Operator
Greetings. And welcome to Life Storage’s Second Quarter 2017 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’d now like to turn the conference over to Diane Piegza, Vice President of Investor Relations.

Diane Piegza - Vice President, Investor Relations
Thank you, Brenda, and good morning. Thank you for joining our second quarter 2017 conference call. Leading today’s call will be Dave Rogers, our Chief Executive Officer; also on the call is Andy Gregoire, our Chief Financial Officer.

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

In addition to our press release, we have added a financial supplement, which is available on the Investor Relations page at lifestorage.com.

During today’s question-and-answer session, we ask that all of our participants limit themselves to two questions to allow time for everyone who wishes to participate. If you need to ask a follow-up question, please re-queue.

At this time, I’ll turn the call over to Dave.
Dave Rogers - Chief Executive Officer

Thanks, Diane, and welcome, everyone, to our call. Last night, we reported adjusted FFO of $1.33 per share for the second quarter against a tough year-over-year comparison. This quarter was marked by challenges on the operation front and clear wins on the external growth initiatives. We achieved a record high same-store occupancy of 92.8% at the end of the quarter, grew our joint venture efforts with the acquisition of 20 high quality properties and added 17 new third-party management stores that will carry the Life Storage brand.

As we continue to lay the groundwork for our next phase of growth however, we face pricing pressure in some of our key markets due to well-publicized incremental supply and the protracted need to support our brand transition to Life Storage. The brand change we undertook last August has really enhanced our competitive positioning and is providing us with a great advantage in soliciting third-party management contracts and in attracting commercial accounts.

The physical changeover relating to signage, point-of-sale materials, uniforms and so forth, was executed on time and on budget by the end of April. Our web presence under the new name however has grown slower than expected, especially in organic search, which is key. We’ve worked to offset this reduced exposure on the organic side with increased paid spending, temporarily increasing our operating costs. Through 2Q, the additional spend hasn’t completely compensated for the reduced organic exposure and it probably won’t for next several quarters. We know though that the Life Storage brand sells well and that these redouble marketing efforts should result in the direct improvement to operating results.

The combination of new supply in select markets, the related pressure on rental rates and the marketing support around Life Storage’s online presence have required an elevated level of move in incentives. As a result, we’re updating guidance to account for the additional marketing investment and the increase rental incentives we see as necessary going into next year.

Let me provide a framework of what we are expecting for the remainder of 2017 and discuss our markets and a few industry trends and then talk a little bit about some of our external growth initiatives. The markets in which we face our biggest challenges continue to be the big four Texas markets, Houston, Dallas, Austin and San Antonio, which comprise 23% of our same-store pool. Austin bounced back a bit this quarter as some supply got absorbed quicker than expected, but there’s another round of building coming.

To give some context to our exposure, we have 100 same-store properties in Texas. In the past 12 months, 47 stores have opened in those market areas and we expect up to 35 more in the next 18 months. These will have an adverse effect on as many as 70 of our Texas stores for the next couple of years but these are rapidly growing vibrant markets that are ideal for self-storage. This is a cyclical drag and mid-and-long-term we want to be here.

The other important markets we have some concerns about upcoming include Denver, parts of Phoenix, Tampa and Miami. The impact to Life Storage resulting from new builds in these cities is nowhere near as strong as it was in Texas, but there will be some pressure on our topline as a result. The markets where we feel optimistic include much of Florida, St. Louis, Cleveland and New England, and while we’ve seen some new supply in those markets, it’s not always near us and for the most part the construction in those markets is warranted.

So what happens in these oversupply markets? What tactics do we use to combat pricing pressures? Well, we advertise, especially via mobile search heavily. We use incentives, especially the first month free. We maintain our always high levels of customer service, curb appeal and community involvement. We continually monitor the competing stores for move in and rental rates, although we don’t often match. It’s usually better to wait it out using
the other tools to attract customers at a market stabilized rate. No question, new supply with current revenue growth at some of the more affected stores, but as long as the store remains relevant in terms of its quality, its appearance and the services we provide, it will rebound.

Concerning demand, we think it's fine. High occupancies across the board show there is a need, even a growing one. Typically demand for storage space outpaces population growth by a bit and we still see that. We hope to increase even from that level via our B2B programs, which have been revitalized by the new Life Storage brand.

Concerning our external growth initiatives, as we have communicated on prior calls in our meetings with you, the diversification and broadening of our revenue streams through joint ventures and third-party management contracts are an important focus for us and our growth here is accelerating. These initiatives improve scale on our operating markets, which helps us leverage the cost of web advertising, other marketing costs and maintenance expenses in those cities. It also provides the greater efficiencies and corporate overhead at the operating platform level.

During the quarter, we purchased 20 high quality properties with our JV partners, including two stores in Nashville, which is a new market for us. The other 18 fit in well with our existing portfolios in Arizona, California and Las Vegas, affording greater scale for us in those markets.

Our third-party management business is also enjoying accelerating success, much of which is due to our new branding. In the quarter, we added 17 new agreements to manage stores in our existing markets. As they come online later in 2017, these will add fee income, contribute to our advertising spend and allow for the other benefits of increased scale.

Our ongoing expansion program should see about $30 million invested this year to add attractive third-generation storage buildings to our existing properties. Not only do these add much needed climate controlled space, the new buildings usually upgrade the overall appearance and presence of the property. We continue to realize cash on cash yields from these projects in the 10% to 12% range.

So just to wrap up here a bit, it’s been just over a year since we completed the Life Storage merger and it’s still under a year since we undertook our company's name change. It’s a year that’s brought a lot of growth to our portfolio and to our platforms. It is also a year that’s brought some sector headwinds, oversupply in some markets and some operational challenges. The headwinds and oversupply are cyclical. We’ve seen this numerous times. The operational challenges are temporary and surmountable.

Life Storage is better equipped today than it has ever been in its 33-year history. We have 700 high-quality stores in good markets. We have over 100 recently acquired stores that are just now reaping the benefits of our operating and marketing platforms. An additional two dozen stores are in the early stages of lease up and growing fast.

Our third-party management division is rapidly ramping up. We have a rock-solid balance sheet and $75 million of free cash flow after dividends and our new brand is attractive to both residential customers and our corporate storage clients. We remain certain that our enhanced size, strengths, brand and presence will enable us to create significant value for our shareholders over the long-term and we are confident enough in that in that our board is authorized and had us introduce a $200 million share buyback program.

So, to talk about that and other matters concerning the quarter, I'll turn the call over to Andy.
Andy Gregoire - Chief Financial Officer

Thanks, Dave. Last night, we reported adjusted funds from operation of a $1.33 per share, compared to adjusted FFO of a $1.32 per share for the same period in 2016. As we've shared in the past, our same-store growth in the first half of 2016 presented us with challenging comparables but we were able to increase adjusted FFO based on the performance of our acquisitions.

Overall, total revenues grew 24% as we benefited from a higher store count, mainly due to the Life Storage acquisition. With respect to the Life Storage facilities, in particular, we were able to grow occupancy nicely during the start of the busy season and as of June 30th, the 72 stable stores occupancy was 90.1% up from 85.9% at March 31, 2017. The 11 non-stabilized Life Storage stores continue to increase occupancy ahead of expectations and we are at 85.1% at June 30th.

The overall revenue increase also reflected a $1.2 million acquisition fee from our joint venture activities. Same-store revenue grew 1.4% as a result of rental rate growth. Occupancy at June 30th was the second quarter record high of 92.8%, a 10-basis point increase over 2016’s June occupancy. The balance of the revenue increase came from growth in tenant insurance and other operating income.

Same-store expenses rose 5.6%, but the biggest drivers for the increase being payroll and benefits up 2.8%, real estate taxes up 5.5% and Internet marketing up 42% to $2.5 million from $1.7 million. G&A costs were approximately $5.8 million higher this quarter over the second quarter of 2016, primarily due to a $5 million legal settlement incurred during this quarter and less so by the incremental costs associated with the larger store base.

Our balance sheet remains strong. At quarter end, we had cash on hand of $8 million and $169 million available on our line of credit, with no maturities until 2019. Our debt service coverage ratio rose to 5.2 times from 5 times and our net debt to recurring EBITDA ratio was 5.6 times.

As noted in our release, our board authorized a $200 million share repurchase program. We expect to use free cash flow and any proceeds from the sale of properties to fund this program. In addition, we’re suspending our dividend reinvestment plan until further notice.

Now with regard to guidance, given what we believe to be continued weakness due to new supply, slower than expected brand traction on the Internet, increased incentives, as well as increased marketing expense, we are reducing our same-store and annual FFO outlook. Our revised guidance for the same-store revenue growth for the full year 2017 is 1% to 2% from our previously forecasted 2% to 3%. In addition, as Dave mentioned, due to the additional web advertising, we are raising our expectations on same-store expense increases to 5% to 6% from the 3.5% to 4.5%, resulting in forecasted NOI for the year to be down 1% to flat from our previous estimate of up 1.5% to 2.5%.

Pressure on same-store revenues will be offset by increased third-party management fees, which we anticipate in the $2.3 million to $2.4 million range per quarter for the remainder of the year. We also expect our share of FFO from joint ventures to increase to between $2.1 million and $2.2 million per quarter. Most of our certificate of occupancy deals are filling up well, but those completed over the last year have a slower growth rate and will result in dilution of $0.01 per share to $0.03 per share in the second half of 2017.

Taking this all into consideration, our revised adjusted FFO guidance is $5.25 to $5.30 for the full year 2017 and a $1.33 to a $1.38 for the third quarter. I just want to remind you that our guidance does not contemplate acquisitions or additional joint ventures or management contracts.
With that, Brenda, we can open the call for questions.

**Operator**
Our first question comes from the line of Ki Bin Kim with SunTrust.

**Q:** Could we start-off with and maybe give us some stats on the quarter’s street rate changes year-over-year, free rent usage and how that trended into July, please?

**Andy Gregoire - Chief Financial Officer**
Sure. Street rates, let’s talk about little bit sequentially. What happened from March to June of this year, we saw some nice increases as we went to the busy seasons. So, June rates were 7% higher than March’s rates. Pretty typical as you go into the summer season, you’ll see an uptick though.

Year-over-year, as of the end of June, street rates for new customers (and being at this occupancy, obviously, that’s only the 8% or so of the vacant spaces) about 6% below last June. July was 5.5% below last July. So we’re seeing that, to bring in those customers in the competitive market we’re seeing out there for pricing, rates aren’t as high they were last year, but those rates that I just mentioned are all higher than our in-placed customer. So, in fact, the rates that we are asking at the end of June were some 5.7% higher than the average rate that our in-place customer was paying. So, roll down is not an issue, so rates down year-over-year, up sequentially.

On the free rent, we saw an uptick $1.2 million of additional free rent this quarter Q2 over Q2 of ’16, that’s about 2.6% of revenue that was our free rent. For the rest of the year, that’s probably the delta will see. We didn't think we'd have that. We thought we’d have easier comps, but right now, we're projecting that we will have to get more free rent and keep that delta probably $1.2 million a quarter for the next few quarters.

**Q:** And I guess that leaves my second question, I mean, last time we spoke or on your last conference call, you guys were hoping for a second half rebound and because mathematically your comps are easier in the second half. But so what were caused the change in kind of tone over—?

**Andy Gregoire - Chief Financial Officer**
There were a couple of things. I think the competition into those Taxes markets (Huston, Dallas San Antonio), we’re seeing one of the peers out there with significant reduction in rates and increases in specials. You may know who they are, but when you see it 10-by-10 for $33, when the market’s $120, that’s going to cause us because reduce rate. We won’t match that rate but we’ll reduce rates a little bit and we’ll have to offer more free rent.

On top of that, the drag we are seeing from the Internet exposure has caused us to, one, the processes increase our close ratio on customers that are reaching us. So as we go through the brand transition more free rent to increase that, close ratio on those calls coming in.

**Q:** I'm trying just incorporate a lot of different things you just said and the trends in same-store revenue. Does it seem like you guys that this quarter’s dropping same-store operating metrics should last for the next few quarters? I mean, maybe into the first half of ’18, all else equal, just because due to customer churn, the minus 5% rates are probably not even showing in your same-store revenue yet. Is that the right way to think about it?

**Andy Gregoire - Chief Financial Officer**
Yeah. I think the second half year, yes. We would expect some further slight deceleration in revenue growth. On the expense side, not a whole lot has changed. It is really the Internet marketing is the only change we made on the expense side in our projections that will have to keep up that additional spend.

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

**Q:** These results were bit below our expectations. I am hoping to touch upon whether you guys think you have everything you need to succeed in navigating the downturn. Can you talk about whether you think you have the staffing and RevMan system that will allow you to really to compete going forward?

**Dave Rogers - Chief Executive Officer**  
Yes. We do. We think, well, last year was our really big year for us. We grew our company by 30% and after 30 some years, to grow a company by that much, it was a digest, no question. So we have this big acquisition and we staff for it and we have the platforms that had been running for especially RevMan and marketing, but the way we do it now for the last four year or five years. So we were pretty confident in that.

I think the absorption of the stores went very well, both at the field level and the absorbing amount of the platform. So with regard to the call center, with regard to RevMan, with regard to our marketing teams and our training—fine. We ran into some pretty serious headwinds shortly thereafter, I guess, late second quarter last year we were seeing headwinds that we really didn't expect. I mean that was I think— I'm not sure the sector did, I know we did not, so we had to buckle down a little bit.

And then in the face of that, we did the brand change and that's probably where a part of our trouble is. I am going to say, the Texas exposure certainly in our company's case have gone almost a quarter of your stores there, your same-store pool, that's going to show. But I think what we are wrestling with a little bit more than we expected is the organic search for Life Storage is not where the organic search for Uncle Bob's was. We knew that. We telegraphed it for couple quarters now that we're increasing our paid spend, our paid ad spend to get there and it's working. We are getting it, but not to the extent that we've lost organic search.

So it's coming back. We have actually bolstered that team especially the marketing team both with internal folks and a couple of fairly high powered outside consultants to get that. That's where, aside from the Texas exposure, I think our issue is, is getting that relevancy of Life Storage back to where we think it should be. When it gets there, it's a great brand. The penetration compared to Life Storage versus Uncle Bob's let say its excellent; Life Storage versus lot of our competitors, excellent.

So when we get it there, it's going to be great. This is the part that we didn't expect for the last couple quarters and the couple quarters to come. So long way around on your question, yes. I think we are staffed well. I think we are taking that extra step in the marketing department to really ramp that up because that's where the help is needed.

**Q:** Just one quick question on advertising front because it seems like that's the major headwind. As you think of the last year or so, is there anything specifically that you guys think you could have done differently or better or is it just a nature of the transition that's going to be a pretty rough process?

**Dave Rogers - Chief Executive Officer**  
I guess in retrospect, we would have understood the degree of difficulty a little better. I don't think what we're doing is coming up short. I think our expectation going in—we knew that that the folks in Melvern had a difficult
time of their brand change for a bunch of quarters. We appreciated that and we thought, I think, because we are coming with an already somewhat established brand, nowhere near as big as the Uncle Bob's or some of the others, but Life Storage had some traction in some markets and we thought that with the changes in marketing strategies and our experience with Google in the five years since the other brand change, we thought we would have an easier time with it. I guess what we would have done is forecast for more difficulty than we expected but I don't know that it would have changed what we did.

Operator
Our next question comes from the line of Nick Yulico with UBS.

Q: This is Trent Trujillo on with Nick. Kind of following up on that last line of questioning, recent history hasn't really been great with respect to your adjustments to guidance. So, perhaps, taking a step back and looking at the bigger picture, what inputs are you considering when you state your guidance and what potential changes to that approach might you be considering to enhance your business projections going forward?

Andy Gregoire - Chief Financial Officer
We are looking at a lot of data with our RevMan team, with our marketing team, the hits on the Internet, the calls that are coming in. We're constantly adjusting that and forecasting. It is a retail business. It is what happens that month and the busy season really drives the rest of the year. We saw where we were in the busy season, what it would take for free rent. We obviously were excited that we can increase occupancy with the investment we made in that Internet spend. But upfront takes a lot of upfront special, free month for customers, and that was something that not unexpected and now we're going for the next two quarters, we expect that special, that upfront one month free, to be more prevalent than we had anticipated.

Q: And going to the share repurchase authorization, if I caught it right, it's sounded like you're going to be funding that with free cash flow and perhaps some dispositions if I caught that right. If that's correct, how are you evaluating the quality of your portfolio and what you may put on the market to be a source of funds?

Dave Rogers - Chief Executive Officer
We have presently four stores under consideration. We had them under consideration even before the share buyback. So they don't fit in a couple markets and there is a couple of opportunities we have from other developers. So those are the low hanging fruit.

We do every year of course take a look at all of our assets and try to see what's involved. If they are sustainable as is; if they require an influx of additional capital or expansions and enhancements; how they fit with new stores that we have just acquired or that we perhaps just brought on via JV or a third-party platform. So the low hanging fruit is there on four stores or five stores. The free cash flow is there. There will be a more serious look though in terms of potential growth with an eye toward an alternative use for the funds as we go forward.

Operator
Our next question comes from line of George Hoglund with Jefferies.

Q: One question in terms of the increase use of free rent. How do you think this may impact overall length of stay and bad debt expense going forward given that you tend to attract the lower quality of customer?

Andy Gregoire - Chief Financial Officer
We think that is the case. They have a tendency to attract a lower quality customer. The prevalence of the free rent everywhere helps that case, because you are not the only one out there, so you are not just attracting that.
Well, we still based on our data that we look at even this morning offer the least one month free and we still think to go to the levels where some of the peers are doesn't make sense and we probably won't be at their level. But it does make sense when it's prevalent in the market. A lot of customers are looking for that now. So when is at prevalent, you'll see us in the market with a free month but we do not expect to be offering as many units for free month as some of our peers do.

**Dave Rogers - Chief Executive Officer**
We should correct that term low quality customer. We think all of our customers are high quality. We should clarify them a shorter stay, perhaps, would be a better way to put it.

**Q:** And then just in terms of markets that had negative same-store NOI growth. I mean, this quarter 15 of the top 30 had negative same-store NOI growth versus 7 last quarter. Where might this go or when do you think that might trough?

**Andy Gregoire - Chief Financial Officer**
As we continue to spend on the Internet, that's what's driving—besides the property taxes, the only driver of expenses is the Internet expense. We had control over the other expenses and we think we are doing a good job. Outside of property taxes and Internet, our expenses were up 2%. We constantly look at that side to keep the expenses. So I think Internet spend continues across the markets. So potentially I don't see big swings in that over the next couple of quarters.

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

**Q:** I am just going to stick with the expense question line. Just thinking about that going forward beyond the next two quarters, not asking you to give guidance for next year, but just theoretically, if we think about it, you're certainly going to have an easier comp given the expense for this year, but assuming we see comparable kind of mid-to-high single-digit tax growth and inflationary expenses on the majority of the other line items, kind of comes down to your advertising spend. Obviously, that's just one of your levers, but do you see that absolute spend level being comparable to 2017 in ’18 or any of my assumptions kind of off that that might help you contain expense growth next year?

**Andy Gregoire - Chief Financial Officer**
David, I think, the investments we are making in the Internet spend now will drive long-term growth and occupancy staying at these levels, we should be able to pull that back. As we get the traction on the web, as our impressions grow in organic search, you would see that pull back. We don't expect that to happen this year. At some point next year, we would expect that.

**Q:** Pull back on an absolute level or pull back just from a growth standpoint?

**Andy Gregoire - Chief Financial Officer**
Pull back on an absolute level.

**Q:** And then I appreciate your comments on the brand’s hotel [ph] line, but from our perspective it sort of tough to measure the progress of that. May be internally, how are you guys determining whether you're having success with the rebranding? What metrics are looking at? Is it the click through? Is it the organic search? Is it relevancy? You said organic search hasn’t improved. Maybe you could kind of share with us your goals and timeframes on a metric like that and how to really quantify your success there?
Sure. There is a few different things we look at. Number one is domain authority, which we've seen the Life brand grow tremendously over the last few months. That's started in the 30s. That just really as a compare it's from zero to 100. Life was at 30. Uncle Bob's was at mid-50s. Life, as of last week, was in the mid-50s. So we saw tremendous growth there. That's number one.

That eventually leads to organic search growth, but not right away. So number one, we watch the domain authority. We are going to continue to see that click. We have passed one of that competitors. We think we can be in first or second place in that. That is our goal. We are going to continue to work with our SEO specialists, to work with our marketing team to do that.

Beside that we are looking at the organic search. We want to grow that organic search and we did see that down pretty significantly in the second quarter, as we switched over. Remember, it was in only March that we shut off the Uncle Bob's brand totally online. So we did see a fall-off in organic search. We are seeing it start to come back but that's going to be our metric. We are going to watch the domain authority in organic search.

The click through, which means if that's presented to a customer, how many people click on that brand is much better than our old brands, so we're really liking what we are seeing there and we wouldn't expect that probably to grow any better. It might get a little better, but it's better than our old brand and that's going to drive significant long-term growth in the revenue line.

Q: So what is the time on it and what is the measurement when you guys look at each other and say, okay, we made it. We are back to where we were before or even better and then what is the time line look like?

Andy Gregoire - Chief Financial Officer
It's the organic search per store, because we have put everything in per store, organic search per store we would want to see that in the excess of what we saw on our old brand.

Dave Rogers - Chief Executive Officer
And probably that will be—we definitely need to be there by first Q of next year in advance of the businesses, let's call April to May of 2018 to be back there where we were and better.

Operator
Our next question comes from the line of Todd Stender with Wells Fargo.

Q: Just back to the funding sources when you guys talk about share repurchases. How much in dispositions are you expecting and are these Life Storage properties and what markets could you be targeting?

Dave Rogers - Chief Executive Officer
The low hanging fruit I referred to was Salt Lake City, a couple in Austin, and perhaps, one I don't want to say just yet, but those would be the four low hanging fruit, which were generate somewhere in the range of about $50 million. Then we go from there. There is a bunch of different things we have been exploring for the last few months, not the least of which is forming a joint venture for a core investor and spinoff a bunch of our properties there to maintain the flags.

This is still a scale business. We don't want to shrink the company. We don't want to reduce the number of flags. This is important. This is getting us a lot of benefit. And so to sell out right is going to be on a very select basis,
but to move assets into different ownership classifications, maintain the brand and the management, that's our goal and that's we hope to generate some funds from in the coming quarters.

The cash flow that we have been— the $75 million plus that we have been able to chug [ph] has gone to some degree to the brand change and some of those efforts. That obviously is done now, so we will be looking a little bit harder at our alternate uses, whether the expansions and enhancements make as much sense, in some cases a buyback. Most time they will. But there will be a little bit different priority and a little different, I guess, a sharper pencil used as we go forward with the projects that we want to spend on. So the $75 million free cash flow is now fair game inside our company and the sale of assets hopefully retaining some semblance of control is one of the other avenues we are looking at.

**Q:** So the $75 million free cash flow estimate, that's we have, but no change to that in light of the guidance change?

**Dave Rogers - Chief Executive Officer**
A couple million dollars.

**Q:** How about tapping debt for this? I know, you do have a balance outstanding on your lines but how about tapping the line of credit to fund share repurchase?

**Dave Rogers - Chief Executive Officer**
That would wonders for goosing [ph] the return, but we want to stay pretty leverage neutral. We have a hard earned investment grade rating. We are fairly well received by our debt partners. So I think not. I think to leverage up to borrow on the line, it's tempting but it isn't in the cards.

**Operator**
Our next question comes from line of RJ Milligan, Robert W. Baird.

**Q:** Just wanted to go back to Texas and what the strategy’s going to be going forward as we see new supply coming into Houston and Dallas, and to a lesser extent Austin, but just curious. One of your peers obviously has signaled that they're going to be cutting rates and I'm just trying to figure out you have a large peer cutting rates and you have new supply coming to the market, what are you anticipate your second half of ’17 strategy to be in Texas as you navigate some of those headwinds?

**Dave Rogers - Chief Executive Officer**
Well, first of all, that's pretty big factor in our guidance reduction. We saw that coming. We watch the— we scrape the web. We see what they are doing. We watch all of our competitors in all of our markets, but especially Texas pretty heavily. As Andy referenced, we see some pretty drastic moves. Not sure they’re warranted but they are happening.

So as I mentioned, you do everything you can. You certainly have to match specials. You don’t get away from that. You certainly have to double down on making sure your stores and your flow through process once you get a query you do everything you can hang on with that query. So your customer service at the call center level and at the store level has to be topnotch.

You treat every query as golden as it gets. So you are fighting for customer. This isn't something we haven't done before. It happens. Unfortunately, its happening in our very, very largest market. I don’t think, as Andy
referenced, that we are going to be dropping rates that significantly, Texas more of an elsewhere, but nonetheless, if somebody is try to $33 for a unit, you are getting at $124, you know that there is only a few left.

It’s not something that that we got to fight a battle for 500 units. A lot of the stores that this is happening at is probably a temporary thing. It’s a different philosophy than we have. We are not totally sure we even get it and we know we are not onboard with it, but it’s going to be—you have to do good on it. We are going to be under pricing pressure in the four Texas markets. Houston now especially. We are pretty confident Dallas next and nothing is big as Dallas, or nothing is big for us as Houston but there are all big markets and important markets for us.

And as I said in the prepared remarks, these are great markets. They are under pressure now for supply. Everybody that’s bringing stuff into the Houston see the long-term viability. It is a big city. It is growing city. It’s vibrant. It’s got activity. It’s made for self-storage. So we are taking a punch now. Two and half years ago, Houston was leading our path. In 2013 and 2014, we were the top dog in terms of same-store revenue growth, a lot of that was because of our Texas exposure. It’s a real cyclical game. You have got to wait it out is what it comes down to. If you believe in the market and you can keep your stores relevant, you have to wait it out and it will be there.

Operator
Our next question comes from line of Smedes Rose with Citigroup.

Q: It’s Michael Bilerman here with Smedes. Dave, you talked previously about being staffed well, I guess, at the asset level in the regions, but I'm curious if we step back and think about the board, as well as senior management and the decision, the judgment, the estimates that you put out and effectively having a lot of misjudgments and misguidance in that over last year. There is a lot of critical pushback when you bought Life Storage for the price you paid. You had the original initial credit right off. You've misjudged the ramp in that portfolio in terms of how it would grow and even on the brand, which I think we all agree that Life Storage is a better brand, but I think you underestimated the amount of capital it would need to have that penetrated and even you used to reference CubeSmart and how that was [indiscernible] your brand and online presence before and Life Storage did so it’s going to minimizing the amount of capital you need to spend. So, I guess, you take all of that, at some point do you or does the board sit back and say, maybe we have to clear up other things, because it just not working the way it is?

Dave Rogers - Chief Executive Officer
Well, I think, if you step back and look at all the activity that went on last year, adding 100 plus stores, mature stores that haven’t yet got the benefit of the platforms. You got two dozen stores now that are in lease up and are growing, the 3 PM business— all of these things are pluses that our acquisition did and our brand change did. The business to business model is there.

The new name is tested well. It's very strong. You are right, we missed on the timing. That's probably the single biggest thing. The headwinds came, Michael. I mean that that was something we bought the properties, fortunately we match funded. We didn't necessarily hurt the company with the way we purchased the properties. They're there. They're ours. It's given us a 700-store platform. We are one of the biggest storage companies in the world. We've got markets with assets bigger than most companies.

When you got huge submarkets that we have, we built a really strong big company with a lot of better quality assets than we had. There were a lot of moving parts. I admit we missed on the degree of difficulty on the brand
change. I don't think the integrations of the stores, absent a few hiccups, has been a problem. The integration of the 120 stores is good.

The physical part of the brand at the store, the signs, the people, the uniform is good. We are having trouble and it is an important miss. It's an important issue to be in front of people and relevant and when they are looking for us, we want to make sure they see us. And that's why what we've had to do when we do get a contact is make sure we treat them, as I said, treat them like gold, make sure we close the sale. It's costing us in terms of incentives.

So, lack of exposure on the web we think is temporary. We have got a lot of irons in the fire to get it there, but that lack of exposure on the web is causing us to do more in terms of incentives. So we have got a double whammy right now. We're investing in brand and we are giving up revenues to capture occupancy.

We have got so many benefits yet to harvest and our share price right now isn't coming close to reflecting the real value and that's the reason we are doing the buyback. But I think this is a temporary thing. We have been doing this for 33 years. There have been years where we lead the pack. It's not like we don't know what we are doing. We took on a degree of difficulty that was a couple levels higher maybe than we expected.

But as far as the whole picture goes, we all agree here that this platform, the size of this company, the strength of this company and the assets that we have garnered, the markets we went in, markets we were criticized for not being in (California, Las Vegas), great markets, big markets. Bigger stores, much bigger stores, much better stores. All the things that we had been taking checkmarks against for in the 2012 to 2015, we've addressed considerably and have made a lot of progress on.

So, this one is painful in the glare of the spotlight that we are in and unfortunately the headwinds that we're facing in our very biggest markets. But, I think, again, that's cyclical and the other part is certainly surmountable. So I think we are getting there. The only thing I regret is not knowing that degree of difficulty and forecasting a little better two quarters ago.

Q: Obviously, the share repurchase was a discussion of board level decision. Walk us through sort of the view of doing share repurchase. How they came to that conclusion versus thinking more strategically about the business, right. You think that if you're sick, you can get put on medication or if you want to get rid of something, you have the full operation. How did the board and what was a debate about—look, over the last year, you've had disappointing earnings for three of the four quarters. I mean, this is not just a one quarter thing. This is three out of the last four quarters there's been a material decline or something that wasn't anticipated.

Dave Rogers - Chief Executive Officer
That's right. As we have said that, Texas— as we went out 3Q of last year, Texas— it's hurting us. That is cyclical. That's how we approach that. We know it's there— nothing we can do. We like it there. We have been there a long time. It's gone well. It's not right now. It will again. So cyclical on a quarter of your assets is one thing that we considered certainly.

The strength of the brand on the near horizon is the other thing that we consider. The value of the assets that are still brewing is a big part. We have got a lot of stuff brewing and it will come. So to talk about an operation at this point, as you put it, is pretty extreme.

Q: So how did the board come to the decision on the share buyback? Walk us through the decision that they came to to the evaluation of that, the symptom of treating it?
**Dave Rogers - Chief Executive Officer**  
I think when you look at all of the options we had in our share price being where it’s gone, we’re not a big fan of share buybacks. We haven’t been our history. We have been able to take a lot of assets and grow them from not— when you take stores under our wing, we are able to goose those pretty good. So it’s always been non-buyback; let’s look to external growth. But in this case, with the share price drop the way it is, the fact that we are a strong company, that we have a pretty solid balance sheet and the free cash flow— it pops up. We have been talking about since January but as we got into this part of the cycle here where our share price being where it is, it’s a compelling argument.

**Q:** I just hope the board is going to be a little more— keep it focused so that we don’t come into recurring problems and think strategically about potential ways to maximize value for shareholders because of the missteps.

**Dave Rogers - Chief Executive Officer**  
They know what to do and so do we.

**Operator**  
Our next question comes from line of Todd Thomas with KeyBanc.

**Q:** Just a couple quick ones here. Sorry if I missed it, but, Andy, do you have July occupancy figure and where that is year-over-year for the same-store?

**Andy Gregoire - Chief Financial Officer**  
Yeah. We were at 93% at the end— 93.0%, same as last July, so it’s very similar to last July’s activity.

**Q:** Then, just following up on an earlier question about the balance sheet, the line balance— it did tick up a little bit to $330 million. What are your plans to permanently finance that line balance and what's embedded in guidance?

**Andy Gregoire - Chief Financial Officer**  
Yeah. We have a lot of options there. The market is wide open. There's nothing embedded in guidance. We look at the market on a weekly basis and if we feel it's the right thing to do, we will. We don't have a lot of uses on front of line right now, so we are comfortable with our free cash flow. What we can do with that. So we don't see a lot of activity on that line and it's not due until the end of 2019 but we do have options out there. The credit markets are wide open and we have been reviewing those.

**Q:** And then just lastly back to the web strategy, can you just help us understand, will the increase in ad spending help with organic or is that separate and just helping drive incremental demand until organic improves? Also are you working with third-party consultants or are you handling all of this in-house right now?

**Andy Gregoire - Chief Financial Officer**  
I'll answer last question first. We are working with both inside and outside. We have five SEO consultants working with different aspects of the transition right now and then we have all of our marketing group works on it and there is a team that works on that internally— up to 13 people.

From a spend point of view and we think it's the best use of our money right now to pull in that long-term customer with that spend and it is paid ads. It doesn't affect your organic search a whole lot. The organic search is— a lot
of the things we do on social and the SEO experts, what we’re changing on our website, how it functions—
different things like that to increase the organic side really is separate from the paid ads. The paid ads for us are
showing a return. We are spending a lot of money but those are long-term customers we are bringing in. So that
investment make sense to us to bring in that long-term customer and that investment should be relatively short
lived as you look over the next few quarters.

Operator
Our next question comes from the line of Juan Sanabria with Bank of America.

Q: Just following up on that organic search question. So what do you need to do to improve that specifically and
why hasn’t it necessarily worked to-date relative to your initial expectations?

Andy Gregoire - Chief Financial Officer
There is a lot of experts in this, Juan, and that’s why we had SEO experts we are working with. There is a lot of
things from link building to your social presence. Remember, we had a brand for 30 years— some 30 years we’ve
been working through the Uncle Bob’s. It was very prevalent on the web. Google we saw was confused, when we
did switch over it was confused with Uncle Bob’s and the new Life Storage.

So the Life Storage brand now gaining that traction. Obviously, working with the social media, new links, all most
of our advertising campaigns have some Internet aspect to them to drive the traffic. So there’s numerous things
you can do. I am not an expert at it, but I know we have experts here and that’s what they are working through, it
just going to take some time.

Q: And just follow up on that, like if you saw that there was some confusion by Google, why the decision to pull
the plug on the Uncle Bob’s brand? It seems to maybe have accentuated the pressures on the organic search.
And I mean all the stuff you’re saying, I think, you knew when you did the deal and you decided to rebrand so I’m
still confused as to why you missed, particularly giving you’ve got all these experts helping you figure it out?

Andy Gregoire - Chief Financial Officer
I think the confusion was when both brands existed. That’s where Google was getting most confused, so we had
to make the cut at some point. We try to do it before the busy season, that’s why we did it in March. It made the
most sense. At some point, we had to pull up and that was the best timing.

Q: Okay. But what’s I guess missed relative to— I mean, you knew that you had to go on Facebook or whatever
to get to the social media presence to build up the optimization. I am still little confused as to why it’s not where
you thought it would be?

Andy Gregoire - Chief Financial Officer
I think the confusion was when both brands existed. That’s where Google was getting most confused, so we had
to make the cut at some point. We try to do it before the busy season, that’s why we did it in March. It made the
most sense. At some point, we had to pull up and that was the best timing.

Q: And then just on the buyback again, I mean, so your stocks below $70 per share. Are you buying back stock
today or are you still favoring redevelopment? It sounds like you think that that’s a good use of capital. How
should we think about that? I’m not sure if you’ve got a range of your NAV, you feel comfortable discussing.

Dave Rogers - Chief Executive Officer
We are not buying today, we can't. We can't buy until next week, so that's—and we will be selective but the overall theme will be to invest back—At share prices at this level certainly, the theme would be to buyback in shares. At different points in every quarter, we will be looking depending about the share price is, but certainly where it has been for the past couple months is a compelling buy.

**Q:** And then you guys talked about, I think it was slower lease ups in some of your CO deals kind of having bigger dilution in the second half than you expected. How should we think about that jiving with your comments about demand being strong and no issues on the demand side?

**Andy Gregoire - Chief Financial Officer**
Yeah. Juan, I don't think the dilution's any different than we thought before. What was completed over the last year and I think its industry-wide it's leasing up slower. So I don't think that was a surprise. I just want to point out what the dilution would be. We normally had pointed that out, what it would be for the rest of the year but it's no different than we had thought.

**Dave Rogers - Chief Executive Officer**
The point, I think, Andy was also trying to make is that, the CO deals we did in 2013 leased-up a lot faster than the deals we did in 2015. So the low handing fruit was kind of gone. There's a longer lease up time for most CO deals, even ours, that have been three year and four years ago. But demand is being diluted by new supply, that's really what the issue is but the customers are there. It's just that there's more places for them to go and more places for them to see.

**Q:** If I can just one kind of big picture question. It seems like Texas, it was maybe at the forefront of the supply pressures and clearly that that's going to persist, but maybe some other markets, maybe South Florida, just to point the one has more supply kind of in the pipeline that is yet to necessarily hit. So do you expect what we've seen in Texas to maybe play out in other markets as that supply comes in and then you get the cumulative impact of having a lease it up over a couple years?

**Dave Rogers - Chief Executive Officer**
I do. Yeah. It won't impact us nearly as much, because we are a lot more diverse in most other markets. Texas, as we said, is such a bit proportion, so it's hurting us much more than it is a peer group. But yeah there is markets that are—we said Denver, some parts of Phoenix, that we see. Now there are other guys are in areas we are not, this is will happen. There is some a lot of building going on in a few places that's going to have an impact.

**Q:** Do you think 18 suppliers you have—

**Dave Rogers - Chief Executive Officer**
We've got to cut loose, Juan. It's been about four or five, so I am sorry.

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

**Q:** Could you remind us what the existing customer rate increase program profile looks like today and if there's been any changes to it?

**Andy Gregoire - Chief Financial Officer**
Ki Bin, the profile is pretty much the same. We do them once a year, anywhere between the 10th and 12th month, so we'll do it once a year. Now that's being said, we increased significantly the number of customers that got it Q2
of '17 over Q2 of '16 on the same-store basis. Last year Q2 of '16 we did 28,000 customers; this Q2 we did 40,000 customers.

We are still seeing that customer very sticky. They had on average this year an 8.4% rate increase. The move out rate didn’t change from a year ago, actually was a little bit better. So we are seeing the customer is still very resilient. Loves Uncle Bob’s and now loves Life Storage and staying with us. So we’re happy what we are seeing from our current customer. It’s the fighting with the new customer that is the issue.

Q: Let me know if I say anything incorrectly but if I think about your program, I remember that you guys generally speaking in a given year don't push a rent increase out if it causes the customer to be above market. So I guess first part if that's correct? And second, if you are seeing these street rate decreases today as we head into the winter time you are going to see that dynamic flip upside down where may be under that same philosophy you wouldn't send out a rent increase letter because it will cause them to be above street. Is that the case and if that so, would you expect maybe a change as we get into the winter on that program?

Andy Gregoire - Chief Financial Officer
Well, Ki Bin, we did test, I think we had talked about this on earlier calls that we did test the couple thousand customers. We like what we saw by pushing those couple thousand customers above the street rate. We knew this year would be too late to change because you do most of your rent increase letters in Q1/Q2 obviously because you can— those move out that do occur, you can replace them quicker.

So next year the strategy there will be some of that where we push customers above the street rate, so that will be a little change. How many, we are not sure yet, but regarding roll down in the fourth quarter and first quarter, it's normal to get some roll down, where you move someone out, because your rates do go down in those. But overall for the year last year we didn't have rent roll down. This year, Q2, we didn't have rent roll down. We did in Q1, but that's typical in Q1.

So we are happy what we are seeing. We still have 60% of our customers today are below the current rates. They are 5% to 8% below. So we like what we have there and rent increases most of are going to occur in Q1 and Q2 though.

Q: Yeah. I mean, I asked that question because I would think that conservative nature of your program in somewhat of a downturn right now would actually help you because you don't have these massive roll downs. So I was thinking maybe next year you might counterintuitively actually maybe get a little more aggressive and allow the rent increases to push the customers above market in more mass scale?

Andy Gregoire - Chief Financial Officer
Yeah. I think you will see some of that and we do a long-term, it’s a right thing to do with the customer, how to treat that customer and they a tendency to stay longer as our customer lower one in two years show that. We keep our customers and we treat them well and we are going to continue with the program and little bit more aggressive. We were more aggressive this year than last year. We do think we have some have something different than our competitors do by not pushing them above street rate and by doing some of that next year maybe a benefit for us.

Operator
This concludes our question-and-answer session. I would like to turn the call back to management for any closing comments.
Dave Rogers - Chief Executive Officer
We thank you, everyone, for your time this morning and your confidence in us and we will be looking forward to talking to you over the following sessions. Thank you

Operator
This concludes today’s teleconference. You may disconnect your lines at this time.