

Public Storage  
Form 10-Q  
May 01, 2019  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2019

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: 001-33519

PUBLIC STORAGE

(Exact name of registrant as specified in its charter)

Maryland  
(State or other jurisdiction of  
incorporation or organization)

95-3551121  
(I.R.S. Employer Identification Number)

701 Western Avenue, Glendale, California 91201-2349  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (818) 244-8080.

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 at least the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 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.

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Large accelerated Accelerated Non-accelerated Smaller reporting company Emerging growth company  
filer filer filer

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

Indicate the number of the registrant's outstanding common shares of beneficial interest, as of April 29, 2019:

Common Shares of beneficial interest, \$.10 par value per share – 174,521,922 shares

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## PUBLIC STORAGE

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## PUBLIC STORAGE

## BALANCE SHEETS

(Amounts in thousands, except share data)

|   | March 31,<br>2019<br>(Unaudited) | December 31,<br>2018 |
|---|----------------------------------|----------------------|
| <b>ASSETS</b>   |                                  |                      |
| Cash and equivalents  | \$ 217,973                       | \$ 361,218           |
| Real estate facilities, at cost:  |                                  |                      |
| Land  | 4,080,301                        | 4,047,982            |
| Buildings   | 11,457,059                       | 11,248,862           |
|   | 15,537,360                       | 15,296,844           |
| Accumulated depreciation  | (6,255,475)                      | (6,140,072)          |
|   | 9,281,885                        | 9,156,772            |
| Construction in process   | 213,785                          | 285,339              |
|   | 9,495,670                        | 9,442,111            |
| Investments in unconsolidated real estate entities  | 784,314                          | 783,988              |
| Goodwill and other intangible assets, net   | 210,459                          | 209,856              |
| Other assets  | 166,600                          | 131,097              |
| Total assets  | \$ 10,875,016                    | \$ 10,928,270        |
| <b>LIABILITIES AND EQUITY</b>   |                                  |                      |
| Notes payable   | \$ 1,406,150                     | \$ 1,412,283         |
| Accrued and other liabilities   | 374,245                          | 371,259              |
| Total liabilities   | 1,780,395                        | 1,783,542            |
| Commitments and contingencies (Note 12)   |                                  |                      |
| Equity:   |                                  |                      |
| Public Storage shareholders' equity:  |                                  |                      |
| Preferred Shares, \$0.01 par value, 100,000,000 shares authorized, 161,000 shares issued (in series) and outstanding, (161,000 at December 31, 2018), at liquidation preference | 4,025,000                        | 4,025,000            |
| Common Shares, \$0.10 par value, 650,000,000 shares authorized, 174,215,292 shares issued and outstanding (174,130,881 shares at December 31, 2018)                             | 17,422                           | 17,413               |
| Paid-in capital   | 5,708,699                        | 5,718,485            |
| Accumulated deficit   | (615,329)                        | (577,360)            |
| Accumulated other comprehensive loss  | (65,971)                         | (64,060)             |
| Total Public Storage shareholders' equity   | 9,069,821                        | 9,119,478            |

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|                              |               |               |
|------------------------------|---------------|---------------|
| Noncontrolling interests     | 24,800        | 25,250        |
| Total equity                 | 9,094,621     | 9,144,728     |
| Total liabilities and equity | \$ 10,875,016 | \$ 10,928,270 |

See accompanying notes.

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## PUBLIC STORAGE

## STATEMENTS OF INCOME

(Amounts in thousands, except per share amounts)

(Unaudited)

|   | For the Three Months<br>Ended March 31, |            |
|---|---|------------|
|   | 2019                                    | 2018       |
| Revenues:   |   |            |
| Self-storage facilities                                   | \$ 650,408                              | \$ 631,537 |
| Ancillary operations                                      | 38,630                                  | 38,387     |
|   | 689,038                                 | 669,924    |
| Expenses:   |   |            |
| Self-storage cost of operations                           | 193,656                                 | 182,187    |
| Ancillary cost of operations                              | 10,545                                  | 10,640     |
| Depreciation and amortization                             | 121,941                                 | 117,979    |
| General and administrative                                | 19,503                                  | 31,520     |
| Interest expense  | 8,143                                   | 8,107      |
|   | 353,788                                 | 350,433    |
| Interest and other income                                 | 6,965                                   | 5,544      |
| Equity in earnings of unconsolidated real estate entities | 17,672                                  | 30,795     |
| Foreign currency exchange gain (loss)                     | 7,791                                   | (11,818)   |
| Gain on sale of real estate                               | -                                       | 424        |
| Net income  | 367,678                                 | 344,436    |
| Allocation to noncontrolling interests                    | (1,157)                                 | (1,439)    |
| Net income allocable to Public Storage shareholders       | 366,521                                 | 342,997    |
| Allocation of net income to:                              |   |            |
| Preferred shareholders - distributions                    | (55,012)                                | (54,081)   |
| Preferred shareholders - redemptions (Note 8)             | (8,533)                                 | -          |
| Restricted share units                                    | (1,233)                                 | (1,097)    |
| Net income allocable to common shareholders               | \$ 301,743                              | \$ 287,819 |
| Net income per common share:                              |   |            |
| Basic   | \$ 1.73                                 | \$ 1.66    |
| Diluted   | \$ 1.73                                 | \$ 1.65    |
| Basic weighted average common shares outstanding          | 174,177                                 | 173,892    |
| Diluted weighted average common shares outstanding        | 174,376                                 | 174,148    |

See accompanying notes.

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## PUBLIC STORAGE

## STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

(Unaudited)

|  | For the Three Months<br>Ended March 31, |            |
|--|---|------------|
|  | 2019                                    | 2018       |
| Net income   | \$ 367,678                              | \$ 344,436 |
| Other comprehensive income (loss):   |   |            |
| Aggregate foreign currency exchange gain (loss)                                      | 5,880                                   | (7,605)    |
| Adjust for aggregate foreign currency exchange<br>(gain) loss included in net income | (7,791)                                 | 11,818     |
| Other comprehensive (loss) income  | (1,911)                                 | 4,213      |
| Total comprehensive income   | 365,767                                 | 348,649    |
| Allocation to noncontrolling interests   | (1,157)                                 | (1,439)    |
| Comprehensive income allocable to<br>Public Storage shareholders                     | \$ 364,610                              | \$ 347,210 |

See accompanying notes.

## PUBLIC STORAGE

## STATEMENT OF EQUITY

Three Months Ended March 31, 2019

(Amounts in thousands, except share and per share amounts)

(Unaudited)

|  | Cumulative<br>Preferred<br>Shares | Common<br>Shares | Paid-in<br>Capital | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Loss | Total<br>Public<br>Storage<br>Shareholders'<br>Equity | Noncontrolling<br>Interests | Total<br>Equity |
|--|-----------------------------------|------------------|--------------------|------------------------|---|---|-----------------------------|-----------------|
| Balances at<br>December 31,<br>2018  | \$ 4,025,000                      | \$ 17,413        | \$ 5,718,485       | \$ (577,360)           | \$ (64,060)                                   | \$ 9,119,478  | \$ 25,250                   | \$ 9,144,728    |
| Issuance of<br>11,400<br>preferred<br>shares (Note 8)  | 285,000                           | -                | (8,277)            | -                      | -   | 276,723   | -                           | 276,723         |
| Redemption of<br>11,400<br>preferred<br>shares (Note 8)  | (285,000)                         | -                | -                  | -                      | -   | (285,000)   | -                           | (285,000)       |
| Issuance of<br>common shares<br>in connection<br>with<br>share-based<br>compensation<br>(84,411 shares)<br>(Note 10) | -                                 | 9                | 1,584              | -                      | -   | 1,593   | -                           | 1,593           |
| Cash paid in<br>lieu of common<br>shares, net of<br>share-based<br>compensation<br>expense (Note<br>10)              | -                                 | -                | (3,093)            | -                      | -   | (3,093)   | -                           | (3,093)         |
| Contributions<br>by<br>noncontrolling<br>interests   | -                                 | -                | -                  | -                      | -   | -   | 196                         | 196             |

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|   |              |           |              |              |             |              |           |              |
|---|--------------|-----------|--------------|--------------|-------------|--------------|-----------|--------------|
| Net income  | -            | -         | -            | 367,678      | -           | 367,678      | -         | 367,678      |
| Net income allocated to noncontrolling interests            | -            | -         | -            | (1,157)      | -           | (1,157)      | 1,157     | -            |
| Distributions to equity holders:                            |              |           |              |              |             |              |           |              |
| Preferred shares (Note 8)                                   | -            | -         | -            | (55,012)     | -           | (55,012)     | -         | (55,012)     |
| Noncontrolling interests                                    | -            | -         | -            | -            | -           | -            | (1,803)   | (1,803)      |
| Common shares and restricted share units (\$2.00 per share) | -            | -         | -            | (349,478)    | -           | (349,478)    | -         | (349,478)    |
| Other comprehensive loss (Note 2)                           | -            | -         | -            | -            | (1,911)     | (1,911)      | -         | (1,911)      |
| Balances at March 31, 2019                                  | \$ 4,025,000 | \$ 17,422 | \$ 5,708,699 | \$ (615,329) | \$ (65,971) | \$ 9,069,821 | \$ 24,800 | \$ 9,094,621 |

See accompanying notes.

## PUBLIC STORAGE

## STATEMENT OF EQUITY

Three Months Ended March 31, 2018

(Amounts in thousands, except share and per share amounts)

(Unaudited)

|  | Cumulative<br>Preferred<br>Shares | Common<br>Shares | Paid-in<br>Capital | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Loss | Total<br>Public<br>Storage<br>Shareholders'<br>Equity | Noncontrolling<br>Interests | Total<br>Equity |
|--|-----------------------------------|------------------|--------------------|------------------------|---|---|-----------------------------|-----------------|
| Balances at<br>December 31,<br>2017  | \$ 4,025,000                      | \$ 17,385        | \$ 5,648,399       | \$ (675,711)           | \$ (75,064)                                   | \$ 8,940,009  | \$ 24,360                   | \$ 8,964,369    |
| Issuance of<br>common shares<br>in connection<br>with<br>share-based<br>compensation       | -                                 | 8                | 959                | -                      | -   | 967   | -                           | 967             |
| Share-based<br>compensation<br>expense, net of<br>cash<br>paid in lieu of<br>common shares | -                                 | -                | 5,909              | -                      | -   | 5,909   | -                           | 5,909           |
| Contributions<br>by<br>noncontrolling<br>interests   | -                                 | -                | -                  | -                      | -   | -   | 703                         | 703             |
| Net income   | -                                 | -                | -                  | 344,436                | -   | 344,436   | -                           | 344,436         |
| Net income<br>allocated to<br>noncontrolling<br>interests                                  | -                                 | -                | -                  | (1,439)                | -   | (1,439)   | 1,439                       | -               |
| Distributions to<br>equity holders:  |                                   |                  |                    |                        |   |   |                             |                 |

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|   |              |           |              |              |             |              |           |              |
|---|--------------|-----------|--------------|--------------|-------------|--------------|-----------|--------------|
| Preferred shares (Note 8)                                   | -            | -         | -            | (54,081)     | -           | (54,081)     | -         | (54,081)     |
| Noncontrolling interests                                    | -            | -         | -            | -            | -           | -            | (1,715)   | (1,715)      |
| Common shares and restricted share units (\$2.00 per share) | -            | -         | -            | (349,011)    | -           | (349,011)    | -         | (349,011)    |
| Other comprehensive income (Note 2)                         | -            | -         | -            | -            | 4,213       | 4,213        | -         | 4,213        |
| Balances at March 31, 2018                                  | \$ 4,025,000 | \$ 17,393 | \$ 5,655,267 | \$ (735,806) | \$ (70,851) | \$ 8,891,003 | \$ 24,787 | \$ 8,915,790 |

See accompanying notes.

## PUBLIC STORAGE

## STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

|   | For the Three Months<br>Ended March 31, |             |
|---|---|-------------|
|   | 2019                                    | 2018        |
| Cash flows from operating activities:   |   |             |
| Net income  | \$ 367,678                              | \$ 344,436  |
| Adjustments to reconcile net income to net cash flows<br>from operating activities: |   |             |
| Gain on real estate investment sales  | -                                       | (424)       |
| Depreciation and amortization   | 121,941                                 | 117,979     |
| Equity in earnings of unconsolidated real estate entities                           | (17,672)                                | (30,795)    |
| Distributions from retained earnings of unconsolidated<br>real estate entities      | 15,435                                  | 12,649      |
| Foreign currency exchange (gain) loss   | (7,791)                                 | 11,818      |
| Share-based compensation expense  | 6,664                                   | 15,978      |
| Other   | (12,671)                                | (13,122)    |
| Total adjustments   | 105,906                                 | 114,083     |
| Net cash flows from operating activities  | 473,584                                 | 458,519     |
| Cash flows from investing activities:   |   |             |
| Payments for capital expenditures to maintain real estate facilities for:           |   |             |
| Costs incurred during the period  | (25,428)                                | (13,749)    |
| Costs incurred in previous periods  | (8,173)                                 | (9,859)     |
| Payments for development and expansion of real estate facilities for:               |   |             |
| Costs incurred during the period  | (20,163)                                | (35,017)    |
| Costs incurred in previous periods  | (59,982)                                | (40,198)    |
| Acquisition of real estate facilities and intangible assets                         | (79,499)                                | (18,024)    |
| Proceeds from sale of real estate investments                                       | -                                       | 1,947       |
| Net cash flows from investing activities  | (193,245)                               | (114,900)   |
| Cash flows from financing activities:   |   |             |
| Repayments on notes payable   | (467)                                   | (440)       |
| Issuance of preferred shares  | 276,723                                 | -           |
| Issuance of common shares   | 1,593                                   | 967         |
| Redemption of preferred shares  | (285,000)                               | -           |
| Cash paid upon vesting of restricted share units                                    | (9,757)                                 | (10,069)    |
| Contributions by noncontrolling interests   | 196                                     | 703         |
| Distributions paid to Public Storage shareholders                                   | (404,490)                               | (403,092)   |
| Distributions paid to noncontrolling interests                                      | (1,803)                                 | (1,715)     |
| Net cash flows from financing activities  | (423,005)                               | (413,646)   |
| Net cash flows from operating, investing, and financing activities                  | (142,666)                               | (70,027)    |
| Net effect of foreign exchange translation  | 50                                      | (25)        |
| Decrease in cash, equivalents, and restricted cash                                  | \$ (142,616)                            | \$ (70,052) |

See accompanying notes.

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## PUBLIC STORAGE

## STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

|  | For the Three Months<br>Ended March 31, |             |
|--|---|-------------|
|  | 2019                                    | 2018        |
| Cash, equivalents, and restricted cash at beginning of the period:       |   |             |
| Cash and equivalents   | \$ 361,218                              | \$ 433,376  |
| Restricted cash included in other assets                                 | 22,801                                  | 22,677      |
|  | \$ 384,019                              | \$ 456,053  |
| Cash, equivalents, and restricted cash at end of the period:             |   |             |
| Cash and equivalents   | \$ 217,973                              | \$ 363,030  |
| Restricted cash included in other assets                                 | 23,430                                  | 22,971      |
|  | \$ 241,403                              | \$ 386,001  |
| Supplemental schedule of non-cash investing and<br>financing activities: |   |             |
| Costs incurred during the period remaining unpaid at period end for:     |   |             |
| Capital expenditures to maintain real estate facilities                  | \$ (4,777)                              | \$ (10,595) |
| Construction or expansion of real estate facilities                      | (41,798)                                | (40,163)    |
| Accrued and other liabilities  | 46,575                                  | 50,758      |
| Real estate acquired in exchange for assumption of notes payable         | (1,817)                                 | -           |
| Notes payable assumed in connection with acquisition of real estate      | 1,817                                   | -           |
| Other disclosures:   |   |             |
| Foreign currency translation adjustment:                                 |   |             |
| Real estate facilities, net of accumulated depreciation                  | -                                       | (256)       |
| Investments in unconsolidated real estate entities                       | 1,911                                   | (3,935)     |
| Notes payable  | (7,741)                                 | 11,771      |
| Accumulated other comprehensive gain (loss)                              | 5,880                                   | (7,605)     |



See accompanying notes.

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PUBLIC STORAGE

NOTES TO FINANCIAL STATEMENTS

March 31, 2019

(Unaudited)

1. Description of the Business

Public Storage (referred to herein as “the Company,” “we,” “us,” or “our”), a Maryland real estate investment trust (“REIT”), was organized in 1980. Our principal business activities include the ownership and operation of self-storage facilities which offer storage spaces for lease, generally on a month-to-month basis, for personal and business use, ancillary activities such as merchandise sales and tenant reinsurance to the tenants at our self-storage facilities, as well as the acquisition and development of additional self-storage space.

At March 31, 2019, we have direct and indirect equity interests in 2,444 self-storage facilities (with approximately 164 million net rentable square feet) located in 38 states in the United States (“U.S.”) operating under the “Public Storage” name. We also have an approximate 35% interest in Shurgard Self Storage SA (“Shurgard Europe”), which owns 231 self-storage facilities (with approximately 13 million net rentable square feet) located in seven Western European countries, all operating under the “Shurgard” name. We also have direct and indirect equity interests in approximately 29 million net rentable square feet of commercial space located in seven states in the U.S. primarily owned and operated by PS Business Parks, Inc. (“PSB”) under the “PS Business Parks” name. At March 31, 2019, we have an approximate 42% common equity interest in PSB.

Disclosures of the number and square footage of facilities, as well as the number and coverage of tenant reinsurance policies (Note 12) are unaudited and outside the scope of our independent registered public accounting firm’s review of our financial statements in accordance with the standards of the Public Company Accounting Oversight Board (U.S.).

2. Summary of Significant Accounting Policies

Basis of Presentation

We have prepared the accompanying interim financial statements in accordance with U.S. generally accepted accounting principles (“GAAP”) as set forth in the Accounting Standards Codification of the Financial Accounting Standards Board (“FASB”), and in conformity with the rules and regulations of the Securities and Exchange Commission (“SEC”). In our opinion, the interim financial statements presented herein reflect all adjustments, of a normal recurring nature, that are necessary to fairly present the interim financial statements. Because they do not include all of the disclosures required by GAAP for complete annual financial statements, these interim financial statements should be read together with the audited financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018.

Certain amounts previously reported in our March 31, 2018 financial statements have been reclassified to conform to the March 31, 2019 presentation, including separate presentation on our Statements of Cash Flows of our cash payments for real estate investments between cash paid for amounts incurred during the current period and amounts incurred during previous periods.

Consolidation and Equity Method of Accounting

We consider entities to be Variable Interest Entities (“VIEs”) when they have insufficient equity to finance their activities without additional subordinated financial support provided by other parties, or the equity holders as a group do not have a controlling financial interest. We consolidate VIEs when we have (i) the power to direct the activities most significantly impacting economic performance, and (ii) either the obligation to absorb losses or the right to receive benefits from the VIE. We have no involvement with any material VIEs. We consolidate all other entities when we control them through voting shares or contractual rights. The entities we consolidate, for the period in which the reference applies, are referred to collectively as the “Subsidiaries,” and we eliminate intercompany transactions and balances.

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PUBLIC STORAGE

NOTES TO FINANCIAL STATEMENTS

March 31, 2019

(Unaudited)

We account for our investments in entities that we do not consolidate but have significant influence over using the equity method of accounting. These entities, for the periods in which the reference applies, are referred to collectively as the “Unconsolidated Real Estate Entities,” eliminating intra-entity profits and losses and amortizing any differences between the cost of our investment and the underlying equity in net assets against equity in earnings as if the Unconsolidated Real Estate Entity were a consolidated subsidiary. Equity in earnings of unconsolidated real estate entities represents our pro-rata share of the earnings of the Unconsolidated Real Estate Entities.

When we begin consolidating an entity, we reflect our preexisting equity interest at book value. All changes in consolidation status are reflected prospectively.

Collectively, at March 31, 2019, the Company and the Subsidiaries own 2,444 self-storage facilities and three commercial facilities in the U.S. At March 31, 2019, the Unconsolidated Real Estate Entities are comprised of PSB and Shurgard Europe.

Use of Estimates

The financial statements and accompanying notes reflect our estimates and assumptions. Actual results could differ from those estimates and assumptions.

Income Taxes

We have elected to be treated as a REIT, as defined in the Internal Revenue Code of 1986, as amended (the “Code”). As a REIT, we do not incur federal income tax if we distribute 100% of our REIT taxable income each year, and if we meet certain organizational and operational rules. We believe we have met these REIT requirements for all periods presented herein. Accordingly, we have recorded no federal income tax expense related to our REIT taxable income.

Our merchandise and tenant reinsurance operations are subject to corporate income tax and such taxes are included in ancillary cost of operations. We also incur income and other taxes in certain states, which are included in general and administrative expense.

We recognize tax benefits of uncertain income tax positions that are subject to audit only if we believe it is more likely than not that the position would ultimately be sustained assuming the relevant taxing authorities had full knowledge of the relevant facts and circumstances of our positions. As of March 31, 2019, we had no tax benefits that were not recognized.

Real Estate Facilities

Real estate facilities are recorded at cost. We capitalize all costs incurred to acquire, develop, construct, renovate and improve facilities, including interest and property taxes incurred during the construction period. We allocate the net acquisition cost of acquired real estate facilities to the underlying land, buildings, and identified intangible assets based upon their respective individual estimated fair values.

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Costs associated with dispositions of real estate, as well as repairs and maintenance costs, are expensed as incurred. We depreciate buildings and improvements on a straight-line basis over estimated useful lives ranging generally between 5 to 25 years.

When we sell a full or partial interest in a real estate facility without retaining a controlling interest following sale, we recognize a gain or loss on sale as if 100% of the property was sold at fair value. If we retain

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PUBLIC STORAGE

NOTES TO FINANCIAL STATEMENTS

March 31, 2019

(Unaudited)

a controlling interest following the sale, we record a noncontrolling interest for the book value of the partial interest sold, and recognize additional paid-in capital for the difference between the consideration received and the partial interest at book value.

Other Assets

Other assets primarily consist of rents receivable from our tenants, prepaid expenses, restricted cash and right-to-use assets. See “Recent Accounting Pronouncements and Guidance” below.

Accrued and Other Liabilities

Accrued and other liabilities consist primarily of rents prepaid by our tenants, trade payables, property tax accruals, accrued payroll, accrued tenant reinsurance losses, lease liabilities, and contingent loss accruals when probable and estimable. See “Recent Accounting Pronouncements and Guidance” below. We believe the fair value of our accrued and other liabilities approximates book value, due primarily to the short period until repayment. We disclose the nature of significant unaccrued losses that are reasonably possible of occurring and, if estimable, a range of exposure.

Cash Equivalents, Restricted Cash, Marketable Securities and Other Financial Instruments

Cash equivalents represent highly liquid financial instruments such as money market funds with daily liquidity or short-term commercial paper or treasury securities maturing within three months of acquisition. Cash and equivalents which are restricted from general corporate use are included in other assets. We believe that the book value of all such financial instruments for all periods presented approximates fair value, due to the short period to maturity.

Fair Value

As used herein, the term “fair value” is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Our estimates of fair value involve considerable judgment and are not necessarily indicative of the amounts that could be realized in current market exchanges.

We estimate the fair value of our cash and equivalents, marketable securities, other assets, debt, and other liabilities by discounting the related future cash flows at a rate based upon quoted interest rates for securities that have similar characteristics such as credit quality and time to maturity. Such quoted interest rates are referred to generally as “Level 2” inputs.

We use significant judgment to estimate fair values of investments in real estate, goodwill, and other intangible assets. In estimating their values, we consider significant unobservable inputs such as market prices of land, market capitalization rates, expected returns, earnings multiples, projected levels of earnings, costs of construction, and functional depreciation. These inputs are referred to generally as “Level 3” inputs.

Currency and Credit Risk

Financial instruments that are exposed to credit risk consist primarily of cash and equivalents, certain portions of other assets including rents receivable from our tenants and restricted cash. Cash equivalents we invest in are either money market funds with a rating of at least AAA by Standard & Poor's, commercial paper that is rated A1 by Standard & Poor's or deposits with highly rated commercial banks.

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At March 31, 2019, due primarily to our investment in Shurgard Europe (Note 4) and our notes payable denominated in Euros (Note 6), our operating results and financial position are affected by fluctuations in currency exchange rates between the Euro, and to a lesser extent, other European currencies, against the U.S. Dollar.

Goodwill and Other Intangible Assets

Intangible assets are comprised of goodwill, the “Shurgard” trade name, acquired customers in place, and leasehold interests in land.

Goodwill totaled \$174.6 million at March 31, 2019 and December 31, 2018. The “Shurgard” trade name, which is used by Shurgard Europe pursuant to a fee-based licensing agreement, has a book value of \$18.8 million at March 31, 2019 and December 31, 2018. Goodwill and the “Shurgard” trade name have indefinite lives and are not amortized.

Acquired customers in place and leasehold interests in land are finite-lived assets and are amortized relative to the benefit of the customers in place or the benefit to land lease expense to each period. At March 31, 2019, these intangibles had a net book value of \$17.1 million (\$16.5 million at December 31, 2018). Accumulated amortization totaled \$26.8 million at March 31, 2019 (\$28.9 million at December 31, 2018), and amortization expense of \$3.9 million and \$5.0 million was recorded in the three months ended March 31, 2019 and 2018, respectively. The estimated future amortization expense for our finite-lived intangible assets at March 31, 2019 is approximately \$8.6 million in the remainder of 2019, \$3.6 million in 2020 and \$4.9 million thereafter. During the three months ended March 31, 2019, intangibles increased \$4.5 million in connection with the acquisition of self-storage facilities (Note 3).

Evaluation of Asset Impairment

We evaluate our real estate and finite-lived intangible assets for impairment each quarter. If there are indicators of impairment and we determine that the asset is not recoverable from future undiscounted cash flows to be received through the asset’s remaining life (or, if earlier, the expected disposal date), we record an impairment charge to the extent the carrying amount exceeds the asset’s estimated fair value or net proceeds from expected disposal.

We evaluate our investments in unconsolidated real estate entities for impairment on a quarterly basis. We record an impairment charge to the extent the carrying amount exceeds estimated fair value, when we believe any such shortfall is other than temporary.

We evaluate goodwill for impairment annually and whenever relevant events, circumstances and other related factors indicate that fair value of the related reporting unit may be less than the carrying amount. If we determine that the fair value of the reporting unit exceeds the aggregate carrying amount, no impairment charge is recorded. Otherwise, we record an impairment charge to the extent the carrying amount of the goodwill exceeds the amount that would be allocated to goodwill if the reporting unit were acquired for estimated fair value.



We evaluate other indefinite-lived intangible assets, such as the “Shurgard” trade name for impairment at least annually and whenever relevant events, circumstances and other related factors indicate that the fair value is less than the carrying amount. When we conclude that it is likely that the asset is not impaired, we do not record an impairment charge and no further analysis is performed. Otherwise, we record an impairment charge to the extent the carrying amount exceeds the asset’s estimated fair value.

No impairments were recorded in any of our evaluations for any period presented herein.

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Revenue and Expense Recognition

Revenues from self-storage facilities, which are primarily composed of rental income earned pursuant to month-to-month leases, as well as associated late charges and administrative fees, are recognized as earned. Promotional discounts reduce rental income over the promotional period, which is generally one month. Ancillary revenues and interest and other income are recognized when earned.

We accrue for property tax expense based upon actual amounts billed and, in some circumstances, estimates when bills or assessments have not been received from the taxing authorities. If these estimates are incorrect, the timing and amount of expense recognition could be incorrect. Cost of operations (including advertising expenditures), general and administrative expense, and interest expense are expensed as incurred.

Foreign Currency Exchange Translation

The local currency (primarily the Euro) is the functional currency for our interests in foreign operations. The related balance sheet amounts are translated into U.S. Dollars at the exchange rates at the respective financial statement date, while amounts on our statements of income are translated at the average exchange rates during the respective period. When financial instruments denominated in a currency other than the U.S. Dollar are expected to be settled in cash in the foreseeable future, the impact of changes in the U.S. Dollar equivalent are reflected in current earnings. The Euro was translated at exchange rates of approximately 1.122 U.S. Dollars per Euro at March 31, 2019 (1.144 at December 31, 2018), and average exchange rates of 1.136 and 1.229 for the three months ended March 31, 2019 and 2018, respectively. Cumulative translation adjustments, to the extent not included in cumulative net income, are included in equity as a component of accumulated other comprehensive income (loss).

Comprehensive Income

Total comprehensive income represents net income, adjusted for changes in other comprehensive income (loss) for the applicable period. The aggregate foreign currency exchange gains and losses reflected on our statements of comprehensive income are comprised primarily of foreign currency exchange gains and losses on our investment in Shurgard Europe and our unsecured notes denominated in Euros.

Recent Accounting Pronouncements and Guidance

In February 2016, the FASB issued ASU 2016-02, Leases, which amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The new standard requires a modified-retrospective approach to adoption and became effective for interim and annual periods beginning on January 1, 2019. In July 2018, the FASB further amended this standard to allow for a new transition method that offers the option to use the effective date as the date of initial application and not adjust the comparative-period financial information. We adopted the new standard effective January 1, 2019, using the new transition method, recording a total of \$38.7 million in right of use assets, reflected in other assets, and substantially the same amount in lease liabilities, reflected in accrued and other liabilities, for leases where we are the

lessee (principally ground leases and office leases). The lease liabilities are recognized based on the present value of the remaining lease payments for each operating lease using each respective remaining lease term and a corresponding estimated incremental borrowing rate. We estimated the incremental borrowing rate primarily by reference to average yield spread on debt issuances by companies of a similar credit rating as us, and the treasury yields as of January 1, 2019. We had no material amount of leases covered by the standard where we are the lessor (principally our storage leases) because substantially all of such leases are month to month. For leases where we are the lessee or the lessor, we applied (i) the package of practical expedients to not reassess prior conclusions related to contracts that are or that contain leases, lease classification and initial direct costs, (ii) the hindsight practical expedient to determine the lease term

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and in assessing impairment of the right of use assets, and (iii) the easement practical expedient to not assess whether existing or expired land easements that were not previously accounted for as leases under ASC 840 are or contain a lease under this new standard. In addition, for leases where we are the lessee, we also elected to (a) not apply the new standard to our leases with an original term of 12 months or less, and (b) not separate lease and associated non-lease components.

## Net Income per Common Share

Net income is allocated to (i) noncontrolling interests based upon their share of the net income of the Subsidiaries, (ii) preferred shareholders, to the extent redemption cost exceeds the related original net issuance proceeds (an "EITF D-42 allocation"), and (iii) the remaining net income is allocated to each of our equity securities based upon the dividends declared or accumulated during the period, combined with participation rights in undistributed earnings.

Basic and diluted net income per common share are each calculated based upon net income allocable to common shareholders presented on the face of our income statement, divided by (i) in the case of basic net income per common share, weighted average common shares, and (ii) in the case of diluted income per share, weighted average common shares adjusted for the impact, if dilutive, of stock options outstanding (Note 10). The following table reconciles from basic to diluted common shares outstanding (amounts in thousands):

|   | For the Three Months<br>Ended March 31, |         |
|---|---|---------|
|   | 2019                                    | 2018    |
| Weighted average common shares and equivalents outstanding:           |   |         |
| Basic weighted average common shares outstanding                      | 174,177                                 | 173,892 |
| Net effect of dilutive stock options - based on treasury stock method | 199                                     | 256     |
| Diluted weighted average common shares outstanding                    | 174,376                                 | 174,148 |

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## 3.Real Estate Facilities

Activity in real estate facilities during the three months ended March 31, 2019 is as follows:

|  | Three Months<br>Ended<br>March 31,<br>2019<br>(Amounts in<br>thousands) |
|--|---|
| Operating facilities, at cost:   |   |
| Beginning balance  | \$ 15,296,844   |
| Costs incurred for capital expenditures to maintain real estate facilities | 30,205  |
| Acquisitions   | 76,796  |
| Developed or expanded facilities opened for operation                      | 133,515   |
| Ending balance   | 15,537,360  |
| Accumulated depreciation:  |   |
| Beginning balance  | (6,140,072)   |
| Depreciation expense   | (115,403)   |
| Ending balance   | (6,255,475)   |
| Construction in process:   |   |
| Beginning balance  | 285,339   |
| Costs incurred for development and expansion of real estate facilities     | 61,961  |
| Developed or expanded facilities opened for operation                      | (133,515)   |
| Ending balance   | 213,785   |
| Total real estate facilities at March 31, 2019                             | \$ 9,495,670  |

During the three months ended March 31, 2019, we acquired 12 self-storage facilities (768,000 net rentable square feet), for a total cost of \$81.3 million, consisting of \$79.5 million in cash and the assumption of \$1.8 million in mortgage notes. Approximately \$4.5 million of the total cost was allocated to intangible assets. We completed development and redevelopment activities costing \$133.5 million during the three months ended March 31, 2019, adding 1.6 million net rentable square feet of self-storage space. Construction in process at March 31, 2019 consists of projects to develop new self-storage facilities and expand existing self-storage facilities.

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During the three months ended March 31, 2019, we paid a total of \$80.1 million with respect to the development and expansion of real estate facilities, including \$60.0 million to repay amounts accrued at December 31, 2018 (\$75.2 million during the three months ended March 31, 2018, including \$40.2 million to repay amounts accrued at December 31, 2017). Of the \$62.0 million in costs incurred during the three months ended March 31, 2019, \$41.8 million remains unpaid at March 31, 2019.

During the three months ended March 31, 2019, we paid a total of \$33.6 million with respect to capital expenditures to maintain real estate facilities, including \$8.2 million to repay amounts accrued at December 31, 2018 (\$23.6 million during the three months ended March 31, 2018, including \$9.9 million to repay amounts accrued at December 31, 2017). Of the \$30.2 million in costs incurred during the three months ended March 31, 2019, \$4.8 million remains unpaid at March 31, 2019.

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## 4. Investments in Unconsolidated Real Estate Entities

The following table sets forth our investments in, and equity in earnings of, the Unconsolidated Real Estate Entities (amounts in thousands):

|                 | Investments in<br>Unconsolidated Real<br>Estate Entities at |                      |
|-----------------|---|----------------------|
|                 | March 31,<br>2019   | December<br>31, 2018 |
| PSB             | \$ 433,066  | \$ 434,533           |
| Shurgard Europe | 351,248   | 349,455              |
| Total           | \$ 784,314  | \$ 783,988           |

|                 | Equity in Earnings of<br>Unconsolidated Real<br>Estate Entities for<br>the<br>Three Months Ended |           |
|-----------------|--|-----------|
|                 | March 31,<br>2019  | 2018      |
| PSB             | \$ 13,720  | \$ 23,831 |
| Shurgard Europe | 3,952  | 6,964     |
| Total           | \$ 17,672  | \$ 30,795 |

## Investment in PSB

PSB is a REIT traded on the New York Stock Exchange. We have an approximate 42% common equity interest in PSB as of March 31, 2019 and December 31, 2018, comprised of our ownership of 7,158,354 shares of PSB's common stock and 7,305,355 limited partnership units ("LP Units") in an operating partnership controlled by PSB. The LP Units are convertible at our option, subject to certain conditions, on a one-for-one basis into PSB common stock. Based upon the closing price at March 31, 2019 (\$156.83 per share of PSB common stock), the shares and units we owned had a market value of approximately \$2.3 billion. At March 31, 2019, the adjusted tax basis of our investment in PSB approximates book value.

During the three months ended March 31, 2019 and 2018, we received cash distributions from PSB totaling \$15.2 million and \$12.3 million, respectively.

At March 31, 2019, our pro-rata investment in PSB's real estate assets included in investment in real estate entities exceeds our pro-rata share of the underlying amounts on PSB's balance sheet by approximately \$32.1 million (\$32.3 million at December 31, 2018). This differential (the "PSB Basis Differential") is being amortized as a reduction to equity in earnings of the Unconsolidated Real Estate Entities. Such amortization totaled approximately \$0.2 million and \$0.4 million during the three months ended March 31, 2019 and 2018, respectively.

Our equity in earnings of PSB is comprised of our equity interest in PSB's earnings, less amortization of the PSB Basis Differential. PSB's filings and selected financial information can be accessed through the SEC, and on PSB's website, [www.psbusinessparks.com](http://www.psbusinessparks.com). Information on this website is not incorporated by reference herein and is not a part of this Quarterly Report on Form 10-Q.



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Investment in Shurgard Europe

On October 15, 2018, Shurgard Europe completed an initial global offering (the “Offering”) of its common shares, and its shares commenced trading on Euronext Brussels under the “SHUR” symbol. In the Offering, Shurgard Europe issued 25,000,000 of its shares to third parties at a price of €23 per share. Our equity interest, comprised of a direct and indirect pro-rata ownership interest in 31,268,459 shares, decreased from 49% to approximately 35% as a result of the Offering.

Based upon the closing price at March 31, 2019 (€29.43 per share of SHUR common stock, at 1.122 exchange rate of US Dollars to the Euro), the shares we owned had a market value of approximately \$1.0 billion.

Our equity in earnings of Shurgard Europe is comprised of our equity share of Shurgard Europe’s net income, plus our equity share of the trademark license fees that Shurgard Europe pays to us for the use of the “Shurgard” trademark. The remaining license fees we receive from Shurgard Europe are classified as interest and other income on our income statement.

We present our equity share of trademark license fees collected from Shurgard Europe, totaling \$0.2 million and \$0.3 million in the three months ended March 31, 2019 and 2018, respectively, under “distributions from retained earnings of unconsolidated real estate entities” on our statements of cash flows.

Changes in foreign currency exchange rates decreased our investment in Shurgard Europe by approximately \$1.9 million in the three months ended March 31, 2019 and increased it by \$3.9 million in the three months ended March 31, 2018.

For all periods presented, we owned 31,268,459 shares of Shurgard Europe representing our approximately 35% and 49% equity share of Shurgard’s shares outstanding for the three months ended March 31, 2019 and 2018, respectively. Our equity in earnings of Shurgard Europe is comprised of our equity share of Shurgard Europe’s net income and trademark license fees that Shurgard Europe pays to us for the use of the “Shurgard” trademark. The remaining license fees we receive are classified as interest and other income on our income statement.

Shurgard Europe’s public filings and publicly reported information can be obtained on its website, <https://corporate.shurgard.eu> and on the website of the Luxembourg Stock Exchange, <http://www.bourse.lu>. Information on these websites is not incorporated by reference herein and is not a part of this Quarterly Report on Form 10-Q.

5.Credit Facility

We have a revolving credit agreement (the “Credit Facility”) with a \$500 million borrowing limit, which expires on March 31, 2020. Amounts drawn on the Credit Facility bear annual interest at rates ranging from LIBOR plus 0.850% to LIBOR plus 1.450% depending upon the ratio of our Total Indebtedness to Gross Asset Value (as defined in the Credit Facility) (LIBOR plus 0.850% at March 31, 2019). We are also required to pay a quarterly facility fee ranging

from 0.080% per annum to 0.250% per annum depending upon the ratio of our Total Indebtedness to our Gross Asset Value (0.080% per annum at March 31, 2019). At March 31, 2019 and May 1, 2019, we had no outstanding borrowings under this Credit Facility. We had undrawn standby letters of credit, which reduce our borrowing capacity, totaling \$15.9 million at March 31, 2019 (\$16.2 million at December 31, 2018). The Credit Facility has various customary restrictive covenants, all of which we were in compliance with at March 31, 2019.

See Note 13 “Subsequent Events”.

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## 6. Notes Payable

Our notes payable at March 31, 2019 and December 31, 2018 are set forth in the tables below:

|  | Coupon<br>Rate | Effective<br>Rate | Amounts at March 31, 2019 |                      | Book<br>Value | Fair<br>Value |
|--|----------------|-------------------|---------------------------|----------------------|---------------|---------------|
|  |                |                   | Principal                 | Unamortized<br>Costs |               |               |
| (\$ amounts in thousands)  |                |                   |                           |                      |               |               |
| U.S. Dollar Denominated Unsecured Debt   |                |                   |                           |                      |               |               |
| Notes due September 2022   | 2.370%         | 2.483%            | \$ 500,000                | \$ (1,815)           | \$ 498,185    | \$ 494,910    |
| Notes due September 2027   | 3.094%         | 3.218%            | 500,000                   | (4,472)              | 495,528       | 488,470       |
|  |                |                   | 1,000,000                 | (6,287)              | 993,713       | 983,380       |
| Euro Denominated Unsecured Debt  |                |                   |                           |                      |               |               |
| Notes due April 2024   | 1.540%         | 1.540%            | 112,186                   | -                    | 112,186       | 113,768       |
| Notes due November 2025  | 2.175%         | 2.175%            | 271,504                   | -                    | 271,504       | 290,907       |
|  |                |                   | 383,690                   | -                    | 383,690       | 404,675       |
| Mortgage Debt, secured by 27<br>real estate facilities with a net<br>book value of \$107.7 million | 4.064%         | 4.024%            | 28,747                    | -                    | 28,747        | 29,217        |
|  |                |                   | \$ 1,412,437              | \$ (6,287)           | \$ 1,406,150  | \$ 1,417,272  |

|   | Amounts at<br>December 31, 2018 |               |
|---|---------------------------------|---------------|
|   | Book<br>Value                   | Fair<br>Value |
| (\$ amounts in thousands)                 |                                 |               |
| U.S. Dollar Denominated<br>Unsecured Debt |                                 |               |
| Notes due September 2022                  | \$ 498,053                      | \$ 482,017    |
| Notes due September 2027                  | 495,396                         | 469,055       |
|   | 993,449                         | 951,072       |

Euro Denominated Unsecured  
Debt

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|                         |              |              |
|-------------------------|--------------|--------------|
| Notes due April 2024    | 114,449      | 115,964      |
| Notes due November 2025 | 276,982      | 286,078      |
|                         | 391,431      | 402,042      |
| Mortgage Debt           | 27,403       | 27,613       |
|                         | \$ 1,412,283 | \$ 1,380,727 |

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U.S. Dollar Denominated Unsecured Debt

On September 18, 2017, we issued, in a public offering, two tranches each totaling \$500.0 million of U.S. Dollar denominated unsecured notes (the "U.S. Dollar Notes"). In connection with the offering, we incurred a total of \$7.9 million in costs, which is reflected as a reduction in the principal amount and amortized, using the effective interest method, over the term of each respective note. Interest on the U.S. Dollar Notes is payable semi-annually on March 15 and September 15 of each year, commencing March 15, 2018.

The U.S. Dollar Notes have various financial covenants, all of which we were in compliance with at March 31, 2019. Included in these covenants are (a) a maximum Debt to Total Assets of 65% (4.0% at March 31, 2019) and (b) a minimum ratio of Adjusted EBITDA to Interest Expense of 1.5x (68.1x for the twelve months ended March 31, 2019) as well as covenants limiting the amount we can encumber our properties with mortgage debt.

See Note 13 "Subsequent Events".

Euro Denominated Unsecured Debt

Our euro denominated unsecured notes (the "Euro Notes") are payable to institutional investors. The Euro Notes consist of two tranches, (i) €242.0 million issued on November 3, 2015 for \$264.3 million in net proceeds upon converting the Euros to U.S. Dollars and (ii) €100.0 million issued on April 12, 2016 for \$113.6 million in net proceeds upon converting the Euros to U.S. Dollars. Interest is payable semi-annually. The Euro Notes have various customary financial covenants, all of which we were in compliance with at March 31, 2019.

We reflect changes in the U.S. Dollar equivalent of the amount payable, as a result of changes in foreign exchange rates as "foreign currency exchange gain (loss)" on our income statement (a gain of \$7.8 million for the three months ended March 31, 2019, as compared to a loss of \$11.8 million for the same period in 2018).

Mortgage Debt

Our non-recourse mortgage debt was assumed in connection with property acquisitions, and recorded at fair value with any premium or discount to the stated note balance amortized using the effective interest method.

During the three months ended March 31, 2019, we assumed a mortgage note with a contractual value of \$1.8 million and an interest rate of 3.9%, which approximated market rate, in connection with the acquisition of a real estate facility.

At March 31, 2019, the related contractual interest rates are fixed, ranging between 3.2% and 7.1%, and mature between January 2022 and July 2030.

At March 31, 2019, approximate principal maturities of our Notes Payable are as follows (amounts in thousands):



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|                                 | Unsecured<br>Debt | Mortgage<br>Debt | Total        |
|---------------------------------|-------------------|------------------|--------------|
| Remainder of 2019               | \$ -              | \$ 1,448         | \$ 1,448     |
| 2020                            | -                 | 2,015            | 2,015        |
| 2021                            | -                 | 1,890            | 1,890        |
| 2022                            | 500,000           | 2,584            | 502,584      |
| 2023                            | -                 | 19,226           | 19,226       |
| Thereafter                      | 883,690           | 1,584            | 885,274      |
|                                 | \$ 1,383,690      | \$ 28,747        | \$ 1,412,437 |
| Weighted average effective rate | 2.6%              | 4.0%             | 2.6%         |

Cash paid for interest totaled \$9.1 million and \$9.2 million for the three months ended March 31, 2019 and 2018, respectively. Interest capitalized as real estate totaled \$1.2 million and \$1.4 million for the three months ended March 31, 2019 and 2018, respectively.

## 7. Noncontrolling Interests

At March 31, 2019, the noncontrolling interests represent (i) third-party equity interests in subsidiaries owning 18 operating self-storage facilities and five self-storage facilities that are under construction and (ii) 231,978 partnership units held by third-parties in a subsidiary that are convertible on a one-for-one basis (subject to certain limitations) into common shares of the Company at the option of the unitholder (collectively, the “Noncontrolling Interests”). At March 31, 2019, the Noncontrolling Interests cannot require us to redeem their interests, other than pursuant to a liquidation of the subsidiary. During the three months ended March 31, 2019 and 2018, we allocated a total of \$1.2 million and \$1.4 million, respectively, of income to these interests; and we paid \$1.8 million and \$1.7 million, respectively, in distributions to these interests.

During the three months ended March 31, 2019 and 2018, Noncontrolling Interests contributed \$0.2 million and \$0.7 million, respectively, to our subsidiaries.

## 8. Shareholders' Equity

## Preferred Shares

At March 31, 2019 and December 31, 2018, we had the following series of Cumulative Preferred Shares (“Preferred Shares”) outstanding:





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| Series                        | Earliest Redemption Date | Dividend Rate | At March 31, 2019  |                        | At December 31, 2018 |                        |
|-------------------------------|--------------------------|---------------|--------------------|------------------------|----------------------|------------------------|
|                               |                          |               | Shares Outstanding | Liquidation Preference | Shares Outstanding   | Liquidation Preference |
| (Dollar amounts in thousands) |                          |               |                    |                        |                      |                        |
| Series U                      | 6/15/2017                | 5.625%        | 11,500             | \$ 287,500             | 11,500               | \$ 287,500             |
| Series V                      | 9/20/2017                | 5.375%        | 19,800             | 495,000                | 19,800               | 495,000                |
| Series W                      | 1/16/2018                | 5.200%        | 20,000             | 500,000                | 20,000               | 500,000                |
| Series X                      | 3/13/2018                | 5.200%        | 9,000              | 225,000                | 9,000                | 225,000                |
| Series Y                      | 3/17/2019                | 6.375%        | -                  | -                      | 11,400               | 285,000                |
| Series Z                      | 6/4/2019                 | 6.000%        | 11,500             | 287,500                | 11,500               | 287,500                |
| Series A                      | 12/2/2019                | 5.875%        | 7,600              | 190,000                | 7,600                | 190,000                |
| Series B                      | 1/20/2021                | 5.400%        | 12,000             | 300,000                | 12,000               | 300,000                |
| Series C                      | 5/17/2021                | 5.125%        | 8,000              | 200,000                | 8,000                | 200,000                |
| Series D                      | 7/20/2021                | 4.950%        | 13,000             | 325,000                | 13,000               | 325,000                |
| Series E                      | 10/14/2021               | 4.900%        | 14,000             | 350,000                | 14,000               | 350,000                |
| Series F                      | 6/2/2022                 | 5.150%        | 11,200             | 280,000                | 11,200               | 280,000                |
| Series G                      | 8/9/2022                 | 5.050%        | 12,000             | 300,000                | 12,000               | 300,000                |
| Series H                      | 3/11/2024                | 5.600%        | 11,400             | 285,000                | -                    | -                      |
| Total Preferred Shares        |                          |               | 161,000            | \$ 4,025,000           | 161,000              | \$ 4,025,000           |

The holders of our Preferred Shares have general preference rights with respect to liquidation, quarterly distributions and any accumulated unpaid distributions. Except under certain conditions and as noted below, holders of the Preferred Shares will not be entitled to vote on most matters. In the event of a cumulative arrearage equal to six quarterly dividends, holders of all outstanding series of preferred shares (voting as a single class without regard to series) will have the right to elect two additional members to serve on our board of trustees (our "Board") until the arrearage has been cured. At March 31, 2019, there were no dividends in arrears.

Except under certain conditions relating to the Company's qualification as a REIT, the Preferred Shares are not redeemable prior to the dates indicated on the table above. On or after the respective dates, each of the series of Preferred Shares is redeemable at our option, in whole or in part, at \$25.00 per depositary share, plus accrued and unpaid dividends. Holders of the Preferred Shares cannot require us to redeem such shares.

Upon issuance of our Preferred Shares, we classify the liquidation value as preferred equity on our balance sheet with any issuance costs recorded as a reduction to Paid-in capital.

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On March 11, 2019, we issued 11.4 million depositary shares, each representing 1/1,000 of a share of our 5.600% Series H Preferred Shares, at an issuance price of \$25.00 per depositary share, for a total of \$285.0 million in gross proceeds, and we incurred \$8.3 million in issuance costs.

On March 28, 2019, we redeemed our 6.375% Series Y Preferred Shares, at par. We recorded an \$8.5 million allocation of income from our common shareholders to the holders of our Preferred Shares in the three months ended March 31, 2019 in connection with this redemption.

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Dividends

Common share dividends, including amounts paid to our restricted share unitholders, totaled \$349.5 million (\$2.00 per share) and \$349.0 million (\$2.00 per share) for the three months ended March 31, 2019 and 2018, respectively. Preferred share dividends totaled \$55.0 million and \$54.1 million for the three months ended March 31, 2019 and 2018, respectively.

9.Related Party Transactions

B. Wayne Hughes, our former Chairman and his family, including his daughter Tamara Hughes Gustavson and his son B. Wayne Hughes, Jr., who are both members of our Board, collectively own approximately 14.5% of our common shares outstanding at March 31, 2019.

At March 31, 2019, B. Wayne Hughes and Tamara Hughes Gustavson together owned and controlled 62 self-storage facilities in Canada. These facilities operate under the “Public Storage” tradename, which we license to the owners of these facilities for use in Canada on a royalty-free, non-exclusive basis. We have no ownership interest in these facilities and we do not own or operate any facilities in Canada. If we chose to acquire or develop our own facilities in Canada, we would have to share the use of the “Public Storage” name in Canada. We have a right of first refusal, subject to limitations, to acquire the stock or assets of the corporation engaged in the operation of these facilities if their owners agree to sell them. Our subsidiaries reinsure risks relating to loss of goods stored by customers in these facilities, and have received approximately \$323,000 and \$307,000 for three months ended March 31, 2019 and 2018, respectively. Our right to continue receiving these premiums may be qualified.

10.Share-Based Compensation

Under various share-based compensation plans and under terms established by our Board or a committee thereof, we grant non-qualified options to purchase the Company’s common shares, as well as restricted share units (“RSUs”), to trustees, officers, and key employees.

Stock options and RSUs are considered “granted” and “outstanding” as the terms are used herein, when (i) the Company and the recipient reach a mutual understanding of the key terms of the award, (ii) the award has been authorized, (iii) the recipient is affected by changes in the market price of our stock, and (iv) it is probable that any performance conditions will be met.

We amortize the grant-date fair value of awards as compensation expense over the service period, which begins on the grant date and ends generally on the vesting date. For awards that are earned solely upon the passage of time and continued service, the entire cost of the award is amortized on a straight-line basis over the service period. For awards with performance conditions, the individual cost of each vesting is amortized separately over each individual service period (the “accelerated attribution” method).

In amortizing share-based compensation expense, we do not estimate future forfeitures in advance. Instead, we reverse previously amortized share-based compensation expense with respect to grants that are forfeited in the period the employee terminates employment.

In February 2018, we announced that Ron Havner and John Reyes, our Chief Executive Officer and Chief Financial Officer, respectively, at the time, were retiring from their executive roles at the end of 2018 and would then serve only as Trustees of the Company. Pursuant to our share-based compensation plans, their unvested grants will continue to vest over the original vesting periods during their service as Trustees. For financial reporting, the end of the service periods for previous stock option and RSU grants for these executives

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changed from (i) the various vesting dates to (ii) December 31, 2018 when they retired. Accordingly, all remaining share-based compensation expense for these two executives was amortized in the year ended December 31, 2018.

See also “net income per common share” in Note 2 for further discussion regarding the impact of RSUs and stock options on our net income per common share and income allocated to common shareholders.

Stock Options

Stock options vest over a three to five-year period, expire ten years after the grant date, and the exercise price is equal to the closing trading price of our common shares on the grant date. Employees cannot require the Company to settle their award in cash. We use the Black-Scholes option valuation model to estimate the fair value of our stock options.

Outstanding stock option grants are included on a one-for-one basis in our diluted weighted average shares, to the extent dilutive, after applying the treasury stock method (based upon the average common share price during the period) to assumed exercise proceeds and measured but unrecognized compensation.

For the three months ended March 31, 2019, we recorded \$0.8 million in compensation expense related to stock options, as compared to \$3.5 million for the same period in 2018. Amounts for the three months ended March 31, 2018 include \$1.8 million in connection with the acceleration of amortization on grants as discussed above.

During the three months ended March 31, 2019, 45,000 stock options were granted, 29,755 options were exercised and no options were forfeited. A total of 2,436,167 stock options were outstanding at March 31, 2019 (2,420,922 at December 31, 2018) and have an average exercise price of \$203.37.

Restricted Share Units

RSUs generally vest over a five to eight-year period from the grant date. The grantee receives dividends for each outstanding RSU equal to the per-share dividends received by our common shareholders. We expense any dividends previously paid upon forfeiture of the related RSU. Upon vesting, the grantee receives common shares equal to the number of vested RSUs, less common shares withheld in exchange for tax deposits made by the Company to satisfy the grantee’s statutory tax liabilities arising from the vesting.

The fair value of our RSUs is determined based upon the applicable closing trading price of our common shares.

During the three months ended March 31, 2019, 42,525 RSUs were granted, 3,764 RSUs were forfeited and 94,363 RSUs vested. This vesting resulted in the issuance of 54,656 common shares. In addition, tax deposits totaling \$9.8 million (\$10.1 million for the same period in 2018) were made on behalf of employees in exchange for 39,707 common shares withheld upon vesting. A total of 662,094 RSUs were outstanding at March 31, 2019 (717,696 at December 31, 2018).

A total of \$6.8 million in RSU expense was recorded for the three months ended March 31, 2019, respectively, which includes approximately \$1.0 million in employer taxes incurred upon vesting, as compared to \$13.4 million for the same period in 2018, which includes approximately \$0.9 million in employer taxes incurred upon vesting. Amounts for the three months ended March 31, 2018 include \$6.0 million in connection with the acceleration of amortization on grants to our CEO and CFO as discussed above.

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11. Segment Information

Our reportable segments reflect the significant components of our operations where discrete financial information is evaluated separately by our chief operating decision maker (“CODM”). We organize our segments based primarily upon the nature of the underlying products and services, as well as the drivers of profitability growth. The net income for each reportable segment included in the tables below are in conformity with GAAP and our significant accounting policies as denoted in Note 2. The amounts not attributable to reportable segments are aggregated under “other items not allocated to segments.”

Following is a description of and basis for presentation for each of our reportable segments.

Self-Storage Operations

The Self-Storage Operations segment reflects the rental operations from all self-storage facilities we own. Our CODM reviews the net operating income (“NOI”) of this segment, which represents the related revenues less cost of operations (prior to depreciation expense), in assessing performance and making resource allocation decisions. The presentation in the tables below sets forth the NOI of this segment, as well as the depreciation expense for this segment, which while reviewed by our CODM and included in net income, is not considered by the CODM in assessing performance and decision making. For all periods presented, substantially all of our real estate facilities, goodwill and other intangible assets, other assets, and accrued and other liabilities are associated with the Self-Storage Operations segment.

Ancillary Operations

The Ancillary Operations segment reflects the sale of merchandise and reinsurance of policies against losses to goods stored by our self-storage tenants, activities which are incidental to our primary self-storage rental activities. Our CODM reviews the NOI of these operations in assessing performance and making resource allocation decisions.

Investment in PSB

This segment represents our 42% equity interest in PSB, a publicly-traded REIT that owns, operates, acquires and develops commercial properties, primarily multi-tenant flex, office, and industrial space. PSB has a separate management team that makes its financing, capital allocation, and other significant decisions. In making resource allocation decisions with respect to our investment in PSB, the CODM reviews PSB’s net income, which is detailed in PSB’s periodic filings with the SEC. The segment presentation in the tables below includes our equity earnings from PSB.

Investment in Shurgard Europe

This segment represents our equity interest in Shurgard Europe, a publicly held company which owns and operates self-storage facilities located in seven countries in Western Europe. Shurgard Europe has a separate management

team and board of trustees that makes its financing, capital allocation, and other significant decisions. In making resource allocation decisions with respect to our investment in Shurgard Europe, the CODM reviews Shurgard Europe's net income. The segment presentation below includes our equity earnings from Shurgard Europe.

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## Presentation of Segment Information

The following tables reconcile NOI (as applicable) and net income of each segment to our consolidated net income (amounts in thousands):

Three months ended March 31, 2019

|  | Self-Storage<br>Operations<br>(Amounts in thousands) | Ancillary<br>Operations | Investment<br>in PSB | Investment<br>in<br>Shurgard<br>Europe | Other<br>Items Not<br>Allocated<br>to<br>Segments | Total      |
|--|--|-------------------------|----------------------|--|---|------------|
| <b>Revenues:</b>   |  |                         |                      |  |   |            |
| Self-storage operations                                      | \$ 650,408   | \$ -                    | \$ -                 | \$ -                                   | \$ -  | \$ 650,408 |
| Ancillary operations   | -  | 38,630                  | -                    | -                                      | -   | 38,630     |
|  | 650,408  | 38,630                  | -                    | -                                      | -   | 689,038    |
| <b>Cost of operations:</b>                                   |  |                         |                      |  |   |            |
| Self-storage operations                                      | 193,656  | -                       | -                    | -                                      | -   | 193,656    |
| Ancillary operations   | -  | 10,545                  | -                    | -                                      | -   | 10,545     |
|  | 193,656  | 10,545                  | -                    | -                                      | -   | 204,201    |
| <b>Net operating income:</b>                                 |  |                         |                      |  |   |            |
| Self-storage operations                                      | 456,752  | -                       | -                    | -                                      | -   | 456,752    |
| Ancillary operations   | -  | 28,085                  | -                    | -                                      | -   | 28,085     |
|  | 456,752  | 28,085                  | -                    | -                                      | -   | 484,837    |
| <b>Other components of net income<br/>(loss):</b>            |  |                         |                      |  |   |            |
| Depreciation and amortization                                | (121,941)  | -                       | -                    | -                                      | -   | (121,941)  |
| General and administrative                                   | -  | -                       | -                    | -                                      | (19,503)  | (19,503)   |
| Interest and other income                                    | -  | -                       | -                    | -                                      | 6,965   | 6,965      |
| Interest expense   | -  | -                       | -                    | -                                      | (8,143)   | (8,143)    |
| Equity in earnings of<br>unconsolidated real estate entities | -  | -                       | 13,720               | 3,952                                  | -   | 17,672     |
| Foreign currency exchange gain                               | -  | -                       | -                    | -                                      | 7,791   | 7,791      |
| Net income (loss)  | \$ 334,811   | \$ 28,085               | \$ 13,720            | \$ 3,952                               | \$ (12,890)                                       | \$ 367,678 |



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Three months ended March 31, 2018

|  | Self-Storage<br>Operations<br>(Amounts in thousands) | Ancillary<br>Operations | Investment<br>in PSB | Investment<br>in Shurgard<br>Europe | Other<br>Items Not<br>Allocated<br>to<br>Segments | Total      |
|--|--|-------------------------|----------------------|-------------------------------------|---|------------|
| <b>Revenues:</b>   |  |                         |                      |                                     |   |            |
| Self-storage operations                                      | \$ 631,537   | \$ -                    | \$ -                 | \$ -                                | \$ -  | \$ 631,537 |
| Ancillary operations   | -  | 38,387                  | -                    | -                                   | -   | 38,387     |
|  | 631,537  | 38,387                  | -                    | -                                   | -   | 669,924    |
| <b>Cost of operations:</b>                                   |  |                         |                      |                                     |   |            |
| Self-storage operations                                      | 182,187  | -                       | -                    | -                                   | -   | 182,187    |
| Ancillary operations   | -  | 10,640                  | -                    | -                                   | -   | 10,640     |
|  | 182,187  | 10,640                  | -                    | -                                   | -   | 192,827    |
| <b>Net operating income:</b>                                 |  |                         |                      |                                     |   |            |
| Self-storage operations                                      | 449,350  | -                       | -                    | -                                   | -   | 449,350    |
| Ancillary operations   | -  | 27,747                  | -                    | -                                   | -   | 27,747     |
|  | 449,350  | 27,747                  | -                    | -                                   | -   | 477,097    |
| <b>Other components of net income<br/>(loss):</b>            |  |                         |                      |                                     |   |            |
| Depreciation and amortization                                | (117,979)  | -                       | -                    | -                                   | -   | (117,979)  |
| General and administrative                                   | -  | -                       | -                    | -                                   | (31,520)  | (31,520)   |
| Interest and other income                                    | -  | -                       | -                    | -                                   | 5,544   | 5,544      |
| Interest expense   | -  | -                       | -                    | -                                   | (8,107)   | (8,107)    |
| Equity in earnings of<br>unconsolidated real estate entities | -  | -                       | 23,831               | 6,964                               | -   | 30,795     |
| Foreign currency exchange loss                               | -  | -                       | -                    | -                                   | (11,818)  | (11,818)   |
| Gain on sale of real estate                                  | -  | -                       | -                    | -                                   | 424   | 424        |
| Net income (loss)  | \$ 331,371   | \$ 27,747               | \$ 23,831            | \$ 6,964                            | \$ (45,477)                                       | \$ 344,436 |



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12.Commitments and Contingencies

Contingent Losses

We are a party to various legal proceedings and subject to various claims and complaints; however, we believe that the likelihood of these contingencies resulting in a material loss to the Company, either individually or in the aggregate, is remote.

Insurance and Loss Exposure

We carry property, earthquake, general liability, employee medical insurance and workers compensation coverage through internationally recognized insurance carriers, subject to deductibles. Our deductible for general liability is \$2.0 million per occurrence. Our annual deductible for property loss is \$25.0 million per occurrence. This deductible decreases to \$5.0 million once we reach \$35.0 million in aggregate losses for occurrences that exceed \$5.0 million. Insurance carriers' aggregate limits on these policies of \$75.0 million for property losses and \$102.0 million for general liability losses are higher than estimates of maximum probable losses that could occur from individual catastrophic events determined in recent engineering and actuarial studies; however, in case of multiple catastrophic events, these limits could be exceeded.

We reinsure a program that provides insurance to our customers from an independent third-party insurer. This program covers customer claims for losses to goods stored at our facilities as a result of specific named perils (earthquakes are not covered by this program), up to a maximum limit of \$5,000 per storage unit. We reinsure all risks in this program, but purchase insurance to cover this exposure for a limit of \$15.0 million for losses in excess of \$5.0 million per occurrence. We are subject to licensing requirements and regulations in several states. Customers participate in the program at their option. At March 31, 2019, there were approximately 928,000 certificates held by our self-storage customers, representing aggregate coverage of approximately \$3.0 billion.

Construction Commitments

We have construction commitments representing future expected payments for construction under contract totaling \$99.1 million at March 31, 2019. We expect to pay approximately \$82.0 million in the remainder of 2019 and \$17.1 million in 2020 for these construction commitments.

13.Subsequent Events

Subsequent to March 31, 2019, we acquired or were under contract to acquire (subject to customary closing conditions) ten self-storage facilities with 660,000 net rentable square feet, for \$116.4 million.

On April 12, 2019, we completed a public offering of \$500 million in aggregate principal amount of senior notes bearing interest at an annual rate of 3.385% maturing on May 1, 2029. In connection with the offering, we incurred a total of \$3.1 million in costs.

On April 19, 2019, we amended our \$500 million revolving line of credit. This amendment (i) extends the maturity date from March 31, 2020 to April 19, 2024, (ii) decreases the current effective borrowing spread over LIBOR from 0.850% to 0.70%, and (iii) decreases the current effective facility fee from 0.080% to 0.070%. All other terms remain substantially the same.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements in this document, other than statements of historical fact, are forward-looking statements which may be identified by the use of the words "expects," "believes," "anticipates," "should," "estimates" and similar expressions.

These forward-looking statements involve known and unknown risks and uncertainties, which may cause our actual results and performance to be materially different from those expressed or implied in the forward-looking statements. Factors and risks that may impact future results and performance include, but are not limited to, those described in Part 1, Item 1A, "Risk Factors" in our most recent Annual Report on Form 10-K for the year ended December 31, 2018 filed with the Securities and Exchange Commission (the "SEC") on February 27, 2019 and in our other filings with the SEC including:

- general risks associated with the ownership and operation of real estate, including changes in demand, risk related to development of self-storage facilities, potential liability for environmental contamination, natural disasters and adverse changes in laws and regulations governing property tax, real estate and zoning;
- risks associated with downturns in the national and local economies in the markets in which we operate, including risks related to current economic conditions and the economic health of our customers;
- the impact of competition from new and existing self-storage and commercial facilities and other storage alternatives;
- difficulties in our ability to successfully evaluate, finance, integrate into our existing operations, and manage acquired and developed properties;
- risks associated with international operations including, but not limited to, unfavorable foreign currency rate fluctuations, changes in tax laws, and local and global economic uncertainty that could adversely affect our earnings and cash flows;
  - risks related to our participation in joint ventures;
- the impact of the regulatory environment as well as national, state and local laws and regulations including, without limitation, those governing environmental, taxes, our tenant reinsurance business and labor, and risks related to the impact of new laws and regulations;
- risks of increased tax expense associated either with a possible failure by us to qualify as a real estate investment trust ("REIT"), or with challenges to the determination of taxable income for our taxable REIT subsidiaries;
- risks due to a potential November 2020 statewide ballot initiative (or other equivalent actions) that could remove the protections of Proposition 13 with respect to our real estate and result in substantial increases in our assessed values and property tax bills in California;
- changes in United States ("U.S.") federal or state tax laws related to the taxation of REITs and other corporations;
- security breaches or a failure of our networks, systems or technology could adversely impact our business, customer and employee relationships;

- risks associated with the self-insurance of certain business risks, including property and casualty insurance, employee health insurance and workers compensation liabilities;
- difficulties in raising capital at a reasonable cost;
- delays and cost overruns on our development projects;
- ongoing litigation and other legal and regulatory actions which may divert management's time and attention, require us to pay damages and expenses or restrict the operation of our business; and
- economic uncertainty due to the impact of war or terrorism.

These forward looking statements speak only as of the date of this report or as of the dates indicated in the statements. All of our forward-looking statements, including those in this report, are qualified in their entirety by this statement. We expressly disclaim any obligation to update publicly or otherwise revise any forward-looking statements, whether as a result of new information, new estimates, or other factors, events or circumstances after the date of these forward looking statements, except when expressly required by law. Given these risks and uncertainties, you should not rely on any forward-looking statements in this report, or which management may make orally or in writing from time to time, neither as predictions of future events nor guarantees of future performance.

### Critical Accounting Policies

Our MD&A discusses our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), and are affected by our judgments, assumptions and estimates. The notes to our March 31, 2019 financial statements, primarily Note 2, summarize our significant accounting policies.

We believe the following are our critical accounting policies, because they have a material impact on the portrayal of our financial condition and results, and they require us to make judgments and estimates about matters that are inherently uncertain.

**Income Tax Expense:** We have elected to be treated as a REIT, as defined in the Internal Revenue Code of 1986, as amended (the "Code"). As a REIT, we do not incur federal income tax on our REIT taxable income that is fully distributed each year (for this purpose, certain distributions paid in a subsequent year may be considered), and if we meet certain organizational and operational rules. We believe we have met these REIT requirements for all periods presented herein. Accordingly, we have recorded no federal income tax expense related to our REIT taxable income.

Our evaluation that we have met the REIT requirements could be incorrect, because compliance with the tax rules requires factual determinations, and circumstances we have not identified could result in noncompliance with the tax requirements in current or prior years. For any taxable year that we fail to qualify as a REIT and for which applicable statutory relief provisions did not apply, we would be taxed at the regular corporate rates on all of our taxable income for at least that year and the ensuing four years, we could be subject to penalties and interest, and our net income would be materially different from the amounts estimated in our financial statements.

In addition, certain of our consolidated corporate subsidiaries have elected to be treated as "taxable REIT subsidiaries" for federal income tax purposes, which are taxable as regular corporations and subject to certain limitations on intercompany transactions. If tax authorities determine that amounts paid by our taxable REIT subsidiaries to us are not reasonable compared to similar arrangements among unrelated parties, we could be subject to a 100% penalty tax on the excess payments. Such a penalty tax could have a material adverse impact on our net income.

**Impairment of Long-Lived Assets:** The analysis of impairment of our long-lived assets involves identification of indicators of impairment, projections of future operating cash flows, and estimates of fair values, all of which require significant judgment and subjectivity. Others could come to materially different conclusions. In addition, we may not have identified all current facts and circumstances that may affect impairment. Any unidentified impairment loss, or change in conclusions, could have a material adverse impact on our net income.





**Accrual for Uncertain and Contingent Liabilities:** We accrue for certain contingent and other liabilities that have significant uncertain elements, such as property taxes, workers compensation claims, tenant reinsurance claims, as well as other legal claims and disputes involving customers, employees, governmental agencies and other third parties. We estimate such liabilities based upon many factors such as assumptions of past and future trends and our evaluation of likely outcomes. However, the estimates of known liabilities could be incorrect or we may not be aware of all such liabilities, in which case our accrued liabilities and net income could be misstated.

**Accounting for Acquired Real Estate Facilities:** We estimate the fair values of the land, buildings and intangible assets acquired for purposes of allocating the purchase price. Such estimates are based upon many assumptions and judgments, including (i) market rates of return and capitalization rates on real estate and intangible assets, (ii) building and material cost levels, (iii) comparisons of the acquired underlying land parcels to recent land transactions, and (iv) future cash flows from the real estate and the existing tenant base. Others could come to materially different conclusions as to the estimated fair values, which would result in different depreciation and amortization expense, gains and losses on sale of real estate assets, and real estate and intangible assets.

## Overview

Our self-storage operations generate most of our net income, and we believe that our earnings growth is most impacted by the level of organic growth in our existing self-storage portfolio. Accordingly, a significant portion of management's time is devoted to maximizing cash flows from our existing self-storage facilities.

Most of our facilities compete with other well-managed and well-located competitors and we are subject to general economic conditions, particularly those that affect the spending habits of consumers and moving trends. We believe that our centralized information networks, national telephone and online reservation system, the brand name "Public Storage," and our economies of scale enable us to meet such challenges effectively.

In the last three years, there has been a marked increase in development of new self-storage facilities in many of the markets we operate in, due to the favorable economics of development which we have also taken advantage of. These newly developed facilities compete with many of the facilities we own, negatively impacting our occupancies, rental rates, and rental growth. This increase in supply has been most notable in Atlanta, Austin, Charlotte, Chicago, Dallas, Denver, Houston, New York, and Portland.

We plan on growing organically as well as through the acquisition and development of new facilities and expanding our existing self-storage facilities. Since the beginning of 2013 through March 31, 2019, we acquired a total of 308 facilities with 21.4 million net rentable square feet from third parties for approximately \$2.7 billion, and we opened newly developed and expanded self-storage space for a total cost of \$1.4 billion, adding approximately 12.9 million net rentable square feet.

Subsequent to March 31, 2019, we acquired or were under contract to acquire (subject to customary closing conditions) ten self-storage facilities for \$116.4 million. We will continue to seek to acquire properties; however, there is significant competition to acquire existing facilities and there can be no assurance as to the level of facilities we may acquire.

As of March 31, 2019, we had additional development and redevelopment projects to build approximately 3.9 million net rentable square feet at a total cost of approximately \$512.4 million. We expect to continue to seek additional development projects; however, the level of such activity may be limited due to various constraints such as difficulty in finding available sites that meet our risk-adjusted yield expectations, as well as challenges in obtaining building permits for self-storage activities in certain municipalities.

We believe that our development and redevelopment activities generate favorable risk-adjusted returns over the long run. However, in the short run, our earnings are diluted during the construction and stabilization period due to the cost of capital to fund the development cost, as well as the related construction and development overhead expenses included in general and administrative expense. We believe the level of dilution incurred in 2018 and the first quarter of 2019 will continue at similar levels in the remainder of 2019.

On October 15, 2018, Shurgard Self Storage SA (“Shurgard Europe”) completed an initial global offering (the “Offering”) of its common shares, and its shares commenced trading on Euronext Brussels under the “SHUR” symbol. In the Offering, Shurgard Europe issued 25.0 million of its common shares to third parties at a price of €23 per share, for €575 million in gross proceeds. The gross proceeds were used to repay short-term borrowings, invest in real estate assets, and for other corporate purposes. Our equity interest, comprised of a direct and indirect pro-rata ownership interest in 31.3 million shares, decreased from 49% to approximately 35% as a result of the Offering. See “Investment in Shurgard Europe” below for more information.

As of March 31, 2019, we expect capital resources over the next year of approximately \$1.4 billion, which exceeds our currently identified capital needs of approximately \$415.0 million. Our expected capital resources include: (i) \$218.0 million of cash as of March 31, 2019, (ii) \$484.1 million of available borrowing capacity on our revolving line of credit, (iii) \$496.9 million in net proceeds from the public issuance of senior unsecured notes on April 12, 2019, and (iv) approximately \$200 million to \$250 million of expected retained operating cash flow in the next year. Retained operating cash flow represents our expected cash flow provided by operating activities, less shareholder distributions and capital expenditures to maintain our real estate facilities.

Our currently identified capital needs consist primarily of \$116.4 million in property acquisitions currently under contract and \$298.6 million of remaining spending on our current development pipeline, which will be incurred primarily in the next 18 months. We have no substantial principal payments on debt until 2022. Our capital needs may increase over the next year as we expect to add projects to our development pipeline and acquire additional properties. In addition to other investment activities, we may also redeem outstanding preferred securities or repurchase shares of our common stock in the future.

See Liquidity and Capital Resources for further information regarding our capital requirements and anticipated sources of capital to fund such requirements.

## Results of Operations

### Operating Results for the Three Months Ended March 31, 2019

For the three months ended March 31, 2019, net income allocable to our common shareholders was \$301.7 million or \$1.73 per diluted common share, compared to \$287.8 million or \$1.65 per diluted common share in 2018 representing an increase of \$13.9 million or \$0.08 per diluted common share. The increase is due primarily to (i) a \$7.4 million increase in self-storage net operating income (described below), (ii) a \$19.6 million increase due to the impact of foreign currency exchange gains and losses associated with our Euro denominated debt and (iii) a reduction in general and administrative expense attributable primarily to \$7.8 million in incremental share-based compensation expense in the three months ended March 31, 2018 for the planned retirement of our former CEO and CFO. These increases were offset partially by (a) our \$10.9 million equity share of gains on sale of real estate recorded by PS Business Parks, Inc. in 2018 and (b) an \$8.5 million allocation to our preferred shareholders associated with our preferred share redemption activities.

The \$7.4 million increase in self-storage net operating income is a result of a \$2.3 million increase in our Same Store Facilities (as defined below) and a \$5.1 million increase in our Non Same Store Facilities (as defined below). Revenues for the Same Store Facilities increased 1.5% or \$8.7 million in the three months ended March 31, 2019 as compared to 2018, due primarily to higher realized annual rent per occupied square foot. Cost of operations for the Same Store Facilities increased by 3.9% or \$6.3 million in the three months ended March 31, 2019 as compared to 2018, due primarily to increased property taxes and higher marketing expenses. The increase in net operating income of \$5.1 million for the Non Same Store Facilities is due primarily to the impact of facilities acquired in 2018 and 2019, and the fill up of recently developed and expanded facilities.

Funds from Operations and Core Funds from Operations

Funds from Operations (“FFO”) and FFO per share are non-GAAP measures defined by the National Association of Real Estate Investment Trusts and are considered helpful measures of REIT performance by REITs and many REIT analysts. FFO represents GAAP net income before depreciation and amortization, which is excluded

because it is based upon historical costs and assumes that building values diminish ratably over time, while we believe that real estate values fluctuate due to market conditions. FFO also excludes gains or losses on sale of real estate assets and real estate impairment charges, which are also based upon historical costs and are impacted by historical depreciation. FFO and FFO per share are not a substitute for net income or earnings per share. FFO is not a substitute for GAAP net cash flow in evaluating our liquidity or ability to pay dividends, because it excludes investing and financing activities presented on our statements of cash flows. In addition, other REITs may compute these measures differently, so comparisons among REITs may not be helpful.

For the three months ended March 31, 2019, FFO was \$2.52 per diluted common share, as compared to \$2.37 per diluted common share for the same period in 2018, representing an increase 6.3%, or \$0.15 per diluted common share.

The following tables reconcile diluted earnings per share to FFO per share and set forth the computation of FFO per share:

|   | Three Months Ended<br>March 31,                  |         |
|---|--|---------|
|   | 2019   | 2018    |
|   | (Amounts in thousands,<br>except per share data) |         |
| Reconciliation of Diluted Earnings per Share to<br>FFO per Share:                           |  |         |
| Diluted Earnings per Share  | \$ 1.73  | \$ 1.65 |
| Eliminate amounts per share excluded from FFO:  |  |         |
| Depreciation and amortization   | 0.79   | 0.78    |
| Gains on sale of real estate investments,<br>including our equity share from<br>investments | -  | (0.06)  |
| FFO per share   | \$ 2.52  | \$ 2.37 |

Computation of FFO per Share:

|   |            |            |
|---|------------|------------|
| Net income allocable to common shareholders   | \$ 301,743 | \$ 287,819 |
| Eliminate items excluded from FFO:  |            |            |
| Depreciation and amortization   | 121,941    | 117,979    |
| Depreciation from unconsolidated<br>real estate investments                                 | 17,514     | 19,315     |
| Depreciation allocated to noncontrolling<br>interests and restricted share unitholders      | (1,198)    | (918)      |
| Gains on sale of real estate investments,<br>including our equity share from<br>investments | -          | (11,891)   |
| FFO allocable to common shares  | \$ 440,000 | \$ 412,304 |
| Diluted weighted average common shares  | 174,376    | 174,148    |
| FFO per share   | \$ 2.52    | \$ 2.37    |

We also present "Core FFO per share," a non-GAAP measure that represents FFO per share excluding the impact of (i) foreign currency exchange gains and losses, (ii) EITF D-42 charges related to the redemption of preferred securities, (iii) acceleration of accruals due to the retirement of our former CEO and CFO, and (iv) certain other non-cash and/or

nonrecurring income or expense items. We review Core FFO per share to evaluate our ongoing operating performance and we believe it is used by investors and REIT analysts in a similar manner. However, Core FFO per share is not a substitute for net income per share. Because other REITs may not compute Core FFO per share in the same manner as we do, may not use the same terminology or may not present such a measure, Core FFO per share may not be comparable among REITs.

The following table reconciles FFO per share to Core FFO per share:

|   | Three Months Ended March<br>31, |         |                      |
|---|---------------------------------|---------|----------------------|
|   | 2019                            | 2018    | Percentage<br>Change |
| FFO per share   | \$ 2.52                         | \$ 2.37 | 6.3%                 |
| Eliminate the<br>per share<br>impact of<br>items<br>excluded from<br>Core FFO,<br>including<br>our equity<br>share from<br>investments:<br>Foreign<br>currency<br>exchange<br>(gain) loss | (0.04)                          | 0.07    |                      |
| Application of<br>EITF D-42<br>Acceleration<br>of share-based<br>compensation<br>expense due<br>to retirement<br>of former<br>CEO and CFO   | 0.05                            | -       |                      |
| Core FFO per<br>share   | \$ 2.53                         | \$ 2.48 | 2.0%                 |

#### Analysis of Net Income by Reportable Segment

The following discussion and analysis is presented and organized in accordance with Note 11 to our March 31, 2019 financial statements, "Segment Information." Accordingly, refer to the tables presented in Note 11 in order to reconcile such amounts to our total net income and for further information on our reportable segments.

#### Self-Storage Operations



Our self-storage operations are analyzed in four groups: (i) the 2,165 facilities that we have owned and operated on a stabilized basis since January 1, 2017 (the “Same Store Facilities”), (ii) 71 facilities we acquired since January 1, 2017 (the “Acquired facilities”), (iii) 136 facilities that have been newly developed or expanded, or that we are in the process of expanding or that we expect to commence expansion by December 31, 2019 (the “Newly developed and expanded facilities”) and (iv) 72 other facilities, which are otherwise not stabilized with respect to occupancies or rental rates since January 1, 2017 (the “Other non-same store facilities”). See Note 11 to our March 31, 2019 financial statements “Segment Information,” for a reconciliation of the amounts in the tables below to our total net income.

Self-Storage Operations  
Summary

Three Months Ended March 31,  
 Percentage  
 2019 2018 Change  
 (Dollar amounts and square footage in  
 thousands)

## Revenues:

|   |            |            |        |
|---|------------|------------|--------|
| Same Store facilities                   | \$ 588,747 | \$ 580,057 | 1.5%   |
| Acquired facilities                     | 11,208     | 6,927      | 61.8%  |
| Newly developed and expanded facilities | 34,390     | 28,267     | 21.7%  |
| Other non-same store facilities         | 16,063     | 16,286     | (1.4)% |
|   | 650,408    | 631,537    | 3.0%   |

## Cost of operations:

|   |         |         |        |
|---|---------|---------|--------|
| Same Store facilities                   | 169,187 | 162,845 | 3.9%   |
| Acquired facilities                     | 4,611   | 2,529   | 82.3%  |
| Newly developed and expanded facilities | 14,598  | 11,041  | 32.2%  |
| Other non-same store facilities         | 5,260   | 5,772   | (8.9)% |
|   | 193,656 | 182,187 | 6.3%   |

## Net operating income (a):

|   |         |         |       |
|---|---------|---------|-------|
| Same Store facilities                   | 419,560 | 417,212 | 0.6%  |
| Acquired facilities                     | 6,597   | 4,398   | 50.0% |
| Newly developed and expanded facilities | 19,792  | 17,226  | 14.9% |
| Other non-same store facilities         | 10,803  | 10,514  | 2.7%  |
| Total net operating income              | 456,752 | 449,350 | 1.6%  |

## Depreciation and amortization expense:

|  |           |           |        |
|--|-----------|-----------|--------|
| Same Store facilities                          | (95,824)  | (95,165)  | 0.7%   |
| Acquired facilities                            | (6,723)   | (5,859)   | 14.7%  |
| Newly developed and expanded facilities        | (12,217)  | (8,987)   | 35.9%  |
| Other non-same store facilities                | (7,177)   | (7,968)   | (9.9)% |
| Total depreciation and<br>amortization expense | (121,941) | (117,979) | 3.4%   |

## Net income:

|   |            |            |         |
|---|------------|------------|---------|
| Same Store facilities                   | 323,736    | 322,047    | 0.5%    |
| Acquired facilities                     | (126)      | (1,461)    | (91.4)% |
| Newly developed and expanded facilities | 7,575      | 8,239      | (8.1)%  |
| Other non-same store facilities         | 3,626      | 2,546      | 42.4%   |
| Total net income                        | \$ 334,811 | \$ 331,371 | 1.0%    |

## Number of facilities at period end:

|   |       |       |        |
|---|-------|-------|--------|
| Same Store facilities                   | 2,165 | 2,165 | -      |
| Acquired facilities                     | 71    | 36    | 97.2%  |
| Newly developed and expanded facilities | 136   | 118   | 15.3%  |
| Other non-same store facilities         | 72    | 74    | (2.7)% |
|   | 2,444 | 2,393 | 2.1%   |

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Net rentable square footage at period end:

|   |         |         |        |
|---|---------|---------|--------|
| Same Store facilities                   | 139,801 | 139,801 | -      |
| Acquired facilities                     | 4,511   | 2,295   | 96.6%  |
| Newly developed and expanded facilities | 14,672  | 10,655  | 37.7%  |
| Other non-same store facilities         | 5,373   | 5,414   | (0.8)% |
|   | 164,357 | 158,165 | 3.9%   |

(a) Net operating income or “NOI” is a non-GAAP financial measure that excludes the impact of depreciation and amortization expense, which is based upon historical real estate costs and assumes that building values diminish ratably over time, while we believe that real estate values fluctuate due to market conditions. We utilize NOI in determining current property values, evaluating property performance, and in evaluating property operating trends. We believe that investors and analysts utilize NOI in a similar manner. NOI is not a substitute for net income, operating cash flow, or other related GAAP financial measures, in evaluating our operating results. See Note 11 to our March 31, 2019 financial statements for a reconciliation of NOI to our total net income for all periods presented.

Net operating income from our self-storage operations has increased 1.6% in the three months ended March 31, 2019, as compared to the same period in 2018. These increases are due to increased revenues in our Same Store Facilities, as well as the acquisition and development of new facilities and the fill-up of unstabilized facilities.

#### Same Store Facilities

The Same Store Facilities represent those facilities that have been owned and operated at a stabilized level of occupancy, revenues and cost of operations since January 1, 2017. We review the operations of our Same Store Facilities, which excludes facilities whose operating trends are significantly affected by factors such as casualty events, as well as recently developed or acquired facilities, to more effectively evaluate the ongoing performance of our self-storage portfolio in 2017, 2018, and 2019. We believe the Same Store information is used by investors and REIT analysts in a similar manner. The Same Store pool increased from 2,046 facilities at December 31, 2018 to 2,165 at March 31, 2019. The following table summarizes the historical operating results of these 2,165 facilities (139.8 million net rentable square feet) that represent approximately 85% of the aggregate net rentable square feet of our consolidated self-storage portfolio at March 31, 2019.

## Selected Operating Data for the Same Store Facilities (2,165 facilities)

|   | Three Months Ended March 31, |            |                   |
|---|------------------------------|------------|-------------------|
|   | 2019                         | 2018       | Percentage Change |
| (Dollar amounts in thousands, except for per square foot amounts) |                              |            |                   |
| Revenues:   |                              |            |                   |
| Rental income   | \$ 562,630                   | \$ 554,116 | 1.5%              |
| Late charges and administrative fees                              | 26,117                       | 25,941     | 0.7%              |
| Total revenues (a)  | 588,747                      | 580,057    | 1.5%              |
| Cost of operations:   |                              |            |                   |
| Property taxes  | 65,353                       | 62,226     | 5.0%              |
| On-site property manager payroll                                  | 30,263                       | 30,296     | (0.1)%            |
| Supervisory payroll   | 9,780                        | 10,132     | (3.5)%            |
| Repairs and maintenance   | 13,414                       | 12,181     | 10.1%             |
| Utilities   | 11,028                       | 11,480     | (3.9)%            |
| Marketing   | 8,780                        | 6,879      | 27.6%             |
| Other direct property costs                                       | 16,439                       | 15,836     | 3.8%              |
| Allocated overhead  | 14,130                       | 13,815     | 2.3%              |
| Total cost of operations (a)                                      | 169,187                      | 162,845    | 3.9%              |
| Net operating income  | 419,560                      | 417,212    | 0.6%              |
| Depreciation and amortization expense                             | (95,824)                     | (95,165)   | 0.7%              |
| Net income  | \$ 323,736                   | \$ 322,047 | 0.5%              |
| Gross margin (before depreciation and amortization expense)       | 71.3%                        | 71.9%      | (0.8)%            |
| Weighted average for the period:                                  |                              |            |                   |
| Square foot occupancy   | 92.5%                        | 92.1%      | 0.4%              |
| Realized annual rental income per (b):                            |                              |            |                   |
| Occupied square foot  | \$ 17.41                     | \$ 17.21   | 1.2%              |
| Available square foot   | \$ 16.10                     | \$ 15.86   | 1.5%              |
| At March 31:  |                              |            |                   |
| Square foot occupancy   | 92.1%                        | 92.0%      | 0.1%              |
| Annual contract rent per occupied square foot (c)                 | \$ 17.94                     | \$ 17.71   | 1.3%              |

(a) Revenues and cost of operations do not include tenant reinsurance and merchandise sale revenues and expenses generated at the facilities. See "Ancillary Operations" below for more information.

(b)

Realized annual rent per occupied square foot is computed by dividing rental income, before late charges and administrative fees, by the weighted average occupied square feet for the period. Realized annual rent per available square foot ("REVPAF") is computed by dividing rental income, before late charges and administrative fees, by the total available net rentable square feet for the period. These measures exclude late charges and administrative fees in order to provide a better measure of our ongoing level of revenue. Late charges are dependent upon the level of delinquency and administrative fees are dependent upon the level of move-ins. In addition, the rates charged for late charges and administrative fees can vary independently from rental rates. These measures take into consideration promotional discounts, which reduce rental income.

(c) Annual contract rent represents the agreed upon monthly rate that is paid by our tenants in place at the time of measurement. Contract rates are initially set in the lease agreement upon move-in and we adjust them from time to time with notice. Contract rent excludes other fees that are charged on a per-item basis, such as late charges and administrative fees, does not reflect the impact of promotional discounts, and does not reflect the impact of rents that are written off as uncollectible.

#### Analysis of Same Store Revenue

Revenues generated by our Same Store Facilities increased by 1.5% in the three months ended March 31, 2019 as compared to the same period in 2018, due primarily to a 1.2% increase in realized annual rent per occupied square foot.

Same Store revenue growth is lower than long-term historical averages due to softness in demand in substantially all of our major markets, which has led to a lack of pricing power with respect to new tenants. We attribute some of this softness to local economic conditions and, in some markets most notably Atlanta, Austin, Charlotte, Chicago, Dallas, Denver, Houston, New York and Portland, increased supply of newly constructed self-storage facilities.

Same Store weighted average square foot occupancy remained strong at 92.5% and 92.1% in the three months ended March 31, 2019 and 2018, respectively.

We believe that high occupancies help maximize our rental income. We seek to maintain a weighted average square foot occupancy level of at least 90%, by regularly adjusting the rental rates and promotions offered to attract new tenants as well as adjusting our marketing efforts on the Internet and other channels in order to generate sufficient move-in volume to replace tenants that vacate.

Annual contract rent per foot for customers moving in was \$13.59 and \$13.73 for the three months ended March 31, 2019 and 2018, respectively, and the related square footage for the space they moved into was 24.3 million and 24.9 million, respectively. Annual contract rent per foot for customers moving out was \$16.03 and \$16.00 for the three months ended March 31, 2019 and 2018, respectively, and the related square footage for the space they moved out of was 23.1 million and 23.7 million, respectively.

In order to stimulate move-in volume, we often give promotional discounts, generally in the form of a "\$1.00 rent for the first month" offer. Promotional discounts, based upon the move-in contractual rates for the related promotional period, totaled \$20.0 million and \$20.8 million for the three months ended March 31, 2019 and 2018, respectively. The decline in promotional discounts is due primarily to a lower volume of move-ins combined with lower average move-in rates.

Demand is higher in the summer months than in the winter months and, as a result, rental rates charged to new tenants are typically higher in the summer months than in the winter months. Demand fluctuates due to various local and regional factors, including the overall economy. Demand into our system is also impacted by new supply of self-storage space as well as alternatives to self-storage.

Increasing rental rates to existing tenants, generally on an annual basis, is a key component of our revenue growth. We determine the level of rental increases based upon our expectations regarding the impact of existing tenant rate increases on incremental move-outs. An important determinant of the level of rent increases is the number of long-term tenants that we have (generally, those that have been with us for at least a year).

We believe that customer trends throughout 2018 and the first three months of 2019 resulted in fewer move-outs and an increased average length of stay. The increased average length of stay contributed to an increased beneficial effect of rent increases to existing tenants, due to more long-term customers that were eligible for rate increases. The extent

to which these positive trends will continue in 2019 is uncertain at this time.

We believe rental revenue growth in the remainder of 2019 will come primarily from continued annual rent increases to existing tenants. Our future rental growth will also be dependent upon many factors for each market that we operate in, including demand for self-storage space, the level of new supply of self-storage space and the average length of stay of our tenants.

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We believe that the current trends in move-in, move-out, in place contractual rents and occupancy levels are consistent with continued moderate revenue growth in the remainder of 2019. However, there can be no assurance of continued revenue growth, because current trends, when viewed in the short-run, are volatile and not necessarily predictive of our revenues going forward because they are subject to many factors which cannot be predicted, such as the level of consumer demand and competition from newly developed and existing facilities. We are taking a number of actions to improve demand into our system, including increasing marketing spend on the Internet.

#### Analysis of Same Store Cost of Operations

Cost of operations (excluding depreciation and amortization) increased 3.9% in the three months ended March 31, 2019 as compared to the same period in 2018, due primarily to increased property tax and marketing expense.

Property tax expense increased 5.0% in the three months ended March 31, 2019 as compared to the same period in 2018. We expect property tax expense growth of approximately 5.0% in the remainder of 2019 due primarily to higher assessed values and, to a lesser extent, increased tax rates.

On-site property manager payroll expense was stable in the first three months of 2019 as compared to the same period in 2018, with higher wage rates offset partially by lower benefit expenses for the period. We expect on-site property manager payroll expense to increase on an inflationary basis in the remainder of 2019. We have been impacted by a tight labor market across the country, as well as increases in minimum wages in certain jurisdictions, and expect additional impacts in the remainder of 2019 as existing minimum wage increases become effective and new increases are enacted.

Supervisory payroll expense, which represents compensation paid to the management personnel who directly and indirectly supervise the on-site property managers, decreased 3.5% in the three months ended March 31, 2019 as compared to the same period in 2018, due primarily to a reduction in headcount. We expect inflationary increases in wage rates and increased headcount in the remainder of 2019.

Repairs and maintenance expense increased 10.1% in the three months ended March 31, 2019 as compared to the same period in 2018. Repair and maintenance costs include snow removal expense totaling \$2.8 million and \$2.2 million in the three months ended March 31, 2019 and 2018, respectively. Excluding snow removal costs, repairs and maintenance increased 6.5% in the three months ended March 31, 2019 as compared to the same period in 2018.

Repairs and maintenance expense levels are dependent upon many factors such as weather conditions, which can impact repair and maintenance needs including snow removal, inflation in material and labor costs, and random events. Accordingly, it is difficult to estimate future repairs and maintenance expense.

Our utility expenses are comprised primarily of electricity costs, which are dependent upon energy prices and usage levels. Changes in usage levels are driven primarily by weather and temperature. Utility expense decreased 3.9% in the three months ended March 31, 2019 as compared to the same period in 2018, due primarily to reduced usage attributable to unseasonably cold weather conditions in the three months ended March 31, 2018. It is difficult to estimate future utility costs, because weather, temperature, and energy prices are volatile and not predictable.

Marketing expense is comprised principally of Internet advertising, television advertising and the operating costs of our telephone reservation center. Marketing expense varies based upon demand, occupancy levels, and other factors. Television and Internet advertising, in particular, can increase or decrease significantly in the short-term. Marketing expense increased 27.6% in the three months ended March 31, 2019 as compared to the same period in 2018. We expect continued increases in marketing expense in 2019 as we seek to improve customer demand for our space, and as cost per click for keyword search terms increases due to more aggressive keyword bidding

competition from owners of newly developed facilities, nontraditional storage providers, as well as existing self-storage owners and operators.

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Other direct property costs include administrative expenses incurred at the self-storage facilities, such as property insurance, telephone and data communication lines, business license costs, bank charges related to processing the facilities' cash receipts, credit card fees, and the cost of operating each property's rental office. These costs increased 3.8% in the three months ended March 31, 2019 as compared to the same period in 2018, due to higher credit card fees. We expect inflationary increases in other direct property costs in the remainder of 2019.

Allocated overhead represents administrative expenses for shared general corporate functions, which are allocated to self-storage property operations to the extent their efforts are devoted to self-storage operations. Such functions include information technology, human resources, operational accounting and finance, marketing, and costs of senior executives (other than our Chief Executive Officer and Chief Financial Officer, which are included in general and administrative expense). Allocated overhead increased 2.3% in the three months ended March 31, 2019 as compared to the same period in 2018. We expect approximately flat allocated overhead in the remainder of 2019.

#### Analysis of Same Store Depreciation and Amortization

Depreciation and amortization for Same Store Facilities increased 0.7% in the three months ended March 31, 2019 as compared to the same period in 2018. We expect modest increases in depreciation expense in the remainder of 2019.

The following table summarizes selected quarterly financial data with respect to the Same Store Facilities:

## For the Quarter Ended

|  | March 31 | June 30 | September 30 | December 31 | Entire Year |
|--|----------|---------|--------------|-------------|-------------|
|--|----------|---------|--------------|-------------|-------------|

(Amounts in thousands, except for per square foot amounts)

## Total revenues:

|      |            |            |            |            |              |
|------|------------|------------|------------|------------|--------------|
| 2019 | \$ 588,747 |            |            |            |              |
| 2018 | \$ 580,057 | \$ 590,585 | \$ 607,598 | \$ 594,302 | \$ 2,372,542 |

## Total cost of operations:

|      |            |            |            |            |            |
|------|------------|------------|------------|------------|------------|
| 2019 | \$ 169,187 |            |            |            |            |
| 2018 | \$ 162,845 | \$ 159,631 | \$ 161,324 | \$ 130,477 | \$ 614,277 |

## Property taxes:

|      |           |           |           |           |            |
|------|-----------|-----------|-----------|-----------|------------|
| 2019 | \$ 65,353 |           |           |           |            |
| 2018 | \$ 62,226 | \$ 62,940 | \$ 62,750 | \$ 36,550 | \$ 224,466 |

## Repairs and maintenance:

|      |           |           |           |           |           |
|------|-----------|-----------|-----------|-----------|-----------|
| 2019 | \$ 13,414 |           |           |           |           |
| 2018 | \$ 12,181 | \$ 12,139 | \$ 11,903 | \$ 12,475 | \$ 48,698 |

## Marketing:

|      |          |          |          |          |           |
|------|----------|----------|----------|----------|-----------|
| 2019 | \$ 8,780 |          |          |          |           |
| 2018 | \$ 6,879 | \$ 8,115 | \$ 8,246 | \$ 9,205 | \$ 32,445 |

## REVPAF:

|      |          |          |          |          |          |
|------|----------|----------|----------|----------|----------|
| 2019 | \$ 16.10 |          |          |          |          |
| 2018 | \$ 15.86 | \$ 16.19 | \$ 16.62 | \$ 16.25 | \$ 16.23 |

## Weighted average realized annual rent per occupied square foot:

|      |          |          |          |          |          |
|------|----------|----------|----------|----------|----------|
| 2019 | \$ 17.41 |          |          |          |          |
| 2018 | \$ 17.21 | \$ 17.25 | \$ 17.72 | \$ 17.57 | \$ 17.44 |

## Weighted average occupancy levels for the period:

|      |       |       |       |       |       |
|------|-------|-------|-------|-------|-------|
| 2019 | 92.5% |       |       |       |       |
| 2018 | 92.1% | 93.8% | 93.8% | 92.5% | 93.1% |

## Analysis of Market Trends

The following table sets forth selected market trends in our Same Store Facilities:

Same Store Facilities Operating  
Trends by Market

| Market (number of facilities,<br>square footage in millions)     | Three Months Ended March 31, |            |        |
|--|------------------------------|------------|--------|
|  | 2019                         | 2018       | Change |
| (Amounts in thousands, except<br>for<br>per square foot amounts) |                              |            |        |
| Revenues:  |                              |            |        |
| Los Angeles (204, 14.1)  | \$ 88,623                    | \$ 86,143  | 2.9%   |
| San Francisco (127, 7.9)   | 49,562                       | 48,682     | 1.8%   |
| New York (87, 6.0)   | 37,700                       | 36,780     | 2.5%   |
| Seattle-Tacoma (85, 5.8)   | 27,466                       | 27,139     | 1.2%   |
| Washington DC (88, 5.4)  | 27,513                       | 26,857     | 2.4%   |
| Miami (81, 5.7)  | 27,929                       | 28,278     | (1.2)% |
| Atlanta (99, 6.5)  | 21,564                       | 20,894     | 3.2%   |
| Dallas-Ft. Worth (98, 6.2)                                       | 20,334                       | 20,718     | (1.9)% |
| Chicago (129, 8.1)   | 28,901                       | 28,990     | (0.3)% |
| Houston (78, 5.3)  | 17,229                       | 17,877     | (3.6)% |
| Orlando-Daytona (69, 4.3)  | 14,865                       | 14,624     | 1.6%   |
| Philadelphia (56, 3.5)   | 14,304                       | 13,653     | 4.8%   |
| West Palm Beach (37, 2.4)  | 10,814                       | 10,752     | 0.6%   |
| Tampa (50, 3.3)  | 11,384                       | 11,431     | (0.4)% |
| Portland (43, 2.3)   | 10,122                       | 10,216     | (0.9)% |
| All other markets (834, 53.0)                                    | 180,437                      | 177,023    | 1.9%   |
| Total revenues   | \$ 588,747                   | \$ 580,057 | 1.5%   |
| Net operating income:  |                              |            |        |
| Los Angeles  | \$ 72,366                    | \$ 70,618  | 2.5%   |
| San Francisco  | 39,656                       | 39,108     | 1.4%   |
| New York   | 25,141                       | 24,336     | 3.3%   |
| Seattle-Tacoma   | 20,926                       | 20,806     | 0.6%   |
| Washington DC  | 19,782                       | 19,437     | 1.8%   |
| Miami  | 19,767                       | 20,008     | (1.2)% |
| Atlanta  | 15,774                       | 15,306     | 3.1%   |
| Dallas-Ft. Worth   | 13,276                       | 13,920     | (4.6)% |
| Chicago  | 13,215                       | 14,158     | (6.7)% |
| Houston  | 10,927                       | 11,795     | (7.4)% |
| Orlando-Daytona  | 10,522                       | 10,423     | 0.9%   |
| Philadelphia   | 9,999                        | 9,427      | 6.1%   |

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|                            |            |            |        |
|----------------------------|------------|------------|--------|
| West Palm Beach            | 7,886      | 7,807      | 1.0%   |
| Tampa                      | 7,809      | 8,013      | (2.5)% |
| Portland                   | 7,512      | 7,785      | (3.5)% |
| All other markets          | 125,002    | 124,265    | 0.6%   |
| Total net operating income | \$ 419,560 | \$ 417,212 | 0.6%   |

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Same Store Facilities Operating  
Trends by Market (Continued)

|   | Three Months Ended March<br>31, |          |        |
|---|---------------------------------|----------|--------|
|   | 2019                            | 2018     | Change |
| Weighted average square foot<br>occupancy:        |                                 |          |        |
| Los Angeles                                       | 94.9%                           | 94.8%    | 0.1%   |
| San Francisco                                     | 93.8%                           | 94.1%    | (0.3)% |
| New York  | 93.3%                           | 93.4%    | (0.1)% |
| Seattle-Tacoma                                    | 91.7%                           | 92.0%    | (0.3)% |
| Washington DC                                     | 91.9%                           | 90.3%    | 1.8%   |
| Miami   | 92.1%                           | 92.5%    | (0.4)% |
| Atlanta   | 92.6%                           | 91.9%    | 0.8%   |
| Dallas-Ft. Worth                                  | 90.9%                           | 90.6%    | 0.3%   |
| Chicago   | 89.5%                           | 88.1%    | 1.6%   |
| Houston   | 88.5%                           | 91.8%    | (3.6)% |
| Orlando-Daytona                                   | 93.7%                           | 94.3%    | (0.6)% |
| Philadelphia                                      | 94.6%                           | 93.5%    | 1.2%   |
| West Palm Beach                                   | 93.1%                           | 93.4%    | (0.3)% |
| Tampa   | 91.8%                           | 92.6%    | (0.9)% |
| Portland  | 93.4%                           | 93.6%    | (0.2)% |
| All other markets                                 | 92.5%                           | 91.6%    | 1.0%   |
| Total weighted average<br>square foot occupancy   | 92.5%                           | 92.1%    | 0.4%   |
| Realized annual rent per<br>occupied square foot: |                                 |          |        |
| Los Angeles                                       | \$ 25.64                        | \$ 24.89 | 3.0%   |
| San Francisco                                     | 26.20                           | 25.59    | 2.4%   |
| New York  | 25.79                           | 25.18    | 2.4%   |
| Seattle-Tacoma                                    | 20.03                           | 19.75    | 1.4%   |
| Washington DC                                     | 21.15                           | 21.12    | 0.1%   |
| Miami   | 20.30                           | 20.45    | (0.7)% |
| Atlanta   | 13.36                           | 13.04    | 2.5%   |
| Dallas-Ft. Worth                                  | 13.62                           | 13.94    | (2.3)% |
| Chicago   | 15.18                           | 15.48    | (1.9)% |
| Houston   | 13.90                           | 13.92    | (0.1)% |
| Orlando-Daytona                                   | 13.88                           | 13.59    | 2.1%   |
| Philadelphia                                      | 16.19                           | 15.63    | 3.6%   |
| West Palm Beach                                   | 18.32                           | 18.15    | 0.9%   |
| Tampa   | 14.05                           | 13.96    | 0.6%   |
| Portland  | 18.36                           | 18.51    | (0.8)% |
| All other markets                                 | 13.99                           | 13.86    | 0.9%   |
| Total realized rent per<br>occupied square foot   | \$ 17.41                        | \$ 17.21 | 1.2%   |





Same Store Facilities  
Operating Trends by  
Market (Continued)

|                   | Three Months Ended |          |        |
|-------------------|--------------------|----------|--------|
|                   | March 31,          |          |        |
|                   | 2019               | 2018     | Change |
| REVPAF:           |                    |          |        |
| Los Angeles       | \$ 24.33           | \$ 23.61 | 3.0%   |
| San Francisco     | 24.57              | 24.09    | 2.0%   |
| New York          | 24.06              | 23.51    | 2.3%   |
| Seattle-Tacoma    | 18.37              | 18.17    | 1.1%   |
| Washington DC     | 19.43              | 19.06    | 1.9%   |
| Miami             | 18.70              | 18.92    | (1.2)% |
| Atlanta           | 12.38              | 11.98    | 3.3%   |
| Dallas-Ft. Worth  | 12.38              | 12.63    | (2.0)% |
| Chicago           | 13.59              | 13.65    | (0.4)% |
| Houston           | 12.30              | 12.78    | (3.8)% |
| Orlando-Daytona   | 13.01              | 12.81    | 1.6%   |
| Philadelphia      | 15.32              | 14.61    | 4.9%   |
| West Palm Beach   | 17.06              | 16.96    | 0.6%   |
| Tampa             | 12.90              | 12.93    | (0.2)% |
| Portland          | 17.15              | 17.33    | (1.0)% |
| All other markets | 12.94              | 12.69    | 2.0%   |
| Total REVPAF      | \$ 16.10           | \$ 15.86 | 1.5%   |

We believe that our geographic diversification and scale provide some insulation from localized economic effects and add to the stability of our cash flows. It is difficult to predict localized trends in short-term self-storage demand and operating results. Over the long run, we believe that markets that experience population growth, high employment, and otherwise exhibit economic strength and consistency will outperform markets that do not exhibit these characteristics.

#### Acquired Facilities

The Acquired Facilities represent 71 facilities that we acquired in 2017, 2018, and the first three months of 2019. As a result of the stabilization process and timing of when these facilities were acquired, year-over-year changes can be significant.

The following table summarizes operating data with respect to the Acquired Facilities:



| ACQUIRED FACILITIES                               | Three Months Ended March 31,                                     |            |               |
|---|--|------------|---------------|
|   | 2019   | 2018       | Change<br>(a) |
|   | (\$ amounts in thousands, except<br>for per square foot amounts) |            |               |
| Revenues (b):                                     |  |            |               |
| 2017 Acquisitions                                 | \$ 7,287   | \$ 6,860   | \$ 427        |
| 2018 Acquisitions                                 | 3,724  | 67         | 3,657         |
| 2019 Acquisitions                                 | 197  | -          | 197           |
| Total revenues                                    | 11,208   | 6,927      | 4,281         |
| Cost of operations (b):                           |  |            |               |
| 2017 Acquisitions                                 | 2,497  | 2,507      | (10)          |
| 2018 Acquisitions                                 | 2,054  | 22         | 2,032         |
| 2019 Acquisitions                                 | 60   | -          | 60            |
| Total cost of operations                          | 4,611  | 2,529      | 2,082         |
| Net operating income:                             |  |            |               |
| 2017 Acquisitions                                 | 4,790  | 4,353      | 437           |
| 2018 Acquisitions                                 | 1,670  | 45         | 1,625         |
| 2019 Acquisitions                                 | 137  | -          | 137           |
| Net operating income                              | 6,597  | 4,398      | 2,199         |
| Depreciation and<br>amortization expense          | (6,723)  | (5,859)    | (864)         |
| Net income  | \$ (126)   | \$ (1,461) | \$ 1,335      |
| At March 31:                                      |  |            |               |
| Square foot occupancy:                            |  |            |               |
| 2017 Acquisitions                                 | 91.8%  | 90.6%      | 1.3%          |
| 2018 Acquisitions                                 | 82.3%  | 71.5%      | 15.1%         |
| 2019 Acquisitions                                 | 79.2%  | -          | -             |
|   | 86.2%  | 89.1%      | (3.3)%        |
| Annual contract rent per<br>occupied square foot: |  |            |               |
| 2017 Acquisitions                                 | 14.89  | 14.39      | 3.5%          |
| 2018 Acquisitions                                 | 11.33  | 10.88      | 4.1%          |
| 2019 Acquisitions                                 | 11.06  | -          | -             |
|   | \$ 13.05   | \$ 14.17   | (7.9)%        |
| Number of facilities:                             |  |            |               |
| 2017 Acquisitions                                 | 34   | 34         | -             |
| 2018 Acquisitions                                 | 25   | 2          | 23            |

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|  |       |       |       |
|--|-------|-------|-------|
| 2019 Acquisitions                        | 12    | -     | 12    |
|  | 71    | 36    | 35    |
| Net rentable square feet (in thousands): |       |       |       |
| 2017 Acquisitions                        | 2,114 | 2,114 | -     |
| 2018 Acquisitions                        | 1,629 | 181   | 1,448 |
| 2019 Acquisitions                        | 768   | -     | 768   |
|  | 4,511 | 2,295 | 2,216 |

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| ACQUIRED FACILITIES (Continued)  | As of<br>March 31,<br>2019 |
|----------------------------------|----------------------------|
| Costs to acquire (in thousands): |                            |
| 2017 Acquisitions (c)            | \$ 291,329                 |
| 2018 Acquisitions                | 181,020                    |
| 2019 Acquisitions                | 81,316                     |
|                                  | \$ 553,665                 |

- (a) Represents the percentage change with respect to square foot occupancy and annual contract rent per occupied square foot, and the absolute nominal change with respect to all other items.
- (b) Revenues and cost of operations do not include tenant reinsurance and merchandise sale revenues and expenses generated at the facilities. See “Ancillary Operations” below for more information.
- (c) Acquisition costs includes (i) \$149.8 million paid for 22 facilities acquired from third parties, (ii) \$135.5 million cash paid for the remaining 74.25% interest we did not own in 12 stabilized properties owned by a legacy institutional partnership and (iii) the \$6.3 million historical book value of our existing investment in the legacy institutional partnership.

We believe that our management and operating infrastructure allows us to generate higher net operating income from newly acquired facilities than was achieved by the previous owners. However, it can take 24 or more months for us to fully achieve the higher net operating income and the ultimate levels of net operating income to be achieved can be affected by changes in general economic conditions. As a result, there can be no assurance that we will achieve our expectations with respect to these newly acquired facilities.

The facilities included above under “2017 acquisitions,” “2018 acquisitions,” and “2019 acquisitions” have an aggregate of approximately 4.5 million net rentable square feet, including 0.6 million in each of Virginia and Texas, 0.5 million in Minnesota, 0.3 million in each of Nebraska and Ohio, 0.2 million in each of Kentucky, Indiana, South Carolina, Georgia, California, New York and Florida, and 0.8 million in other states.

For the three months ended March 31, 2019, the weighted average annualized yield on cost, based upon net operating income, for (i) the 22 facilities acquired in 2017 from third parties was 5.7%, (ii) the 12 stabilized facilities owned by a legacy institutional partnership, with respect to the 74.25% interest we acquired was 5.8% and (iii) the 25 properties acquired in 2018 was 3.7%. The yield for the facilities acquired in 2019 is not meaningful due to our limited ownership period.

Subsequent to March 31, 2019, we acquired or were under contract to acquire ten self-storage facilities (four in Florida, two in Virginia and one each in Arizona, Colorado, Michigan and Texas) with 0.7 net rentable square feet for \$116.4 million.

#### Analysis of Depreciation and Amortization of Acquired Facilities

Depreciation and amortization with respect to the Acquired Facilities for the three months ended March 31, 2019 and 2018 totaled \$6.7 million and \$5.9 million, respectively. These amounts include (i) depreciation of the acquired buildings, which is recorded generally on a straight line basis, and (ii) amortization of cost allocated to the tenants in place upon acquisition of a facility, which is recorded based upon the benefit of such existing tenants to each period and thus is highest when the facility is first acquired and declines as such tenants vacate. With respect to the Acquired Facilities owned at March 31, 2019, depreciation of buildings and amortization of tenant intangibles is expected to aggregate approximately \$29.0 million in the year ending December 31, 2019. There will be additional depreciation with respect to new buildings that are acquired in the remainder of 2019.

## Developed and Expanded Facilities

The developed and expanded facilities include 74 facilities that were developed on new sites since January 1, 2013, and 62 facilities subject to expansion of their net rentable square footage. Of these expansions, 28 are completed at March 31, 2019 and 34 are currently in process or are expected to commence renovation in 2019.

The following table summarizes operating data with respect to the Developed and Expanded Facilities:

| DEVELOPED AND EXPANDED FACILITIES     | Three Months Ended March 31,                                  |          |            |
|---------------------------------------|---|----------|------------|
|                                       | 2019  | 2018     | Change (a) |
|                                       | (\$ amounts in thousands, except for per square foot amounts) |          |            |
| Revenues (b):                         |   |          |            |
| Developed in 2013 - 2015              | \$ 6,798  | \$ 6,401 | \$ 397     |
| Developed in 2016 and 2017            | 9,877   | 7,087    | 2,790      |
| Developed in 2018 and 2019            | 2,395   | 33       | 2,362      |
| Completed Expansions                  | 6,981   | 5,712    | 1,269      |
| Expansions in process                 | 8,339   | 9,034    | (695)      |
| Total revenues                        | 34,390  | 28,267   | 6,123      |
| Cost of operations (b):               |   |          |            |
| Developed in 2013 - 2015              | 2,035   | 2,099    | (64)       |
| Developed in 2016 and 2017            | 4,638   | 3,820    | 818        |
| Developed in 2018 and 2019            | 2,338   | 235      | 2,103      |
| Completed Expansions                  | 2,835   | 2,176    | 659        |
| Expansions in process                 | 2,752   | 2,711    | 41         |
| Total cost of operations              | 14,598  | 11,041   | 3,557      |
| Net operating income:                 |   |          |            |
| Developed in 2013 - 2015              | 4,763   | 4,302    | 461        |
| Developed in 2016 and 2017            | 5,239   | 3,267    | 1,972      |
| Developed in 2018 and 2019            | 57  | (202)    | 259        |
| Completed Expansions                  | 4,146   | 3,536    | 610        |
| Expansions in process                 | 5,587   | 6,323    | (736)      |
| Net operating income                  | 19,792  | 17,226   | 2,566      |
| Depreciation and amortization expense | (12,217)  | (8,987)  | (3,230)    |
| Net income                            | \$ 7,575  | \$ 8,239 | \$ (664)   |
| At March 31:                          |   |          |            |
| Square foot occupancy:                |   |          |            |
| Developed in 2013 - 2015              | 91.4%   | 90.4%    | 1.1%       |
| Developed in 2016 and 2017            | 76.5%   | 61.2%    | 25.0%      |
| Developed in 2018 and 2019            | 42.0%   | 13.1%    | 220.6%     |
| Completed Expansions                  | 51.5%   | 75.2%    | (31.5)%    |
| Expansions in process                 | 81.6%   | 89.4%    | (8.7)%     |

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|  |          |          |         |
|--|----------|----------|---------|
|  | 66.9%    | 72.8%    | (8.1)%  |
| Annual contract rent per occupied square foot: |          |          |         |
| Developed in 2013 - 2015                       | \$ 15.55 | \$ 14.88 | 4.5%    |
| Developed in 2016 and 2017                     | 12.24    | 11.80    | 3.7%    |
| Developed in 2018 and 2019                     | 10.62    | 13.22    | (19.7)% |
| Completed Expansions                           | 14.82    | 16.59    | (10.7)% |
| Expansions in process                          | 16.75    | 17.15    | (2.3)%  |
|  | \$ 14.03 | \$ 14.75 | (4.9)%  |

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DEVELOPED AND EXPANDED FACILITIES (Continued)

Three Months Ended March 31,  
2019                      2018                      Change  
(Amounts in thousands, except  
for number of facilities)

## Number of facilities:

|                            |     |     |    |
|----------------------------|-----|-----|----|
| Developed in 2013 - 2015   | 20  | 20  | -  |
| Developed in 2016 and 2017 | 32  | 32  | -  |
| Developed in 2018 and 2019 | 22  | 4   | 18 |
| Completed Expansions       | 28  | 28  | -  |
| Expansions in process      | 34  | 34  | -  |
|                            | 136 | 118 | 18 |

## Net rentable square feet (c):

|                            |        |        |       |
|----------------------------|--------|--------|-------|
| Developed in 2013 - 2015   | 1,877  | 1,877  | -     |
| Developed in 2016 and 2017 | 4,181  | 4,181  | -     |
| Developed in 2018 and 2019 | 2,513  | 451    | 2,062 |
| Completed Expansions       | 3,756  | 1,856  | 1,900 |
| Expansions in process      | 2,345  | 2,290  | 55    |
|                            | 14,672 | 10,655 | 4,017 |

As of  
March 31,  
2019

## Costs to develop:

|                            |              |
|----------------------------|--------------|
| Developed in 2013 - 2015   | \$ 188,049   |
| Developed in 2016 and 2017 | 497,456      |
| Developed in 2018 and 2019 | 314,734      |
| Completed Expansions (d)   | 223,754      |
| Expansions in process (e)  | -            |
|                            | \$ 1,223,993 |

- (a) Represents the percentage change with respect to square foot occupancy and annual contract rent per occupied square foot, and the absolute nominal change with respect to all other items.
- (b) Revenues and cost of operations do not include tenant reinsurance and merchandise sale revenues and expenses generated at the facilities. See "Ancillary Operations" below for more information.
- (c) The facilities included above have an aggregate of approximately 14.7 million net rentable square feet at March 31, 2019, including 6.4 million in Texas, 2.4 million in California, 1.6 million in Florida, 1.2 million in Colorado,

0.4 million each of Washington, Arizona, North Carolina and Minnesota, and 1.5 million in other states.

- (d) These amounts only include the direct cost incurred to expand and renovate these facilities, and do not include (i) the original cost to develop or acquire the facility or (ii) the lost revenue on space demolished during the construction and fill-up period.
- (e) We expect to add 2.7 million net rentable square feet to these facilities at an aggregate cost of approximately \$318.1 million, not including (i) the original cost to develop or acquire the facility or (ii) the lost revenue on space demolished during the construction and fill-up period.

It typically takes at least three to four years for a newly developed or expanded self-storage facility to stabilize with respect to revenues. Even after achieving a high level of physical occupancy, which occurs as early as two to three years following completion of the development or expansion, there can still be a period of elevated revenue growth as the tenant base matures. Our earnings are diluted during the construction and stabilization period due to the cost of capital to fund the development cost, as well as the related construction and development overhead expenses in general and administrative expense. Despite this short-term dilution, we believe that our development and expansion activities generate favorable risk-adjusted returns over the long run.

### Newly Developed Facilities

The facilities included under “Developed in 2013-2015” were opened in 2013, 2014, and 2015, and we believe they have reached stabilization at March 31, 2019. The annualized yield on cost, based upon the net operating income for the three months ended March 31, 2019, was 10.1%.

The facilities included under “Developed in 2016 and 2017” and “Developed in 2018 and 2019” are not stabilized with respect to occupancy or revenues at March 31, 2019, and we expect continued growth in these facilities throughout 2019 and beyond as they continue to stabilize. The annualized yields that may be achieved on these facilities upon stabilization will depend on many factors, including local and current market conditions in the vicinity of each property such as consumer demand and the level of new and existing supply. Accordingly, the yields on the facilities opened in 2013, 2014, and 2015 may not be indicative of these yield on cost to be achieved on these facilities.

We have eleven additional newly developed facilities in process, which will have a total of 1.2 million net rentable square feet of storage space and have an aggregate development cost totaling approximately \$194.3 million. We expect these facilities to open over the next 18 months.

### Expansions of Existing Facilities

The expansion of an existing facility involves the construction of new space on an existing facility, either on existing unused land or through the demolition of existing buildings in order to facilitate densification. The construction costs for an expanded facility may include, in addition to adding space, adding amenities such as climate control to existing space, improving the visual appeal of the facility, and to a much lesser extent, the replacement of existing doors, roofs, and HVAC.

The return profile on the expansion of existing facilities differs from a new facility, due to a lack of land cost, and there can be less cash flow risk because we have more direct knowledge of the local demand for space on the site as compared to a new facility. However, expansions involve the demolition of existing revenue-generating space with the loss of the related revenues for tenants that have moved out during the construction and fill-up period.

The facilities under “completed expansions” represent those facilities where the expansions have been completed at March 31, 2019. We incurred a total of \$223.8 million in direct cost to expand these facilities, demolished a total of 0.8 million net rentable square feet of storage space, and built a total of 2.7 million net rentable square feet of new storage space.

The facilities under “expansions in process” represent those facilities where development is in process or that we expect to commence development in 2019. We have already demolished a total of 0.2 million net rentable square feet at March 31, 2019, we expect to demolish an additional 0.3 million net rentable square feet, and we expect to build a total of 2.7 million net rentable square feet of storage space for an aggregate direct development cost of \$318.1 million.

### Analysis of Depreciation and Amortization of Developed and Expanded Facilities

Depreciation and amortization with respect to the Developed and Expanded Facilities for the three months ended March 31, 2019 and 2018 totaled \$12.2 million and \$9.0 million, respectively. These amounts represent depreciation of the developed buildings and, in the case of the expanded facilities, the legacy depreciation on the existing buildings. With respect to the Developed and Expanded Facilities completed at March 31, 2019, depreciation of buildings and amortization of tenant intangibles is expected to aggregate approximately \$50.9 million in the year ending December 31, 2019. There will be additional depreciation of new buildings that are developed or expanded in

the remainder of 2019.

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## Other non-same store facilities

The facilities under “Other non-same store facilities” represent facilities which, while not newly acquired, developed, or expanded, are not fully stabilized since January 1, 2017, due primarily to casualty events such as hurricanes, floods, and fires.

The Other non-same store facilities have an aggregate of 5.4 million net rentable square feet, including 1.1 million in Texas, 0.8 million in Oklahoma, 0.7 million in California, 0.6 million in each of Ohio and South Carolina, 0.5 million in Florida and 1.1 million other states.

The net operating income for these facilities increased from \$10.5 million in the three months ended March 31, 2018 to \$10.8 million in the three months ended March 31, 2019. During the three months ended March 31, 2019, the average occupancy for these facilities totaled 87.8% (86.4% for the same period in 2018), and the realized rent per occupied square feet totaled \$13.01 (\$13.34 for the same period in 2018).

Over the longer term, we expect the growth in operations of these facilities to be similar to that of our Same Store facilities. However, in the short run, year over year will vary due to the impact of the underlying events which resulted in these facilities being classified as non-same store.

Depreciation and amortization with respect to the Other non-same store facilities for the three months ended March 31, 2019 and 2018 totaled \$7.2 million and \$8.0 million, respectively. We expect depreciation for these facilities to approximate \$28.8 million for the year ending December 31, 2019.

## Ancillary Operations

Ancillary revenues and expenses include amounts associated with the reinsurance of policies against losses to goods stored by tenants in our self-storage facilities in the U.S. and the sale of merchandise at our self-storage facilities. The following table sets forth our ancillary operations:

|                             | Three Months Ended March<br>31, |           |        |
|-----------------------------|---------------------------------|-----------|--------|
|                             | 2019                            | 2018      | Change |
|                             | (Amounts in thousands)          |           |        |
| Revenues:                   |                                 |           |        |
| Tenant reinsurance premiums | \$ 31,593                       | \$ 30,837 | \$ 756 |
| Merchandise                 | 7,037                           | 7,550     | (513)  |
| Total revenues              | 38,630                          | 38,387    | 243    |
| Cost of Operations:         |                                 |           |        |
| Tenant reinsurance          | 6,251                           | 6,200     | 51     |
| Merchandise                 | 4,294                           | 4,440     | (146)  |
| Total cost of operations    | 10,545                          | 10,640    | (95)   |
| Net income                  |                                 |           |        |
| Tenant reinsurance          | 25,342                          | 24,637    | 705    |
| Merchandise                 | 2,743                           | 3,110     | (367)  |
| Total net income            | \$ 28,085                       | \$ 27,747 | \$ 338 |

Tenant reinsurance operations: Our customers have the option of purchasing insurance from a non-affiliated insurance company to cover certain losses to their goods stored at our facilities. A wholly-owned, consolidated subsidiary of Public Storage fully reinsures such policies, and thereby assumes all risk of losses under these policies from the insurance company. The subsidiary receives reinsurance premiums, substantially equal to the premiums collected from our tenants, from the non-affiliated insurance company. Such reinsurance premiums are shown as “Tenant reinsurance premiums” in the above table.

The subsidiary pays a fee to Public Storage to assist with the administration of the program and to allow the insurance to be marketed to our tenants. This fee represents a substantial amount of the reinsurance premiums received by our subsidiary. The fee is eliminated in consolidation and is therefore not shown in the above table.

Tenant reinsurance revenue increased from \$30.8 million for the three months ended March 31, 2018 to \$31.6 million in the three months ended March 31, 2019, due primarily to an increase in our tenant base with respect to acquired, newly developed, and expanded facilities.

Tenant insurance revenues include \$27.2 million in each of the three month periods ended March 31, 2019 and 2018, for the Same Store Facilities.

We expect future growth will come primarily from customers of newly acquired and developed facilities, as well as additional tenants at our existing unstabilized self-storage facilities.

Cost of operations primarily includes claims paid that are not covered by our outside third-party insurers, as well as claims adjustment expenses. Claims expenses vary based upon the level of insured tenants, and the level of events affecting claims at particular properties (such as burglary) as well as catastrophic weather events affecting multiple properties such as hurricanes and floods. Cost of operations were \$6.3 million and \$6.2 million in the three months ended March 31, 2019 and 2018, respectively.

Merchandise sales: We sell locks, boxes, and packing supplies at our self-storage facilities and the level of sales of these items is primarily impacted by the level of move-ins and other customer traffic at our self-storage facilities. We do not expect any significant changes in revenues or profitability from our merchandise sales in the remainder of 2019.

#### Equity in earnings of unconsolidated real estate entities

At March 31, 2019, we have equity investments in PSB and Shurgard Europe, which we account for on the equity method and record our pro-rata share of the net income of these entities for each period. The following table, and the discussion below, sets forth the significant components of our equity in earnings of unconsolidated real estate entities:

|                          | Three Months Ended March 31, |           |             |
|--------------------------|------------------------------|-----------|-------------|
|                          | 2019                         | 2018      | Change      |
|                          | (Amounts in thousands)       |           |             |
| Equity in earnings:      |                              |           |             |
| PSB                      | \$ 13,720                    | \$ 23,831 | \$ (10,111) |
| Shurgard Europe          | 3,952                        | 6,964     | (3,012)     |
| Total equity in earnings | \$ 17,672                    | \$ 30,795 | \$ (13,123) |

Investment in PSB: At March 31, 2019 and December 31, 2018, we had approximately a 42% common equity interest in PS Business Parks, Inc. ("PSB"), comprised of our ownership of 7,158,354 shares of PSB's common stock and 7,305,355 limited partnership units in an operating partnership controlled by PSB. The limited partnership units are convertible at our option, subject to certain conditions, on a one-for-one basis into PSB common stock.

At March 31, 2019, PSB wholly-owned approximately 28.3 million rentable square feet of commercial space and had a 95% interest in a 395-unit apartment complex. PSB also manages commercial space that we own pursuant to property management agreements.

Equity in earnings from PSB totaled \$13.7 million and \$23.8 million for the three months ended March 31, 2019 and 2018, respectively. Included in the amount for three months ended March 31, 2018 is our equity share of gains on sale of real estate totaling \$10.9 million.

Equity in earnings from PSB, excluding the aforementioned real estate gains, increased \$0.8 million in the three months ended March 31, 2019 as compared to 2018 due to improved property operations. See Note 4 to our



March 31, 2019 financial statements for further discussion regarding PSB. PSB's filings and selected financial information that can be accessed through the SEC, and on PSB's website, [www.psbusinessparks.com](http://www.psbusinessparks.com). Information on this website is not incorporated by reference herein and is not a part of this Quarterly Report on Form 10-Q.

Investment in Shurgard Europe: At March 31, 2019 and December 31, 2018, we have an approximate 35% equity share in Shurgard Europe's net income, comprised of a direct and indirect pro-rata ownership interest in 31.3 million shares.

On July 13, 2018, Shurgard Europe paid a cash distribution totaling \$296.7 million, of which we received our 49% equity share totaling \$145.4 million. On October 15, 2018, Shurgard Europe completed an initial global offering (the "Offering"), and its shares commenced trading on Euronext Brussels under the "SHUR" symbol. In the Offering, Shurgard Europe issued 25.0 million of its common shares to third parties at a price of €23 per share, for an aggregate of €575 million in gross proceeds. Our ownership interest was reduced from 49% to approximately 35% as a result of the Offering.

At March 31, 2019, Shurgard Europe's operations are comprised of 231 wholly-owned facilities with 13 million net rentable square feet. As described in more detail in Note 4 to our March 31, 2019 financial statements, we receive trademark license fees from Shurgard Europe. Shurgard Europe's public filings and publicly reported information can be obtained on its website, <https://corporate.shurgard.eu> and on the website of the Luxembourg Stock Exchange, <http://www.bourse.lu>. Information on these websites is not incorporated by reference herein and is not a part of this Quarterly Report on Form 10-Q.

Our equity in earnings from Shurgard Europe totaled \$4.0 million and \$7.0 million for the three months ended March 31, 2019 and 2018, respectively. The decrease in the three months ended March 31, 2019 as compared to the same period in 2018 is due primarily to the effect of uninvested equity Offering proceeds and a reduction in average exchange rates of the U.S. Dollar to the Euro from 1.229 to 1.136 in the three months ended March 31, 2018 and 2019, respectively. Prior to the impact of changes in exchange rates, property operations improved due to increased same store operations and the impact of newly acquired facilities.

In 2018, Shurgard Europe acquired eight self-storage facilities from third parties (five in Sweden and three in the United Kingdom) for an aggregate of \$114.5 million. On October 18, 2018, Shurgard acquired our wholly-owned property in West London for \$42.1 million in cash. In 2018, Shurgard Europe opened two newly developed facilities, one each in Sweden and Germany at an aggregate total cost of \$19.6 million.

Unlike our operations in the U.S., Shurgard Europe operates through taxable corporations in each of the countries in which it does business and incurs tax expense.

We expect year-over-year reductions in ongoing equity earnings from Shurgard Europe in the remainder of 2019, assuming a portion of the proceeds of the Offering remain uninvested. Shurgard Europe also expects to begin distributing a substantial portion of its earnings to its shareholders, which will result in reduced cash available to reinvest in real estate. Our future earnings from Shurgard Europe will also be affected by (i) the operating results of its existing facilities, (ii) the level of development and acquisition activities, (iii) income tax rates, and (iv) the exchange rate between the U.S. Dollar and currencies in the countries in which Shurgard Europe conducts its business (principally the Euro).



## Analysis of items not allocated to segments

General and administrative expense: The following table sets forth our general and administrative expense:

|                                     | Three Months Ended March 31, |           |             |
|-------------------------------------|------------------------------|-----------|-------------|
|                                     | 2019                         | 2018      | Change      |
|                                     | (Amounts in thousands)       |           |             |
| Share-based compensation expense    | \$ 7,594                     | \$ 16,910 | \$ (9,316)  |
| Costs of senior executives          | 1,328                        | 3,570     | (2,242)     |
| Development and acquisition costs   | 2,067                        | 2,333     | (266)       |
| Tax compliance costs and taxes paid | 1,433                        | 1,348     | 85          |
| Legal costs                         | 3,704                        | 1,744     | 1,960       |
| Public company costs                | 1,512                        | 1,219     | 293         |
| Other costs                         | 1,865                        | 4,396     | (2,531)     |
| Total                               | \$ 19,503                    | \$ 31,520 | \$ (12,017) |

Share-based compensation expense includes the amortization of restricted share units and stock options granted to employees and trustees, as well as related employer taxes. Share-based compensation expense varies based upon the level of grants and their related vesting and amortization periods, forfeitures, as well as the Company's common share price on the date of grant.

In February 2018, we announced that Ron Havner, our CEO and John Reyes, our CFO at the time were retiring from their executive roles at the end of 2018 and would serve only as Trustees of the Company. Pursuant to our share-based compensation plans, their unvested grants will continue to vest over the original vesting periods during their service as Trustees. For financial reporting, the end of the service periods for previous stock option and RSU grants for these executives have changed from (i) the various vesting dates to (ii) December 31, 2018. Accordingly, all remaining share-based compensation expense for these two executives was amortized through the end of 2018. Included in the three months ended March 31, 2018 is approximately \$7.8 million in incremental share-based compensation expense for the planned retirement of our former CEO and CFO. The remaining \$1.5 million decrease in share-based compensation expense is due to a reduction in ongoing share-based compensation awards. See Note 10 to our March 31, 2019 financial statements for further information on our share-based compensation. We expect a reduction in share-based compensation expense in the remainder of 2019 as compared to 2018.

Costs of senior executives represent the cash compensation paid to our CEO and CFO.

Development and acquisition costs primarily represent internal and external expenses related to our development and acquisition of real estate facilities and varies primarily based upon the level of activities. The amounts in the above table are net of \$3.1 million for each of the three month periods ended March 31, 2019 and 2018, in development costs that were capitalized to newly developed and redeveloped self-storage facilities. Development and acquisition costs are expected to remain stable in the remainder of 2019.

Tax compliance costs and taxes paid include taxes paid to various state and local authorities, the internal and external costs of filing tax returns, costs associated with complying with federal and state tax laws, and maintaining our compliance with Internal Revenue Service REIT rules. Such costs vary primarily based upon the tax rates of the various states in which we do business.

Legal costs include internal personnel as well as fees paid to legal firms and other third parties with respect to general corporate legal matters and risk management, and varies based upon the level of legal activity. The future level of

legal costs is not determinable.

Public company costs represent the incremental costs of operating as a publicly-traded company, such as internal and external investor relations expenses, stock listing and transfer agent fees, board of trustees' (our "Board") costs, and costs associated with maintaining compliance with applicable laws and regulations, including the Dodd-Frank Wall Street Reform and Consumer Protection Act and Sarbanes-Oxley Act of 2002.

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Other costs represent certain professional and consulting fees, payroll, and overhead that are not attributable to our property operations. Such costs vary depending upon the level of corporate activities, initiatives, and other factors and, as such, are not predictable.

Our future general and administrative expenses are difficult to estimate, due to their dependence upon many factors, including those noted above.

**Interest and other income:** Interest and other income is comprised primarily of the net income from our commercial operations, our property management operation, interest earned on cash balances, and trademark license fees received from Shurgard Europe, as well as sundry other income items that are received from time to time in varying amounts. Amounts attributable to our commercial operations and property management operations totaled \$2.7 million and \$2.8 million in the three months ended March 31, 2019 and 2018, respectively. The increase in interest and other income is attributable to higher interest rates on uninvested cash balances. We do not expect any significant changes in interest and other income in 2019.

**Interest expense:** For the three months ended March 31, 2019 and 2018, we incurred \$9.3 million, and \$9.5 million, respectively, of interest on our outstanding debt. In determining interest expense, these amounts were offset by capitalized interest of \$1.2 million and \$1.4 million during the three months ended March 31, 2019 and 2018, respectively, associated with our development activities. At March 31, 2019, we had \$1.4 billion of debt outstanding, with an average interest rate of 2.6%. See Note 6 to our March 31, 2019 financial statements for further information on our debt balances.

On April 12, 2019, we completed a public offering of \$500 million in aggregate principal amount of senior notes bearing interest at an annual rate of 3.385% maturing on May 1, 2029.

Future interest expense will be dependent upon the level of outstanding debt and the amount of in-process development costs.

**Foreign Exchange Gain (Loss):** For the three months ended March 31, 2019, we recorded a foreign currency translation gain of \$7.8 million, representing the changes in the U.S. Dollar equivalent of our Euro-denominated unsecured notes due to fluctuations in exchange rates (loss of \$11.8 million for the same period in 2018). The Euro was translated at exchange rates of approximately 1.122 U.S. Dollars per Euro at March 31, 2019, 1.144 at December 31, 2018, 1.232 at March 31, 2018 and 1.198 at December 31, 2017. Future gains and losses on foreign currency translation will be dependent upon changes in the relative value of the Euro to the U.S. Dollar, and the level of Euro-denominated debt outstanding.

**Gain on Real Estate Investment Sales:** In the three months ended March 31, 2018, we recorded gains totaling \$424,000, primarily in connection with the partial sale of real estate facilities pursuant to eminent domain proceedings.

**Net Income Allocable to Preferred Shareholders:** Net income allocable to preferred shareholders based upon distributions increased from \$54.1 million in the three months ended March 31, 2018 to \$55.0 million in the same period in 2019, due to higher average preferred shares outstanding. We also allocated \$8.5 million of income from our common shareholders to the holders of our preferred shares in the three months ended March 31, 2019 in connection with the redemption of our Series Y Preferred Shares. Based upon our preferred shares outstanding at March 31, 2019, our quarterly distribution to our preferred shareholders is expected to be approximately \$53.5 million.

Liquidity and Capital Resources

Financing Strategy: As a REIT, we generally distribute 100% of our taxable income to our shareholders, which relative to a taxable C corporation, limits the amount of cash flow from operations that we can retain for investments. As a result, in order to grow our asset base, access to capital is important. Historically we have primarily financed our cash investment activities with retained operating cash flow combined with the proceeds from the issuance of preferred securities. Over the past three years, we have diversified our capital sources by issuing medium term debt.

Our financial profile is characterized by strong credit metrics, including low leverage relative to our total capitalization and operating cash flows. We are one of the highest rated REITs, as rated by major rating agencies Moody's and Standard & Poor's. Our unsecured debt has an "A" credit rating by Standard & Poor's and "A2" by Moody's. Our credit ratings on each of our series of preferred shares are "A3" by Moody's and "BBB+" by Standard & Poor's. Our credit profile and ratings enables us to effectively access both the public and private capital markets to raise capital.

We have a \$500.0 million revolving line of credit which we occasionally use as temporary "bridge" financing until we are able to raise longer term capital. As of March 31, 2019 and May 1, 2019, there were no borrowings outstanding on the revolving line of credit, however, we do have approximately \$15.9 million of outstanding letters of credit which limits our borrowing capacity to \$484.1 million.

On April 19, 2019, we amended our revolving line of credit to (i) extend the maturity date from March 31, 2020 to April 19, 2024, (ii) decrease the current effective borrowing spread over LIBOR from 0.850% to 0.70%, and (iii) decrease the current effective facility fee from 0.080% to 0.070%. All other terms remain substantially the same.

Over the long-term, we expect to fund our capital requirements with retained operating cash flow, the issuance of additional medium or long-term debt, and proceeds from the issuance of common and preferred securities. We will select among these sources of capital based upon availability, relative cost, the desire for leverage, refinancing risk, and considering potential constraints caused by certain features of capital sources, such as debt covenants.

Liquidity and Capital Resource Analysis: We believe that our net cash provided by our operating activities will continue to be sufficient to enable us to meet our ongoing requirements for principal payments on debt, maintenance capital expenditures and distributions to our shareholders for the foreseeable future.

As of March 31, 2019, we expect capital resources over the next year of approximately \$1.4 billion, which exceeds our currently identified capital needs of approximately \$415.0 million. Our expected capital resources include: (i) \$218.0 million of cash as of March 31, 2019, (ii) \$484.1 million of available borrowing capacity on our revolving line of credit, (iii) \$496.9 million in net proceeds from the public issuance of senior unsecured notes on April 12, 2019, and (iv) approximately \$200 million to \$250 million of expected retained operating cash flow in the next year. Retained operating cash flow represents our expected cash flow provided by operating activities, less shareholder distributions and capital expenditures to maintain our real estate facilities.

Our currently identified capital needs consist primarily of \$116.4 million in property acquisitions currently under contract and \$298.6 million of remaining spending on our current development pipeline, which will be incurred primarily in the next 18 months. We have no substantial principal payments on debt until 2022. Our capital needs may increase over the next year as we expect to add projects to our development pipeline and acquire additional properties. In addition to other investment activities, we may also redeem outstanding preferred securities or repurchase shares of our common stock in the future.

To the extent our retained operating cash flow, cash on hand, and line of credit are insufficient to fund our activities, we believe we have a variety of possibilities to raise additional capital including issuing common or preferred securities, issuing debt, or entering into joint venture arrangements to acquire or develop facilities.

Required Debt Repayments: As of March 31, 2019, our outstanding debt totaled approximately \$1.4 billion, consisting of \$28.7 million of secured debt, \$383.7 million of Euro-denominated unsecured debt and \$1.0 billion of U.S. Dollar denominated unsecured debt. Approximate principal maturities are as follows (amounts in thousands):





|                   |              |
|-------------------|--------------|
| Remainder of 2019 | \$ 1,448     |
| 2020              | 2,015        |
| 2021              | 1,890        |
| 2022              | 502,584      |
| 2023              | 19,226       |
| Thereafter        | 885,274      |
|                   | \$ 1,412,437 |

The remaining maturities on our debt over at least the next three years are nominal compared to our expected annual retained operating cash flow.

**Capital Expenditure Requirements:** Capital expenditures include general maintenance, major repairs or replacements to elements of our facilities to keep our facilities in good operating condition and maintain their visual appeal. Capital expenditures do not include costs relating to the development of new facilities or redevelopment of existing facilities to increase their available rentable square footage.

Capital expenditures totaled \$30.2 million in the first three months of 2019, and are expected to approximate \$200 million in the year ending December 31, 2019. Our capital expenditures for 2019 include certain projects that are upgrades and not traditional like-for-like replacements of existing components, and in certain circumstances replace existing components before the end of their functional lives. Such projects include installation of LED lighting, replacing existing planting configurations with more drought tolerant and low maintenance configurations, installation of solar panels, improvements to office configurations to provide a more customer-friendly experience, and improvements to outdoor facades and color schemes. Such incremental investments improve customer satisfaction, the attractiveness and competitiveness of our facilities to new and existing customers, or reduce operating costs. The amount and extent to which these expenditures will continue after 2019 is uncertain at this time.

**Requirement to Pay Distributions:** For all periods presented herein, we have elected to be treated as a REIT, as defined in the Code. As a REIT, we do not incur federal income tax on our REIT taxable income (generally, net rents and gains from real property, dividends, and interest) that is fully distributed each year (for this purpose, certain distributions paid in a subsequent year may be considered), and if we meet certain organizational and operational rules. We believe we have met these requirements in all periods presented herein, and we expect to continue to elect and qualify as a REIT.

On April 24, 2019, our Board declared a regular common quarterly dividend of \$2.00 per common share totaling approximately \$348 million, which will be paid at the end of June 2019. Our consistent, long-term dividend policy has been to distribute only our taxable income. Future quarterly distributions with respect to the common shares will continue to be determined based upon our REIT distribution requirements after taking into consideration distributions to the preferred shareholders and will be funded with cash flows from operating activities.

We estimate the annual distribution requirements with respect to our Preferred Shares outstanding at March 31, 2019, to be approximately \$214.1 million per year.

We estimate we will pay approximately \$7.0 million per year in distributions to noncontrolling interests outstanding at March 31, 2019.

Real Estate Investment Activities: Subsequent to March 31, 2019, we acquired or were under contract to acquire (subject to customary closing conditions) ten self-storage facilities for \$116.4 million. We will continue to seek to acquire properties; however, there is significant competition to acquire existing facilities and there can be no assurance as to the level of facilities we may acquire.

As of March 31, 2019 we had development and expansion projects at a total cost of approximately \$512.4 million. Costs incurred through March 31, 2019 were \$213.8 million, with the remaining cost to complete of

\$298.6 million expected to be incurred primarily in the next 18 months. Some of these projects are subject to significant contingencies such as entitlement approval. We expect to continue to seek additional projects; however, the level of future development and redevelopment may be limited due to various constraints such as difficulty in finding projects that meet our risk-adjusted yield expectations and challenges in obtaining building permits for self-storage activities in certain municipalities.

**Redemption of Preferred Securities:** Historically, we have taken advantage of refinancing higher coupon preferred securities with lower coupon preferred securities. In the future, we may also elect to finance the redemption of preferred securities with proceeds from the issuance of debt. As of May 1, 2019, we have the following additional series of preferred securities that are eligible for redemption, at our option and with 30 days' notice; our 5.625% Series U Preferred Shares (\$288 million), our 5.375% Series V Preferred Shares (\$495 million), our 5.200% Series W Preferred Shares (\$500 million), and our 5.200% Series X Preferred Shares (\$225 million). Our 6.000% Series Z Preferred Shares (\$288 million) become callable on June 4, 2019. Redemption of such preferred shares will depend upon many factors, including the rate at which we could issue replacement preferred securities. None of our preferred securities are redeemable at the option of the holders.

**Repurchases of Common Shares:** Our Board has authorized management to repurchase up to 35,000,000 of our common shares on the open market or in privately negotiated transactions. During the three months ended March 31, 2019, we did not repurchase any of our common shares. From the inception of the repurchase program through May 1, 2019, we have repurchased a total of 23,721,916 common shares at an aggregate cost of approximately \$679.1 million. Future levels of common share repurchases will be dependent upon our available capital, investment alternatives and the trading price of our common shares.

#### Contractual Obligations

Our significant contractual obligations at March 31, 2019 and their impact on our cash flows and liquidity are summarized below for the years ending December 31 (amounts in thousands):

|   | Total        | Remainder<br>of<br>2019 | 2020      | 2021      | 2022       | 2023      | Thereafter   |
|---|--------------|-------------------------|-----------|-----------|------------|-----------|--------------|
| Interest and principal payments on debt (1) | \$ 1,635,199 | \$ 28,624               | \$ 38,161 | \$ 37,934 | \$ 535,078 | \$ 42,807 | \$ 952,595   |
| Leases and other commitments (2)            | 70,975       | 3,223                   | 4,268     | 4,314     | 3,693      | 3,461     | 52,016       |
| Construction commitments (3)                | 99,098       | 81,978                  | 17,120    | -         | -          | -         | -            |
| Total                                       | \$ 1,805,272 | \$ 113,825              | \$ 59,549 | \$ 42,248 | \$ 538,771 | \$ 46,268 | \$ 1,004,611 |

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- (1) Represents contractual principal and interest payments. Amounts with respect to certain Euro-denominated debt are based upon exchange rates at March 31, 2019. See Note 6 to our March 31, 2019 financial statements for further information.
- (2) Represents future contractual payments on land, equipment and office space under various leases and other commitments.
- (3) Represents future expected payments for construction under contract at March 31, 2019.

We estimate the annual distribution requirements with respect to our Preferred Shares outstanding at March 31, 2019 to be approximately \$214.1 million per year. Dividends are paid when and if declared by our Board and accumulate if not paid.

Off-Balance Sheet Arrangements: At March 31, 2019, we had no material off-balance sheet arrangements as defined under Regulation S-K 303(a)(4) and the instructions thereto.

## ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

To limit our exposure to market risk, we are capitalized primarily with preferred and common equity. Our preferred shares are redeemable at our option generally five years after issuance, but the holder has no redemption option. Our debt is our only market-risk sensitive portion of our capital structure, which totals approximately \$1.4 billion and represents 15.5% of the book value of our equity at March 31, 2019.

We have foreign currency exposure at March 31, 2019 related to (i) our investment in Shurgard Europe, with a book value of \$351.2 million and (ii) €342.0 million (\$383.7 million) of Euro-denominated unsecured notes payable.

The fair value of our fixed rate debt at March 31, 2019 is approximately \$1.4 billion. The table below summarizes the annual maturities of our fixed rate debt, which had a weighted average effective rate of 2.6% at March 31, 2019. See Note 6 to our March 31, 2019 financial statements for further information regarding our fixed rate debt (amounts in thousands).

|                 | Remainder<br>of<br>2019 | 2020     | 2021     | 2022       | 2023      | Thereafter | Total        |
|-----------------|-------------------------|----------|----------|------------|-----------|------------|--------------|
| Fixed rate debt | \$ 1,448                | \$ 2,015 | \$ 1,890 | \$ 502,584 | \$ 19,226 | \$ 885,274 | \$ 1,412,437 |

## ITEM 4. Controls and Procedures

## Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports we file and submit under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) is recorded, processed, summarized and reported within the time periods specified in accordance with SEC guidelines and that such information is communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure based on the definition of “disclosure controls and procedures” in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures in reaching that level of reasonable assurance. We also have investments in certain unconsolidated real estate entities and because we do not control these entities, our disclosure controls and procedures with respect to such entities are substantially more limited than those we maintain with respect to our consolidated subsidiaries.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures, as required by Exchange Act Rule 13a-15(b), as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective, at a reasonable assurance level.

## Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part OTHER INFORMATION  
II.

ITEM 1. Legal  
Proceedings

We are a party to various legal proceedings and subject to various claims and complaints; however, we believe that the likelihood of these contingencies resulting in a material loss to the Company, either individually or in the aggregate, is remote.

ITEM 1A. Risk Factors

In addition to the other information in this Quarterly Report on Form 10-Q, you should carefully consider the risks described in our Annual Report on Form 10-K filed for the year ended December 31, 2018, in Part I, Item 1A, Risk Factors, and in our other filings with the SEC. These factors may materially affect our business, financial condition and operating results and could cause our actual results to differ materially from expectations. In addition, in considering the forward-looking statements contained in this Form 10-Q and elsewhere, you should refer to the qualifications and limitations on our forward-looking statements that are described in Forward Looking Statements at the beginning of Part I, Item 2 of this Form 10-Q.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds  
Common Share Repurchases

Our Board has authorized management to repurchase up to 35,000,000 of our common shares on the open market or in privately negotiated transactions. From the inception of the repurchase program through May 1, 2019, we have repurchased a total of 23,721,916 common shares (all purchased prior to 2010) at an aggregate cost of approximately \$679.1 million. Our common share repurchase program does not have an expiration date and there are 11,278,084 common shares that may yet be repurchased under our repurchase program as of March 31, 2019. We have no current plans to repurchase shares; however, future levels of common share repurchases will be dependent upon our available capital, investment alternatives, and the trading price of our common shares.

Preferred Share Redemptions

We redeemed, pursuant to our option to redeem such shares, 11,400,000 of our Series Y preferred shares in March 2019, at \$25.00 per share.

ITEM 6. Exhibits

Exhibits required by Item 601 of Regulation S-K are filed herewith or incorporated herein by reference and are listed in the attached Exhibit Index which is incorporated herein by reference.

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PUBLIC STORAGE  
INDEX TO EXHIBITS (1)  
(Items 15(a)(3) and 15(c))

- 3.1 Articles Supplementary for the 5.600% Cumulative Preferred Shares of Beneficial Interest, Series H (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on March 1, 2019 and incorporated herein by reference).
- 4.1 Second Supplemental Indenture, dated as of April 12, 2019, between Public Storage and Wells Fargo Bank, National Association, as trustee (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K filed on April 12, 2019 and incorporated herein by reference).
- 10.1 Second Amended and Restated Credit Agreement, dated as of April 19, 2019, by and among the Company, the financial institutions party thereto and their permitted assigns, Wells Fargo Securities, LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Joint Lead Arrangers and Joint Bookrunners, Wells Fargo Bank, National Association, as Administrative Agent, and Bank of America, N.A., as Syndication Agent (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed on April 19, 2019 and incorporated herein by reference).
- 31.1 Rule 13a – 14(a) Certification. Filed herewith.
- 31.2 Rule 13a – 14(a) Certification. Filed herewith.
- 32 Section 1350 Certifications. Filed herewith.
- 101 .INS XBRL Instance Document. Filed herewith.
- 101 .SCHXBRL Taxonomy Extension Schema. Filed herewith.
- 101 .CAL XBRL Taxonomy Extension Calculation Linkbase. Filed herewith.
- 101 .DEFXBRL Taxonomy Extension Definition Linkbase. Filed herewith.
- 101 .LAB XBRL Taxonomy Extension Label Linkbase. Filed herewith.
- 101 .PRE XBRL Taxonomy Extension Presentation Link. Filed herewith.

(1) SEC File No. 001-33519 unless otherwise indicated.



SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

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DATED: May 1, 2019

PUBLIC STORAGE

By: /s/ H. Thomas Boyle

H. Thomas Boyle

Senior Vice President & Chief Financial Officer

(Principal financial officer and duly authorized officer)

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