

CubeSmart
Form ARS
April 18, 2017
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2016 Annual Report



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(NYSE: CUBE)

CubeSmart (NYSE: CUBE), headquartered in Malvern, Pennsylvania, is one of the largest owners and operators of self-storage properties in the United States. CubeSmart is organized as a Maryland real estate investment trust (REIT). Our stores are designed to offer affordable, easily accessible, and secure storage space for our residential and commercial Customers. As of December 31, 2016, we owned 475 self-storage properties located in 23 states and the District of Columbia containing an aggregate of approximately 32.9 million rentable square feet. In addition, as of December 31, 2016, we managed 316 stores for third parties, bringing the total number of stores we operate to 791.

In 2016, we continued to deliver on our core strategic objectives of:

- ***Producing robust organic growth*** through a deep operating platform and sound fundamental execution;
- ***Growing our portfolio of high-quality, well-positioned storage assets*** concentrated in targeted investment markets with high barriers to entry and the most attractive long-term prospects; and
- ***Maintaining a conservative, unsecured balance sheet*** that provides an attractive long-term cost of capital and the flexibility to support our external growth objectives.

Our focus on these core strategic objectives produced a fourth year of historically strong growth. Funds from operations per share, as adjusted, increased 15.2% and operating cash flow growth supported a 28.6% increase in our annualized common dividend, while still maintaining the lowest payout ratio in the sector.

Robust Organic Growth

Fundamental execution starts with our people. At CubeSmart, we have worked diligently to build a service-oriented culture that fosters the delivery of an exceptional experience to both internal and external Customers. These efforts have resulted in external recognition for outstanding Customer service – namely, a Stevie Award for Customer Service Department of the Year for the fifth year in a row, the 2017 People’s Choice Stevie Award for Favorite Customer Service, and the 2016 ISS Best in Business Best Customer Service Award. Our more than 2,100 dedicated teammates serve with passion and exceed expectations to deliver our Customer-centric service model every day.

We remain committed to building upon our exceptional operating platform, which sets us apart in an industry characterized by broad fragmentation, generic service offerings, and relatively unsophisticated systems. In 2016, we continued to refine our digital marketing platform and benefited from increased overall website traffic, improved conversion rates, and greater efficiency of our marketing spend. Our award-winning National Sales Center continued to set new records for reservation conversion rates, aided by our internally designed Customer relationship management system. Finally, we continue to enhance our revenue management process, ensuring that we maximize the revenue potential from every Customer demand opportunity.

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As a result of these initiatives, same-store net operating income (NOI) grew by 10.2% in 2016, driven by effective rent growth and all-time-high occupancy levels generating 7.0% revenue growth and a 0.3% decrease in annual operating expenses due to favorable weather-related costs and property insurance renewals. Our same-store results are even more remarkable when you consider our same-store NOI growth was 9.6% in 2015, 9.6% in 2014 and 9.3% in 2013.

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A Portfolio of High-Quality, Well-Positioned Storage Assets

CubeSmart's portfolio is concentrated in targeted, high-barrier-to-entry investment markets, including an industry leading market share in New York City. Our external growth strategy is focused on acquiring existing cash-flowing properties, acquiring newly constructed, purpose built stores from merchant builders at the completion of construction, and entering into selective development opportunities with joint-venture partners. In 2016, we continued to enhance our portfolio quality through the acquisition of 25 existing stores for a total of \$334.2 million. We purchased three stores upon the completion of construction and the issuance of a certificate of occupancy for \$69.4 million. Additionally, we opened for operation two new joint venture development properties in 2016 for a total investment of \$64.0 million. Going forward, we expect to selectively invest in additional store acquisitions, new development properties, and joint ventures that generate attractive risk-adjusted returns for the Company.

Our third-party management platform has been, and continues to be, an important part of our portfolio growth and strategy. We continue to see significant and growing interest from private owners who recognize the benefit of CubeSmart's brand, scale advantage and sophisticated operating platform. During the past year, the number of stores in our third-party management program grew by 39.2%, from 227 at the end of 2015 to 316 at the end of 2016.

Importantly, our third-party management platform serves as an attractive pipeline for acquisition opportunities. Since the launch of our third-party management program in 2010, stores acquired from the program have accounted for over \$570 million of acquisition volume. This platform, combined with our deep industry relationships and disciplined investment process, provides us with a significant competitive advantage as we pursue our external growth objectives.

A Conservative, Unsecured Balance Sheet

We have long communicated our objective of maintaining an unsecured balance sheet that affords significant financing and portfolio management flexibility, while supporting an attractive long-term cost of capital. During 2016, both Moody's and Standard & Poor's maintained the Company's credit ratings of Baa2/BBB, respectively. The Company finished 2016 with debt to total gross assets of 38.5% and a secured debt balance that represented just 2.8% of our total gross asset value.

CubeSmart's financial position remains strong and we have proven access to the full array of capital resources. To support our external growth initiatives in 2016, we prudently utilized our at-the-market equity program to sell common shares, raising \$136.1 million in net proceeds, and completed our fourth public offering of unsecured senior notes, raising \$300.0 million. We also used a portion of the senior note proceeds to redeem all \$77.5 million of our outstanding 7.75% Series A preferred shares to lower our long-term cost of capital. Looking forward, we expect to continue to fund growth in a manner that maintains credit metrics consistent with our investment grade ratings.

Value Creation

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At CubeSmart, we are committed to enhancing our high-quality portfolio, sophisticated operating platform, and award-winning Customer service culture. During 2016, we expanded our portfolio in targeted high-barrier markets, delivered historically strong same-store growth, and received national recognition for our Customer service efforts. Demand for self storage remains healthy and we believe our national portfolio is well positioned to meet the competitive challenges of new supply. We thank you for your interest and support as we continue to create long-term value for our shareholders.

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2016

OR

o **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 001-32324 (CubeSmart)

Commission file number 000-54462 (CubeSmart, L.P.)

CUBESMART

CUBESMART, L.P.

(Exact Name of Registrant as Specified in Its Charter)

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Maryland (CubeSmart)
Delaware (CubeSmart, L.P.)
(State or Other Jurisdiction of
Incorporation or Organization)

20-1024732 (CubeSmart)
34-1837021 (CubeSmart, L.P.)
(IRS Employer
Identification No.)

5 Old Lancaster Road
Malvern, Pennsylvania
(Address of Principal Executive Offices)

19355
(Zip Code)

Registrant's telephone number, including area code **(610) 535-5000**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares, \$0.01 par value per share, of CubeSmart	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **Units of General Partnership Interest of CubeSmart, L.P.**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

CubeSmart	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
CubeSmart, L.P.	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

CubeSmart	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
CubeSmart, L.P.	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>

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.

CubeSmart	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>
CubeSmart, L.P.	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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CubeSmart Yes No
CubeSmart, L.P. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

CubeSmart Yes No
CubeSmart, L.P. 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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

CubeSmart:
Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

CubeSmart, L.P.:
Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

CubeSmart Yes No
CubeSmart, L.P. Yes No

As of June 30, 2016, the last business day of CubeSmart's most recently completed second fiscal quarter, the aggregate market value of common shares held by non-affiliates of CubeSmart was \$5,504,356,819. As of February 15, 2017, the number of common shares of CubeSmart outstanding was 180,171,863.

As of June 30, 2016, the last business day of CubeSmart, L.P.'s most recently completed second fiscal quarter, the aggregate market value of the 2,220,874 units of limited partnership (the "OP Units") held by non-affiliates of CubeSmart, L.P. was \$68,580,589 based upon the last reported sale price of \$30.88 per share on the New York Stock Exchange on June 30, 2016 of the common shares of CubeSmart, the sole general partner of CubeSmart, L.P. (For this computation, the market value of all OP Units beneficially owned by CubeSmart has been excluded.)

Documents incorporated by reference: Portions of the Proxy Statement for the 2017 Annual Meeting of Shareholders of CubeSmart to be filed subsequently with the SEC are incorporated by reference into Part III of this report.

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EXPLANATORY NOTE

This report combines the annual reports on Form 10-K for the year ended December 31, 2016 of CubeSmart (the Parent Company or CubeSmart) and CubeSmart, L.P. (the Operating Partnership). The Parent Company is a Maryland real estate investment trust, or REIT, that owns its assets and conducts its operations through the Operating Partnership, a Delaware limited partnership, and subsidiaries of the Operating Partnership. The Parent Company, the Operating Partnership and their consolidated subsidiaries are collectively referred to in this report as the Company . In addition, terms such as we , us , or our used in this report may refer to the Company, the Parent Company, and/or the Operating Partnership.

The Parent Company is the sole general partner of the Operating Partnership and, as of December 31, 2016, owned a 98.9% interest in the Operating Partnership. The remaining 1.1% interest consists of common units of limited partnership interest issued by the Operating Partnership to third parties in exchange for contributions of properties to the Operating Partnership. As the sole general partner of the Operating Partnership, the Parent Company has full and complete authority over the Operating Partnership's day-to-day operations and management.

Management operates the Parent Company and the Operating Partnership as one enterprise. The management teams of the Parent Company and the Operating Partnership are identical, and their constituents are officers of both the Parent Company and of the Operating Partnership.

There are a few differences between the Parent Company and the Operating Partnership, which are reflected in the note disclosures in this report. The Company believes it is important to understand the differences between the Parent Company and the Operating Partnership in the context of how these entities operate as a consolidated enterprise. The Parent Company is a REIT, whose only material asset is its ownership of the partnership interests of the Operating Partnership. As a result, the Parent Company does not conduct business itself, other than acting as the sole general partner of the Operating Partnership, issuing public equity from time to time and guaranteeing the debt obligations of the Operating Partnership. The Operating Partnership holds substantially all the assets of the Company and, directly or indirectly, holds the ownership interests in the Company's real estate ventures. The Operating Partnership conducts the operations of the Company's business and is structured as a partnership with no publicly traded equity. Except for net proceeds from equity issuances by the Parent Company, which are contributed to the Operating Partnership in exchange for partnership units, the Operating Partnership generates the capital required by the Company's business through the Operating Partnership's operations, by the Operating Partnership's direct or indirect incurrence of indebtedness or through the issuance of partnership units of the Operating Partnership or equity interests in subsidiaries of the Operating Partnership.

The substantive difference between the Parent Company's and the Operating Partnership's filings is the fact that the Parent Company is a REIT with public equity, while the Operating Partnership is a partnership with no publicly traded equity. In the financial statements, this difference is primarily reflected in the equity (or capital for Operating Partnership) section of the consolidated balance sheets and in the consolidated statements of equity (or capital). Apart from the different equity treatment, the consolidated financial statements of the Parent Company and the Operating Partnership are nearly identical.

The Company believes that combining the annual reports on Form 10-K of the Parent Company and the Operating Partnership into a single report will:

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- facilitate a better understanding by the investors of the Parent Company and the Operating Partnership by enabling them to view the business as a whole in the same manner as management views and operates the business;
- remove duplicative disclosures and provide a more straightforward presentation in light of the fact that a substantial portion of the disclosure applies to both the Parent Company and the Operating Partnership; and
- create time and cost efficiencies through the preparation of one combined report instead of two separate reports.

In order to highlight the differences between the Parent Company and the Operating Partnership, the separate sections in this report for the Parent Company and the Operating Partnership specifically refer to the Parent Company and the Operating Partnership. In the sections that combine disclosures of the Parent Company and the Operating Partnership, this report refers to such disclosures as those of the Company. Although the Operating Partnership is generally the entity that directly or indirectly enters into contracts and real estate ventures and holds assets and debt, reference to the Company is appropriate because the business is one enterprise and the Parent Company operates the business through the Operating Partnership.

As general partner with control of the Operating Partnership, the Parent Company consolidates the Operating Partnership for financial reporting purposes, and the Parent Company does not have significant assets other than its investment in the Operating Partnership. Therefore, the assets and liabilities of the Parent Company and the Operating Partnership are the same on their respective financial

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statements. The separate discussions of the Parent Company and the Operating Partnership in this report should be read in conjunction with each other to understand the results of the Company's operations on a consolidated basis and how management operates the Company.

This report also includes separate Item 9A - Controls and Procedures sections, signature pages and Exhibit 31 and 32 certifications for each of the Parent Company and the Operating Partnership in order to establish that the Chief Executive Officer and the Chief Financial Officer of the Parent Company and the Chief Executive Officer and the Chief Financial Officer of the Operating Partnership have made the requisite certifications and that the Parent Company and the Operating Partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934, as amended (the Exchange Act) and 18 U.S.C. §1350.

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PART I

Forward-Looking Statements

This Annual Report on Form 10-K, or this Report, together with other statements and information publicly disseminated by the Parent Company and the Operating Partnership, contain certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. Forward-looking statements include statements concerning the Company's 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 negative of such terms or other comparable terminology in discussions of strategy. Such statements are based on assumptions and expectations that may not be realized and are inherently subject to risks, uncertainties and other factors, many of which cannot be predicted with accuracy and some of which might not even be anticipated. Although we believe the expectations reflected in these forward-looking statements are based on reasonable assumptions, future events and actual results, performance, transactions or achievements, financial and otherwise, may differ materially from the results, performance, transactions or achievements expressed or implied by the forward-looking statements. As a result, you should not rely on or construe any forward-looking statements in this Report, or which management may make orally or in writing from time to time, as predictions of future events or as guarantees of future performance. We caution you not to place undue reliance on forward-looking statements, which speak only as of the date of this Report or as of the dates otherwise indicated in the statements. All of our forward-looking statements, including those in this Report, are qualified in their entirety by this statement.

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 and uncertainties referred to in Item 1A. Risk Factors in this Report and in our other filings with the Securities and Exchange Commission (SEC). These risks include, but are not limited to, the following:

- national and local economic, business, real estate and other market conditions;
- the competitive environment in which we operate, including our ability to maintain or raise occupancy and rental rates;
- the execution of our business plan;
- the availability of external sources of capital;
- financing risks, including the risk of over-leverage and the corresponding risk of default on our mortgage and

other debt and potential inability to refinance existing indebtedness;

- increases in interest rates and operating costs;
- counterparty non-performance related to the use of derivative financial instruments;
- our ability to maintain our Parent Company's qualification as a REIT for federal income tax purposes;
- acquisition and development risks;
- increases in taxes, fees, and assessments from state and local jurisdictions;
- risks of investing through joint ventures;
- changes in real estate and zoning laws or regulations;
- risks related to natural disasters;
- potential environmental and other liabilities;
- other factors affecting the real estate industry generally or the self-storage industry in particular; and

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- other risks identified in this Report and, from time to time, in other reports that we file with the SEC or in other documents that we publicly disseminate.

Given these uncertainties and the other risks identified elsewhere in this Report, we caution readers not to place undue reliance on forward-looking statements. We undertake no obligation to publicly update or revise these forward-looking statements, whether as a result of new information, future events or otherwise except as may be required by securities laws. Because of the factors referred to above, the future events discussed in or incorporated by reference in this Report may not occur and actual results, performance or achievement could differ materially from that anticipated or implied in the forward-looking statements.

ITEM 1. BUSINESS

Overview

We are a self-administered and self-managed real estate company focused primarily on the ownership, operation, management, acquisition, and development of self-storage properties in the United States.

As of December 31, 2016, we owned 475 self-storage properties located in 23 states and in the District of Columbia containing an aggregate of approximately 32.9 million rentable square feet. As of December 31, 2016, approximately 89.7% of the rentable square footage at our owned stores was leased to approximately 269,000 customers, and no single customer represented a significant concentration of our revenues. As of December 31, 2016, we owned stores in the District of Columbia and the following 23 states: Arizona, California, Colorado, Connecticut, Florida, Georgia, Illinois, Indiana, Maryland, Massachusetts, Minnesota, Nevada, New Jersey, New Mexico, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, Tennessee, Texas, Utah, and Virginia. In addition, as of December 31, 2016, we managed 316 stores for third parties (including 116 stores containing an aggregate of approximately 6.8 million rentable square feet as part of three separate unconsolidated real estate ventures) bringing the total number of stores we owned and/or managed to 791. As of December 31, 2016, we managed stores for third parties in the following 26 states: Alabama, Arizona, California, Colorado, Connecticut, Florida, Georgia, Illinois, Louisiana, Maryland, Massachusetts, Michigan, Mississippi, Missouri, Nevada, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Vermont, and Virginia.

Our self-storage properties are designed to offer affordable and easily-accessible storage space for our residential and commercial customers. Our customers rent storage cubes for their exclusive use, typically on a month-to-month basis. Additionally, some of our stores offer outside storage areas for vehicles and boats. Our stores are designed to accommodate both residential and commercial customers, with features such as wide aisles and load-bearing capabilities for large truck access. All of our stores have a storage associate available to assist our customers during business hours, and 285, or approximately 60.0%, of our owned stores have a manager who resides in an apartment at the store. Our customers can access their storage cubes during business hours, and some of our stores provide customers with 24-hour access through computer-controlled access systems. Our goal is to provide customers with the highest standard of physical attributes and service in the industry. To that end, 401, or approximately 84.4%, of our owned stores include climate-controlled cubes.

The Parent Company was formed in July 2004 as a Maryland REIT. The Parent Company owns its assets and conducts its business through the Operating Partnership, and its subsidiaries. The Parent Company controls the Operating Partnership as its sole general partner and, as of

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December 31, 2016, owned an approximately 98.9% interest in the Operating Partnership. The Operating Partnership was formed in July 2004 as a Delaware limited partnership and has been engaged in virtually all aspects of the self-storage business, including the development, acquisition, management, ownership and operation of self-storage properties.

Acquisition and Disposition Activity

As of December 31, 2016 and 2015, we owned 475 and 445 stores, respectively, that contained an aggregate of 32.9 million and 30.4 million rentable square feet with occupancy rates of 89.7% and 90.2%, respectively. A complete listing of, and additional information about, our stores is included in Item 2 of this Report. The following is a summary of our 2016, 2015 and 2014 acquisition and disposition activity: