

Extra Space Storage Inc.  
Form 10-Q  
August 04, 2017

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 June 30, 2017

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 20-1076777  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

2795 East Cottonwood Parkway, Suite 300

Salt Lake City, Utah 84121

(Address of principal executive offices)

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, a smaller reporting company; or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth 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   
Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 July 31, 2017, was 126,000,114.

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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,” or the use 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;
- 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;
- the failure to effectively manage our growth and expansion into new markets or to successfully operate acquired properties and operations;
- 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 U.S. 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.

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

Extra Space Storage Inc.  
Condensed Consolidated Balance Sheets  
(amounts in thousands, except share data)

	June 30, 2017 (Unaudited)	December 31, 2016
Assets:		
Real estate assets, net	\$6,782,788	\$6,770,447
Investments in unconsolidated real estate ventures	79,294	79,570
Cash and cash equivalents	31,648	43,858
Restricted cash	16,764	13,884
Receivables from related parties and affiliated real estate joint ventures	4,676	16,611
Other assets, net	122,293	167,076
Total assets	\$7,037,463	\$7,091,446
Liabilities, Noncontrolling Interests and Equity:		
Notes payable, net	\$3,429,153	\$3,213,588
Exchangeable senior notes, net	614,173	610,314
Notes payable to trusts, net	117,383	117,321
Revolving lines of credit	128,000	365,000
Accounts payable and accrued expenses	92,678	101,388
Other liabilities	77,393	87,669
Total liabilities	4,458,780	4,495,280
Commitments and contingencies		
Noncontrolling Interests and Equity:		
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, 125,977,670 and 125,881,460 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively	1,260	1,259
Additional paid-in capital	2,569,965	2,566,120
Accumulated other comprehensive income	17,003	16,770
Accumulated deficit	(366,437)	(339,257)
Total Extra Space Storage Inc. stockholders' equity	2,221,791	2,244,892
Noncontrolling interest represented by Preferred Operating Partnership units, net of \$120,230 notes receivable	154,490	147,920
Noncontrolling interests in Operating Partnership	200,596	203,354
Other noncontrolling interests	1,806	—
Total noncontrolling interests and equity	2,578,683	2,596,166
Total liabilities, noncontrolling interests and equity	\$7,037,463	\$7,091,446

See accompanying notes to unaudited condensed consolidated financial statements.



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Extra Space Storage Inc.  
 Condensed Consolidated Statements of Operations  
 (amounts in thousands, except share data)  
 (unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
<b>Revenues:</b>				
Property rental	\$240,796	\$211,791	\$472,289	\$411,279
Tenant reinsurance	24,313	21,654	47,168	42,209
Management fees and other income	10,894	10,828	19,554	20,188
<b>Total revenues</b>	<b>276,003</b>	<b>244,273</b>	<b>539,011</b>	<b>473,676</b>
<b>Expenses:</b>				
Property operations	67,295	62,430	133,940	123,542
Tenant reinsurance	3,804	3,941	7,724	8,252
Acquisition related costs and other	—	3,138	—	7,191
General and administrative	21,865	20,512	40,673	43,914
Depreciation and amortization	46,632	43,950	96,064	86,847
<b>Total expenses</b>	<b>139,596</b>	<b>133,971</b>	<b>278,401</b>	<b>269,746</b>
Income from operations	136,407	110,302	260,610	203,930
Gain (loss) on real estate transactions, earnout from prior acquisition and impairment of real estate	(6,019 )	11,358	(6,019 )	9,814
Interest expense	(37,456 )	(32,802 )	(73,426 )	(64,161 )
Non-cash interest expense related to amortization of discount on equity component of exchangeable senior notes	(1,290 )	(1,240 )	(2,559 )	(2,473 )
Interest income	826	1,625	1,928	3,339
Interest income on note receivable from Preferred Operating Partnership unit holder	659	1,212	1,872	2,425
Income before equity in earnings of unconsolidated real estate ventures and income tax expense	93,127	90,455	182,406	152,874
Equity in earnings of unconsolidated real estate ventures	3,838	3,358	7,417	6,188
Equity in earnings of unconsolidated real estate ventures - gain on purchase of a joint venture partner's interest	—	—	—	26,923
Income tax expense	(2,867 )	(3,773 )	(5,991 )	(6,538 )
<b>Net income</b>	<b>94,098</b>	<b>90,040</b>	<b>183,832</b>	<b>179,447</b>
Net income allocated to Preferred Operating Partnership noncontrolling interests	(3,430 )	(3,434 )	(7,381 )	(6,614 )
Net income allocated to Operating Partnership and other noncontrolling interests	(3,662 )	(3,562 )	(7,163 )	(7,197 )
<b>Net income attributable to common stockholders</b>	<b>\$87,006</b>	<b>\$83,044</b>	<b>\$169,288</b>	<b>\$165,636</b>
<b>Earnings per common share</b>				
Basic	\$0.69	\$0.66	\$1.34	\$1.33
Diluted	\$0.69	\$0.66	\$1.33	\$1.32
<b>Weighted average number of shares</b>				
Basic	125,673,156	124,914,467	125,639,480	124,678,293
Diluted	132,783,402	132,025,915	132,759,354	132,152,519
Cash dividends paid per common share	\$0.78	\$0.78	\$1.56	\$1.37

See accompanying notes to unaudited condensed consolidated financial statements.





Extra Space Storage Inc.  
 Condensed Consolidated Statements of Comprehensive Income  
 (amounts in thousands)  
 (unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	\$94,098	\$90,040	\$183,832	\$179,447
Other comprehensive income (loss):				
Change in fair value of interest rate swaps	(6,101 )	(18,797 )	233	(49,945 )
Total comprehensive income	87,997	71,243	184,065	129,502
Less: comprehensive income attributable to noncontrolling interests	6,804	6,105	14,544	11,359
Comprehensive income attributable to common stockholders	\$81,193	\$65,138	\$169,521	\$118,143

See accompanying notes to unaudited condensed consolidated financial statements.

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Extra Space Storage Inc.

Condensed Consolidated Statement of Noncontrolling Interests and Equity

(amounts in thousands, except share data)

(unaudited)

	Noncontrolling Interests						Extra Space Storage Inc. Stockholders' Equity				
	Preferred Operating Partnership						Shares	Par Value	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Total
	Series A	Series B	Series C	Series D	Operating Partnership	Other					
Balances at December 31, 2016	\$14,385	\$41,902	\$10,730	\$80,903	\$203,354	\$—	125,881,460	\$1,259	\$2,566,120	\$16,770	\$—
Issuance of common stock upon the exercise of options	—	—	—	—	—	—	8,300	—	163	—	—
Restricted stock grants issued	—	—	—	—	—	—	90,708	1	(1	)	—
Restricted stock grants cancelled	—	—	—	—	—	—	(2,798	)	—	—	—
Compensation expense related to stock-based awards	—	—	—	—	—	—	—	—	4,955	—	—
Redemption of Operating Partnership units for cash	—	—	—	—	(1,238	)	—	—	(1,272	)	—
Issuance of Preferred D Units in the Operating Partnership in conjunction with acquisitions	—	—	—	6,810	—	—	—	—	—	—	—
Noncontrolling Interest in consolidated joint venture	—	—	—	—	—	1,827	—	—	—	—	—
Net income (loss)	3,101	1,257	1,352	1,671	7,184	(21	)	—	—	—	16
Other comprehensive income	—	—	—	—	—	—	—	—	—	233	—

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Distributions to Operating Partnership units held by noncontrolling interests	(3,341 )	(1,257 )	(1,352 )	(1,671 )	(8,704 )	—	—	—	—	—	—
Dividends paid on common stock at \$1.56 per share	—	—	—	—	—	—	—	—	—	—	(1)
Balances at June 30, 2017	\$14,145	\$41,902	\$10,730	\$87,713	\$200,596	\$1,806	125,977,670	\$1,260	\$2,569,965	\$17,003	\$(

See accompanying notes to unaudited condensed consolidated financial statements.

Extra Space Storage Inc.  
Condensed Consolidated Statements of Cash Flows  
(amounts in thousands)  
(unaudited)

	For the Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net income	\$183,832	\$179,447
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	96,064	86,847
Amortization of deferred financing costs	6,083	5,617
Non-cash interest expense related to amortization of discount on equity component of exchangeable senior notes	2,559	2,473
Non-cash interest expense related to amortization of premium on notes payable	—	(696 )
Compensation expense related to stock-based awards	4,955	4,093
Gain on purchase of joint venture partner's interest	—	(26,923 )
(Gain) loss on real estate transactions, earnout from prior acquisition and impairment of real estate	6,019	(9,814 )
Distributions from unconsolidated real estate ventures in excess of earnings	2,365	1,936
Changes in operating assets and liabilities:		
Receivables from related parties and affiliated real estate joint ventures	137	1,720
Other assets	15,066	(1,186 )
Accounts payable and accrued expenses	(18,090 )	(402 )
Other liabilities	(9,941 )	(3,442 )
Net cash provided by operating activities	289,049	239,670
Cash flows from investing activities:		
Acquisition of real estate assets	(72,651 )	(435,298 )
Development and redevelopment of real estate assets	(12,274 )	(14,400 )
Proceeds from sale of real estate assets, investments in real estate ventures and other assets	101	17,582
Change in restricted cash	(2,880 )	15,506
Investment in unconsolidated real estate ventures	(2,670 )	(19,309 )
Return of investment in unconsolidated real estate ventures	581	1,318
Purchase/issuance of notes receivable	—	(10,656 )
Principal payments received from notes receivable	44,869	41,393
Purchase of equipment and fixtures	(4,110 )	(2,128 )
Net cash used in investing activities	(49,034 )	(405,992 )
Cash flows from financing activities:		
Proceeds from the sale of common stock, net of offering costs	—	73,369
Repurchase of exchangeable senior notes	—	(22,192 )
Proceeds from notes payable and revolving lines of credit	652,446	492,880
Principal payments on notes payable and revolving lines of credit	(686,443 )	(222,923 )
Deferred financing costs	(2,925 )	(5,702 )
Net proceeds from exercise of stock options	—	313
Proceeds from termination of interest rate cap	—	1,650
Redemption of Operating Partnership units held by noncontrolling interests	(2,510 )	—
Dividends paid on common stock	(196,468 )	(171,514 )

Distributions to noncontrolling interests

(16,325 )