

Extra Space Storage Inc.
Form 10-Q
August 10, 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 June 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 **20-1076777**
(State or other jurisdiction of **(I.R.S. Employer**
incorporation or organization) **Identification No.)**
2795 East Cottonwood Parkway, Suite 400
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, 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 July 31, 2015, was 122,847,937.

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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, including the proposed acquisition of SmartStop Self Storage, Inc., 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;

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)

| | June 30, 2015 (Unaudited) | December 31, 2014 |
|---|-------------------------------------|--------------------------|
| Assets: | | |
| Real estate assets, net | \$ 4,452,046 | \$ 4,135,696 |
| Investments in unconsolidated real estate ventures | 84,744 | 85,711 |
| Cash and cash equivalents | 175,893 | 47,663 |
| Restricted cash | 25,424 | 25,245 |
| Receivables from related parties and affiliated real estate joint ventures | 2,071 | 11,778 |
| Other assets, net | 93,572 | 96,014 |
| Total assets | \$ 4,833,750 | \$ 4,402,107 |
| Liabilities, Noncontrolling Interests and Equity: | | |
| Notes payable | \$ 1,928,552 | \$ 1,872,067 |
| Premium on notes payable | 1,599 | 3,281 |
| Exchangeable senior notes | 250,000 | 250,000 |
| Discount on exchangeable senior notes | (11,285) | (13,054) |
| Notes payable to trusts | 119,590 | 119,590 |
| Lines of credit | | 138,000 |
| Accounts payable and accrued expenses | 69,378 | 65,521 |
| Other liabilities | 52,638 | 54,719 |
| Total liabilities | 2,410,472 | 2,490,124 |
| 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, 122,835,005 and 116,360,239 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively | | |
| | 1,228 | 1,163 |
| Additional paid-in capital | 2,416,894 | 1,995,484 |
| Accumulated other comprehensive loss | (1,819) | (1,484) |

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| | | |
|---|--------------|--------------|
| Accumulated deficit | (272,130) | (257,738) |
| Total Extra Space Storage Inc. stockholders' equity | 2,144,173 | 1,737,425 |
| Noncontrolling interest represented by Preferred Operating Partnership units, net of \$120,230 notes receivable | 81,020 | 81,152 |
| Noncontrolling interests in Operating Partnership | 197,912 | 92,422 |
| Other noncontrolling interests | 173 | 984 |
| Total noncontrolling interests and equity | 2,423,278 | 1,911,983 |
| Total liabilities, noncontrolling interests and equity | \$ 4,833,750 | \$ 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 June 30, For the Six Months Ended June 30,

| | 2015 | 2014 | 2015 | 2014 |
|--|----------------|----------------|----------------|----------------|
| Revenues: | | | | |
| Property rental | \$ 161,024 | \$ 138,778 | \$ 309,918 | \$ 270,779 |
| Tenant reinsurance | 17,340 | 14,508 | 33,850 | 27,971 |
| Management fees and other income | 7,496 | 7,438 | 15,246 | 14,561 |
| Total revenues | 185,860 | 160,724 | 359,014 | 313,311 |
| Expenses: | | | | |
| Property operations | 48,209 | 42,294 | 95,453 | 85,776 |
| Tenant reinsurance | 3,283 | 2,636 | 6,211 | 5,203 |
| Acquisition related costs | 4,554 | 1,393 | 5,423 | 3,449 |
| General and administrative | 16,655 | 15,469 | 32,904 | 31,178 |
| Depreciation and amortization | 31,552 | 28,271 | 61,980 | 56,646 |
| Total expenses | 104,253 | 90,063 | 201,971 | 182,252 |
| Income from operations | 81,607 | 70,661 | 157,043 | 131,059 |
| Gain (loss) on earnout from prior acquisitions | 400 | (7,785) | 400 | (7,785) |
| Interest expense | (22,811) | (20,658) | (44,242) | (40,256) |
| Non-cash interest expense related to amortization of discount on equity component of exchangeable senior notes | (696) | (663) | (1,393) | (1,325) |
| Interest income | 428 | 712 | 1,284 | 981 |
| Interest income on note receivable from Preferred Operating Partnership unit holder | 1,212 | 1,212 | 2,425 | 2,425 |
| Income before equity in earnings of unconsolidated real estate ventures and income tax expense | 60,140 | 43,479 | 115,517 | 85,099 |
| Equity in earnings of unconsolidated real estate ventures | 3,001 | 2,604 | 5,651 | 5,023 |
| | | 3,438 | 2,857 | 3,438 |

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| | | | | | |
|--|------------------|------------------|-------------------|------------------|--|
| Equity in earnings of unconsolidated real estate ventures - gain on sale of real estate assets and purchase of joint venture partners' interests | | | | | |
| Income tax expense | (2,185) | (3,513) | (4,433) | (6,343) | |
| Net income | 60,956 | 46,008 | 119,592 | 87,217 | |
| Net income allocated to Preferred Operating Partnership noncontrolling interests | (3,007) | (2,812) | (5,933) | (5,304) | |
| Net income allocated to Operating Partnership and other noncontrolling interests | (2,610) | (1,531) | (4,578) | (2,908) | |
| Net income attributable to common stockholders | \$ 55,339 | \$ 41,665 | \$ 109,081 | \$ 79,005 | |
| Earnings per common share | | | | | |
| Basic | \$ 0.47 | \$ 0.36 | \$ 0.93 | \$ 0.68 | |
| Diluted | \$ 0.47 | \$ 0.36 | \$ 0.92 | \$ 0.68 | |
| Weighted average number of shares | | | | | |
| Basic | 116,861,678 | 115,653,489 | 116,491,710 | 115,546,341 | |
| Diluted | 124,475,890 | 121,254,222 | 123,477,241 | 121,161,292 | |
| Cash dividends paid per common share | \$ 0.59 | \$ 0.47 | \$ 1.06 | \$ 0.87 | |

See accompanying notes to unaudited condensed consolidated financial statements.

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

(amounts in thousands)

(unaudited)

For the Three Months Ended June 30, 2015 and 2014, the Six Months Ended June 30,

| | 2015 | 2014 | 2015 | 2014 |
|---|------------------|------------------|-------------------|------------------|
| Net income | \$ 60,956 | \$ 46,008 | \$ 119,592 | \$ 87,217 |
| Other comprehensive income (loss): | | | | |
| Change in fair value of interest rate swaps | 6,305 | (5,701) | (288) | (8,448) |
| Total comprehensive income | 67,261 | 40,307 | 119,304 | 78,769 |
| Less: comprehensive income attributable to noncontrolling interests | 5,941 | 4,097 | 10,558 | 7,847 |
| Comprehensive income attributable to common stockholders | \$ 61,320 | \$ 36,210 | \$ 108,746 | \$ 70,922 |

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 Preferred Operating Partnership | | | | | Extra Space Storage Inc. Stockholders Equity Accumulated | | | | | Noncontrolling Interests | |
|-----------------|--|-----------|-----------|-----------|-----------------------|--|-------------|-----------|----------------------------|----------------------------|--------------------------|---------------------|
| | Series A | Series B | Series C | Series D | Operating Partnership | Other | Shares | Par Value | Additional Paid in Capital | Other Comprehensive Income | | Accumulated Deficit |
| at December 31, | \$ 14,809 | \$ 41,903 | \$ 10,730 | \$ 13,710 | \$ 92,422 | \$ 984 | 116,360,239 | \$ 1,163 | \$ 1,995,484 | \$ (1,484) | \$ (257,738) | \$ |
| Stock | | | | | | | 50,634 | 1 | 1,101 | | | |
| Shares | | | | | | | 106,675 | 1 | | | | |
| Shares | | | | | | | (14,043) | | | | | |
| Stock, ending | | | | | | | 6,325,000 | 63 | 416,580 | | | |
| ion | | | | | | | | | 2,795 | | | |
| est | | | | | | | | | | | | |
| d e | | | | | | | | | | (446) | | |
| | | | | | 106,522 | (822) | | | | | | |

