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

Analysts
Juan Sanabria – Bank of American/Merrill Lynch
Jeremy Metz – BMO Capital Markets
Todd Thomas – KeyBanc Capital Markets
Ian – SunTrust Robinson Humphrey
George Hoglund – Jefferies
Smedes Rose – Citigroup
Michael Bileman – Citigroup
David Corak – B. Riley FBR
Jonathan Hughes – Raymond James
Ki Bin Kim – SunTrust Robinson Humphrey

Presentation

Operator
Greetings, and welcome to the Life Storage Fourth Quarter 2017 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question and answer session will follow the formal presentation. [Operator instructions]. As a reminder, this conference is being recorded.

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

Diane Piegza – Vice President, Investor Relations
Thank you, and welcome to our fourth quarter and full year 2017 conference call. Leading today’s discussion will be Dave Rogers, Chief Executive Officer; along with Andy Gregoire, our Chief Financial Officer.

As a reminder, the following discussion and answers to your questions contain forward-looking statements. Our actual results may differ from those projected due to risks and uncertainties with the company’s business. Additional information regarding these factors can be found in the company’s latest SEC filings. A copy of our press release and quarterly supplement maybe found on the Investor Relations tab 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.

David Rogers – Chief Executive Officer
Thank you, Diane, and welcome to our call. Last night, we reported adjusted FFO of $1.34 a share for the fourth quarter against the pretty tough year-over-year comparison. During the quarter, we acquired a state-of-the-art CofO property in Downtown Charlotte, sold a non-core store at Salt Lake and another in Austin, continued the ramp up of our third-party management platform and refinanced $450 million of short-term debt on a 10-year note with a sub 4% interest rate.

We ended the quarter with 91% occupancy in our same-store pool and had over 90% for the total pool, both record year-end levels for LSI. This puts us in good position starting 2018 after a year in which we fully completed the integration of the 120 stores we acquired in 2016 and fully completed the transition to the Life Storage brand.

In the self-storage sector, consumer demand remained strong and we see healthy demand across our markets, giving us increase confidence in our prospects for growth in 2018. As we said, demand for storage space typically outpaces population growth by a bit, and we continue to see that with increased household formation. We’ve also been pretty successful in augmenting our residential customer base with more penetration into the business sector stimulating demand via our B2B programs.

New supply has been the headwind to our sector in the past few quarters and will continue to be so probably into 2019. While it’s created pressure on rate growth, we believe the impact remains manageable as evidenced by our ability to maintain strong occupancies.

Supply levels vary greatly across markets and as noted on previous calls, we face our biggest challenges in the big four Texas markets: Houston, Dallas, Austin and San Antonio. In total, the properties in these markets comprised 23% of our same-store pool. To give some context to our exposure, we have 116 wholly-owned properties in Texas and in the past 24 months, 77 stores have opened in these areas. We foresee up to 39 more in the next 18 months. So these are expected to have a somewhat adverse effect on as many of 93 of our Texas properties going into 2019. But as we’ve consistently said, these are rapidly growing vibrant markets that are ideal for self-storage. It’s a cyclical drag that’s causing us some pain now but mid to long-term we love these big Texas cities and expect to benefit from our strong presence there.

Other markets which have some oversupply concerns include Chicago, Denver, parts of Phoenix and Miami. The impact of Life Storage resulting from new builds in these cities is not as strong as it is in Texas but there will be pricing pressure due primarily to the short-term disruption caused by move-in incentives.

We’re bullish on most of Florida, St. Louis and much of the Northeast. While we’ve seen some new supply in these markets, it’s not always near us, and for the most part, the construction has been warranted. The markets we’ve moved into last year, Los Angeles, Las Vegas, and Northern California, are likewise performing well.

With the exception of property taxes and internet spend, operating expenses remain pretty well controlled and we expect that to continue for the coming quarters. But from all we can predict, property tax increases are going to remain a significant factor in stunting NOI growth.

Looking at the transaction market, we’ve seen little movement in bid/ask prices over the past few quarters. Few data points exist, although a few midsize reduced quality portfolios are on the market. There is continued strong interest from the private sector for storage properties of all denominations.

We’re aware of the challenges to our sector with some markets needing time to absorb the recently-built facilities and others just about to see the start of some new construction. But demand is there and the tools are in our kit.
for Life Storage to perform well even in this competitive part of the cycle. These include proven marketing, revenue management and customer service platforms, a well-developed B2B division, opportunities across our portfolio to expand and enhance our properties, a rock-solid balance sheet and strong operating cash flow.

We enter 2018 confident that our largest scale, improved financial strength, stronger brand and greater presence will enable us to grow the value of our company.

And Andy, with that I'll turn it to you.

**Andy Gregoire – Chief Financial Officer**

Thanks, Dave. As Dave mentioned, last night we reported quarterly adjusted funds from operations of $1.34 per share compared to adjusted FFO of $1.31 per share for the same period in 2016. These results were above the high end of our forecast driven by better than expected same-store performance, as well as CoF and lease-up store growth that exceeded our estimates.

We have excluded from adjusted FFO the cost of interest rate swap terminations and other charges associated with our debt refinancing that occurred in conjunction with our issuance of 10-year bond. Also excluded from FFO was the cost related to Paul Powell’s retirement, a valued member of our team who retired after 20 years with Life Storage.

Same-store quarterly revenue grew 1.3% as a result of occupancy gains. Same-store occupancy at December 31st was the fourth quarter record high for our company of 91%, a 60 basis point increase over 2016 year end occupancy. Fourth quarter same-store expenses outside of property taxes were well controlled by our teams, increasing only 1%. As noted on our previous call, we gained significant online traction with the Life Storage brand early in the fourth quarter which enabled us to reduce our internet marketing spend to more normalized levels.

As expected, property taxes increased 8% in the fourth quarter with significant increases in Austin, Texas, Chicago, St. Louis and certain Florida markets.

In addition to the improved performance of our same-store portfolio, we continue to see consistent growth trends at the properties that we purchased that certificate of occupancy or very early in the lease-up stage. Even though we are in the traditionally slower season, average occupancy for these lease-up stores increased by 260 basis points on a sequential quarter basis from 74.8% at September 30th to 77.4% at December 31st.

The Life Storage acquisition stores continue to grow occupancy with average quarterly occupancy at the 70 stable stores growing to 90.6% from the prior year’s 86.3%. The 11 non-stabilized Life Storage stores experienced occupancy gains ahead of expectation and had average occupancy of 86.7% for the fourth quarter of 2017, leaving additional room for growth in both pools. The overall fourth quarter revenue increase also reflected a 49% increase in management fee income to $2.4 million as the strength of the Life Storage brand is resonating with independent owners.

Fourth quarter G&A costs were flat year-over-year even with the added $941,000 of officer retirement cost recorded.

We further strengthened our balance sheet during the quarter by opportunistically refinancing $225 million of short-term bank debt and a portion of our line of credit. The new tenure $450 million public bond carries a very
attractive 3.875% rate. This transaction also significantly extended our debt maturity schedule. Our weighted average debt maturity is now 7.8 years.

At the end of the quarter we had $9 million of cash on hand and $395 million available on our line of credit. We have no debt maturities until December of 2019. Our debt service coverage ratio was a healthy 4.9 times and our net debt to recurring EBITDA ratio was 5.6 times. We acquired one newly constructed store during the quarter in Charlotte, North Carolina for $12.5 million. We have no remaining certificate of occupancy stores under contract.

With regard to guidance, although we have achieved positive revenue trends in many of top markets, we continue to see softness in other markets due to new supply. From an expense side, we see pressure on payroll and benefit costs, property taxes and insurance. Nonetheless, we expect a decrease in internet marketing spend to keep overall expense growth in check. We have forecasted revenue growth for Q1 to be in the 1.25% to 2.25% and for the year, revenue growth is expected at 1% to 2%. Expenses outside of property taxes are expected to increase between 1% and 2% for the quarter and the year, while property taxes are forecasted to increase 5.5% to 6.5%.

Once again we are not including in our same-store group any stores acquired at CoF0 that have not reached stabilized occupancy above 80% at market rates as of January 2017. Our guidance assumes no acquisitions for our own portfolio, nor does it reflect any potential disposition.

As a result of the above assumptions, we are forecasting adjusted funds from operations for the full year 2018 to be between $5.33 and $5.43 per share and between $1.24 and $1.28 per share for the first quarter of 2018.

And with that, operator, we can open the call up for questions.

**Operator**
[Operator instructions]. Our first question comes from the line of Juan Sanabria with Bank of American/Merrill Lynch. Please proceed with your question.

**Q:** Just with regards to guidance, can you quantify the benefit of now including Life Storage in the same-store pool? And yes, we'd just start there.

**Andy Gregoire – Chief Financial Officer**
There’s about 105 stores entering the same-store pool in 2018. That includes Life and some other acquisitions done earlier in the year, including our California exposure in Los Angeles. We expect that to add 50 basis points to NOI and we’ll show that as we always have. We'll show the different pool, so you’ll see that but we expect about 50 basis points of NOI.

**Q:** Do you have a sense of what that does to the revenue line?

**Andy Gregoire – Chief Financial Officer**
Very similar.

**Q:** And then just with regard to some of the headwinds that you had that now should be drivers of growth. Can you give us any color on kind of volume trends with the Google Search, kind of what you’re thinking on the marketing spend and latest thoughts on the ramp up to existing kind of things you’ve highlighted before that you thought could present opportunities for growth in ’18?
Andy Gregoire – Chief Financial Officer
The marketing spend we would expect 4Q is probably a good run rate to use for 2018. Obviously Google price is going up in the fourth quarter, October was high for us and then it tailed off. So probably a good run rate to use for 2018. Q1 you won’t see the big benefit because we didn’t have the heavy spend. Q2 and 3, you’ll see the biggest benefit, probably could be anywhere between a 10% and 20% reduction in those quarters in that spend.

Regarding in place, we’re working on a few different scenarios. We would expect some different strategies to be tested throughout 2018. Most of those in place increases will occur in April, May and June.

Operator
Our next question comes from the line of Jeremy Metz with BMO Capital Markets. Please proceed with your question.

Q: Good morning, guys. Andy, I was hoping you could talk about the revenue trajectory in 2018. I guess I would have thought that with the tougher first half comps you’d start lower and accelerate in the back half but your 1Q guidance is going for slightly higher growth than your full year expectation. So any color here would be great.

Andy Gregoire – Chief Financial Officer
Jeremy, the Houston exposure will drive some of Q1. I mean occupancy is still relatively high. It is burning off as we thought it would, but rates are pretty strong in Houston. That’s the good trend that we’ve seen so far that the rates are—come back to positive territory which they were negative for quite a good portion of 2017.

So street rates are positive. Occupancy is slowly burning off from the victims of that hurricane. So that’s really what’s driving the front end of that.

David Rogers – Chief Executive Officer
And again, Jeremy, we’re in the spot here where we don’t have a lot of data points, the queries don’t come in as often in January, February and March. We’re sitting here waiting for the busy season to start, which has been a real tell. For four or five years we really roared through and came out of busy season really happy. And then in May of 2016 and again in ’17, it was a little slower than we expected and that gave us some difficulties with regard to projections of guidance. So we’re sitting here as we always do in the month of February giving guidance without knowing how our price increases are going to work, what the customer demand is going to be.

We feel pretty good sitting here, but again we’re not going to lay it out there and expect a real pop. So we’re looking forward to May, we’ll have a lot more color after Memorial Day, but this is the part of the year where we have a little bit difficulty with visibility.

Q: It does sound like you guys are indicating that Houston will probably be a drag on revenue again in 2018, even if more modest.

Andy Gregoire – Chief Financial Officer
I would think that the back half of 2018.

Q: My second question, Dave, the stock has come off in the past month, it’s still a little above where you bought back stock in 3Q, but not too far off. So should we expect to see the active buying back shares again here? Are you assuming any buybacks in guidance and how are you going to look to balance this opportunity with adding further to the joint ventures?
David Rogers – Chief Executive Officer
We have not included any buybacks in guidance. We always look, Jeremy. We have pretty strong cash flow, we’ve got places to put it at times, but we haven’t gone into any joint venture agreement as of February 21st, but we may. So it’s a balancing act, but certainly we’re not happy with the share price and it becomes more and more compelling when there’s a seven in front of it. So we will, as we have in the past, as we did in the third quarter, we’ll look at all the options to see what we have.

The one thing we’ve been pretty strong about is we’re not going to leverage up certainly to buy shares back. But we do have a lot of free cash flow and we’ll allocate accordingly when we see the best opportunities.

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

Q: First I was just wondering if you could just talk about your strategy around discounting and promotions in ‘18 as the peak leasing season approaches.

Andy Gregoire – Chief Financial Officer
Todd, it’s very similar to what we’ve seen. The competitive pricing that we’re seeing out there in the new supply, I think we’ll keep that elevated. We’re about 2.4% of revenue, same-store revenue, as a concession upfront. And I would think that is pretty similar to what you’ll see in 2018. We don’t expect a big change in concession strategy.

Q: Are you seeing pricing power return somewhat? I mean how are you thinking about existing customer and increases in ‘18? I think last year you dialed back a little bit on ECRIs. Are you planning to maintain a similar level or do you think you’ll push a little bit harder in ‘18?

Andy Gregoire – Chief Financial Officer
We’ll test a few strategies that may be more aggressive, but really I think you have to really watch the move out rate. So as we go through and we test some things, we’ll see that move out rate. And it’s really about maximizing revenue and sometimes pushing more customers is not always the answer. But we would expect that we would test some more aggressiveness throughout the year.

David Rogers – Chief Executive Officer
Having said that, Todd, we feel like we’re in a bit of a stronger place with the web presence that we’ve regained. So we were more tentative last year than usual just because we didn’t have that power that we needed in June, July and August to push rates. So having regained the web presence, I think we’ll have a little more gumption.

Q: And Dave, you talked about a few portfolios being on the market. Can you just comment on the company’s appetite for investments here both maybe wholly-owned or through joint ventures? Can you comment on sort of the size and scope of these portfolios, maybe you can kind of book end what we’re talking about in terms of size?

David Rogers – Chief Executive Officer
Yes. I think the quality of the ones that we’ve seen the first two months of this year would put us out in any capital structure scenario. They just aren’t there. They’re in the $200 million to $250 million range and they are C grade, they’re not there for us or we would be very hesitant and most unlikely to bring those to our JV partners.
So the stuff that’s on the market right now isn’t very compelling, no matter what. Obviously with our cost of capital right now, we’re not going to be big buyers for our own account, but we do plan on working with some of the private capital that’s out there to go along the road of the joint venture program.

But right now, we didn’t put anything in guidance to speak of for the first couple of quarters because there isn’t really a lot out there that we would want to have our flag up.

Operator
Our next question comes from the line of Ki Bin Kim with SunTrust Robinson Humphrey. Please proceed with your question.

Q: This is Ian on with Ki Bin. I notice you didn’t break out Houston guidance for 2018. Could you share that with us and what same-store pool looks like at Houston?

Andy Gregoire – Chief Financial Officer
I would say Houston we expect to start the year relatively strong. Again as it was 0.1% growth in fourth quarter. We expect a little bit better to start the year, but that would tail off as we go through the year.

Q: What does the same-store pool look like without Houston? Is it just slightly higher than your guidance?

Andy Gregoire – Chief Financial Officer
Yes, slightly different without Houston.

Q: And then can you just provide street rates for the fourth quarter and so far in January and February?

Andy Gregoire – Chief Financial Officer
For the fourth quarter we like the trends. They were down 2% on average for the quarter which trended better as the quarter went through. January was down about 0.5% and February is flat. So we like the trend in street rates and that is really a forecast of things to come sometimes. So we like what we see, at least the trajectory of the street rates which had been as much as 6% negative in the middle of 2017.

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

Q: Just one thing in terms of what’s changed in the environment over the past couple of months since November Nareit. Anything noticeably better or worse since then?

David Rogers – Chief Executive Officer
Aside from a little bit of seasonality we’re in our absolute slow period right now. The nadir is typically end of February beginning of March as far as activity goes with regard to call volume and move-ins and move-out. So we’d surprised I guess if anything had moved much between November and February.

So I think our perception of things looking into the year is a little better. We got some more grab with the internet presence so that’s making us feel pretty good. The few rate increases that we have put in have stuck. So I think we’re feeling pretty good about the year but again there’s not a lot of data points to latch on to and give you anything definitive in this three-month period especially.
Q: And then just going back to guidance, I mean you had highlighted kind of reiterated it’s still a lot of uncertainty this early in the year but your same-store NOI guidance range is 100 bps versus peers have reported so far it’s 150 bps. I’m just wondering given the missteps of guidance in the recent past why not provide a wider range of same-store NOI guidance.

Andy Gregoire – Chief Financial Officer
I think when you look at what we’re seeing now, what we saw in the fourth quarter, we’re in line with the trends we see. We can’t control new supply pressure that comes on. The competitive pricing has been pretty strong. So it’s tough to be more aggressive on those numbers. I think our internet presence how that changed, remember we went through about nine months of 2017 as we improved that internet presence. We’re comfortable with that now, but it’s hard to predict any hard changes on that before we get into the busy season.

David Rogers – Chief Executive Officer
I think as far as range goes, George, it’s a 25 bps at either end, I think that’s the way we operate. You guys are pretty much looking at the midpoint anyway. So cushioning to top and bottom is one way to do it, but we hold our people in the field that the AM level, the RVP level here in the home office pretty tight the budget.

I guess 25 bps on either end might give us something to hang on to, but at the end of the day we build off the midpoint and that’s our operating budget inside. So the range doesn’t matter as much to us as maybe you might think it would.

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

Q: I wanted to ask you just about the fourth quarter performance of the actual Life Storage portfolio of stable properties, the 70, the NOI there went down year-over-year and looks like it was driven by a pretty sharp increase in expenses. Is that sort of one-time in nature or is that something that you would expect that level of increases moving forward?

Andy Gregoire – Chief Financial Officer
There was some one-time items in there and it was property tax driven. The rest of the expenses are well-controlled just like the rest of our portfolio. But on the property tax line we had some significant increases in Colorado and Austin, Texas that hit the fourth quarter, about $300,000 of extra expense in that fourth quarter that I would not expect to be continuing; that’s not a good—

Q: So nothing on the sort of operation side, it was just more tax related?

Andy Gregoire – Chief Financial Officer
No, operating costs we’ve kept in check. On the revenue side we’ve seen nice increases in occupancy but they are coming at competitive pricing and a lot of special. So I think that’s held back the revenue growth there but where the occupancy is now, which is at a good point, I think it sets us up nicely for 2018.

Q: And then just you mentioned supply growth in Texas and just wondering are there other markets where you’re seeing significant supply increases do you expect to come online across the course of this year?

David Rogers – Chief Executive Officer
I mean it’s nothing that we haven’t seen for the last couple of quarters. We’ve been talking about Chicago, we’ve been talking certainly about Miami and Phoenix and Atlanta. Again Chicago, in fact, it’s maybe a little bit more but the others don’t have anywhere near the impact of the Texas market.

So, it’s in a lot of places, and I think it will roll. I think we’ll see supply rolling over next couple years, but I actually think as much as we had Houston and Texas high on the list of problems, I think we’ve seen most of the deliveries in Houston and Austin anyway. Dallas we’re going to add some pretty significant deliveries, at least affecting us, the balance of 2018 and into 2019. But it rolls, then you get into the absorption phase as opposed to deliveries. But we’re looking at Houston and Austin now as perhaps by the end of this year we won’t be talking about them so much but then there’ll be others.

Other companies have other markets that are impacted much stronger than we are. So it’s going to roll, it’s going to be, I fear, a little bit of secondary and tertiary market development coming, and that’s okay. But yes, those are the markets that we’re watching now most, Southeast Florida, Chicago, Phoenix and Atlanta.

**Q:** David, it’s Michael Bilerman. I guess how much do you fear Public Storage move into third-party management business—I mean how much do you feel that your existing management contracts that you built up could be under attack from them as they come in and go to a low cost model?

**David Rogers – Chief Executive Officer**

Yes, we are sort of a in between model and we’ve had some pretty good success. We share with our partners, our clients, a greater part of the insurance revenue. We work with them pretty closely on the spending sharing and so forth. So we have had sort of a modified model like that and it’s worked pretty well. I don’t know the extent, but I think this sort of caught most of us by surprise yesterday. They have been such voracious opponents of the strategy that this is a pretty big turnaround for them.

So, I think we turn down a lot of business in markets where we don’t think we can do a good job if we don’t have scale. We don’t want our third-party management client to be our first or second store in a market. We’re not going to benefit much. I think that’s where Public is going to go.

So, we’re evaluating it certainly because we didn’t have any idea they were coming in here. We have to see what their marketing is going to be all about, but we had pretty good traction in the last few months even. We signed 18 stores in the last six weeks. We’ve got 32 more that we expect to be signed in the next few weeks.

I don’t know I think as a revenue generator it’s a not big thing for us; it’s more our presence and a cost sharing, scale thing with us. So, it’s really early to evaluate; I’m going on more than I probably am qualified to speak on this yet because we have to see what they’re going to do. We have to see what their marketing is going to be about and how they’re going to attack it.

**Operator**

Our next question comes from the line of David Corak with B. Riley FBR. Please proceed with your question.

**Q:** I appreciate the color on Houston that you’ve given thus far and that it will be a drag again by the second half. But you had kind of said that the benefit of the hurricane would last through third quarter, you said four quarters at least. Are you kind of changing that narrative? Do you think the benefit is less so than you had initially anticipated or kind of how should we think about that at this point?

**David Rogers – Chief Executive Officer**
I think as far as occupancy goes, we are seeing a little bit more burn off of occupancy. But what it did I think, David, was allow us an opportunity to get some pricing power back, and we put rate increases through in Houston and they’re sticking. We’ve got some of that back. That’s what we really lost.

As Andy mentioned, we were down—at the lowest point we were down 9% year-over-year. And we’re even, and I think we’re going to see some of the [indiscernible]. Yes we have a little bit quicker drain on occupancy, although we’re still higher than we were, but it has allowed us to use the opportunity to put in rate increases and we’ve done that.

So I would say we’re at the end of the day, we’ll be about where we thought we would be when we’re talking about it in November.

**Q:** And then one last one. One of the analysts touched on this already, but I just want to follow up in terms of kind of your same-store revenue, the cadence throughout the course of the year, obviously high 1% range in 1Q. But where do you think we end up by the fourth quarter? What are you kind of budgeting it at? Should we assume just kind of a straight line down for the full year? How should we think about that?

**Andy Gregoire – Chief Financial Officer**

Dave, I think it’s a minor tick-down. I don’t think it’s straight line down. And even what we do see because we’re seeing increased pricing power in many markets as I said, the overall rate structure was positive in February and hasn’t been that way street rate wise in a while. I think it’s a minor tick-down. I don’t think you’ll see the deceleration that some people may have expected.

So, our guidance from what we see now, and again we’re early in the year, we think it would be very gradual.

**Q:** And then one last one, should we expect to see your rent for occupied square foot tick back up into the green or the black again or will that kind of remain in the red?

**Andy Gregoire – Chief Financial Officer**

I think that is a trailing indicator really. It’s really the street rate. So, it does take a while as street rates come back up to work through the system and get there and in place increases. It was negative in a quarter. Q1 could be negative. Tough to say the rest of the year, but I think we’re going in the right direction.

**Operator**

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

**Q:** You gave specific numbers for the new store openings in your Texas markets. I don’t think I heard it for the overall portfolio, but would you be able to give us those numbers?

**Andy Gregoire – Chief Financial Officer**

Jonathan, in the last two years, we’ve had 220 stores open within 5 miles, and that’s the distance we use as 5 miles. So we had 220 stores open. We’re tracking right now 152 under construction.

**Q:** So, 152 you said?

**Andy Gregoire – Chief Financial Officer**
Yes, and that’s our wholly-owned portfolio of our 566 wholly-owned portfolio, 152 under construction in those within 5 miles of those stores.

**Q:** And then I think the impact from the changing same-store pool was expected to be a positive 75 basis points as of November. Why did this drop 25 basis points, three months later?

**Andy Gregoire – Chief Financial Officer**
I think when we see the supply coming out of the ground in Chicago that’s probably the biggest impact and that’s changed our view a little bit on the Chicago market, which was 18 stores of that portfolio. So that was the biggest change with the supply, something we can’t control on the supply pressures in Chicago.

**Q:** And then one more if I may, David touched on this. But in place rents were down year-over-year and I think this was the first time in about five years. I know you said that’s a backwards indicator, but I’m just curious was there a shift or conscious effort to sacrifice rate for occupancy in the slower leasing months?

**Andy Gregoire – Chief Financial Officer**
No, I think as we went through ‘17, the internet, as we changed the brand on the web, we really had to use the concession and reduce rates to maintain that occupancy, which we wanted to go into ‘18 strong and we think we’re in a good spot from an occupancy point of view.

**Q:** Right, and that should rebound kind of halfway through the year and be positive by the fourth quarter, hopefully?

**Andy Gregoire – Chief Financial Officer**
It’s tough to tell this early in the year, but that would be a reasonable assumption.

**Operator**
[Operator instructions] Our next question is a follow-up from the line of Ki Bin Kim with SunTrust Robinson Humphrey. Please proceed with your question.

**Q:** Just going back to the Life Storage portfolio the stable properties, the 70, the revenue increase was only 80 basis points year-over-year versus last quarter it was up 20%. I’m not sure if there was a mix change or something. I mean I know the property count change by one, but that’s a pretty remarkable change. Can you talk about that, please?

**Andy Gregoire – Chief Financial Officer**
Ki Bin, as I said the Chicago market is the toughest one, those 18 stores in Chicago, the new supply that is affecting those stores, free rent. The way we’ve been combating that, it’s been increasing occupancy. So the market is a great market, but the free month upfront obviously hurts the revenue line pretty quickly and there’s been a lot of free rent in the Chicago market as these new stores lease up.

**David Rogers – Chief Executive Officer**
But I think also, unfortunately the third quarter comparison had 15 fewer days in it. So it was a 75-day period, Ki Bin. We bought the stores July 15, 2016. So the third quarter had 15 extra days in it.

I think we indicated that summer, but yes, it wasn’t 20%. If we would had the 15 days ownership in ‘16, it would have been quite a bit less than that.
Q: And when you do your AB testing where consistently you’re testing out different pricing strategies in advertising and when you’re doing your AB testing and trying to push rents where you can, what’s the general feedback you’ve been getting because your revenue growth is a little bit weaker than peers? I know there’s a market mix reason for that. But when you start testing for and try pushing higher rents, what is the things you’re learning today?

Andy Gregoire – Chief Financial Officer
Really what we learn from is the move-out rate. And we did some testing last year as you said going above street rate and we like the results we saw from that. But ’17 as we went through the transition of the brand, it was not the time to be very aggressive with that. As we go through ’18, we may have more opportunities; we’ll see as we go through.

Q: And this last one for me, in your guidance for ’18, are you implicitly thinking about any changes to the existing customer rate increase program, whether that be the level of the rate you pushed through or the frequency?

David Rogers – Chief Executive Officer
There hasn’t been. Although, as I mentioned we feel quite a bit more confident with our ability to push rates in the sense that we have our presence on the web. We have the brand really established.

So we are going to have more opportunities to push. And I think given the testing—and we do ex amount per month and we really like to do it when the busy season is there so that if we do lose customers, which we will, somebody’s there on the phone or through the web query, ready to take their place in a hurry and hopefully without too much of a discount.

Operator
Thank you. Ladies and gentlemen, we have come to the end of our time for questions. I’ll turn the floor back to Mr. Rogers for any closing comment.

David Rogers – Chief Executive Officer
Well, thank you, everyone, for joining our call and for your interest in our company and your support. And we look forward to meeting with you throughout the year.