
RJ Milligan – Raymond James

Presentation

Operator

Greetings, and welcome to the Sovran Self Storage Fourth Quarter 2013 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 your host, Ms. Diane Piegza, Vice President of Corporate Communications for Sovran Self Storage.

Diane Piegza – Vice President, Corporate Communications

Thank you, Melissa, and good morning, everyone. Thank you for joining our Fourth Quarter and Full Year 2013 conference call. Leading today's call will be Dave Rogers, Chief Executive Officer. Also participating are Andy Gregoire, Chief Financial Officer; Ed Killeen, Executive Vice President of Real Estate Management; and Paul Powell, Executive Vice President of Real Estate Investment.

Each of you should have received a copy of our earnings release last evening. If you have not and you wish to be added to our distribution list, please e-mail invest@sovranss.com.

As a reminder, the following discussion and answers to your questions contain forward-looking statements. Sovran's actual results may differ materially from

projected results. Additional information concerning the factors that may cause such differences is located in our company's SEC filings. Copies of these filings may be obtained by contacting the company or the SEC.

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

Dave Rogers – Chief Executive Officer

Thanks, Diane, and good morning, everyone. Welcome to our call. Our fourth quarter was another good one with occupancies increasing, rental rates growing and costs, with the exception of property taxes, pretty much contained. Andy will provide details, but Q4 provided a nice coda to a really strong 2013.

Acquisition opportunities never missed a beat as we crossed into the New Year and we were able to bring some nice properties into the portfolio. We bought five in the fourth quarter for about \$45 million in the existing markets of Northern New Jersey, Southern Connecticut and Southeast Florida. Then right out of the box in 2014 we acquired two more in Southeast Florida, one in San Antonio, one in Austin and two in Portland, Maine. Again these are all markets where we've already had a presence.

These acquisitions at the start of the year cost us \$87 million and gave us a good jump. The overall picture of the self-storage sector remains pretty much unchanged, growth in new supply is minimal, demand is picking up, customer awareness continues to grow. So, it's good.

With that I'll let Andy give the specifics.

Andy Gregoire – Chief Financial Officer

Thanks, Dave. Regarding operations, same-store revenues increased 6.6% over those of the fourth quarter of 2012. The growth was a result of the 210 basis point increase in average occupancy and a 3.3% increase in rates. Same-store occupancy held up well during this slow season and was 89.5% at December 31st. Tenant insurance income continued to show strong growth increasing 21.6% in the fourth quarter of 2013 as compared to the same period in 2012.

Total property operating expenses on a same-store basis increased by 5.5%, primarily as a result of increased property taxes in Harris County, Texas. Outside of property taxes and our insurance expenses were well controlled. Same-store net operating income increased 7.2% for the quarter and a very strong 9.9% for the year. G&A costs were \$400,000 lower this quarter over that of the previous year, the main reason for that decrease was a reduced employee incentives.

Regarding properties, Dave mentioned the five stores we purchased during the quarter. For the year, we acquired 11 properties for approximately \$95 million. In addition, we entered into leases for four storage facilities in November that give us the ability to acquire the stores outright for \$120 million beginning February of 2015. Our acquisitions for 2014 have started strong and we have a lot in the pipeline and we are expecting to acquire a good number of quality properties.

On the disposition front, we sold four stores during the quarter for \$12.3 million resulting in a gain of \$2.4 million. From a balance sheet perspective, we finished 2013 with a very strong position as a result of our deleveraging during the year with proceeds from our ATM program. We raised \$108 million of equity through the ATM in 2013 versus the \$95 million spent on acquisition. The excess proceeds from the equity raised, along with our free cash flow, allowed us to enter 2014 with \$58 million

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less debt than the previous year. This puts us in a good place to perhaps use a little more leverage to fund the 2014 acquisition activity.

We do expect the term-out for ten years and fix the rate on our line of credit balance, which has grown from \$49 million at year end to \$141 million today. With regard to guidance, we have included in our release the expected ranges of revenues and expenses for the first quarter and the entire year.

Our same store pool for 2014 will include the 28 stores we acquired in 2012 bringing our total same stores to 386. Same store revenue for Q1 should be in the 6% to 7% range and NOI growth also around 6% to 7%. Property taxes for the quarter are expected to increase between 8.5% and 9.5%.

We believe that the property taxes increases we saw in 2013 could be repeated in other market in 2014, specifically Florida, Georgia, South Carolina and other parts of Texas may be under pressure in 2014 based on discussion with property tax consultants. Core G&A is expected to be at \$39 million for 2014, including over \$5.1 million of internet advertising.

Our guidance assumes an additional \$100 million of acquisitions weighted for half the year on top of the \$87 million we have completed to-date. We have not included in guidance the related acquisition costs incurred to-date or that will occur in the future.

Our guidance assumes a weighted average diluted share count of 32.9 million shares for 2014. As a result of the above assumptions we are providing initial guidance and are forecasting funds from operation for the full year 2014 at between \$4.19 and \$4.23 per share and between \$0.94 and \$0.96 per share for the first quarter of 2014.

I will now turn the call back over to Dave for some additional comments.

Dave Rogers – Chief Executive Officer

Thank you, Andy. Before we start Q&A, I thought I would take the occasion of our year-end call to tell a few highlights. With the guidance we issued this year we're now anticipating our fourth consecutive year of double-digit FFO growth. Over that period we delevered an already conservative balance sheet and now have one of the strongest and most flexible financial positions in the industry.

Over the past few years in addition to the 52 stores we've put in JVs and under third party management we've acquired 85 facilities for our own portfolio. And during that time we also sold 37 properties so we've added a net of 100 Uncle Bob stores. These additions have been instrumental to our success, not just because of the added scale, but because of the quality of the assets and the markets they're in. We significantly added to our presence in Houston, Dallas, Long Island, Charlotte, Atlanta, Miami, Lauderdale, and we entered the Chicago market in a pretty big way. Meanwhile, we've exited most of our smaller markets, including Macon and Augusta, Georgia; Tallahassee, Florida; Fayetteville and Jackson, North Carolina and Northern Michigan. The new stores are big and bright and well located and most are third generation state-of-the-art storage properties. These are the kind of markets and the type of stores we expect to be in, in the future.

We've invested heavily in our technology and our people. Our web marketing platform, our call center, our revenue management system and our modular training program are all first rate, and they've been the key factors in enabling us to deliver such excellent results. And lastly in the last year and a half, we've increased our dividend three times and now pay \$2.72 a share. This provides a yield of 3.8% on

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today's price with a payout ratio of only about 70% of expected AFFO. So, we're very pleased with what's been going on here at Uncle Bob's and we're even more pleased by the prospect of continued growth and success in the coming year and years.

Commercial is over. We now return you to your regularly scheduled earnings call. Melissa, could you please open the line to questions?

Operator

(Operator instructions.) Our first question comes from the line of Gaurav Mehta with Cantor Fitzgerald.

<Q>: Couple of questions: On your 2014 guidance, can you talk about what kind of occupancy gains and rental growth are you expecting?

Ed Killeen – Executive Vice President, Real Estate Management

In regards to occupancy, we're expecting a 200 plus spread in points. We peaked last year at nearly 92% and we believe that we'll be beyond 93%, up to 94 plus percent once we get to our peak season.

<Q>: Then on the new rate side, can you provide some color on what you are seeing?

Ed Killeen – Executive Vice President, Real Estate Management

On the asking or in place?

<Q>: Asking.

Ed Killeen – Executive Vice President, Real Estate Management

On asking?

<Q>: And in place as well.

Ed Killeen – Executive Vice President, Real Estate Management

Well we've been riding a 200 to 300 basis point spread and we believe we'll continue to see that through 2014. As far as in place goes, we do anticipate putting in a greater number of in place rate increases and also expect that the average rate of increase will be greater as well. But we're probably collecting about 100 basis points there, 100 plus.

Operator

Our next question comes from the line of Christy McElroy with Citi.

<Q>: Andy, just wanted to follow-up on the Q1 guidance of \$0.94 to \$0.96. If I'm starting from sort of your core number in Q4 of \$1.04, it's not usually that much of a drop-off quarter-over-quarter. I understand there might be some sort of seasonal occupancy drop, but can you just sort of walk us through how are you getting to \$0.95 at the midpoint from \$1.04? I think you said there was nothing sort of one-time in there like acquisition costs, right?

Andy Gregoire – Chief Financial Officer

Correct. But what we expect to see in Q1, Christy, is significant increase in utilities, significant increase in snow plowing. So, those are some oddballs that we'll see in Q1 that we didn't see in Q4, we don't expect to see in the rest of the year, but we do see it then. Property taxes obviously will increase significantly. G&A in Q4 had some benefits that you won't see in Q1. We had some solar rebates come through in Q4,

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some \$400,000. We don't have any of that in our guidance right now and there is none expected in Q1. Salaries we expect, salaries and benefits and the Affordable Care Act will cost us more G&A and at the store level. So our income tax expense in the G&A line, because as we don't have those solar rebates will be higher, salaries will be higher, we're spending more on our revenue management program and our personnel there. Our internet spend is going to be higher and it's not just the spend on the internet, but the personnel behind that spend, we expect to spend more in 2014.

<Q>: Then just to clarify on the prior question, you mentioned 94%, reaching 94% occupancy in 2014. I assume that's in Q3. Is that on average in Q3 or is that sort of the peak level you'll see in Q3?

Ed Killeen – Executive Vice President, Real Estate Management

Well, Christy, I might have pulled a Ken Myszkowski on you there. We expect that we might hit 94% in Q3, it wouldn't be any earlier than that. That would be the peak.

Andy Gregoire – Chief Financial Officer

And that would be on our same-store pool from last year, Christy. The new same-store actually reduces our occupancy starting point by about 70 basis points. So, the old same store pool may get to there, but the new same-store, you won't see that number.

<Q>: But just to clarify, that wouldn't be the average over that quarter; that way it might be at some point during the quarter?

Ed Killeen – Executive Vice President, Real Estate Management

No, that would be the peak, yes at some point.

<Q>: In regards to the bond deal, you mentioned March 31st, but in terms of timing of that, will that be right at quarter end or what would you expect in terms of the timing?

Andy Gregoire – Chief Financial Officer

That would be mid-April.

<Q>: Then just lastly, as far as dispositions, how would you characterize the assets you've been selling? You talked about exiting certain markets. Do you have an estimate for sort of volume of assets that you might sell in 2014? As you look at kind of the meaningful strengthening in cap rate compression that's occurred in the private market for storage assets over the last year, why not consider selling more?

Dave Rogers – Chief Executive Officer

We take a look at our assets every year and sort of do a review, but basically we're looking at markets more than properties. We wanted to get out of some of the markets where we might have been subject to inordinate competition, I guess, with just one or two players coming in. So that's why we got out of a lot of the markets I mentioned. Paul is on track all the time to be reviewing things. As a matter of fact, when we bring in acquisitions, we look to see if these perhaps can be replacements. So, I think we did some of that in Texas last year.

Paul Powell – Executive Vice President, Real Estate Investment

Right. Yes, we constantly review our portfolio, Christy, and this year, we may sell five to ten properties. Right now there is nothing, we're not marketing anything for sale at this point, but we'll continue our review process and by early spring, mid spring, we might bring a few to market. But we have nothing in the pipeline right now.

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Dave Rogers – Chief Executive Officer

I think, though, that's primarily at this point store driven as opposed to market driven.

Paul Powell – Executive Vice President, Real Estate Investment

That's correct, yes. As Dave alluded to, as we buy into markets where we have a good presence, we will look at that market and if we have some older assets that we feel that have peaked or the location is not as well positioned as it was in the past due to new competition, we will consider selling those.

Operator

Our next question comes from the line of Jana Galan with Bank of America Merrill Lynch.

<Q>: Looking at your acquisition guidance, I believe historically you said acquisitions are roughly FFO neutral in year one, how should we think about the deals you've completed in 4Q and year-to-date and then the \$100 million of additional acquisitions?

Dave Rogers – Chief Executive Officer

We look at them as revenue neutral typically because of the way we fund them. We match funds with either draws on the ATM, or we'll do a stock offering and blend it with what we usually turn to a longer term fix rate debt. So, the pop from year one usually given the duration of time, it's in the fold for the year and the fact that we match it up with the normal capital cost, don't give us too much. This year, because we sort of issued a lot of stock in 2013 and came in a rather de-levered position in 2014 we plan to put a little more on the line of credit and leave it there than we did. So you get some spread investing there with, I don't know what it is, 1.7 or so percent line and we're buying at 6.25 or thereabout.

So, there will be a little pop from acquisitions. We are taking a lot of it away by doing the long term financing next month or whenever we complete it, sometime in April. But for the most part, we're counting more on the spread this year than we ever had before, but it's still not much, it's only \$0.04 or \$0.05.

<Q>: For the acquisitions, are those stabilized or are there some that are still unstabilized?

Paul Powell – Executive Vice President, Real Estate Investment

In the fourth quarter, Jana, they were mostly stabilized. We bought them in six cap range, mid to upper six cap. The ones in the first quarter, there was one that was still in lease up that we bought out in San Antonio. The cap rates for the stabilized assets we bought in the first were again probably in the low sixes, except for the two in Maine that they were north of seven.

Operator

Our next question comes from Shahzeb Zakaria with Macquarie.

<Q>: My question is regarding the acquisitions. Of the major portfolios that transacted in 2013, Sovran didn't close on any of them. Now you did the deal that was over \$100 million, the lease deal, and you are actively bidding on some of the portfolios that transacted last year. Should we take the lack of closing as a sign of disciplined underwriting and then inherently different view on pricing relative to what the rest of the REITs think?

Paul Powell – Executive Vice President, Real Estate Investment

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No I don't, we reviewed all those portfolios and we were right into the end on a couple of those deals but, again, we're very disciplined in our acquisitions, we are not going to overpay for deals that we feel are getting overpriced. So we'll continue to review all the larger portfolios that come through. But mainly our acquisitions are built off of relationships with owners that they're off market transactions, but we will continue to review all listed deals. If they make sense, we'll get our offer in, but we know where we're going to top out and we're not going to go over that number.

<Q>: And if you look at the transactions in 2013, what were the premiums assigned to portfolios versus single asset transactions and what was that figure historically?

Paul Powell – Executive Vice President, Real Estate Investment

Well, I want to say on those portfolios there is probably a 50 to 100 basis points spread for the, as a premium for being portfolios, large portfolios.

<Q>: Was that spread less or more in the past?

Paul Powell – Executive Vice President, Real Estate Investment

Probably about the same. I think from a market portfolio, you're going to have at least a 50 basis point premium, maybe it jumped up to a little bit higher because of the size and the diversity of these portfolios that were transacted in the second half of 2013. So maybe a little bit bigger of a spread than typical, but usually you're going to pay a premium for a portfolio.

<Q>: My last question, if you could just give an update on the acquisitions front. Is there anything in the pipeline in California?

Paul Powell – Executive Vice President, Real Estate Investment

We are, yes, I've been out there quite a bit. We hope to actually buy some properties this year in California, there is nothing eminent at this point, but we feel we're getting pretty close on some transactions out there.

Operator

Our next question comes from the line of Todd Thomas with KeyBanc Capital Markets.

<Q>: Just for a follow-up on the acquisition line of questioning here. I know you have a \$100 million of investments in guidance. Is that a reasonable level to expect for the full year? Is that your expectation, or would you be disappointed if that's the full year total?

Paul Powell – Executive Vice President, Real Estate Investment

Yes, Todd. We're now seriously looking at \$150 million worth of property that we would like to close in the first half. Now some of those may fall out. So I think with the 87 that we've already done in the first quarter, I feel confident we should do at least a 100 if not maybe 200 by the end of the year, but right now that's to be seen. But we are seriously considering \$150 million worth of deals right now. So yes, if we did less than 100, we'd be disappointed.

<Q>: Then just switching over to operations and curious about the level of discounting today where that is year-over-year and what the impact to same-store revenue growth is from reduced discounting in '14?

Ed Killeen – Executive Vice President, Real Estate Management

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Well, Todd, in 2013 there was a significant burn off and we certainly don't expect to see that reduction again during this year's peak selling season. We think that we might see 100 basis points spread over last year, but again we won't experience the same thing. We in 2013, 4Q 2013, we did begin to see through our revenue management system that we needed to keep that occupancy up and be a little bit more aggressive with the concessions and that's how we acted. So, it's tough to say what the selling season is going to bring and exactly how we respond to our customers' needs out there and whether we should be more aggressive with concessions.

What was sort of surprising to us is that I think we all maybe got a little overly aggressive in 4Q and we probably also could have benefited if we backed off that a bit. But we'll see what happens heading into the peak selling season in 2014.

<Q>: Then just regarding the real estate tax increases, I was just wondering are the properties being reassessed. Are they recent acquisitions or they existing properties that you've own for a longer period of time?

Andy Gregoire – Chief Financial Officer

It's the combination of both, Todd. Obviously the recent acquisitions probably see a bigger pop, but they are going back to stores we've owned for five, six years and being very aggressive. They have the data from the portfolios that traded and it's really, it's tough in some of those states, Florida, Texas, The Carolinas, really seeing pressure both on stores we've owned for a while and obviously more pressure on the recent acquisitions.

Dave Rogers – Chief Executive Officer

What we're seeing, Todd, is we had some pretty nice wins on property tax protests in 2009, 2010. That valuation is out, especially in Florida and now they're coming back with a vengeance. They see, as Andy mentioned, the portfolio of transaction it's really hard to protest now when your income is up for one thing and then they turn around and look at comparable cap rates and it's sort of crushing. And it's the biggest emphasis appears to be in States where we have the greatest concentration, unfortunately. The good news is it happens, and then they leave you alone for three or four years, so you take a big whack at resets and then presumably, at least for our big markets, Texas and Florida especially, we'll take some pain and then presumably just have normal at worse increases going forward.

<Q>: So it sounds like the acquisitions have been reassessed bit more than some of the existing properties. How do the reassessments or how do the real estate tax increases compare on some of the recent acquisitions relative to what you underwrote?

Andy Gregoire – Chief Financial Officer

Very similar. It's when they come out at sometimes, we might expect in year two or three and then hit in year one or vice versa. We had some that we thought would hit last year and did not and we expect them to hit this year. So it's all over the board, but in general it's the underwriting, it's pretty close to the underwriting. We try to underwrite worst case scenario based on discussion with property tax consultants.

<Q>: Then just lastly, how many properties do you own specifically in Harris County?

Andy Gregoire – Chief Financial Officer

I think I had 33; it's in the 30s, more than 30.

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Operator

Our next question comes from the line of Paula Poskon with Robert W. Baird.

<Q>: Just to follow-up on Christy's earlier question to clarify there is no disposition volume assumed in guidance, is that correct?

Dave Rogers – Chief Executive Officer

That is correct.

<Q>: Can you tell us where the portfolio occupancy ended in January?

Andy Gregoire – Chief Financial Officer

We had about a 15 basis point increase in January of this; the old same-store pool, so it was 89-25 at the end of January so it was a nice start to the year.

<Q>: I was surprised actually at the ATM issue in the fourth quarter just given the sell-off in the sector post 3Q earnings. Can you just sort of broadly speaking talk about how you think about using the line how comfortable you are in terms of the, approaching the limits of capacity or not and do you have some general rule that you follow that once you get to, say, half the capacity you feel compelled to pay that down?

Andy Gregoire – Chief Financial Officer

Sure. Generally \$100 million on the line is when we start looking to term it out, we don't like to leave it at floating rate out there, we don't like what we believe is the direction of rates and our board and us we're pretty conservative and I think you know that. We're not going to leave it out there very long on the line before we term it out.

That being said, we were ultra conservative and got ahead of things in 2013 by deleveraging, expecting 2014 would be good on the acquisition front. So you won't see us be so aggressive on the ATM, obviously fixing the rate long-term we will be, we will try to do that again any time we get over \$100 million.

<Q>: Then just lastly, you clearly have made a lot of investments in technology platform, personnel, etc. How scalable is the platform as it sits today? How much more could you grow without another significant step up in platform investments?

Dave Rogers – Chief Executive Officer

Certainly the revenue management program, the call center, our training modules are very scalable. We do continually go invest in this technology. We're refining the RMS ongoing and use an outside consultant for that and our team in-house. We're growing that process and those what we use it for more and more all the time. But I would say that's pretty scalable, the call center and the training platforms are very scalable.

The one that really isn't is internet advertising, but we find that in every market we go into, we have to spend more, in new markets we spend more than in older markets. But it's an on/off switch where we're more active buying at times. So I would say that's the least scalable of the four.

Operator

Our next question comes from the line of Ki Bin Kim with SunTrust.

<Q>: Just a couple of quick follow-ups here. What's embedded in your guidance for spending on internet and advertising?

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Andy Gregoire – Chief Financial Officer

\$5.1 million on the advertising itself, Ki Bin, plus the personnel, we have beefed up the personnel to handle that spend and the outside help that we use to spend those internet dollars.

<Q>: So I guess when you combine both—and I'm only asking because these metrics aren't in your same store NOI numbers, which is different from your peers, so what would the end total, the dollar increase look like?

Andy Gregoire – Chief Financial Officer

Just on the internet spend line it should go to 5.1 to 5.2 next year.

Dave Rogers – Chief Executive Officer

Probably another 200,000 in consultants and in-house over and above what we were spending in 2013.

Andy Gregoire – Chief Financial Officer

But that would stay in the G&A line.

<Q>: And going back to the ATM topic and in your balance sheet I mean you guys have great credit metrics, great coverage ratios, I would call it even a super investment grade, if there was such a thing. So just one more question regarding your decision to raise equity, I mean it's a small amount, but is it replenishing the war chest to get ready to buy a lot more assets in 2014 and beyond or is there a certain level that you want to see your fixed charge coverage ratio at?

Andy Gregoire – Chief Financial Officer

No I think we're happy with our fixed charge coverage where it's at. I think we were preparing for an active acquisition season and we want to keep that balance. We remember the dates just a few years ago where you don't want to be overleveraged, you don't want to be at a point where you can't access the capital markets. So if we can match fund and it makes sense cap rates based on what we're buying, it's our best use for funds to take in those ATM funds and match later. We're not going to match every acquisition with ATM and debt. We're going to try to play a balance and it may not be over the one quarter, but over one to two years you're going to see that balance.

Dave Rogers – Chief Executive Officer

By year-end, at year-end, Ki Bin, probably the panel will move a little far on the equity weight side. That's why we say we'll probably do, we'll term-out our line this time with a note and then we'll get back on the line to buy some more. So we went a little too far, maybe, but that's only in anticipation of hopefully a good year acquisition wise.

<Q>: And just last question, you guys always provide some useful color on regular ... year-over-year for the fourth quarter and also stats on, I think you guys use dollars in promotion. I was wondering if you can provide those stats for the fourth quarter and how you are marketing promotions.

Andy Gregoire – Chief Financial Officer

At the end of the year our asking rates were up 5.7% year-over-year. Now they were down from Q3 to Q4, they were actually down 3%, but year-over-year they were still 5.7% above. So that's where asking rates were. Regarding concessions, they were very similar to last year; they were \$120,000 less than last year in Q4, as we were about \$1.5 million or so in Q4 concessions on the same-store pool.

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<Q>: Okay; \$1.5 million?

Andy Gregoire – Chief Financial Officer

Correct.

Operator

Our next question comes from the line of RJ Milligan with Raymond James.

<Q>: I was wondering if I could follow up on Todd's question about the same-store revenue guidance for next year. And if maybe you could break it out between occupancy, lower discounting and higher rents and sort of how that attribution goes for the 5% to 6%?

Ed Killeen – Executive Vice President, Real Estate Management

RJ, what we're looking at is 200 to 300 basis points in the asking rates; 200 plus in occupancy, concessions not quite sure, but we're looking at maybe a 50 basis points in place 100 plus.

<Q>: Your comments or previous comments about additional spend on the internet marketing going into next year. I was just curious, where your focus was in terms of increased spend there and what you're seeing happen in terms of the online marketplace and people's search for storage online.

Ed Killeen – Executive Vice President, Real Estate Management

Well, putting aside the additional spend when you go into new markets, as Dave suggested, that that's one piece that really isn't scalable but everything else really is. And right now the lion's share of the money spent in internet advertising is on SEO, whether it's organic or paid search, you simply have to step up and pay for it.

So, right now it's all about the content marketing spend where we spend money in social media, we do local events that actually tie into what we try to accomplish in web marketing. So again, the lion's share of that money, I would say \$4.5 million of the whole budget is spent on SEO on optimizing search.

<Q>: And given the trends that you are seeing with your customers, do you think the gap is getting wider or is contracting in terms of the difference between where the larger public players can operate and scale in terms of online marketing versus the smaller mom and pops?

Ed Killeen – Executive Vice President, Real Estate Management

It is most definitely widening. As a smaller operator, it's just more difficult to spend that money in the right ways, in the most appropriate ways.

Operator

Our next question is a follow up from Shahzeb Zakaria with Macquarie.

<Q>: Could you describe the appeal's process for tax assessments, if you guys plan to go down that route and if so, how long does that take?

Andy Gregoire – Chief Financial Officer

The appeal process is constant, Shahzeb, we fight based on cap rate, based on NOI, price per square foot, age of property, but we look at the benefit, we don't want to push that assessor for small benefit. A lot of these assessors, you have to go back to multiple times. So you pick and choose your battles where you think you can win and

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save a significant dollar, but it's constant, especially in Texas and Florida, it's constant battle.

Dave Rogers – Chief Executive Officer

I don't think we are going to see too many wins in the next year. I think the overall climate and you can do what you want with your income and you prove to them, you have got have a lot of deferred maintenance, you really make your properties. It's the anti-conference call, right. You make your properties look as bad as you can to these folks and when you wind up with cap rates that have been paid and the publicity in the storage sector. I mean every time a deal trades, the local business paper has a big headline. We have been interviewed countless times for the properties we just bought in the last few months and we're sure the assessors read the business section of the paper and boom, there it goes. So, we're not going to win too much, I don't think, in 2014 or 2015.

<Q>: Lastly, could you guys give us an update on what you're seeing on the development front?

Paul Powell – Executive Vice President, Real Estate Investment

Shahzeb, yes, we monitor that on a regular basis in our markets. Again, we're still not seeing a whole lot of new development, a lot of talk, but we're just not seeing it. Probably two years out, we'll probably see a little bit of an uptick of new sites opening. Sovran, again, is not developers. We are in discussions with some preferred developers in some key markets that we really would like to expand in. But there is nothing, again, we're just in discussions right now. Hopefully we'll get a few deals off the ground this year, but we're not too concerned at this point.

Operator

Our next question is from Paula Poskon with Robert W. Baird.

<Q>: I'm just wondering, Dave, with everyone's occupancy so high, even in the seasonal trough and then heading into the seasonal up cycle, how emboldened do you think your competitors will be to really robustly push asking rents?

Dave Rogers – Chief Executive Officer

We hear, I think you hear it more from our larger competitors that they push rates harder and it's a conundrum to us, so I think we are going to wind up this year with the highest same store rates. So, we do push and we've really developed some things with our revenue management system, especially on the in place side, to try to very selectively go to people who we think can, are going to stay, pay it up and stay. As Andy says, the biggest thing is you got to make sure you got to back those, you got to make sure you got a line of the people. So that great, that's the best part about high occupancy is you know you pretty much have the positions backfilled.

But you would think that with a 93%, 94% occupancy, you would be really ramming the rate, but it's a delicate thing. You just have to pick your spots on the in place; it's a lot easier to adjust street rates. As Andy said, our year-end was 5.7% higher, our asking rate, than it was at the end of 2012, yet for the fourth quarter we were down three point some percent because we're moving it all the time.

So you're selling all the time, you're trying to pick a spot. I don't think it's as robust as the image might be, but we still did seven plus percent last year, we're still going to do 6% something this year and a lot of it is going to have to be rate. So I guess I would just caution against the idea that rates are up, our on-site occupancy is up, rates are

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going to go like crazy. It's a little more delicate than that, it's a little more you've got to rifle it in as opposed to shotgun it.

M

Melissa, we'll have one more.

Operator

Our next question comes from the line of Ross Nussbaum with UBS.

<Q>: It's actually Jeremy here. I was just wondering, just one last thing, can you just give us an update on the third-party management program you guys have, how big of an opportunity is there to meaningfully grow that in '14 or just some small steady growth like you saw in '13 with seven net properties added, and if you're in any active conversations now to really grow that program a little bit?

Paul Powell – Executive Vice President, Real Estate Investment

Yes, we're very selective in our third-party management program. We want to bring on properties that we know we're going to buy at some point or would like to buy. We have kind of changed our focus a little bit towards some developers. There is a lot of developers out there that need a management platform. So our trade shows, some of our literatures is focused now more on those people in the development field. But we'll continue to look at existing properties, but again it's going to be properties that we would want at some point to buy.

So we are still very selective. I think we're comfortable with our growth. We end buying some of these properties if it comes to us as an opportunity at the end of the day, we end up buying them. That's worked out well for us. So even if we're not adding 20 or 30 a year, we still feel very comfortable with the program and it's doing what we expect it to do.

<Q>: How much of what you did in '13 or even the \$87 million so far in '14 came via that route, either just conversations that started and actually have maybe a third-party management turned into just an outright acquisition or came from that?

Paul Powell – Executive Vice President, Real Estate Investment

Well, definitely one of them one we've bought in Austin, this was a relationship we built with the owner a few years ago where it was initially a management discussion. We ended up buying his whole portfolio, he had a few left and then he came back to us at the end of last year. We ended up buying another of his properties. So the others, the Portland deal was a deal that we had a relationship with that guy as well. That was not a management opportunity, but he did come to ask us about managing and then he mentioned about us buying the last one so we ended up discussing that, we did end up buying it. So again, these relationships build over time and we were still in discussions with people who are potentially looking for us to manage, but hopefully we ended up to acquire those.

Dave Rogers – Chief Executive Officer

And one of the biggest ones we had, Jeremy, was one in 2012 where we bought about \$120 million worth that was going to definitely be a management contract right up until the very end, and we bought that. We bought in Virginia Beach, bought one in Florida. So, there has been quite a few, it gives us a really good presence in the industry, it sort of an adjunct to our acquisition pipeline. And as Paul said, we're pleased with the way it's working out. We definitely are not in it for the practice, we're not going to be taking these on just for the fee side of it; we turn away many, many, many times more than we take on.

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And in addition I guess it gives us a pretty good insight to what a lot of the Mom & Pops had going on. We get to see under the hood at a lot of properties that we otherwise wouldn't have the opportunity to.

Operator

Mr. Rogers, there are no further questions at this time. I'd like to turn the floor back to you for any closing comments.

Dave Rogers – Chief Executive Officer

Well, we thank you all for your time and attention and we look forward to the next one. In the meantime stay warm. Thanks, everybody.

Operator

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

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