Participants

Diane Piegza – VP of Investor Relations
David Rogers – Chief Executive Officer
Andy Gregoire – Chief Financial Officer
Ed Killeen – Chief Operating Officer
Paul Powell – Chief Investment Officer

Analysts

Jeremy Metz – UBS
Gwen Clark – Evercore ISI
Smedes Rose – Citi Group
David Corak – FBR Capital Markets
Todd Thomas – KeyBanc Capital Markets
George Hoglund – Jeffries
Ryan Burke – Green Street Advisors
Gaurav Mehta – Cantor Fitzgerald
Todd Stender – Wells Fargo
Jonathan Hughes – Raymond James
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Presentation

Operator
Greetings, and welcome to the Sovran Self Storage Second Quarter 2016 Earnings Release Conference Call. At this time, all participants are in listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host Diane Piegza, Vice President, Investor Relations for Sovran Self Storage. Thank you. You may begin.

Diane Piegza – Vice President, Investor Relations
Thank you, Melissa, and good morning, everyone. Thank you for joining us our Second Quarter 2016 Conference call. Leading the call today will be David Rogers, Sovran’s Chief Executive Officer. Also participating are Andy Gregoire, Chief Financial Officer; Ed Killeen, Chief Operating Officer; and Paul Powell, our Chief Investment 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 concerning these factors is included in the company’s latest SEC filings.
At this time, I’ll turn the call over to Dave.

David Rogers – Chief Executive Officer
Thank you, Diane. Good morning, everyone, and welcome to our call. As you know, we had a very busy quarter, what with underwriting and negotiating the Life Storage transaction, a large equity offering, our inaugural debt offering, and then developing the plan to rename our company and rebrand our stores. All of this came on the heels of a very active first quarter where we acquired and integrated over two dozen new properties, including nine in Los Angeles which was our very first foray into that market. So, we were busy, but it was good.

On the operations front, we’ve encountered a bit of a mixed bag. Occupancy has pretty much held or grown a bit across most markets. We’ve improved this year’s level by 30 basis points over last year’s 2Q. The percentage of customers staying with us longer than one year has never been higher, and rate increases to in-place tenants are being implemented at a healthy pace. We came out of a strong Q1 that posted a very solid April, and we’re optimistic as we peak leasing session.

We said for years that you really can’t tell how the year will go until you see how much you can push rates in the busy months, May through September. Around Memorial Day, certain markets had potential new customers pushing back on street rates, and our Revman group saw our competitors in those areas dropping their rates and boosting incentives.

But it’s a very market specific game, and in many cases it’s micro-market specific. For example, it’s been booming business as usual in Atlanta, Tampa, Phoenix, Chicago, Charlotte, San Antonio, and virtually the whole of Florida. These markets all showed same store revenue gains of 7.5% or better this quarter. No problems getting rate growth from both in-place and new customers in these markets.

But we’ve seen some slowdown, even from Q1 to Q2, in New England, Buffalo, New Orleans, and Cleveland. For the most part, the underperformance in these areas was an inability to really push street rates starting late May and into June.

Austin was also slow. It’s a bit of a special case. It’s the one market in our portfolio whose decline is primarily attributable to new competition coming online.

Houston slipped a little bit under our expectations with its topline coming in at 4.9% over last year. We’re actively working to hold occupancy there and accrue 30 basis points this quarter over 2015’s Q2, but we’ve had to use incentives and have lowered rates from April to June. We think we can hold off the somewhat slowing macro-economic issues, but we’re fighting some new supply as well.

Despite the current challenges in Houston, long and even medium term, it’s a great market for storage. It’s soon to be the third largest city in the country, and it presents a perfect dynamic for our business – growing, transient, ripe with change, and with a housing stock that cries out for additional off premise space; we’re good with Houston.

I’ll note again this quarter that our overall same store growth suffered somewhat in comparison to some of our REIT competitors in that we don’t have 20% plus of our same store pool on the West Coast. We’re working to fix that and as of now have about two dozen properties in California and they’re already performing pretty well for us. They don’t join our same store pool until 2018, so we continue to be on the outside looking in at an incredible double digit growth party. But, these stores will nonetheless grow well for us, even if it’s outside the same store metrics and make a strong contribution to our FFO.
Except for Austin, parts of Houston and a smattering of other areas, we don’t think new supply is a big issue, and should only be a temporary setback at worst to those stores immediately impacted. We don’t think the softness in those markets experiencing lower growth rates this quarter is due to weakening demand. Our organic and paid search traffic is significantly higher year-over-year. But our close rate did slow in June on prospective new customers which caused the revenue management team to call for lower rates and increase incentives in those markets.

So, as a result, we think it prudent to reduce our revenue expectations for our same store pool by 100 basis points at the mid-point for this quarter coming up and 50 basis points to 6% at the mid-point for the full year 2016. Some of the markets we’re in have enjoyed good strong rate pushes for several years, and now we see some customer resistance to what they perceive to be pretty high rates. We’ll see growth, but not at quite the levels we’ve enjoyed. And I guess that’s one consequence of twenty-some quarters of consistent outsized revenue growth in non-inflationary times.

So, while we’re on the quantitative side of the story, we’ll have Andy give some more of the details and then, I'll come back and talk about the big picture impact of some of our recent activities. Andy.

Andrew Gregoire – Chief Financial Officer
Thanks, Dave. Last night, we reported same store revenues increased 5.7% over those of the second quarter of 2015. The drivers behind the revenue growth were a 30 basis point increase in average occupancy, and a 5.2% increase in rental rates.

Same store occupancy at June 30th matched our June record high set in 2015, at 92.7%. Same store property operating expenses increased 3.3% for the quarter. This was a result of increases in payroll, property taxes, and internet marketing, which were partially offset by savings and insurance and utilities. As a result, our same store net operating income increased 6.8% for the quarter.

G&A costs were approximately $400,000 higher this quarter over that of the previous year. The main reason for the increase were additional payroll and legal fees, which were partially offset by reduced taxes on our taxable REIT subsidiary.

We were very active with our balance sheet this quarter. We issued 6.9 million common shares through an equity offering in May resulting in net proceeds of $665 million. In addition, we had a very successful inaugural ten-year public bond offering of $600 million at a better than expected 3.5% interest rate.

The issuance of the equity and the sale of the bond in May and June resulted in the significant cash balance of $900 million at June 30th, and resulted in $0.09 per share dilution in the second quarter. This was necessary to be certain we had the cash for the acquisition of Life Storage, which occurred as expected with no delay on July 15th.

We went back to the market in July with a private placement of $200 million of 12-year notes at a very attractive 3.67%. What may have been missed in all the activity were the amendments we made to our private placement notes, which modified and removed some restrictive covenants and brought those other notes in line with the market.

So, we were active in the debt and equity markets and we went a little out of our comfort zone for funding the Life Storage acquisition with 50% equity. This was possible because of our conservative balance sheet and going forward you’ll see us return to our typical funding strategy.
With regard to guidance, same store revenue growth for Q3 should be in the 5% to 6% range and NOI of around 5.5% to 6.5%. Expenses outside property taxes should increase between 2% and 3% for the quarter. Property taxes are forecasted to increase 5% to 6% over 2015 levels for 3Q and an annual property tax expense are expected to increase 6% and 7%.

Our guidance assumes an additional $20 million of accretive acquisitions are completed over the remainder of 2016. We’ve not included in guidance the related costs incurred to date or that could occur related to those acquisitions. Those acquisitions costs will be significant in Q3 the Life Storage acquisition costs themselves being $32 million to $33 million. This includes significant defeasance costs, severance costs, transfer taxes and other typical closing costs.

Our underwriting of the Life Storage acquisition modelled an annual G&A increase of $2 million; therefore, our guidance for the remainder of the year includes half that or $1 million of additional G&A.

I mentioned during the balance sheet discussion that we incurred $0.09 per share dilution in 2Q from the carry costs of the debt and equity rating for Life Storage. Q3 will have an additional $0.05 of drag just for the 14 days we carried that funding before the acquisition occurred.

As a result of the above assumptions, and other items noted in the press release, our revised adjusted FFO guidance for the full year 2016 is expected to be between $5.30 and $5.34 per share, and between $1.37 and $1.39 per share for the third quarter of 2016.

And with that, I’ll turn it back to Dave for a few additional comments.

**David Rogers – Chief Executive Officer**

Thanks, Andy. I thought it might be helpful to review some of the changes that we’ve made to the company over the last few quarters. In the past 18 months, including July, we’ve acquired 140 high quality properties in major markets. Ninety-seven of these are in-fill stores adding to our presence in the New York metro area, Chicago, Miami, the big four Texas cities, New England and Orlando. Thirty-Nine of these newly acquired stores are in the new markets of Los Angeles, Las Vegas, and Sacramento, and we’ve already achieved sufficient scale in each of three cities.

Compared to our in-place portfolio, these new stores are newer, larger, equipped with third generation amenities and in markets with much greater population density. Further, the rental income per store is considerably higher than that of our existing stores which allows for greater G&A efficiencies and market scale benefits. We’ve also sold 12 stores in that same 18 month timeframe. Smaller, older properties in markets that, for the most part, are smaller density and remote enough to be inefficient for us to manage. These include several in Lynchburg, Virginia and stores in Greenville, Mississippi; Kingsland, Georgia; and Anderson and Florence, South Carolina.

We’ve raised almost a billion dollars of equity in 2015 and 2016. We increased our line capacity by $200 million, improved our credit rating to BBB, BAA2 and we negotiated away most of the bothersome covenants on our 2021 and 2024 term notes. We recently raised $600 million by issuing our first series of 10-year unsecured public bonds at a rate of 3.5%. We followed that with a $200 million private placement offering of 12-year unsecured notes at a rate of 3.67%. We’ve been raising and we expect to continue raising our dividends, which is well covered with a sub-70% payout ratio. Even so, our cash flow generated by operations after paying the dividend should be in excessive of $75 million next year.

So, we ended the second half of 2016 with a larger, stronger and more diversified company than we had at this time last year. Our capital structure is greatly improved. Our debt cost is significantly lower. Our covenants are significantly relaxed and our loan tenures are significantly extended. The portfolio has been upgraded, both in
quality of markets and quality of properties. There’s an extensive upside in most of the 140 stores acquired in 2015 and 2016, especially the 11 lease up stores in the Life Storage portfolio and the nine CO properties we’ve put in place.

The upcoming name change and rebranding of Life Storage will afford us the long sought opportunity to improve our image most beneficially and recently entered in upscale markets such as LA, Chicago, and the New York metro area. We expect it will also help us to attract more third party management contracts and enhance our business-to-business logistics sales efforts.

We realize there’s a lot of noise associated with these activities as evidenced in this 2Q earnings report. Unfortunately, there’ll be more of the same in Q3. We’re doing our best to identify and break out the unusual one-time items associated with the Life Storage deal, the financing transactions, the name change, and the sale of the eight assets and related investment of the first proceeds. We expect that by Q4 of this year and then on into 2017, we’ll be back to our usual straightforward model and structure.

Everyone here at the company is really charged up to our upcoming plans and prospects, especially concerning our recent entry in the California, the Life Storage acquisition, and the rebranding. To paraphrase the great Joe Walsh song, “Life’s been good to us so far.” With what we’ve accomplished this year and what we have now to build on, we expect life to be so for years to come.

So, Melissa, let’s now open the lines for questions.

**Operator**

Thank you. At this time, we’ll begin conducting your question-and-answer session. [Operator instructions.] Our first question comes from the line of Jeremy Metz with UBS. Please proceed with your question.

**Q:** Hi. Good morning, guys. Dave, you talked about the challenges pushing rates you face this quarter and it sounds like it was more of a demand than renters fatigue issue here versus huge supply. So, I guess, first, is that a fair characterization? And then second, as you look out at the rest of this year, will you be more focused on holding occupancy and maintaining market share, first and foremost, especially as you get into the slower winter months, even if it means cutting rates and ramping discounts?

**David Rogers – Chief Executive Officer**

With regard to the first part, Jeremy, yes, I think that’s true. There is new supply here and there, but that is not an issue except in Austin.

**Ed Killeen – Chief Operating Officer**

Jeremy, the first thing that we might want to look at, and Dave mentioned it in his prepared remarks, is that there are several markets, many of our markets where rates are very stable or very strong, for that matter: the Florida markets, Arizona, the Carolina’s, many of the Gulf Coast markets, Dallas, some downstate areas, Atlanta. As a matter of fact, in Atlanta, our asking rates are up 12.8% right now. So there remains quite a bit of rate strength.

There is a bit of softening in some areas. There’s some rate sensitivity. Right now it’s very market specific, but that is not at all related to demand. Demand remains very healthy. Our overall demand online, overall search is up 24%. Organic search is up 27%. Mobile search is up 35%. So, people are still there, potential customers are still there needing storage, so those two really are completely unrelated. Demand is there; there is a bit of rate activity.
Q: And just in terms of the second half of this year, how are you thinking about these main drivers of revenue? Is the focus going to be on kind of holding that occupancy then at these levels, first and foremost?

**Ed Killeen – Chief Operating Officer**
As it always is, it’s really a market-specific exercise, what we do in blending rate and discount in order to get occupancy, so there’s quite a bit of push and pull. So as we’ve often said, revenue management is just that; it’s managing our revenues, not so much rates or discounting or occupancy. Whatever the best blend is to get the highest revenue is what we’ll be looking at on a market-by-market basis.

**David Rogers – Chief Executive Officer**
I think probably, though, as we tail down the busy season, we’ll work more towards occupancy going into 4Q. That level might go a little bit more incentives to build occupancy –

**Ed Killeen – Chief Operating Officer**
Yes, certainly, every season going into the low season, you try to build that occupancy and just like any other season, we’ll be attempting to do that.

Q: I just wanted to ask one more. Sacramento is one of the key markets you picked up with the Life Storage deal. Can you talk just how that market performed on a same store basis, if you have those states? The other data [indiscernible] under Life Storage? And then kind of what your expectations are there going forward.

**Andrew Gregoire – Chief Financial Officer**
Let me pull that out, I’m sorry. I do believe I have that here for Sacramento. Life Storage Sacramento same store was just about 10%. So it was strong in Sacramento.

Q: And you’re thinking pretty similar expectations or double-digit growth there? It sounds like that’s what your peers have been putting up in that market as well.

**David Rogers – Chief Executive Officer**
Yes, I think both in LA, the nine stores we took on pre-Life and then the three we added from there, and the ten Sacramento stores are all, there’s room. There’s room with rates. Especially it takes a quarter to sort of clear out some of the chaff, but, yes, I think we’re going to enjoy for a couple of years some pretty strong growth in both the LA and Sacramento markets.

Q: Thanks, I appreciate it.

**Operator**
Our next question comes from the line of Gwen Clark with Evercore ISI.

Q: Good morning. I realize it’s only been a couple weeks since the deal closed, but can you just give us an update on Life Storage?

**Ed Killeen – Chief Operating Officer**
The integration?

Q: Yes. Specifically, maybe, whether there were any surprises during the quarter, post quarter.

**Ed Killeen – Chief Operating Officer**
Okay. Well, I guess I’ll lead off with there’s been no surprises just yet. Things are moving along splendidly. We recently are turning to system integration and manager team assimilation.
The management team at Life Storage, they’ve been great in helping us with the whole transition. And I’ll tell you, if it wasn’t for them and their willingness to work with us and pretty much open up their books and allow us to get in there with our management teams, the picture would look much different.

So our management teams are through 18 of 21 days of manager training and WebEx sessions. We have onboarding teams entering the markets right now, as a matter of fact, because come August 8th is when we turn all the stores over to our operating system, website and call center. And all the work leading up to that has gone flawlessly internally. Everybody has been hitting it and there’s been no major issues.

Q: On the August 8th date, is that the date that you’re going to be doing the name change? And if so, can you walk us through how you’re going to do it across the portfolio?

David Rogers – Chief Executive Officer
With regard to the corporate name, Gwen, we are going to change the name officially on August 15th to Life Storage, Inc. The ticker symbol will change to LSI that day and we’ll be operating then as Life Storage, Inc.

With regard to the rollout at the store level, the rebranding, I’ll let Eddie talk about the schedule for that.

Ed Killeen – Chief Operating Officer
The branding process is going in in about nine stages the primary stages are really based on exterior signage. Looking at an engagement this large with so many moving parts, the interior branding of the store moves along as quickly as we can in the various markets, but the exterior branding we have staged in a very specific way from market to market, right through till April. We should be complete April of 2017 of all store branding – interior, exterior, online, everywhere.

Q: Okay, very helpful. Thank you very much.

Operator
Our next question comes from the line of Smedes Rose from Citi Group.

Q: Hi. It seems that the dilution expected from Life Storage this year is maybe a little more than what you had initially anticipated. I wanted to know if that was accurate. And given that you’re seeing a fair amount of pushback, as you say, on rates, do you expect the acquisition could be more dilutive next year than you had initially anticipated?

Andrew Gregoire – Chief Financial Officer
Our dilution from Life is as expected. We expect $0.05 in the second half of 2016, probably $0.03 in the third quarter, $0.02 in the fourth quarter. Our 2017, 2018, 2019 still with the financing, ’17 is looking like $0.02 dilution, ’18 $0.05 accretion, ’19 with $0.16 accretion. So, very similar to what we thought, adjusted a little bit after the financing.

Q: What sort of assumptions are you making on pricing or stabilizing in order to get to those numbers?

David Rogers – Chief Executive Officer
Well, I think to the second half of your question sort of leads into that, which is are we expecting pushback. I think the pushback comes from our seasoned stores where our rate structure is pretty high. In the markets where we’re having difficulty, and as Ed pointed out and I pointed out in the prepared remarks, it’s only some of them, certainly the stores that we take over have a greater run rate in the early years. So we expect to be on plan in Las Vegas, in Sacramento, in Los Angeles. We expect the stores that we had in Chicago to do well. We love
those stores and they’ve been under our operating metrics in terms of rate per square foot, especially in terms of premium space. The Life Storage portfolio I think has a lot of room to grow wherever it has premium spaces.

So, the underwriting assumptions that we put in place back in May when we were looking at this deal have not really changed, even though some of our markets have been dinged on the rate push. I don’t think that happens to stores that were in our first or second or third year of management on our platforms.

Q: Okay. You mentioned in your opening remarks, too, that you have more customers that are staying for more than a year. What percentage of the customer base is now staying for over a year?

Ed Killeen – Chief Operating Officer
Over 60% of our customers stay with us over a year. And at the two year point, it’s just over 44%.

Q: Thank you.

Operator
Our next question comes from the line of David Corak with FBR Capital Markets.

Q: Hey, guys. Looking at your C&O pipeline, the last update that we had I think in your investor presentation was a weighted average yield in the high 7% range. Do you still think you’ll achieve that? Then any update for overall appetite for additional deals? I know you said you had a few in the works for ’17, but just looking for some color there.

Paul Powell – Chief Investment Officer
Good morning, David. Our C&O deals, they’re leasing up stronger than we underwrote. We’re very pleased with how they’ve been doing, both topline and occupancy. We’re still looking at C&O opportunities. We’re going to be very selective. Second half of this year we’re going to be mainly focused on accretive acquisitions, so we may do one or two. We were looking at a couple. We’re also working again with some development, preferred developers in doing some CO deals and JV’s. So, we’ll still continue to look at them. [Indiscernible] south directly. They’re going to have to be home runs before we’ll consider those.

So, it’s still active. We’re just going to be very disciplined.

Q: Can you talk about the lease up philosophies on the 11 Life Storage assets that you bought in lease up? How are those going? Then can you give a breakout on timing there as far as when those look to stabilize?

Andrew Gregoire – Chief Financial Officer
Those stores lease up nicely as of a few days ago, July 31st, I should say. The occupancy on those 11 lease ups was at 66%. That includes the ones that were zero when we last talked. So, I think the lowest one right now is 24%, so they’re leasing up nicely. They did use, obviously, a lot of specials and discounted rates to get there, but the occupancy is bumping up nicely.

Q: Thanks.

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

Q: Thanks. Good morning. My first question, you talked about competitors reducing rates and offering more discounts in a number of markets, which impacted conversions in your system. Any sense what the magnitude of
the rate cuts were in those markets and maybe how far below your asking rates, the competition was in those markets?

**Ed Killeen – Chief Operating Officer**

It’s difficult to get a handle on precisely what our comps are doing with discounting and standard rates, for that matter. We just have to be aware of it. We know that the comps have been a bit more aggressive than they have in the past. We’re on the lookout; we take a close look as to what’s happening out there, but our job is to kind of execute our revenue management plan. And one of the components of Revman is the comp rates, but it’s only a small component, but we’re keeping a close eye on things. So we can’t tell you precisely what kind of impact the rates or discounting have on our performance.

Q: Did you find that it was lower on existing stabilized facilities or was it mostly lease up properties or new developments, I guess, where you saw some of the more competitive rates being offered?

**David Rogers – Chief Executive Officer**

Certainly you’re going to see it wherever there’s development. We did see that in Austin, especially, which impacted three or four of our stores. There you just have to sort of sit out and hang on to your existing customers, which fortunately we’ve grown that base; that’s been a strategy of ours now for a good three plus years. Hang on to that core base. As Eddie said, 60% or better that have been there a year.

And as you lose through normal attrition, that’s where you fight. We haven’t seen full month discounts in a good long time. We’re still not there with most of our stores, it’s still a half month. But nonetheless, any time you pull that lever after a few quarters of not having pulled it at all, you’re going to see a little bit of an impact.

So, the lease up ones are going to sit back and just wait it out, and I think the larger operators do that, they are both the cause and feel the pain of that in various markets. But I think it’s the markets were there’s established stores and all of a sudden customers are looking at us and some of those places, like here in Buffalo or Cleveland, and saying, geez, you guys are getting that for this? And it’s the first time person coming in and they may be more prone to shop. So, it’s not unlike most of our history, it’s just that we’ve been spoiled the last five plus years in terms of pretty much we get what we ask, and now we’re getting questioned, I guess, would be one way to put it.

I think most of the difficulty is from established and stabilized stores, and not from new comps.

Q: You talked about the length of stay and you mentioned that it’s never been longer and that existing customers continue to endure rate increases here, but I’m just curious how you think about the existing customer rent increases that you pushed through given some of the customer resistance. Did you change your policy at all regarding either the rate increase being pushed through or just the number of customers that you’re planning to send increases to?

**Ed Killeen – Chief Operating Officer**

For the last several years and it doesn’t appear we’re going to have trouble in the near future with customer retention. You are right when you say our customers are able to endure these rent increases. This quarter we put in more rent increases to existing customers than ever before: 29,000 increases went in and the move out rate was 11.3% versus 12.5% last year, and they received a pretty hefty rent increase as well. So retaining those customers that truly need storage really has been a non-issue and we don’t see it becoming an issue in the near future.

Q: Thank you.
Operator
Our next question comes from the line of George Hoglund with Jeffries.

Q: Good morning, guys. A couple of questions. First of all, how much of a negative impact will the rebranding process have on same store NOI growth in the near term? And then also, just in terms of focusing more so on the third party management business, what’s driving that decision since in the kind of recent past you guys haven’t really been focused on growing it?

David Rogers – Chief Executive Officer
With regard to the near-term impact on ordinary operations, there’s always a little haze that happens, even when we take over a store. It used to be an awful lot worse with Yellow Page when you had to wait for the name on the sign to catch up with the customer’s point of sale was. Fortunately, we don’t have that anymore and the web marketing team has been studying this ever since May 17th when we got awarded the bid how to handle this. And it goes hand-in-hand with the sign change and the image change at the stores, to the roll out will be as we change signs, the concentration of web marketing will occur in those markets simultaneously.

We’re fortunate with Life Storage in that it’s an already existing name, and 55% of the stores that we bought from them are in markets where we already play, so we’re not starting from ground zero with a new name and that should help. So, I think very short term we might get a little bit of a hiccup that will probably be more in web spend than in occupancy or traffic. I think even near-term after that and medium/long-term it should be a benefit. I think we’ve heard a little bit with the association of pressure that I mentioned in the higher end markets like Greenwich and Stanford and Westchester County and Chicago, the nice parts of Chicago, and in a lot of places, our old name hurt us a little bit in that regard. The studies we did showed some negativity. So we fooled around with some models and built some test cases just to see if we eliminate the 16% unfavorable associated with our name, what that would do.

You’re really in statistician territory here with assumptions based on pretty loose soil, but nonetheless, we think it should over the course of a year or two come up with something in the range of 70 to 125 basis point pop in occupancy, just by eliminating the negative connotations that 16% of our sample saw in the studies we did. So, that part we’re pretty hopeful.

Third party management we expect good things from. We showed very well against our competitors in that class with regard to our platforms, our training, our people, the way we approach the business, and we’ve had absolute rejections of our contracts solely based on the name. This is what got us going on the overall change; we started working on this a good two plus years ago and just didn’t have a name we could justify changing to.

But I think third party management we’re going to do very well in because of this. I think the image at the store level in all of the markets we’re in will be enhanced and we’re really looking forward to it.

Q: Will some of that near-term weakness, the increased web spend and stuff that impacts expenses, is that incorporated into guidance?

David Rogers – Chief Executive Officer
Yes. It’s diminimus. We said $20 million to $22 million change. We baked the better part of a million dollars in over the next three to four quarters, but it will be in what we spend. Yes. There’s not an additional layer of guidance adjustment.

Q: Okay, one last question. In terms of peers that are getting more aggressive on pricing and promotions, is that primarily one larger peer or are you seeing that kind of across the board in those markets where you are seeing competition?
David Rogers – Chief Executive Officer
Would that larger peer have orange doors? They are pretty aggressive. They’re everywhere we are and it's a noted challenge from them, yes.

Q: So it’s primarily just them, it’s not everyone else lowering brand as well?

David Rogers – Chief Executive Officer
There’s mom and pops that will follow even quicker but they’re harder to find and we don’t compete as directly with them. But yes, I would say it’s pretty much them.

Q: Thanks.

Operator
Our next question comes from the line of Ryan Burke with Green Street Advisors.

Q: Thank you. Dave and Andy, could you quantify the main components of the 50 basis point decrease in revenue guidance for us? About how much is attributable to lower expectations for rates to new customers versus in place customers versus occupancy?

Andrew Gregoire – Chief Financial Officer
Most of it is related to rates for new customers coming in and additional specials being offered to those new customers. So, that’s where we think we’re going to have a little more aggressive on the specials. We haven’t seen that in years, but we think that upfront special is what’s going to drag you down.

Q: Okay, and then historically, has rent pressure from new customers been a precursor to rent pressure from existing customers?

David Rogers – Chief Executive Officer
Long-term? I guess, yes. If you have a long enough time, yes, that’s why sometimes it’s pretty good to use the special to attract customers, but then you get into that situation where the special attracts the shorter-term stay guy, so you have to balance what you’re trying to achieve. If your street rates stay still for too long and you raise your in place for a year or two, then you get into that flip situation where your in place is higher than your street. We have not had that for a good long time. You can prevent that by keeping the rates high and offering the specials, but then, as I say, you get those shorter term stay. And we’re really proud and it’s been very beneficial to us to have gone the other way on that and attract the long stay customers without using specials.

So, it’s a challenge for our Revman group. Certainly it’s not there yet, and we hope it doesn’t get there. We have probably a good year or so before we worry about how much we can push the in place. But right now it isn’t an issue, but it’s something that we certainly watch very carefully.

Q: About how far above are your rates for new customers versus in place right now?

Andrew Gregoire – Chief Financial Officer
Seventy-five percent of our customers right now are below the current rate, so we still have a lot of room there. The majority of our customers are below the current rate. And the average they’re below is 2.5% below the current rate.

Q: Okay, so not really not too far below.
Andrew Gregoire – Chief Financial Officer
Correct.

Q: It seems to me that there’s been improved pricing transparency in self-storage in the sense that your customer can more easily go online and either see on your website or a competitor’s website or an aggregated website where the rent they might be paying versus market is. Does that worry you more now than it has in the past?

Ed Killeen – Chief Operating Officer
I think it’s a bit more of a concern. As we’ve always said, the smaller operators, it’s more difficult for them to be seen online. That remains true when it comes to both organic and paid, because there’s so much SEO that you have to be involved with and be engaged with in organic search. Soulful engagement is becoming so much more important and content building and location target marketing for mobile apps. So things are becoming much more sophisticated, so I think that will remain. But what can’t be ignored is that this is going to maybe drive a change in consumer habits. You can get online, you can do a lot of shopping and it’s driving people to look at a little bit deeper, go into the second and third page of a Google search and spend a little more time before they make a phone call or make a few phone calls.

So, I think that’s where that pricing sensitivity is born from. It really is online search, online engagement and it’s just much easier to shop nowadays when it was in the past.

Q: Thanks. Then last question, you guys continue to be inquisitive above and beyond the Life Storage portfolio, $100 plus million for the quarter, over $100 million for the quarter. Your cost of capital has changed in the form of lower share price. Have you changed your outlook for acquisitions at all? We obviously see what you’ve put in guidance, but call it beyond 2016?

David Rogers – Chief Executive Officer
On doing a Life transaction and I’ve seen the reaction. I think our thought here is unless something really sweet comes along and fits our market and has some pretty outstanding growth characteristics, we had planned on backing off a bit until we: a) digest the Life Storage portfolio, and probably more importantly prove it out to everyone that our underwriting assumptions were indeed right. We feel very confident that they are, but we will not be testing the market. Even before the downturn on the last couple of weeks, we had come up with this overall capital plan that we were going to be lighter. I mean, we did almost $2 billion this year in acquisitions. It’s going to take us a little time to make sure we’re doing it right and let the capital markets settle down and let our investors get comfortable with us again. So, yes, we will not be— The $100 million that we did this quarter was on the books before we even knew we had an inkling of Life Storage. So the plan has changed, certainly.

Q: Thank you.

Operator
Our next question comes from the line of Gaurav Mehta with Cantor Fitzgerald.

Q: Hi, good morning. You sold a couple of assets in the quarter. I was wondering if you could talk about are there any plans to sell any more noncore assets in your portfolio?

Paul Powell – Chief Investment Officer
No, we have no other plans to sell properties this year or even going into next year. As I think I’ve mentioned in the past, on an annual basis we do a pretty thorough review of all of our assets and talk with our operations teams, and occasionally somebody will put forth a potential sale, but right now there’s nothing in the pipeline.
Q: I understand you mentioned that you’ve already acquired a lot of assets and [indiscernible] more, but could you comment in general as what you’re thinking in the acquisition market, as for cap ex and products are concerned?

Andrew Gregoire – Chief Financial Officer
We’re seeing a decent amount of one-offs and even some small to medium portfolios for sale. We’re looking at them, as Dave mentioned. We’re not going to get too aggressive the remainder of the year. Even so, the quality and locations of some of these assets are not anything we’d be that interested in anyway, and I think pricing is still going to be fairly aggressive, especially on the portfolios. So we’re just going to remain disciplined and focus our attention on any further acquisitions on being accretive and then, again, we’ll continue to review some development opportunities with JV partners.

Cap rates, we’re still seeing they range from 5% to 6.25%. The acquisitions we did in the second quarter, those cap rates ranged from 5.1% to 7%. So, that’s a range of Class A institutional quality A - B plus properties. The West Coast, we’re still seeing some compression of cap rates there, but for others we’re still commanding 25-50 basis point premiums. So, cap rates I think are still a little compressed, maybe 10 to 25 basis points this first half of the year. Compression of cap rates is secondary and rural markets continue to compress. Not a whole lot of change from the first quarter from what we’re seeing.

Q: Thanks. Just a quick one. When you look at Atlanta, revenue was obviously very strong, but at the extent of occupancy. Can you talk about this market specifically, just see how it trends for some of the other markets? If you’re pushing rate, occupancy might back off a little bit. Can you talk about some of your assumptions that go into that?

Ed Killeen – Chief Operating Officer
Right now, as you said, that market is incredibly strong for us. We’re off a little bit in occupancy, but part of that is the fact that we’ve been able to push rates to this incredible level of 12.8%. Reservations are high, there continues to be a lot of demand in that market. It just appears to be just a real strong market for us, and we’ll certainly adjust as we start to see things change, if they do in Atlanta, but right now it just remains a real strong market for us and we’re able to push those rates through and sort of suppress discounting, and occupancy remains pretty tight.

Q: Ed, does it have to get to a certain level? Does it get to 90% or you guys would take your foot off the gas at call it 91.5%? What do you there?

Ed Killeen – Chief Operating Officer
Well, we’re at 92.5% right now, I believe. I don’t think we’re going to take our foot off the gas at this point. We’re going to keep on pushing.

Q: Great. Thank you.

Operator
Our next question comes from the line of Jonathan Hughes from Raymond James.

Q: Good morning. Thanks for taking my question. You mentioned the weak macroeconomic backdrop had begun to impact some tenant behavior, but could you dig a little deeper there? Have the demographic profile of your
customers changed? Are incomes up or down? Is business demand slowing? I'm just looking for some more granularity here on what's happening to your customer base.

David Rogers – Chief Executive Officer
I'm not sure it's necessarily a macro picture in our case. As Ed said, demand is up, search is up, so I think our customers are looking for storage. We have a distinct disadvantage from most property types in that we know less about our customer than virtually anybody else in real estate. We don't do credit profiles, we don't get very significant applications; we get a name, address, ID card and credit card, pretty much, and that's what we know about our customers. So, a lot of what we do know is based on industry surveys and our own individual company surveys, which don't delve into income for the most part.

The last two industry surveys that have been taken have shown that approximately 50% to 55% of the residential customers who use storage have household incomes of less than $50,000. I don't see any reason why that would have changed since the late 2013/2014 study that was done. I think that's typical.

I think for us, at our company, we strive to attract and retain commercial customers, and we hover around the 30% mark. It's going to go down quite a bit right now over our portfolio because of the 140 stores we absorbed. The stores we buy rarely have anywhere near the commercial penetration that we do, but after a couple of years, we build that up. So, commercial business is good. We're growing it. We use our Corporate Alliance and Warehouse Anywhere program to do that. So I think we have good prospects on the business side.

I don't think that our tenant mix, our tenant usage has changed appreciably at all over the last couple of years. The only reason it looks different for us is because our portfolio has changed so dramatically over the last 18 months. But if you look at it, say, in 2 to 3 years, it ought to be in line with the rest of our company stores.

Q: Thanks. Just one more, you touched on cap rates earlier. What's the differential maybe between first and second tier markets where it's maybe a little easier to deliver some new products?

Paul Powell – Chief Investment Officer
I guess in the first tier, the top tier markets, that's going to certainly be the lower range of my cap rate analysis, but in the second tier cap rates continue to compress. I just think it's money, a lot of money out there chasing deals, so those cap rates continue to compress.

David Rogers – Chief Executive Officer
I think one of the things to keep in mind, at least of late, and as we look into the future a little bit, the first tier markets that you're referencing, I think, are the markets where the new competition is coming in. We have New York and Chicago and Miami and Phoenix as among the busiest new developments. Even though they're, heretofore, maybe consider, or for other property types considered low barrier to entry markets, certainly in our sector they're seeing all the new stuff right now.

So, when we consider a first tier market, it's more in terms of population density I think is what we're concerned about. But to say that a second tier market is more susceptible to new comps coming on board, at least recently, is a wrong assumption.

Q: Okay. That's it for me.

Operator
(Operator instructions) Our next question comes from the line of Ki Bin Kim with SunTrust.
Q: Good morning, Dave. Sorry, but I got on the call a little bit late. Did you guys already talk about street rates for the quarter in July and same thing for promotion usage?

Andrew Gregoire – Chief Financial Officer
I can cover the promotion usage. The promotion in Q2 were $172,000 greater than the Q2 of last year. So they went from, on this same store pool, $928,000 to $1.1 million. Again, that was the first increase we’ve seen in a while, but that was the increase from Q2 of ‘15 to Q2 of ‘16.

The other one was street rates, do you have the data for streets rates for the quarter?

Ed Killeen – Chief Operating Officer
For June, we were 5.5%. I’m sorry, Ki Bin, I thought you said July.

Q: I did say July.

Ed Killeen – Chief Operating Officer
Oh. Well, we don’t have the exact numbers in for July, but it’s just a bit under that June figure of 5.5%.

Q: Okay. Just on the acquisition side, given the slowdown in some markets, does that actually make you want to pull back on your assumptions for rent growth on these deals? And in effect, just maybe a lower pace of acquisitions for you over the next couple of years? Or, is this type of slowdown in your minds very market specific, maybe temporary where it won’t really impact your desire to buy assets?

David Rogers – Chief Executive Officer
Well it certainly is very market specific. I think the shock of it, you know, the surprise of it is probably temporary. I think we’re going to see a bit of a slowdown overall from the 7, 8, 9 topline growth to a more moderate, say 4.5, 5, 6% over the next couple years, if I had to guess.

One of the answers I gave earlier, though, had to do with how we expect the assumptions on the stores that we bought recently, the 140 stores we bought in the last year and a half, we expect those to do well. They haven’t been on our platform, they haven’t enjoyed the benefit of the web marketing team, the professional call center, the Revman teams that we have; they haven’t enjoyed any of that. So, our same store mature pool, and some of those stores have been with us 30 years, in some markets have slowed their growth pace. We certainly would not expect that from the stores that we’ve recently taken on. Those should enjoy outsized growth for the first two or three years on our platforms and then do as average.

As far as our overall appetite for acquisitions, ordinarily in a time like this you might think it would be an opportune time to buy. Although we always see sellers lag reality by many, many quarter, but our overall, just given the almost $2 billion that we bought the last just this year, it tells us to give pause. So you will not see us overly active on the acquisition front for a few quarters.

Q: And just to go back up from the stat you mentioned, I think you said 75% of your customer base is 2.5% below current rates? How about the other 25%, or are those 25% just too short-term of a duration of days to mention where they are within the market?

Andrew Gregoire – Chief Financial Officer
I should clarify that. That was an error I made. Seventy-five percent are below the current rate. The dollars below the current rate are $25 below the current rate. That 2.5% was a misquote. I’m sorry about that. It is $25 below the current rate is what they’re paying.
We have 18% that are paying above the current rate and 6% that are right at the current rate. Remember, that current rate changes every week. So it’s not really a metric we try to concentrate on. It’s not something we look at a lot. We do look at our current customer increases; those that are below our current rate, we don’t push them above the current rate.

Q: Just sticking with that, maybe a better stat might be what is the market to market roll down that have stayed over a year that end up leaving?

Andrew Gregoire – Chief Financial Officer
I don’t have it in front of me, but it’s been rolled up for us for years and we don’t expect that to change any time soon.

Q: Okay. Thank you.

Operator
Our next question comes from the line of RJ Milligan with Robert W. Baird.

Q: Good morning. In the markets where you’ve seen some weakness in terms of the ability to push rates, I’m curious, and it probably hasn’t happened yet, are you seeing any movement in cap rates in those markets in terms of have cap rates started to move a little bit higher? Or what’s your anticipation for cap rates in those markets?

Paul Powell – Chief Investment Officer
We certainly have not seen any of that. It doesn’t mean we hope that the cap rates would rise a little bit, but no, we’re not seeing that in the market today.

David Rogers – Chief Executive Officer
Our business is when things are good, the sellers are looking to raise their prices. And when things are bad, they’re looking to hold their prices. So it doesn’t work like the economics textbooks, by any stretch.

Q: That does it for me, guys. Thanks.

Operator
Mr. Rogers, there are no questions left. I’ll turn the floor back to you for final remarks.

David Rogers – Chief Executive Officer
Alright, well, this was our 84th Sovran Self Storage Inc. conference call. It’s our last Sovran Self Storage conference call. The next time we talk to you, we will be Life Storage, Inc., and we look forward to it.

Thank you all for your support.