

Extra Space Storage Inc.  
Form 10-Q  
November 06, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2015**

**or**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_.**

**Commission File Number: 001-32269**

**EXTRA SPACE STORAGE INC.**

**(Exact name of registrant as specified in its charter)**

**Maryland**  
**(State or other jurisdiction of**  
**incorporation or organization)**  
**2795 East Cottonwood Parkway, Suite 400**  
**Salt Lake City, Utah 84121**  
**(Address of principal executive offices)**

**20-1076777**  
**(I.R.S. Employer**  
**Identification No.)**

**Registrant's telephone number, including area code: (801) 365-4600**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐  
Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐  
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares outstanding of the registrant's common stock, par value \$0.01 per share, as of October 30, 2015, was 123,456,914.

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**EXTRA SPACE STORAGE INC.**

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**STATEMENT ON FORWARD-LOOKING INFORMATION**

Certain information presented in this report contains forward-looking statements within the meaning of the federal securities laws. Forward-looking statements include statements concerning our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions and other information that is not historical information. In some cases, forward-looking statements can be identified by terminology such as believes, expects, estimates, may, will, should, anticipates or intends, of such terms or other comparable terminology, or by discussions of strategy. We may also make additional forward-looking statements from time to time. All such subsequent forward-looking statements, whether written or oral, by us or on our behalf, are also expressly qualified by these cautionary statements.

All forward-looking statements, including without limitation, management's examination of historical operating trends and estimates of future earnings, are based upon our current expectations and various assumptions. Our expectations, beliefs and projections are expressed in good faith and we believe there is a reasonable basis for them, but there can be no assurance that management's expectations, beliefs and projections will result or be achieved. All forward-looking statements apply only as of the date made. We undertake no obligation to publicly update or revise forward-looking statements which may be made to reflect events or circumstances after the date made or to reflect the occurrence of unanticipated events.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in or contemplated by this report. Any forward-looking statements should be considered in light of the risks referenced in Part II. Item 1A. Risk Factors below and in Part I. Item 1A. Risk Factors included in our most recent Annual Report on Form 10-K. Such factors include, but are not limited to:

adverse changes in general economic conditions, the real estate industry and the markets in which we operate;

failure to close pending acquisitions on expected terms, or at all;

the effect of competition from new and existing stores or other storage alternatives, which could cause rents and occupancy rates to decline;

difficulties in our ability to evaluate, finance, complete and integrate acquisitions and developments successfully and to lease up those stores, which could adversely affect our profitability;

potential liability for uninsured losses and environmental contamination;

the impact of the regulatory environment as well as national, state and local laws and regulations including, without limitation, those governing real estate investment trusts ( REITs ), tenant reinsurance and other aspects of our business, which could adversely affect our results;

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disruptions in credit and financial markets and resulting difficulties in raising capital or obtaining credit at reasonable rates or at all, which could impede our ability to grow;

increased interest rates and operating costs;

reductions in asset valuations and related impairment charges;

the failure of our joint venture partners to fulfill their obligations to us or their pursuit of actions that are inconsistent with our objectives;

the failure to maintain our REIT status for federal income tax purposes;

economic uncertainty due to the impact of war or terrorism, which could adversely affect our business plan; and

difficulties in our ability to attract and retain qualified personnel and management members.

**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****Extra Space Storage Inc.****Condensed Consolidated Balance Sheets**

(amounts in thousands, except share data)

	September 30, 2015 (Unaudited)	December 31, 2014
<b>Assets:</b>		
Real estate assets, net	\$ 4,452,251	\$ 4,139,626
Investments in unconsolidated real estate ventures	84,671	85,711
Cash and cash equivalents	1,115,532	47,663
Restricted cash	228,629	25,245
Receivables from related parties and affiliated real estate joint ventures	3,016	11,778
Other assets, net	118,737	92,084
Total assets	\$ 6,002,836	\$ 4,402,107
<b>Liabilities, Noncontrolling Interests and Equity:</b>		
Notes payable	\$ 2,527,756	\$ 1,872,067
Premium on notes payable	1,235	3,281
Exchangeable senior notes	660,364	250,000
Discount on exchangeable senior notes	(26,146)	(13,054)
Notes payable to trusts	119,590	119,590
Lines of credit	185,000	138,000
Accounts payable and accrued expenses	76,303	65,521
Other liabilities	71,394	54,719
Total liabilities	3,615,496	2,490,124
<b>Commitments and contingencies</b>		
<b>Noncontrolling Interests and Equity:</b>		
Extra Space Storage Inc. stockholders' equity:		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized, no shares issued or outstanding		
Common stock, \$0.01 par value, 500,000,000 shares authorized, 123,332,292 and 116,360,239 shares issued and outstanding at	1,233	1,163

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September 30, 2015 and December 31, 2014, respectively			
Additional paid-in capital	2,401,886		1,995,484
Accumulated other comprehensive loss	(20,812)		(1,484)
Accumulated deficit	(273,015)		(257,738)
Total Extra Space Storage Inc. stockholders' equity	2,109,292		1,737,425
Noncontrolling interest represented by Preferred Operating Partnership units, net of \$120,230 notes receivable	80,869		81,152
Noncontrolling interests in Operating Partnership	197,017		92,422
Other noncontrolling interests	162		984
Total noncontrolling interests and equity	2,387,340		1,911,983
Total liabilities, noncontrolling interests and equity	\$ 6,002,836	\$	4,402,107

See accompanying notes to unaudited condensed consolidated financial statements.

**Table of Contents****Extra Space Storage Inc.****Condensed Consolidated Statements of Operations**

(amounts in thousands, except share data)

(unaudited)

**For the Three Months Ended September 30, 2015 and 2014, and Nine Months Ended September 30, 2015 and 2014**

	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Revenues:</b>				
Property rental	\$ 170,548	\$ 144,669	\$ 480,466	\$ 415,448
Tenant reinsurance	18,226	15,385	52,076	43,356
Management fees and other income	8,723	9,013	23,969	23,167
Total revenues	197,497	169,067	556,511	481,971
<b>Expenses:</b>				
Property operations	48,878	43,294	144,331	129,070
Tenant reinsurance	3,608	2,930	9,819	8,133
Acquisition related costs	280	436	5,703	3,885
General and administrative	16,716	15,665	49,620	46,436
Depreciation and amortization	30,711	29,249	92,691	85,895
Total expenses	100,193	91,574	302,164	273,419
Income from operations	97,304	77,493	254,347	208,552
Gain (loss) on real estate transactions and earnout from prior acquisitions	1,101	(2,500)	1,501	(10,285)
Interest expense	(20,811)	(20,681)	(65,053)	(60,937)
Non-cash interest expense related to amortization of discount on equity component of exchangeable senior notes	(805)	(679)	(2,198)	(2,004)
Interest income	356	186	1,640	1,167
Interest income on note receivable from Preferred Operating Partnership unit holder	1,213	1,213	3,638	3,638
Income before equity in earnings of unconsolidated real estate ventures and income tax expense	78,358	55,032	193,875	140,131
Equity in earnings of unconsolidated real estate ventures	3,403	2,777	9,054	7,800

Equity in earnings of unconsolidated real estate ventures - gain on sale of real estate assets and purchase of joint venture partners' interests		378	2,857	3,816
Income tax (expense) benefit	(3,561)	1,006	(7,994)	(5,337)
<b>Net income</b>	<b>78,200</b>	<b>59,193</b>	<b>197,792</b>	<b>146,410</b>
Net income allocated to Preferred Operating Partnership noncontrolling interests	(3,112)	(2,977)	(9,045)	(8,281)
Net income allocated to Operating Partnership and other noncontrolling interests	(3,370)	(1,988)	(7,948)	(4,896)
<b>Net income attributable to common stockholders</b>	<b>\$ 71,718</b>	<b>\$ 54,228</b>	<b>\$ 180,799</b>	<b>\$ 133,233</b>
Earnings per common share				
Basic	\$ 0.58	\$ 0.47	\$ 1.52	\$ 1.15
Diluted	\$ 0.58	\$ 0.47	\$ 1.51	\$ 1.15
Weighted average number of shares				
Basic	122,644,837	115,726,911	118,564,872	115,606,845
Diluted	130,398,111	121,617,554	125,406,313	121,551,889
Cash dividends paid per common share	\$ 0.59	\$ 0.47	\$ 1.65	\$ 1.34

See accompanying notes to unaudited condensed consolidated financial statements.

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**Extra Space Storage Inc.**

**Condensed Consolidated Statements of Comprehensive Income**

(amounts in thousands)

(unaudited)

	<b>For the Three Months Ended September 30, 2015</b>		<b>For the Three Months Ended September 30, 2014</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Net income</b>	\$ 78,200	\$ 59,193	\$ 197,792	\$ 146,410
<b>Other comprehensive income (loss):</b>				
Change in fair value of interest rate swaps	(20,019)	1,834	(20,307)	(6,614)
Total comprehensive income	58,181	61,027	177,485	139,796
Less: comprehensive income attributable to noncontrolling interests	5,456	5,137	16,014	12,984
<b>Comprehensive income attributable to common stockholders</b>	\$ 52,725	\$ 55,890	\$ 161,471	\$ 126,812

See accompanying notes to unaudited condensed consolidated financial statements.

(unaudited)

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**Table of Contents****Extra Space Storage Inc.****Condensed Consolidated Statements of Cash Flows**

(amounts in thousands)

(unaudited)

	<b>For the Nine Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 197,792	\$ 146,410
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	92,691	85,895
Amortization of deferred financing costs	4,876	4,955
Loss (gain) on real estate transactions and earnout from prior acquisitions	(1,501)	2,500
Non-cash interest expense related to amortization of discount on equity component of exchangeable senior notes	2,198	2,004
Non-cash interest expense related to amortization of premium on notes payable	(2,046)	(2,350)
Compensation expense related to stock-based awards	4,385	3,855
Gain on sale of real estate assets and purchase of joint venture partners interests	(2,857)	(3,438)
Distributions from unconsolidated real estate ventures in excess of earnings	4,020	3,989
Changes in operating assets and liabilities:		
Receivables from related parties and affiliated real estate joint ventures	(2,247)	(434)
Other assets	(20,022)	467
Accounts payable and accrued expenses	10,782	12,927
Other liabilities	(1,790)	(216)
Net cash provided by operating activities	286,281	256,564
<b>Cash flows from investing activities:</b>		
Acquisition of real estate assets	(263,404)	(328,235)
Development and redevelopment of real estate assets	(15,137)	(11,288)
Proceeds from sale of real estate assets	800	
Change in restricted cash	(203,384)	(4,754)
Investment in unconsolidated real estate ventures	(549)	
Return of investment in unconsolidated real estate ventures	61	
Purchase/issuance of notes receivable		(9,028)
Purchase of equipment and fixtures	(4,821)	(3,636)
Net cash used in investing activities	(486,434)	(356,941)

**Cash flows from financing activities:**

Proceeds from the sale of common stock, net of offering costs	446,909	
Net proceeds from the issuance of 2015 exchangeable senior notes	563,500	
Proceeds from notes payable and lines of credit	1,718,753	505,957
Principal payments on notes payable and lines of credit	(1,016,064)	(312,287)
Repurchase of 2013 exchangeable senior notes	(227,212)	
Deferred financing costs	(5,138)	(3,851)
Net proceeds from exercise of stock options	1,424	2,717
Dividends paid on common stock	(196,076)	(155,410)
Distributions to noncontrolling interests	(18,074)	(14,256)
Net cash provided by financing activities	1,268,022	22,870
Net increase (decrease) in cash and cash equivalents	1,067,869	(77,507)
Cash and cash equivalents, beginning of the period	47,663	126,723
Cash and cash equivalents, end of the period	\$ 1,115,532	\$ 49,216

See accompanying notes to unaudited condensed consolidated financial statements.

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	<b>For the Nine Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>Supplemental schedule of cash flow information</b>		
Interest paid	\$ 60,040	\$ 53,345
Income taxes paid	1,555	3,237
<b>Supplemental schedule of noncash investing and financing activities:</b>		
Redemption of Operating Partnership units held by noncontrolling interests for common stock:		
Noncontrolling interests in Operating Partnership	\$ (150)	\$
Common stock and paid-in capital	150	
Tax effect from vesting of restricted stock grants and option exercises		
Other assets	\$ 1,563	\$ 2,883
Paid-in capital	(1,563)	(2,883)
Acquisitions of real estate assets		
Real estate assets, net	\$ 122,132	\$ 60,465
Notes payable assumed		(38,347)
Operating Partnership units issued	(106,522)	(22,118)
Receivables from related parties and affiliated real estate joint ventures	(15,610)	
See accompanying notes to unaudited condensed consolidated financial statements.		

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**EXTRA SPACE STORAGE INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

**Amounts in thousands, except store and share data, unless otherwise stated**

**1. ORGANIZATION**

Extra Space Storage Inc. (the "Company") is a fully-integrated, self-administered and self-managed real estate investment trust ("REIT"), formed as a Maryland corporation on April 30, 2004, to own, operate, manage, acquire, develop and redevelop professionally managed self-storage properties ("stores") located throughout the United States. The Company continues the business of Extra Space Storage LLC and its subsidiaries, which had engaged in the self-storage business since 1977. The Company's interests in its stores is held through its operating partnership, Extra Space Storage LP (the "Operating Partnership"), which was formed on May 5, 2004. The Company's primary assets are general partner and limited partner interests in the Operating Partnership. This structure is commonly referred to as an umbrella partnership REIT ("UPREIT"). The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended. To the extent the Company continues to qualify as a REIT, it will not be subject to tax, with certain limited exceptions, on the taxable income that is distributed to its stockholders.

The Company invests in stores by acquiring wholly-owned stores or by acquiring an equity interest in real estate entities. At September 30, 2015, the Company had direct and indirect equity interests in 868 stores. In addition, the Company managed 302 stores for third parties, bringing the total number of stores which it owns and/or manages to 1,170. These stores are located in 36 states, Washington, D.C. and Puerto Rico.

The Company operates in three distinct segments: (1) rental operations; (2) tenant reinsurance; and (3) property management, acquisition and development. The rental operations activities include rental operations of stores in which we have an ownership interest. No single tenant accounts for more than 5.0% of rental income. Tenant reinsurance activities include the reinsurance of risks relating to the loss of goods stored by tenants in the Company's stores. The Company's property management, acquisition and development activities include managing, acquiring, developing and selling stores.

**2. BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements of the Company are presented on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information, and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they may not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2015, are not necessarily indicative of results that may be expected for the year ending December 31, 2015. The condensed consolidated balance sheet as of December 31, 2014 has been derived from the Company's audited financial statements as of that date, but does not include all of the information and footnotes required by GAAP for complete financial statements. For further information refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the Securities and Exchange Commission.

### *Reclassifications*

Certain amounts in the Company's 2014 consolidated financial statements and supporting note disclosures have been reclassified to conform to the current period presentation. Such reclassifications did not impact previously reported net income or accumulated deficit.

### *Recently Issued Accounting Standards*

In April 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. Under this guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. The guidance also requires new disclosures of both discontinued operations and certain other disposals that do not meet the definition of a discontinued operation. The Company adopted this guidance effective January 1, 2015. The Company has not previously had discontinued operations and as such, does not expect this guidance to have a significant impact on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, which amends the guidance for revenue recognition to replace numerous, industry-specific requirements and converges areas under this topic with those of the International Financial Reporting Standards. ASU 2014-09 outlines a five-step process for customer contract revenue recognition that focuses on

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transfer of control, as opposed to transfer of risk and rewards. The amendment also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. ASU 2014-09 was originally effective for reporting periods beginning after December 15, 2016. Entities can transition to the standard either retrospectively or as a cumulative-effect adjustment as of the date of adoption. In July 2015, the FASB approved a one-year deferral of the effective date of the standard. The new standard will now become effective for annual and interim periods beginning after December 15, 2017 with early adoption on the original effective date permitted. The Company has not yet selected a transition method. Management is currently assessing the impact of the adoption of ASU 2014-09 on the Company's consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*. This guidance is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. ASU 2015-02 amends the criteria for determining if a service provider possesses a variable interest in a variable interest entity (VIE), and eliminates the presumption that a general partner should consolidate a limited partnership. The Company does not expect the adoption of this standard to materially impact its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*, which requires debt issuance costs related to a recognized debt liability to be presented as a direct deduction from the carrying amount of that debt liability. The new guidance will only impact financial statement presentation. The guidance is effective in the first quarter of 2016 and allows for early adoption. The Company plans to adopt this guidance January 1, 2016, and does not expect the adoption of this standard to materially impact its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-05, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40) - Customers Accounting for Fees Paid in a Cloud Computing Arrangement*, which provides guidance regarding the accounting for fees paid by a customer in cloud computing arrangements. If a cloud computing arrangement includes a software license, the payment of fees should be accounted for in the same manner as the acquisition of other software licenses. If there is no software license, the fees should be accounted for as a service contract. The guidance is effective in fiscal years beginning after December 15, 2015 and early adoption is permitted. An entity can elect to adopt the amendments either (1) prospectively to all arrangements entered into or materially modified after the effective date or (2) retrospectively. The Company is still evaluating the impact of adopting this guidance.

**3. FAIR VALUE DISCLOSURES***Derivative Financial Instruments*

Currently, the Company uses interest rate swaps to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate forward curves.

The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its

derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees. In conjunction with the Financial Accounting Standards Board's fair value measurement guidance, the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the Company and its counterparties. However, as of September 30, 2015, the Company had assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and determined that the credit valuation adjustments were not significant to the overall valuation of its derivatives. As a result, the Company determined that its derivative valuations in their entirety were classified in Level 2 of the fair value hierarchy.

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The table below presents the Company's assets and liabilities measured at fair value on a recurring basis as of September 30, 2015, aggregated by the level in the fair value hierarchy within which those measurements fall.

Description	Fair Value Measurements at Reporting Date Using			
	Quoted Prices in Active Markets for Identical Assets			
	September 30, 2015	Significant Observable Inputs (Level 1)	Other Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Other assets - Cash Flow Hedge Swap Agreements	\$ 142	\$	\$ 142	\$
Other liabilities - Cash Flow Hedge Swap Agreements	\$ (20,403)	\$	\$ (20,403)	\$

The Company did not have any significant assets or liabilities that are re-measured on a recurring basis using significant unobservable inputs as of September 30, 2015 or December 31, 2014.

*Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis*

Long-lived assets held for use are evaluated for impairment when events or circumstances indicate there may be impairment. The Company reviews each store at least annually to determine if any such events or circumstances have occurred or exist. The Company focuses on stores where occupancy and/or rental income have decreased by a significant amount. For these stores, the Company determines whether the decrease is temporary or permanent, and whether the store will likely recover the lost occupancy and/or revenue in the short term. In addition, the Company carefully reviews stores in the lease-up stage and compares actual operating results to original projections.

When the Company determines that an event that may indicate impairment has occurred, the Company compares the carrying value of the related long-lived assets to the undiscounted future net operating cash flows attributable to the assets. An impairment loss is recorded if the net carrying value of the assets exceeds the undiscounted future net operating cash flows attributable to the assets. The impairment loss recognized equals the excess of net carrying value over the related fair value of the assets.

When real estate assets are identified by management as held for sale, the Company discontinues depreciating the assets and estimates the fair value of the assets, net of selling costs. If the estimated fair value, net of selling costs, of the assets that have been identified as held for sale is less than the net carrying value of the assets, a valuation allowance is established. The operations of assets held for sale or sold during the period are presented as part of normal operations for all periods presented.

The Company assesses whether there are any indicators that the value of the Company's investments in unconsolidated real estate ventures may be impaired annually and when events or circumstances indicate that there may be impairment. An investment is impaired if management's estimate of the fair value of the investment is less than its carrying value. To the extent impairment has occurred, and is considered to be other than temporary, the loss is measured as the excess of the carrying amount of the investment over the fair value of the investment.

In connection with the Company's acquisition of stores, the purchase price is allocated to the tangible and intangible assets and liabilities acquired based on their fair values, which are estimated using significant unobservable inputs. The value of the tangible assets, consisting of land and buildings, is determined as if vacant. Intangible assets, which

represent the value of existing tenant relationships, are recorded at their fair values based on the avoided cost to replace the current leases. The Company measures the value of tenant relationships based on the rent lost due to the amount of time required to replace existing customers, which is based on the Company's historical experience with turnover in its stores. Debt assumed as part of an acquisition is recorded at fair value based on current interest rates compared to contractual rates. Acquisition-related transaction costs are expensed as incurred.

#### *Fair Value of Financial Instruments*

The carrying values of cash and cash equivalents, restricted cash, receivables, other financial instruments included in other assets, accounts payable and accrued expenses, variable-rate notes payable, lines of credit and other liabilities reflected in the condensed consolidated balance sheets at September 30, 2015 and December 31, 2014 approximate fair value.

The fair values of the Company's notes receivable from Preferred Operating Partnership unit holders were based on the discounted estimated future cash flows of the notes (categorized within Level 3 of the fair value hierarchy); the discount rate used approximated the current market rate for loans with similar maturities and credit quality. The fair values of the Company's fixed-rate notes payable and notes payable to trusts were estimated using the discounted estimated future cash payments to be made on such debt (categorized within Level 3 of the fair value hierarchy); the discount rates used approximated current market rates for loans, or groups of loans, with similar maturities and credit quality. The fair value of the Company's exchangeable senior notes was estimated using an average market price for similar securities obtained from a third party.

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The fair values of the Company's fixed-rate assets and liabilities were as follows for the periods indicated:

	<b>September 30, 2015</b>		<b>December 31, 2014</b>	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Notes receivable from Preferred Operating Partnership unit holders	\$ 130,402	\$ 120,230	\$ 126,380	\$ 120,230
Fixed rate notes payable and notes payable to trusts	\$ 1,963,291	\$ 1,834,199	\$ 1,320,370	\$ 1,283,893
Exchangeable senior notes	\$ 695,047	\$ 660,364	\$ 276,095	\$ 250,000

**4. EARNINGS PER COMMON SHARE**

Basic earnings per common share is computed using the two-class method by dividing net income attributable to common stockholders by the weighted average number of common shares outstanding during the period. All outstanding unvested restricted stock awards contain rights to non-forfeitable dividends and participate in undistributed earnings with common stockholders; accordingly, they are considered participating securities that are included in the two-class method. Diluted earnings per common share measures the performance of the Company over the reporting period while giving effect to all potential common shares that were dilutive and outstanding during the period. The denominator includes the weighted average number of basic shares and the number of additional common shares that would have been outstanding if the potential common shares that were dilutive had been issued, and is calculated using either the two-class, treasury stock or as if-converted method, whichever is most dilutive. Potential common shares are securities (such as options, convertible debt, Series A Participating Redeemable Preferred Units ( Series A Units ), Series B Redeemable Preferred Units ( Series B Units ), Series C Convertible Redeemable Preferred Units ( Series C Units ), Series D Redeemable Preferred Units ( Series D Units ) and common Operating Partnership units ( OP Units )) that do not have a current right to participate in earnings of the Company but could do so in the future by virtue of their option, redemption or conversion right.

In computing the dilutive effect of convertible securities, net income is adjusted to add back any changes in earnings in the period associated with the convertible security. The numerator also is adjusted for the effects of any other non-discretionary changes in income or loss that would result from the assumed conversion of those potential common shares. In computing diluted earnings per common share, only potential common shares that are dilutive (those that reduce earnings per common share) are included. For the three months ended September 30, 2015 and 2014, options to purchase approximately 82,571 and 29,547 shares of common stock, respectively, and for the nine months ended September 30, 2015 and 2014, options to purchase 50,144 and 27,045 shares of common stock, respectively, were excluded from the computation of earnings per share as their effect would have been anti-dilutive.

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The following table presents the number of Preferred Operating Partnership units, and the potential common shares, that were excluded from the computation of earnings per share as their effect would have been anti-dilutive, assuming full conversion.

	For the Three Months Ended		September 30, 2014	
	September 30, 2015		September 30, 2014	
	Number of Units	Equivalent Shares (if converted)	Number of Units	Equivalent Shares (if converted)
Series B Units	1,676,087	572,121	1,676,087	793,602
Series C Units	704,016	404,684	704,016	561,346
Series D Units	548,390	187,189		
	2,928,493	1,163,994	2,380,103	1,354,948

	For the Nine Months Ended		September 30, 2014	
	September 30, 2015		September 30, 2014	
	Number of Units	Equivalent Shares (if converted)	Number of Units	Equivalent Shares (if converted)
Series B Units	1,676,087	607,806	1,563,746	777,364
Series C Units	704,016	429,926	571,973	478,824
Series D Units	548,390	198,865		
	2,928,493	1,236,597	2,135,719	1,256,188

The Operating Partnership had \$85,364 of its 2.375% Exchangeable Senior Notes due 2033 (the 2013 Notes ) issued and outstanding as of September 30, 2015. The 2013 Notes could potentially have a dilutive impact on the Company's earnings per share calculations. The 2013 Notes are exchangeable by holders into shares of the Company's common stock under certain circumstances per the terms of the indenture governing the 2013 Notes. The exchange price of the 2013 Notes was \$55.12 per share as of September 30, 2015, and could change over time as described in the indenture. The Company has irrevocably agreed to pay only cash for the accreted principal amount of the 2013 Notes relative to its exchange obligations, but retained the right to satisfy the exchange obligation in excess of the accreted principal amount in cash and/or common stock.

The Operating Partnership had \$575,000 of its 3.125% Exchangeable Senior Notes due 2035 (the 2015 Notes ) issued and outstanding as of September 30, 2015 (see footnote 8). The 2015 Notes could potentially have a dilutive impact on the Company's earnings per share calculations. The 2015 Notes are exchangeable by holders into shares of the Company's common stock under certain circumstances per the terms of the indenture governing the 2015 Notes. The exchange price of the 2015 Notes was \$95.40 per share as of September 30, 2015, and could change over time as described in the indenture. The Company has irrevocably agreed to pay only cash for the accreted principal amount of the 2015 Notes relative to its exchange obligations, but retained the right to satisfy the exchange obligation in excess of the accreted principal amount in cash and/or common stock.

Though the Company has retained that right, Accounting Standards Codification ( ASC ) 260, *Earnings per Share*, requires an assumption that shares would be used to pay the exchange obligation in excess of the accreted principal amount, and requires that those shares be included in the Company's calculation of weighted average common shares outstanding for the diluted earnings per share computation. For the three and nine months ended September 30, 2015, 383,279 shares related to the 2013 Notes were included in the computation for diluted earnings per share. For the three and nine months ended September 30, 2014, no shares related to the 2013 Notes were included in the computation for diluted earnings per share as the exchange price exceeded the per share price of the Company's common stock during this period. For the three and nine months ended September 30, 2015, no shares related to the 2015 Notes were included in the computation for diluted earnings per share as the exchange price exceeded the per share price of the Company's common stock during this period. For the three and nine months ended September 30, 2014, no shares related to the 2015 Notes were included in the computation for diluted earnings per share as the 2015 Notes were not outstanding at this time.

For the purposes of computing the diluted impact on earnings per share of the potential exchange of Series A Units for common shares upon redemption, where the Company has the option to redeem in cash or shares and where the Company has stated the positive intent and ability to settle at least \$115,000 of the instrument in cash (or net settle a portion of the Series A Units against the related outstanding note receivable), only the amount of the instrument in excess of \$115,000 is considered in the calculation of shares contingently issuable for the purposes of computing diluted earnings per share as allowed by ASC 260-10-45-46.

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For the purposes of computing the diluted impact on earnings per share of the potential exchange of Series B Units for common shares upon redemption, where the Company has the option to redeem in cash or shares and where the Company has stated the intent and ability to settle the redemption in shares, the Company divided the total value of the Series B Units outstanding as of September 30, 2015 of \$41,903 by the closing price of the Company's common stock as of September 30, 2015 of \$77.16 per share.

For the purposes of computing the diluted impact on earnings per share of the potential exchange of Series C Units for common shares upon redemption, where the Company has the option to redeem in cash or shares and where the Company has stated the intent and ability to settle the redemption in shares, the Company divided the total value of the Series C Units outstanding as of September 30, 2015 of \$29,639 by the closing price of the Company's common stock as of September 30, 2015 of \$77.16 per share.

For the purposes of computing the diluted impact on earnings per share of the potential exchange of Series D Units for common shares upon redemption, where the Company has the option to redeem in cash or shares and where the Company has stated the intent and ability to settle the redemption in shares, the Company divided the total value of the Series D Units outstanding as of September 30, 2015 of \$13,710 by the closing price of the Company's common stock as of September 30, 2015 of \$77.16 per share.

The computation of earnings per common share was as follows for the periods presented:

	<b>For the Three Months Ended September 30,</b>		<b>For the Nine Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Net income attributable to common stockholders	\$ 71,718	\$ 54,228	\$ 180,799	\$ 133,233
Earnings and dividends allocated to participating securities	(173)	(125)	(432)	(366)
Earnings for basic computations	71,545	54,103	180,367	132,867
Earnings and dividends allocated to participating securities	173	125		366
Income allocated to noncontrolling interest - Preferred Operating Partnership (Series A Units) and Operating Partnership	5,151	3,875	13,062	10,318
Fixed component of income allocated to noncontrolling interest - Preferred Operating Partnership (Series A Units)	(1,272)	(1,438)	(3,817)	(4,313)
Net income for diluted computations	\$ 75,597	\$ 56,665	\$ 189,612	\$ 139,238