Extra Space Storage Inc.
Form 10-K
February 27, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2016
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .
Commission File Number: 001-32269

EXTRA SPACE STORAGE INC.
(Exact name of registrant as specified in its charter)

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

2795 East Cottonwood Parkway, Suite 400
Salt Lake City, Utah 84121
(Address of principal executive offices and zip code)
Registrant’s telephone number, including area code: (801) 365-4600
Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of exchange on which registered
Common Stock, $0.01 par value	New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements

incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K. ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x.
The aggregate market value of the common stock held by non-affiliates of the registrant was $11,138,435,421 based upon the closing price on the New York Stock Exchange on June 30, 2016, the last business day of the registrant’s most recently completed second fiscal quarter. This calculation does not reflect a determination that persons whose shares are excluded from the computation are affiliates for any other purpose.
The number of shares outstanding of the registrant’s common stock, $0.01 par value per share, as of February 21, 2017 was 125,912,481.
Documents Incorporated by Reference
Portions of the registrant’s definitive proxy statement to be issued in connection with the registrant’s annual stockholders’ meeting to be held in 2017 are incorporated by reference into Part III of this Annual Report on Form 10-K.

Extra Space Storage Inc.
Annual Report on Form 10-K
For the Year Ended December 31, 2016
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Statements Regarding Forward-Looking Information

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

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

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

- adverse changes in general economic conditions, the real estate industry and in the markets in which we operate;
- failure to close pending acquisitions on expected terms, or at all;
- the effect of competition from new and existing stores or other storage alternatives, which could cause rents and occupancy rates to decline;
- difficulties in our ability to evaluate, finance, complete and integrate acquisitions and developments successfully and to lease up those stores, which could adversely affect our profitability;
- potential liability for uninsured losses and environmental contamination;
- the impact of the regulatory environment as well as national, state, and local laws and regulations including, without limitation, those governing real estate investment trusts ("REITs"), tenant reinsurance and other aspects of our business, which could adversely affect our results;
- disruptions in credit and financial markets and resulting difficulties in raising capital or obtaining credit at reasonable rates or at all, which could impede our ability to grow;
- increased interest rates and operating costs;
- the failure to effectively manage our growth and expansion into new markets or to successfully operate acquired properties and operations;
- reductions in asset valuations and related impairment charges;
- the failure of our joint venture partners to fulfill their obligations to us or their pursuit of actions that are inconsistent with our objectives;
- the failure to maintain our REIT status for U.S. federal income tax purposes;
- economic uncertainty due to the impact of war or terrorism, which could adversely affect our business plan; and
- difficulties in our ability to attract and retain qualified personnel and management members.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations are subject to risks and uncertainties and can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. You should carefully consider these risks before you make an investment decision with respect to our securities.

We disclaim any duty or obligation to update or revise any forward-looking statements set forth in this Annual Report on Form 10-K to reflect new information, future events or otherwise.

PART I

Item 1. Business

General

Extra Space Storage Inc. (“we,” “our,” “us” or the “Company”) is a fully integrated, self-administered and self-managed real estate investment trust (“REIT”) formed as a Maryland corporation on April 30, 2004, to own, operate, manage, acquire, develop and redevelop professionally managed self-storage properties (“stores”). We closed our initial public offering (“IPO”) on August 17, 2004. Our common stock is traded on the New York Stock Exchange under the symbol “EXR.”

We were formed to continue the business of Extra Space Storage LLC and its subsidiaries, which had engaged in the self-storage business since 1977. These companies were reorganized after the consummation of our IPO and various formation transactions. As of December 31, 2016, we held ownership interests in 1,016 operating stores. Of these operating stores, 836 are wholly-owned and 180 are owned in joint venture partnerships. An additional 411 operating stores are owned by third parties and operated by us in exchange for a management fee, bringing the total number of operating stores which we own and/or manage to 1,427. These operating stores are located in 38 states, Washington, D.C. and Puerto Rico and contain approximately 107 million square feet of net rentable space in approximately 960,000 units and currently serve a customer base of approximately 850,000 tenants.

We operate in three distinct segments: (1) rental operations; (2) tenant reinsurance; and (3) property management, acquisition and development. Our rental operations activities include rental operations of stores in which we have an ownership interest. Tenant reinsurance activities include the reinsurance of risks relating to the loss of goods stored by tenants in our stores. Our property management, acquisition and development activities include managing, acquiring, developing and selling stores.

Substantially all of our business is conducted through Extra Space Storage LP (the “Operating Partnership”). Our primary assets are general partner and limited partner interests in the Operating Partnership. This structure is commonly referred to as an umbrella partnership REIT, or UPREIT. We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”). To the extent we continue to qualify as a REIT we will not be subject to tax, with certain exceptions, on our net taxable income that is distributed to our stockholders.

We file our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports with the Securities and Exchange Commission (the “SEC”). You may obtain copies of these documents by visiting the SEC’s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549, by calling the SEC at 1-800-SEC-0330 or by accessing the SEC’s website at www.sec.gov. In addition, as soon as reasonably practicable after such materials are furnished to the SEC, we make copies of these documents available to the public free of charge through our website at www.extraspace.com, or by contacting our Secretary at our principal offices, which are located at 2795 East Cottonwood Parkway, Suite 300, Salt Lake City, Utah 84121, telephone number (801) 365-4600.

Management

Members of our executive management team have significant experience in all aspects of the self-storage industry, having acquired and/or developed a significant number of stores since before our IPO. Our executive management team and their years of industry experience are as follows: Joseph D. Margolis, Chief Executive Officer, 12 years; Scott Stubbs, Executive Vice President and Chief Financial Officer, 16 years; Samrat Sondhi, Executive Vice President and Chief Operating Officer, 13 years; Gwyn McNeal, Executive Vice President and Chief Legal Officer, 11 years; James Overturf, Executive Vice President and Chief Marketing Officer, 18 years; and Kenneth M. Woolley, Executive Chairman, 36 years. Spencer F. Kirk served as our Chief Executive Officer through December 31, 2016 and continues to serve on the Company's board of directors. Joseph D. Margolis succeeded Mr. Kirk as the Company's Chief Executive Officer effective January 1, 2017.

Our executive management team and board of directors have a significant ownership position in the Company with executive officers and directors owning approximately 4,665,566 shares or 3.7% of our outstanding common stock as of February 21, 2017.

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Industry & Competition

Stores offer month-to-month storage space rental for personal or business use and are a cost-effective and flexible storage alternative. Tenants rent fully enclosed spaces that can vary in size according to their specific needs and to which they have unlimited, exclusive access. Tenants have responsibility for moving their items into and out of their units. Self-storage unit sizes typically range from 5 feet by 5 feet to 20 feet by 20 feet, with an interior height of 8 feet to 12 feet. Stores generally have on-site managers who supervise and run the day-to-day operations, providing tenants with assistance as needed.

Self-storage provides a convenient way for individuals and businesses to store their possessions due to life changes, or simply because of a need for storage space. The mix of residential tenants using a store is determined by a store's local demographics and often includes people who are looking to downsize their living space or others who are not yet settled into a permanent residence. Items that residential tenants place in self-storage range from cars, boats and recreational vehicles, to furniture, household items and appliances. Commercial tenants tend to include small business owners who require easy and frequent access to their goods, records, inventory or storage for seasonal goods.

Our research has shown that tenants choose a store based primarily on the convenience of the site to their home or business, making high-density, high-traffic population centers ideal locations for stores. A store's perceived security and the general professionalism of the site managers and staff are also contributing factors to a site's ability to successfully secure rentals. Although most stores are leased to tenants on a month-to-month basis, tenants tend to continue their leases for extended periods of time.

The self-storage business is subject to seasonal fluctuations. A greater portion of revenues and profits are realized from May through September. Historically, our highest level of occupancy has been at the end of July, while our lowest level of occupancy has been in late February and early March.

Since inception in the early 1970's, the self-storage industry has experienced significant growth. The self-storage industry has also seen increases in occupancy over the past several years. According to the Self-Storage Almanac (the "Almanac"), in 2008, the national average physical occupancy rate was 80.3% of net rentable square feet, compared to an average physical occupancy rate of 91.2% in 2016.

Recently we have encountered competition when we have sought to acquire stores, especially for brokered portfolios. Competitive bidding practices have been commonplace between both public and private entities, and this will likely continue.

The industry is also characterized by fragmented ownership. According to the Almanac, the top ten self-storage companies in the United States operated approximately 19.4% of the total U.S. stores, and the top 50 self-storage companies operated approximately 28.6% of the total U.S. stores as of December 31, 2016. We believe this fragmentation will contribute to continued consolidation at some level in the future. We also believe that we are well positioned to compete for acquisitions.

We are the second largest self-storage operator in the United States. We are one of five public self-storage REITs along with CubeSmart, National Storage Affiliates, Life Storage and Public Storage.

Long-Term Growth and Investment Strategies

Our primary business objectives are to maximize cash flow available for distribution to our stockholders and to achieve sustainable long-term growth in cash flow per share in order to maximize long-term stockholder value. We continue to evaluate a range of growth initiatives and opportunities, including the following:

- Maximize the performance of our stores through strategic, efficient and proactive management. We pursue revenue-generating and expense-minimizing opportunities in our operations. Our revenue management team seeks to maximize revenue by responding to changing market conditions through our advanced technology system's ability to provide real-time, interactive rental rate and discount management. Our size allows us greater ability than the majority of our competitors to implement more effective online marketing programs, which we believe will attract more customers to our stores at a lower net cost.
- Acquire self storage stores. Our acquisitions team continues to pursue the acquisition of multi-store portfolios and single stores that we believe can provide stockholder value. We have established a reputation as a reliable, ethical

buyer, which we believe enhances our ability to negotiate and close acquisitions. In addition, we believe our status as an UPREIT enables flexibility when structuring deals. We continue to review available acquisitions. As interest rates increase, our expectation is that capitalization rates will also increase and that prices will begin to decrease. We remain a disciplined buyer and only execute acquisitions that we believe will strengthen our portfolio and increase stockholder value.

- Expand our management business. Our management business enables us to generate increased revenues through management fees and expand our geographic footprint. We believe this expanded footprint enables us to reduce our operating costs through economies of scale. In addition, we see our management business as a future acquisition pipeline. We pursue strategic relationships with owners whose stores would enhance our portfolio in the event an opportunity arises to acquire such stores.

Financing of Our Long-Term Growth Strategies

Acquisition and Development Financing

The following table presents information on our revolving lines of credit (the "Credit Lines") for the periods indicated. All of our Credit Lines are guaranteed by us (amounts in thousands).

	As of December 31, 2016					
Revolving Lines of Credit	Amount Drawn	Capacity	Interest Rate	Origination Date	Maturity	Basis Rate (1)
Credit Line 1 (2)	$3,000	$100,000	2.40%	6/4/2010	6/30/2018	LIBOR plus 1.7%
Credit Line 2 (3)(4)	362,000	500,000	2.20%	10/14/2016	10/14/2020	LIBOR plus 1.4%
	$365,000	$600,000				

(1) 30-day USD LIBOR

(2) Secured by mortgages on certain real estate assets. One two-year extension available.

(3) Unsecured. Two six-month extensions available.

(4) Basis Rate as of December 31, 2016. Rate is subject to change based on our consolidated leverage ratio.

We expect to maintain a flexible approach in financing new store acquisitions. We plan to finance future acquisitions through a combination of cash, borrowings under the Credit Lines, traditional secured and unsecured mortgage financing, joint ventures and additional debt or equity offerings.

Joint Venture Financing

As of December 31, 2016, we own 180 of our stores through joint ventures with third parties. We generally manage the day-to-day operations of the underlying stores owned in these joint ventures and have the right to participate in major decisions relating to sales of stores or financings by the applicable joint venture. Our joint venture partners typically provide most of the equity capital required for the operation of the respective business. Under the operating agreements for the joint ventures, we maintain the right to receive between 4.0% and 80.0% of the available cash flow from operations after our joint venture partners and the Company have received a predetermined return, and between 4.0% and 75.0% of the available cash flow from capital transactions after our joint venture partners and the Company have received a return of their capital plus such predetermined return. Most joint venture agreements include buy-sell rights, as well as rights of first offer in connection with the sale of stores by the joint venture.

Disposition of Stores

We will continue to review our portfolio for stores or groups of stores that are underperforming or are not strategically located, and determine whether to dispose of these stores to fund other growth. As of December 31, 2016, we had two parcels of land that were categorized as held for sale.

Regulation

Generally, stores are subject to various laws, ordinances and regulations, including regulations relating to lien sale rights and procedures. Changes in any of these laws or regulations, as well as changes in laws, such as the Comprehensive Environmental Response and Compensation Liability Act, which increase the potential liability for environmental conditions or circumstances existing or created by tenants or others on stores, or laws affecting development, construction, operation, upkeep, safety and taxation may result in significant unanticipated expenditures, loss of stores or other impairments to operations, which would adversely affect our financial position, results of operations or cash flows.

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Under the Americans with Disabilities Act of 1990 (the “ADA”), places of public accommodation are required to meet certain federal requirements related to access and use by disabled persons. These requirements became effective in 1992. A number of additional U.S. federal, state and local laws also exist that may require modifications to the stores, or restrict further renovations thereof, with respect to access thereto by disabled persons. Noncompliance with the ADA could result in the imposition of fines or an award of damages to private litigants and also could result in an order to correct any non-complying feature, thereby requiring substantial capital expenditures. To the extent our stores are not in compliance, we are likely to incur additional costs to comply with the ADA.

Insurance activities are subject to state insurance laws and regulations as determined by the particular insurance commissioner for each state in accordance with the McCarran-Ferguson Act, and are subject to the Gramm-Leach-Bliley Act and the privacy regulations promulgated by the Federal Trade Commission pursuant thereto.

Store management activities are often subject to state real estate brokerage laws and regulations as determined by the particular real estate commission for each state.

Changes in any of the laws governing our conduct could have an adverse impact on our ability to conduct our business or could materially affect our financial position, results of operations or cash flows.

Employees

As of February 21, 2017, we had 3,287 employees and believe our relationship with our employees is good. Our employees are not represented by a collective bargaining agreement.

Item 1A. Risk Factors

An investment in our securities involves various risks. All investors should carefully consider the following risk factors in conjunction with the other information contained in this Annual Report before trading in our securities. If any of the events set forth in the following risks actually occur, our business, operating results, prospects and financial condition could be harmed.

Our performance is subject to risks associated with real estate investments. We are a real estate company that derives our income from operation of our stores. There are a number of factors that may adversely affect the income that our stores generate, including the following:

Risks Related to Our Stores and Operations

Adverse economic or other conditions in the markets in which we do business could negatively affect our occupancy levels and rental rates and therefore our operating results.

Our operating results are dependent upon our ability to maximize occupancy levels and rental rates in our stores. Adverse economic or other conditions in the markets in which we operate may lower our occupancy levels and limit our ability to increase rents or require us to offer rental discounts. If our stores fail to generate revenues sufficient to meet our cash requirements, including operating and other expenses, debt service and capital expenditures, our net income, funds from operations (“FFO”), cash flow, financial condition, ability to make cash distributions to stockholders and the trading price of our securities could be adversely affected. The following factors, among others, may adversely affect the operating performance of our stores:

- the national economic climate and the local or regional economic climate in the markets in which we operate, which may be adversely impacted by, among other factors, industry slowdowns, relocation of businesses and changing demographics;
- periods of economic slowdown or recession, rising interest rates, or declining demand for self-storage or the public perception that any of these events may occur could result in a general decline in rental rates or an increase in tenant defaults;
- a decline of the current economic environment;
- local or regional real estate market conditions, such as competing stores, the oversupply of self-storage or a reduction in demand for self-storage in a particular area;
- perceptions by prospective users of our stores of the safety, convenience and attractiveness of our stores and the neighborhoods in which they are located;

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- increased operating costs, including the need for capital improvements, insurance premiums, real estate taxes and utilities;
- the impact of environmental protection laws;
- changes in tax, real estate and zoning laws; and
- earthquakes, hurricanes and other natural disasters, terrorist acts, civil disturbances or acts of war which may result in uninsured or underinsured losses.

If we are unable to promptly re-let our units or if the rates upon such re-letting are significantly lower than expected, our business and results of operations would be adversely affected.

Virtually all of our leases are on a month-to-month basis. Any delay in re-letting units as vacancies arise would reduce our revenues and harm our operating results. In addition, lower than expected rental rates upon re-letting could adversely affect our revenues and impede our growth.

We depend upon our on-site personnel to maximize tenant satisfaction at each of our stores, and any difficulties we encounter in hiring, training and maintaining skilled field personnel may harm our operating performance.

We had 2,723 field personnel as of February 21, 2017 in the management and operation of our stores. The general professionalism of our store managers and staff are contributing factors to a store's ability to successfully secure rentals and retain tenants. We also rely upon our field personnel to maintain clean and secure stores. If we are unable to successfully recruit, train and retain qualified field personnel, the quality of service we strive to provide at our stores could be adversely affected which could lead to decreased occupancy levels and reduced operating performance.

Uninsured losses or losses in excess of our insurance coverage could adversely affect our financial condition and our cash flow.

We maintain comprehensive liability, fire, flood, earthquake, wind (as deemed necessary or as required by our lenders), extended coverage and rental loss insurance with respect to our stores. Certain types of losses, however, may be either uninsurable or not economically insurable, such as losses due to earthquakes, hurricanes, tornadoes, riots, acts of war or terrorism. Should an uninsured loss occur, we could lose both our investment in and anticipated profits and cash flow from a store. In addition, if any such loss is insured, we may be required to pay significant amounts on any claim for recovery of such a loss prior to our insurer being obligated to reimburse us for the loss, or the amount of the loss may exceed our coverage for the loss. As a result, our operating results may be adversely affected.

Increases in taxes and regulatory compliance costs may reduce our income.

Costs resulting from changes in real estate tax laws generally are not passed through to tenants directly and will affect us. Increases in income, property or other taxes generally are not passed through to tenants under leases and may reduce our net income, FFO, cash flow, financial condition, ability to pay or refinance our debt obligations, ability to make cash distributions to stockholders, and the trading price of our securities. Similarly, changes in laws increasing the potential liability for environmental conditions existing on stores or increasing the restrictions on discharges or other conditions may result in significant unanticipated expenditures, which could similarly adversely affect our business and results of operations.

Environmental compliance costs and liabilities associated with operating our stores may affect our results of operations.

Under various U.S. federal, state and local laws, ordinances and regulations, owners and operators of real estate may be liable for the costs of investigating and remediating certain hazardous substances or other regulated materials on or in such property. Such laws often impose such liability without regard to whether the owner or operator knew of, or was responsible for, the presence of such substances or materials. The presence of such substances or materials, or the failure to properly remediate such substances, may adversely affect the owner's or operator's ability to lease, sell or rent such property or to borrow using such property as collateral. Persons who arrange for the disposal or treatment of hazardous substances or other regulated materials may be liable for the costs of removal or remediation of such substances at a disposal or treatment facility, whether or not such facility is owned or operated by such person. Certain environmental laws impose liability for release of asbestos-containing materials into the air and third parties may seek recovery from owners or operators of real stores for personal injury associated with asbestos-containing materials.

Certain environmental laws also impose liability, without regard to knowledge or fault, for removal or remediation of hazardous substances or other regulated materials upon owners and operators of contaminated property even after they no

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longer own or operate the property. Moreover, the past or present owner or operator from which a release emanates could be liable for any personal injuries or property damages that may result from such releases, as well as any damages to natural resources that may arise from such releases.

Certain environmental laws impose compliance obligations on owners and operators of real property with respect to the management of hazardous materials and other regulated substances. For example, environmental laws govern the management of asbestos-containing materials and lead-based paint. Failure to comply with these laws can result in penalties or other sanctions.

No assurances can be given that existing environmental studies with respect to any of our stores reveal all environmental liabilities, that any prior owner or operator of our stores did not create any material environmental condition not known to us, or that a material environmental condition does not otherwise exist as to any one or more of our stores. There also exists the risk that material environmental conditions, liabilities or compliance concerns may have arisen after the review was completed or may arise in the future. Finally, future laws, ordinances or regulations and future interpretations of existing laws, ordinances or regulations may impose additional material environmental liability.

Costs associated with complying with the Americans with Disabilities Act of 1990 may result in unanticipated expenses.

Under the ADA, places of public accommodation are required to meet certain federal requirements related to access and use by disabled persons. These requirements became effective in 1992. A number of additional U.S. federal, state and local laws may also require modifications to our stores, or restrict certain further renovations of the stores, with respect to access thereto by disabled persons. Noncompliance with the ADA could result in the imposition of fines or an award of damages to private litigants and also could result in an order to correct any non-complying feature, which could result in substantial capital expenditures. We have not conducted an audit or investigation of all of our stores to determine our compliance and we cannot predict the ultimate cost of compliance with the ADA or other legislation. If one or more of our stores is not in compliance with the ADA or other legislation, then we would be required to incur additional costs to bring the facility into compliance. If we incur substantial costs to comply with the ADA or other legislation, our financial condition, results of operations, cash flow, per share trading price of our securities and our ability to satisfy our debt service obligations and to make cash distributions to our stockholders could be adversely affected.

Our tenant reinsurance business is subject to significant governmental regulation, which may adversely affect our results.

Our tenant reinsurance business is subject to significant governmental regulation. The regulatory authorities generally have broad discretion to grant, renew and revoke licenses and approvals, to promulgate, interpret and implement regulations, and to evaluate compliance with regulations through periodic examinations, audits and investigations of the affairs of insurance providers. As a result of regulatory or private action in any jurisdiction, we may be temporarily or permanently suspended from continuing some or all of our reinsurance activities, or otherwise fined or penalized or suffer an adverse judgment, which could adversely affect our business and results of operations.

We face competition for the acquisition of stores and other assets, which may impede our ability to make future acquisitions or may increase the cost of these acquisitions.

We compete with many other entities engaged in real estate investment activities for acquisitions of stores and other assets, including national, regional and local operators and developers of stores. These competitors may drive up the price we pay for stores or other assets we seek to acquire or may succeed in acquiring those stores or assets themselves. In addition, our potential acquisition targets may find our competitors to be more attractive suitors because they may have greater resources, may be willing to pay more or may have a more compatible operating philosophy. In addition, the number of entities and the amount of funds competing for suitable investment in stores may increase. This competition would result in increased demand for these assets and therefore increased prices paid for them. Because of an increased interest in single-store acquisitions among tax-motivated individual purchasers, we may pay higher prices if we purchase single stores in comparison with portfolio acquisitions. If we pay higher prices for stores or other assets, our profitability will be reduced.

We may not be successful in identifying and consummating suitable acquisitions that meet our criteria, which may impede our growth.

Our ability to expand through acquisitions is integral to our business strategy and requires us to identify suitable acquisition candidates or investment opportunities that meet our criteria and are compatible with our growth strategy. We may not be successful in identifying suitable stores or other assets that meet our acquisition criteria or in consummating acquisitions or investments on satisfactory terms or at all. Failure to identify or consummate acquisitions will slow our growth, which could in turn adversely affect our stock price.

Our ability to acquire stores on favorable terms and successfully integrate and operate them may be constrained by the following significant risks:

- competition from local investors and other real estate investors with significant capital, including other publicly-traded REITs and institutional investment funds;
- competition from other potential acquirers may significantly increase the purchase price which could reduce our profitability;
- the inability to achieve satisfactory completion of due diligence investigations and other customary closing conditions;
- failure to finance an acquisition on favorable terms or at all;
- we may spend more than the time and amounts budgeted to make necessary improvements or renovations to acquired stores; and
- we may acquire stores subject to liabilities without any recourse, or with only limited recourse, with respect to unknown liabilities such as liabilities for clean-up of undisclosed environmental contamination, claims by persons dealing with the former owners of the stores and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the stores.

In addition, strategic decisions by us, such as acquisitions, may adversely affect the price of our securities.

We may not be successful in integrating and operating acquired stores.

We have acquired many stores in the past, and we expect to continue acquiring stores in the future. If we acquire any stores, we will be required to integrate them into our existing portfolio. The acquired stores may turn out to be less compatible with our growth strategy than originally anticipated, may cause disruptions in our operations or may divert management's attention away from day-to-day operations, which could impair our operating results as a whole.

Our investments in development and redevelopment projects may not yield anticipated returns, which would harm our operating results and reduce the amount of funds available for distributions.

To the extent that we engage in development and redevelopment activities, we will be subject to the following risks normally associated with these projects:

- we may be unable to obtain financing for these projects on favorable terms or at all;
- we may not complete development or redevelopment projects on schedule or within budgeted amounts;
- we may encounter delays or refusals in obtaining all necessary zoning, land use, building, occupancy and other required governmental permits and authorizations; and
- occupancy rates and rents at newly developed or redeveloped stores may fluctuate depending on a number of factors, including market and economic conditions, and may result in our investment not being profitable.

In deciding whether to develop or redevelop a particular property, we make certain assumptions regarding the expected future performance of the store. We may underestimate the costs necessary to bring the property up to the standards established for its intended market position or may be unable to increase occupancy at a newly developed store as quickly as expected or at all. Any substantial unanticipated delays or expenses could adversely affect the investment returns from these development or redevelopment projects and harm our operating results, liquidity and financial condition, which could result in a decline in the value of our securities.

We may rely on the investments of our joint venture partners for funding certain of our development and redevelopment projects. If our reputation in the self-storage industry changes or the number of investors considering us an attractive strategic partner is otherwise reduced, our ability to develop or redevelop stores could be affected, which would limit our growth.

We rely on information technology in our operations, and any material failure, inadequacy, interruption or security failure of that technology could harm our business.

We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information, and to manage or support a variety of business processes, including financial transactions and records, personally identifiable information, and tenant and lease data. We purchase some of our information technology from vendors, on whom our systems depend. We rely on commercially available systems, software, tools and monitoring to provide security for processing, transmission and storage of confidential tenant and other sensitive information. Although we have taken steps to protect the security of our information systems and the data maintained in those systems, it is possible that our safety and security measures will not be able to prevent the systems' improper functioning or damage, or the improper access or disclosure of personally identifiable information such as in the event of cyber-attacks. Security breaches, including physical or electronic break-ins, computer viruses, attacks by hackers and similar breaches, can create system disruptions, shutdowns or unauthorized disclosure of confidential information. While, to date, we have not experienced a security breach, this risk has generally increased as the number, intensity and sophistication of such breaches and attempted breaches from around the world have increased. Any failure to maintain proper function, security and availability of our information systems could interrupt our operations, damage our reputation, divert significant management attention and resources to remedy any damages that result, subject us to liability claims or regulatory penalties and have a material adverse effect on our business and results of operations.

Risks Related to Our Organization and Structure

Our business could be harmed if key personnel with long-standing business relationships in the self-storage industry terminate their employment with us.

Our success depends on the continued services of members of our executive management team, who have substantial experience in the self-storage industry. In addition, our ability to acquire or develop stores in the future depends on the significant relationships our executive management team has developed with our institutional joint venture partners, such as affiliates of Prudential Financial, Inc. There is no guarantee that any of them will remain employed by us. We do not maintain key person life insurance on any of our officers. The loss of services of one or more members of our executive management team could harm our business and our prospects.

We may change our investment and financing strategies and enter into new lines of business without stockholder consent, which may subject us to different risks.

We may change our investment and financing strategies and enter into new lines of business at any time without the consent of our stockholders, which could result in our making investments and engaging in business activities that are different from, and possibly riskier than, the investments and businesses described in this document. A change in our investment strategy or our entry into new lines of business may increase our exposure to other risks or real estate market fluctuations.

If other self-storage companies convert to an UPREIT structure or if tax laws change, we may no longer have an advantage in competing for potential acquisitions.

Because we are structured as an UPREIT, we are a more attractive acquirer of stores to tax-motivated sellers than our competitors that are not structured as UPREITs. However, if other self-storage companies restructure their holdings to become UPREITs, this competitive advantage will disappear. In addition, new legislation may be enacted or new interpretations of existing legislation may be issued by the Internal Revenue Service ("IRS"), or the U.S. Treasury Department that could affect the attractiveness of our UPREIT structure so that it may no longer assist us in competing for acquisitions.

Tax indemnification obligations may require the Operating Partnership to maintain certain debt levels.

We have provided certain tax protections to various third parties in connection with their property contributions to the Operating Partnership upon acquisition by the Company, including making available the opportunity to (1) guarantee debt or (2) enter into a special loss allocation and deficit restoration obligation. We have agreed to these provisions in order to assist these contributors in preserving their tax position after their contributions. These obligations may require us to maintain certain indebtedness levels that we would not otherwise require for our business.

Our joint venture investments could be adversely affected by our lack of sole decision-making authority.

As of December 31, 2016, we held interests in 180 operating stores through joint ventures. Some of these arrangements could be adversely affected by our lack of sole decision-making authority, our reliance on co-venturers financial conditions and disputes between us and our co-venturers. We expect to continue our joint venture strategy by entering into more joint ventures for the purpose of developing new stores and acquiring existing stores. In such event, we would not be in a position to exercise sole decision-making authority regarding the property, partnership, joint venture or other entity. The decision-making authority regarding the stores we currently hold through joint ventures is either vested exclusively with our joint venture partners, is subject to a majority vote of the joint venture partners or equally shared by us and the joint venture partners. In addition, investments in partnerships, joint ventures or other entities may, under certain circumstances, involve risks not present were a third party not involved, including the possibility that partners or co-venturers might become bankrupt or fail to fund their share of required capital contributions. Partners or co-venturers may have economic or other business interests or goals which are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives. Such investments may also have the potential risk of impasses on decisions, such as a sale, because neither we nor the partner or co-venturer would have full control over the partnership or joint venture. Disputes between us and partners or co-venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and/or directors from focusing their time and efforts on our business. Consequently, actions by or disputes with partners or co-venturers might result in subjecting stores owned by the partnership or joint venture to additional risk. In addition, we may in certain circumstances be liable for the actions of our third-party partners or co-venturers, which could harm our financial condition.

Conflicts of interest could arise as a result of our relationship with our Operating Partnership.

Conflicts of interest could arise in the future as a result of the relationships between us and our affiliates, and our Operating Partnership or any partner thereof. Our directors and officers have duties to our Company under applicable Maryland law in connection with their management of our Company. At the same time, we, through our wholly-owned subsidiary, have fiduciary duties, as a general partner, to our Operating Partnership and to the limited partners under Delaware law in connection with the management of our Operating Partnership. Our duties, through our wholly-owned subsidiary, as a general partner to our Operating Partnership and its partners may come into conflict with the duties of our directors and officers to our Company. The partnership agreement of our Operating Partnership does not require us to resolve such conflicts in favor of either our Company or the limited partners in our Operating Partnership. Unless otherwise provided for in the relevant partnership agreement, Delaware law generally requires a general partner of a Delaware limited partnership to adhere to fiduciary duty standards under which it owes its limited partners the highest duties of good faith, fairness, and loyalty and which generally prohibit such general partner from taking any action or engaging in any transaction as to which it has a conflict of interest.

Additionally, the partnership agreement expressly limits our liability by providing that neither we, our direct wholly-owned Massachusetts business trust subsidiary, as the general partner of the Operating Partnership, nor any of our or their trustees, directors or officers, will be liable or accountable in damages to our Operating Partnership, the limited partners or assignees for errors in judgment, mistakes of fact or law or for any act or omission if we, or such trustee, director or officer, acted in good faith. In addition, our Operating Partnership is required to indemnify us, our affiliates and each of our respective trustees, officers, directors, employees and agents to the fullest extent permitted by applicable law against any and all losses, claims, damages, liabilities (whether joint or several), expenses (including, without limitation, attorneys' fees and other legal fees and expenses), judgments, fines, settlements and other amounts arising from any and all claims, demands, actions, suits or proceedings, civil, criminal, administrative or investigative, that relate to the operations of the Operating Partnership, provided that our Operating Partnership will not indemnify for (1) willful misconduct or a knowing violation of the law, (2) any transaction for which such person received an improper personal benefit in violation or breach of any provision of the partnership agreement, or (3) in the case of a criminal proceeding, the person had reasonable cause to believe the act or omission was unlawful.

The provisions of Delaware law that allow the common law fiduciary duties of a general partner to be modified by a partnership agreement have not been resolved in a court of law, and we have not obtained an opinion of counsel covering the provisions set forth in the partnership agreement that purport to waive or restrict our fiduciary duties that would be in effect under common law were it not for the partnership agreement.

Certain provisions of Maryland law and our organizational documents, including the stock ownership limit imposed by our charter, may inhibit market activity in our stock and could prevent or delay a change in control transaction.

Our charter, subject to certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT and to limit any person to actual or constructive ownership of no more than 7.0% (by value or by number of shares, whichever is more restrictive) of our outstanding common stock or 7.0% (by value or by number of shares, whichever is more restrictive) of our outstanding capital stock. Our board of directors, in its sole discretion, may exempt a proposed transferee from the ownership limit. However, our board of directors may not grant an exemption from the ownership limit to any proposed transferee whose ownership could jeopardize our qualification as a REIT. These restrictions on ownership will not apply if our board of directors determines that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT. The ownership limit may delay or impede a transaction or a change of control that might involve a premium price for our securities or otherwise be in the best interests of our stockholders. Different ownership limits apply to the family of Kenneth M. Woolley, certain of his affiliates, family members and estates and trusts formed for the benefit of the foregoing; to Spencer F. Kirk, certain of his affiliates, family members and estates and trusts formed for the benefit of the foregoing; and to certain designated investment entities as defined in our charter.

Our board of directors has the power to issue additional shares of our stock in a manner that may not be in the best interest of our stockholders.

Our charter authorizes our board of directors to issue additional authorized but unissued shares of common stock or preferred stock and to increase the aggregate number of authorized shares or the number of shares of any class or series without stockholder approval. In addition, our board of directors may classify or reclassify any unissued shares of common stock or preferred stock and set the preferences, rights and other terms of the classified or reclassified shares. Our board of directors could issue additional shares of our common stock or establish a series of preferred stock that could have the effect of delaying, deferring or preventing a change in control or other transaction that might involve a premium price for our securities or otherwise not be in the best interests of our stockholders.

Our rights and the rights of our stockholders to take action against our directors and officers are limited.

Maryland law provides that a director or officer has no liability in that capacity if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. In addition, our charter eliminates our directors' and officers' liability to us and our stockholders for money damages except for liability resulting from actual receipt of an improper benefit in money, property or services or active and deliberate dishonesty established by a final judgment and which is material to the cause of action. Our bylaws require us to indemnify our directors and officers for liability resulting from actions taken by them in those capacities to the maximum extent permitted by Maryland law. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist under common law. In addition, we may be obligated to fund the defense costs incurred by our directors and officers.

To the extent our distributions represent a return of capital for U.S. federal income tax purposes, our stockholders could recognize an increased capital gain upon a subsequent sale of common stock.

Distributions in excess of our current and accumulated earnings and profits and not treated by us as a dividend will not be taxable to a U.S. stockholder under current U.S. federal income tax law to the extent those distributions do not exceed the stockholder's adjusted tax basis in his, her, or its common stock, but instead will constitute a return of capital and will reduce such adjusted basis. If distributions result in a reduction of a stockholder's adjusted basis in such holder's common stock, subsequent sales of such holder's common stock will result in recognition of an increased capital gain or decreased capital loss due to the reduction in such adjusted basis.

Risks Related to the Real Estate Industry

Our primary business involves the ownership and operation of self-storage stores.

Our current strategy is to own, operate, manage, acquire, develop and redevelop only self-storage stores. Consequently, we are subject to risks inherent in investments in a single industry. Because investments in real estate are inherently illiquid, this strategy makes it difficult for us to diversify our investment portfolio and to limit our risk when economic conditions change. Decreases in market rents, negative tax, real estate and zoning law changes and changes in environmental protection laws may also increase our costs, lower the value of our investments and decrease our income, which would adversely affect our business, financial condition and operating results.

Illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of our stores.

Because real estate investments are relatively illiquid, our ability to promptly sell one or more stores in our portfolio in response to changing economic, financial and investment conditions is limited. The real estate market is affected by many factors, such as general economic conditions, availability of financing, interest rates and other factors, including supply and demand, that are beyond our control. We cannot predict whether we will be able to sell any store for the price or on the terms set by us or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a store.

We may be required to expend funds to correct defects or to make improvements before a store can be sold. We cannot assure you that we will have funds available to correct those defects or to make those improvements. In acquiring a store, we may agree to transfer restrictions that materially restrict us from selling that store for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed or repaid on that store. These transfer restrictions would impede our ability to sell a store even if we deem it necessary or appropriate.

Any investments in unimproved real property may take significantly longer to yield income-producing returns, if at all, and may result in additional costs to us to comply with re-zoning restrictions or environmental regulations.
We have invested in the past, and may invest in the future, in unimproved real property. Unimproved properties generally take longer to yield income-producing returns based on the typical time required for development. Any development of unimproved property may also expose us to the risks and uncertainties associated with re-zoning the land for a higher use or development and environmental concerns of governmental entities and/or community groups. Any unsuccessful investments or delays in realizing an income-producing return or increased costs to develop unimproved real estate could restrict our ability to earn our targeted rate of return on an investment or adversely affect our ability to pay operating expenses which would harm our financial condition and operating results.
Any negative perceptions of the self-storage industry generally may result in a decline in our stock price.
To the extent that the investing public has a negative perception of the self-storage industry, the value of our securities may be negatively impacted, which could result in our securities trading below the inherent value of our assets.

Risks Related to Our Debt Financings
Disruptions in the financial markets could affect our ability to obtain debt financing on reasonable terms and have other adverse effects on us.
Uncertainty in the credit markets may negatively impact our ability to access additional debt financing or to refinance existing debt maturities on favorable terms (or at all), which may negatively affect our ability to make acquisitions and fund development projects. A downturn in the credit markets may cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our business plan accordingly. In addition, these factors may make it more difficult for us to sell stores or may adversely affect the price we receive for stores that we do sell, as prospective buyers may experience increased costs of debt financing or difficulties in obtaining debt financing.
Required payments of principal and interest on borrowings may leave us with insufficient cash to operate our stores or to pay the distributions currently contemplated or necessary to maintain our qualification as a REIT and may expose us to the risk of default under our debt obligations.
As of December 31, 2016, we had approximately $4.4 billion of outstanding indebtedness. We may incur additional debt in connection with future acquisitions and development. We may borrow under our Credit Lines or borrow new funds to finance these future stores. Additionally, we do not anticipate that our internally generated cash flow will be adequate to repay our existing indebtedness upon maturity and, therefore, we expect to repay our indebtedness through refinancings and equity and/or debt offerings. Further, we may need to borrow funds in order to make cash distributions to maintain our qualification as a REIT or to make our expected distributions.
If we are required to utilize our Credit Lines for purposes other than acquisition activity, this will reduce the amount available for acquisitions and could slow our growth. Therefore, our level of debt and the limitations imposed on us by our debt agreements could have significant adverse consequences, including the following:

- our cash flow may be insufficient to meet our required principal and interest payments;
- we may be unable to borrow additional funds as needed or on favorable terms, including to make acquisitions or to continue to make distributions required to maintain our qualification as a REIT;
- we may be unable to refinance our indebtedness at maturity or the refinancing terms may be less favorable than the terms of our original indebtedness;
- because a portion of our debt bears interest at variable rates, an increase in interest rates could materially increase our interest expense;
- we may be forced to dispose of one or more of our stores, possibly on disadvantageous terms;
- after debt service, the amount available for cash distributions to our stockholders is reduced;
- our debt level could place us at a competitive disadvantage compared to our competitors with less debt;
- we may experience increased vulnerability to economic and industry downturns, reducing our ability to respond to changing business and economic conditions;
-

we may default on our obligations and the lenders or mortgagees may foreclose on our stores that secure their loans and receive an assignment of rents and leases;

- we may default on our obligations and the lenders or mortgages may enforce our guarantees;

- we may violate restrictive covenants in our loan documents, which would entitle the lenders to accelerate our debt obligations; and
- our default under any one of our mortgage loans with cross-default or cross-collateralization provisions could result in a default on other indebtedness or result in the foreclosures of other stores.

Increases in interest rates may increase our interest expense and adversely affect our cash flow and our ability to service our indebtedness and make cash distributions to our stockholders.

As of December 31, 2016, we had approximately $4.4 billion of debt outstanding, of which approximately $1.3 billion, or 30.0% was subject to variable interest rates (excluding debt with interest rate swaps). This variable rate debt had a weighted average interest rate of approximately 2.3% per annum. Increases in interest rates on this variable rate debt would increase our interest expense, which could harm our cash flow and our ability to pay cash distributions. For example, if market rates of interest on this variable rate debt increased by 100 basis points, the increase in interest expense would decrease future earnings and cash flows by approximately $13.1 million annually.

Failure to hedge effectively against interest rate changes may adversely affect our results of operations.

In certain cases we may seek to manage our exposure to interest rate volatility by using interest rate hedging arrangements. Hedging involves risks, such as the risk that the counterparty may fail to honor its obligations under an arrangement. Failure to hedge effectively against interest rate changes may adversely affect our financial condition, results of operations and ability to make cash distributions to our stockholders.

Risks Related to Qualification and Operation as a REIT

To maintain our qualification as a REIT, we may be forced to borrow funds on a short-term basis during unfavorable market conditions.

To qualify as a REIT, we generally must distribute to our stockholders at least 90% of our net taxable income each year, excluding net capital gains, and we are subject to regular corporate income taxes to the extent that we distribute less than 100% of our net taxable income each year. In addition, we are subject to a 4% nondeductible excise tax on the amount, if any, by which distributions made by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years. While historically we have satisfied these distribution requirements by making cash distributions to our stockholders, a REIT is permitted to satisfy these requirements by making distributions of cash or other property, including, in limited circumstances, its own stock. Assuming we continue to satisfy these distributions requirements with cash, we may need to borrow funds on a short-term basis, or possibly long-term, to meet the REIT distribution requirements even if the then prevailing market conditions are not favorable for these borrowings. These borrowing needs could result from a difference in timing between the actual receipt of cash and inclusion of income for U.S. federal income tax purposes, or the effect of non-deductible capital expenditures, the creation of reserves or required debt amortization payments.

Dividends payable by REITs generally do not qualify for reduced tax rates.

The maximum U.S. federal income tax rate for dividends paid by domestic corporations to individual U.S. stockholders is 20%. Dividends paid by REITs, however, are generally not eligible for the reduced rates. The more favorable rates applicable to regular corporate dividends could cause stockholders who are individuals to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our securities.

In addition, the relative attractiveness of real estate in general may be adversely affected by the favorable tax treatment given to corporate dividends, which could negatively affect the value of our stores.

Possible legislative or other actions affecting REITs could adversely affect our stockholders.

The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department. Changes to tax laws (which changes may have retroactive application) could adversely affect our stockholders. It cannot be predicted whether, when, in what forms, or with what effective dates, the tax laws applicable to us or our stockholders will be changed.

The power of our board of directors to revoke our REIT election without stockholder approval may cause adverse consequences to our stockholders.
Our charter provides that our board of directors may revoke or otherwise terminate our REIT election, without the approval of our stockholders, if it determines that it is no longer in our best interest to continue to qualify as a REIT. If we cease to qualify as a REIT, we would become subject to U.S. federal income tax on our taxable income and would no longer be required to distribute most of our net taxable income to our stockholders, which may have adverse consequences on the total return to our stockholders.
Our failure to qualify as a REIT would have significant adverse consequences to us and the value of our stock.
We believe we operate in a manner that allows us to qualify as a REIT for U.S. federal income tax purposes under the Internal Revenue Code. If we fail to qualify as a REIT or lose our qualification as a REIT at any time, we will face serious tax consequences that would substantially reduce the funds available for distribution for each of the years involved because:

- we would not be allowed a deduction for distributions to stockholders in computing our taxable income and would be subject to U.S. federal income tax at regular corporate rates;
- we also could be subject to the U.S. federal alternative minimum tax and possibly increased state and local taxes; and
- unless we are entitled to relief under applicable statutory provisions, we could not elect to be taxed as a REIT for four taxable years following a year during which we were disqualified.

In addition, if we fail to qualify as a REIT, we will not be required to make distributions to stockholders, and all distributions to stockholders will be subject to tax as regular corporate dividends to the extent of our current and accumulated earnings and profits. This means that our U.S. individual stockholders would be taxed on our dividends at capital gains rates, and our U.S. corporate stockholders would be entitled to the dividends received deduction with respect to such dividends, subject, in each case, to applicable limitations under the Internal Revenue Code. If we fail to qualify as a REIT for federal income tax purposes and are able to avail ourselves of one or more of the relief provisions under the Internal Revenue Code in order to maintain our REIT status, we may nevertheless be required to pay penalty taxes of $50,000 or more for each such failure. As a result of all these factors, our failure to qualify as a REIT also could impair our ability to expand our business and raise capital, and could adversely affect the value of our securities.
Qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which there are only limited judicial and administrative interpretations. The complexity of these provisions and of the applicable Treasury regulations that have been promulgated under the Internal Revenue Code is greater in the case of a REIT that, like us, holds its assets through a partnership. The determination of various factual matters and circumstances not entirely within our control may affect our ability to qualify as a REIT. In order to qualify as a REIT, we must satisfy a number of requirements, including requirements regarding the composition of our assets, the sources of our gross income and the owners of our stock. Our ability to satisfy the asset tests depends upon our analysis of the fair market value of our assets, some of which are not susceptible to precise determination, and for which we will not obtain independent appraisals. Also, we must make distributions to stockholders aggregating annually at least 90% of our net taxable income, excluding capital gains, and we will be subject to income tax at regular corporate rates to the extent we distribute less than 100% of our net taxable income including capital gains. In addition, legislation, new regulations, administrative interpretations or court decisions may adversely affect our investors, our ability to qualify as a REIT for U.S. federal income tax purposes or the desirability of an investment in a REIT relative to other investments. Although we believe that we have been organized and have operated in a manner that is intended to allow us to qualify for taxation as a REIT, we can give no assurance that we have qualified or will continue to qualify as a REIT for tax purposes. We have not requested and do not plan to request a ruling from the Internal Revenue Service regarding our qualification as a REIT.
We will pay some taxes.
Even though we qualify as a REIT for U.S. federal income tax purposes, we will be required to pay some U.S. federal, state and local taxes on our income and property. Extra Space Management, Inc. manages stores for our joint ventures

and stores owned by third parties. We, jointly with Extra Space Management, Inc., elected to treat Extra Space Management, Inc. as a taxable REIT subsidiary ("TRS") of our Company for U.S. federal income tax purposes. A taxable REIT subsidiary is a fully taxable corporation, and may be limited in its ability to deduct interest payments made to us. ESM Reinsurance Limited, a wholly-owned subsidiary of Extra Space Management, Inc., generates income from insurance premiums that are subject to federal income tax and state insurance premiums tax. In addition, we will be subject to a 100% penalty tax on certain amounts if the economic arrangements among our tenants, our taxable REIT subsidiary and us are not comparable to similar arrangements among unrelated parties or if we receive payments for inventory or property held for sale to customers in the ordinary course of business. Also, if we sell property as a dealer (i.e., to customers in the ordinary course of our trade or business), we will be subject to a 100% penalty tax on any gain arising from such sales. While we do not intend to sell stores as a dealer, the IRS could take a contrary position. To the extent that we are, or our taxable REIT subsidiary is, required to pay U.S. federal, state or local taxes, we will have less cash available for distribution to stockholders.

Complying with REIT requirements may cause us to forgo otherwise attractive opportunities.

To qualify as a REIT for U.S. federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our stock. In order to meet these tests, we may be required to forgo attractive business or investment opportunities. Thus, compliance with the REIT requirements may adversely affect our ability to operate solely to maximize profits.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2016, we owned or had ownership interests in 1,016 operating stores. Of these stores, 836 are wholly-owned and 180 are held in joint ventures. In addition, we managed an additional 411 stores for third parties bringing the total number of stores which we own and/or manage to 1,427. These stores are located in 38 states, Washington, D.C. and Puerto Rico. We receive a management fee generally equal to approximately 6.0% of cash collected from total revenues to manage the joint venture and third party sites. As of December 31, 2016, we owned and/or managed approximately 107 million square feet of rentable space configured in approximately 960,000 separate storage units. Approximately 70% of our stores are clustered around large population centers, such as Atlanta, Baltimore/Washington, D.C., Boston, Chicago, Dallas, Houston, Las Vegas, Los Angeles, Miami, New York City, Orlando, Philadelphia, Phoenix, St. Petersburg/Tampa and San Francisco/Oakland. These markets contain above-average population and income demographics for stores. The clustering of assets around these population centers enables us to reduce our operating costs through economies of scale. Our acquisitions have given us an increased scale in many core markets as well as a foothold in many markets where we had no previous presence.

We consider a store to be in the lease-up stage after it has been issued a certificate of occupancy, but before it has achieved stabilization. We consider a store to be stabilized once it has achieved either an 80% occupancy rate for a full year measured as of January 1 of the current year, or has been open for three years prior to the January 1 of the current year.

As of December 31, 2016, approximately 850,000 tenants were leasing storage units at the 1,427 operating stores that we own and/or manage, primarily on a month-to-month basis, providing the flexibility to increase rental rates over time as market conditions permit. Existing tenants generally receive rate increases at least annually, for which no direct correlation has been drawn to our vacancy trends. Although leases are short-term in duration, the typical tenant tends to remain at our stores for an extended period of time. For stores that were stabilized as of December 31, 2016, the average length of stay was approximately 14.3 months.

The average annual rent per square foot for our existing customers at stabilized stores, net of discounts and bad debt, was $15.88 for the year ended December 31, 2016, compared to $14.92 for the year ended December 31, 2015. Average annual rent per square foot for new leases was $17.02 for the year ended December 31, 2016, compared to $15.91 for the year ended December 31, 2015. The average discounts, as a percentage of rental revenues, during these periods were 3.3% and 3.2%, respectively.

Our store portfolio is made up of different types of construction and building configurations depending on the site and the municipality where it is located. Most often sites are what we consider “hybrid” facilities, a mix of both drive-up buildings and multi-floor buildings. We have a number of multi-floor buildings with elevator access only, and a number of facilities featuring ground-floor access only.

The following table presents additional information regarding the occupancy of our stabilized stores by state as of December 31, 2016 and 2015. The information as of December 31, 2015, is on a pro forma basis as though all the stores owned at December 31, 2016, were under our control as of December 31, 2015.

Stabilized Store Data Based on Location

Location	Number of Stores	Company Number of Units as of December 31, 2016 (1)	Pro forma Number of Units as of December 31, 2015	Company Net Rentable Square Feet as of December 31, 2016 (2)	Pro forma Net Rentable Square Feet as of December 31, 2015	Company Square Foot Occupancy % December 31, 2016		Pro forma Square Foot Occupancy % December 31, 2015	
Wholly-Owned Stores									
Alabama	8	4,635	4,585	556,241	559,526	89.3	%	88.3	%
Arizona	21	12,795	12,677	1,408,358	1,414,864	91.7	%	90.4	%
California	143	109,771	108,156	11,425,653	11,399,051	93.8	%	94.8	%
Colorado	13	6,685	6,562	823,284	822,499	89.6	%	89.4	%
Connecticut	6	3,856	3,847	395,257	395,411	91.4	%	92.7	%
Florida	77	55,459	54,612	5,873,089	5,848,836	92.6	%	92.8	%
Georgia	48	28,956	28,281	3,715,001	3,698,127	90.4	%	90.1	%
Hawaii	9	8,534	8,445	602,171	599,373	95.2	%	92.1	%
Illinois	25	17,359	17,139	1,913,921	1,930,543	90.1	%	89.6	%
Indiana	15	7,848	7,718	940,069	944,399	91.2	%	88.5	%
Kansas	1	533	532	49,999	49,991	97.6	%	91.9	%
Kentucky	10	5,874	5,840	756,870	755,610	90.0	%	86.2	%
Louisiana	2	1,406	1,406	149,930	150,090	93.7	%	92.1	%
Maryland	28	21,372	21,271	2,189,772	2,191,424	90.6	%	91.3	%
Massachusetts	37	23,124	22,891	2,295,634	2,305,068	91.0	%	92.2	%
Minnesota	1	765	765	74,400	74,400	73.2	%	76.7	%
Mississippi	3	1,510	1,477	217,922	221,482	87.2	%	81.9	%
Missouri	6	3,292	3,238	386,161	385,961	90.7	%	93.2	%
Nevada	15	9,110	9,132	1,313,820	1,314,665	92.9	%	89.9	%
New Hampshire	2	1,045	1,029	126,053	126,133	91.9	%	93.0	%
New Jersey	58	45,721	45,213	4,498,968	4,495,243	92.6	%	91.5	%
New Mexico	12	6,590	6,575	748,843	750,433	91.7	%	91.9	%
New York	22	20,088	20,022	1,651,030	1,648,534	90.1	%	91.7	%
North Carolina	11	6,876	6,806	761,677	761,323	90.5	%	92.0	%
Ohio	17	9,534	9,460	1,248,860	1,246,238	91.7	%	91.0	%
Oregon	3	2,140	2,156	250,180	250,130	91.2	%	92.7	%
Pennsylvania	14	9,667	9,651	1,047,731	1,044,720	90.3	%	87.3	%
Rhode Island	2	1,280	1,235	131,421	131,356	93.9	%	91.4	%
South Carolina	20	11,331	11,228	1,509,641	1,515,789	88.3	%	87.5	%
Tennessee	23	12,869	12,723	1,764,606	1,781,216	90.6	%	89.1	%
Texas	85	55,509	54,871	7,151,963	7,112,255	88.7	%	89.3	%
Utah	8	4,394	4,231	543,202	523,056	88.8	%	94.1	%
Virginia	39	29,909	29,484	3,164,742	3,163,910	90.4	%	89.5	%
Washington	7	4,301	4,285	509,278	509,358	95.2	%	91.1	%
Washington, DC	1	1,220	1,214	99,689	99,439	93.8	%	91.5	%
Total Wholly-Owned Stabilized	796	547,748	541,116	60,618,052	60,543,119	91.4	%	91.3	%
Joint-Venture Stores									
Alabama	1	619	601	75,356	74,866	91.2	%	93.4	%
Arizona	6	3,745	3,689	429,173	428,724	94.9	%	93.6	%

California	47	34,034	33,526	3,283,592	3,277,679	94.4	%	95.2	%
Colorado	2	1,313	1,308	157,986	158,375	89.2	%	93.9	%
Connecticut	5	3,762	3,763	403,910	404,790	92.2	%	92.8	%
Delaware	1	518	597	64,510	71,610	93.0	%	81.2	%
Florida	12	10,010	9,894	1,003,254	1,002,944	91.8	%	93.8	%
Georgia	1	611	605	81,820	81,950	85.5	%	89.5	%
Illinois	4	2,691	2,695	288,115	287,400	90.6	%	89.6	%
Indiana	1	445	446	56,650	57,114	94.7	%	91.4	%
Kansas	2	846	846	109,375	109,165	91.4	%	90.5	%
Kentucky	3	1,377	1,449	153,895	171,525	91.6	%	85.5	%
Maryland	7	5,896	5,860	529,369	529,527	90.6	%	91.7	%
Massachusetts	9	5,111	5,008	534,107	536,027	92.1	%	91.7	%
Michigan	5	3,203	3,166	396,179	395,764	92.7	%	92.7	%
Missouri	1	543	538	61,375	61,075	89.2	%	91.7	%
Nevada	2	1,209	1,203	123,565	123,495	94.2	%	94.5	%
New Hampshire	2	796	801	83,685	85,111	90.5	%	94.8	%
New Jersey	13	10,377	10,288	1,030,147	1,028,267	91.2	%	92.2	%
New Mexico	2	1,046	1,048	134,371	134,115	90.5	%	91.3	%
New York	8	7,721	7,668	650,917	648,615	93.1	%	93.1	%
Ohio	5	2,879	2,860	381,432	381,462	90.5	%	89.6	%
Oregon	1	651	655	64,970	64,970	93.7	%	94.0	%
Pennsylvania	4	2,684	2,680	312,895	311,091	90.9	%	88.2	%
Tennessee	6	3,824	3,774	474,790	474,875	92.2	%	91.5	%
Texas	10	5,795	5,725	672,669	673,611	89.8	%	93.9	%
Virginia	7	5,091	5,074	514,037	513,932	88.0	%	89.6	%
Washington, DC	1	1,694	1,547	104,450	102,488	88.1	%	89.4	%
Total Joint-Venture Stabilized	168	118,491	117,314	12,176,594	12,190,567	92.2	%	92.8	%
Managed Stores									
Alabama	11	5,755	5,596	754,204	738,753	90.5	%	88.0	%
Arizona	2	1,122	1,055	156,791	166,623	92.8	%	96.0	%
California	72	49,282	48,538	5,897,368	5,826,771	93.5	%	92.2	%
Colorado	16	8,988	8,733	1,067,294	1,035,678	86.8	%	85.5	%
Connecticut	2	1,414	1,312	182,140	171,775	92.4	%	93.4	%
Florida	46	31,743	31,622	3,823,063	3,838,650	92.5	%	92.4	%
Georgia	8	4,069	3,921	578,752	580,042	93.0	%	92.5	%
Hawaii	6	4,578	4,817	352,453	349,952	91.9	%	92.5	%
Illinois	11	6,489	6,518	698,319	698,247	90.4	%	83.8	%
Indiana	4	2,022	2,017	238,283	237,493	91.0	%	84.6	%
Kentucky	2	1,331	1,333	218,707	219,777	89.0	%	90.8	%
Louisiana	1	987	985	133,325	131,865	95.0	%	90.9	%
Maryland	19	14,008	13,924	1,370,012	1,366,149	91.2	%	87.5	%
Massachusetts	3	1,546	1,531	182,945	182,735	93.3	%	94.7	%
Michigan	6	3,352	3,335	416,434	416,290	92.4	%	86.3	%
Missouri	4	2,154	2,215	253,639	251,792	92.3	%	80.5	%
Nevada	10	7,956	7,986	944,870	944,420	91.8	%	87.1	%
New Jersey	5	3,181	3,176	307,035	309,529	91.8	%	88.9	%
New Mexico	1	819	806	107,695	103,535	92.7	%	86.4	%
New York	3	2,675	2,679	219,448	220,248	89.5	%	91.2	%
North Carolina	17	7,264	7,212	1,013,263	1,012,737	92.7	%	91.3	%
Ohio	5	2,268	2,206	274,870	272,915	90.5	%	92.7	%

Oklahoma	11	5,771	5,768	959,984	960,786	80.7	%	80.5	%
Oregon	1	447	455	39,430	39,419	91.1	%	97.7	%
Pennsylvania	18	10,747	10,649	1,247,860	1,244,340	91.3	%	90.4	%
South Carolina	4	2,619	2,609	351,148	348,771	93.1	%	89.2	%
Tennessee	4	2,152	2,125	282,263	290,183	94.0	%	90.4	%
Texas	34	19,788	19,545	2,808,646	2,730,806	85.9	%	87.5	%
Utah	5	2,760	2,532	404,827	380,047	93.6	%	92.2	%
Virginia	7	4,245	4,242	437,319	437,929	89.3	%	89.3	%
Washington	3	1,552	1,561	181,697	181,769	89.1	%	87.9	%
Puerto Rico	4	2,735	2,676	289,704	286,772	87.3	%	87.4	%
Total Managed Stabilized	345	215,819	213,679	26,193,788	25,976,798	90.9	%	89.7	%
Total Stabilized Stores	1,309	882,058	872,109	98,988,434	98,710,484	91.4	%	91.0	%

(1) Represents unit count as of December 31, 2016, which may differ from unit count as of December 31, 2015, due to unit conversions or expansions.
(2) Represents net rentable square feet as of December 31, 2016, which may differ from net rentable square feet as of December 31, 2015, due to unit conversions or expansions.

The following table presents additional information regarding the occupancy of our lease-up stores by state as of December 31, 2016 and 2015. The information as of December 31, 2015, is on a pro forma basis as though all the stores owned at December 31, 2016, were under our control as of December 31, 2015.

Lease-up Store Data Based on Location

		Company	Pro forma	Company	Pro forma	Company		Pro forma	
Location	Number of Stores	Number of Units as of December 31, 2016 (1)	Number of Units as of December 31, 2015	Net Rentable Square Feet as of December 31, 2016 (2)	Net Rentable Square Feet as of December 31, 2015	Square Foot Occupancy % December 31, 2016		Square Foot Occupancy % December 31, 2015	
Wholly-Owned Stores									
Arizona	2	1,496	894	185,887	122,092	90.5	%	72.9	%
California (3)	4	2,633	1,210	260,216	133,252	73.1	%	37.7	%
Connecticut	1	1,108	1,107	89,820	89,820	92.3	%	90.0	%
Florida	2	1,238	1,235	153,893	158,283	92.9	%	67.5	%
Georgia	5	3,115	1,898	352,755	219,515	67.4	%	63.5	%
Illinois	4	3,568	1,667	308,723	134,464	56.7	%	69.8	%
Maryland	1	988	988	103,135	103,135	94.2	%	89.8	%
Massachusetts	3	2,719	754	206,276	67,431	68.4	%	79.8	%
North Carolina	3	2,517	1,986	231,083	187,024	73.1	%	52.3	%
Oregon	1	597	597	76,797	76,347	96.2	%	67.9	%
South Carolina	2	1,366	1,344	137,295	137,350	82.2	%	65.7	%
Texas	10	6,112	6,131	788,381	716,894	84.8	%	68.0	%
Utah	1	617	—	77,336	—	20.7	%	—	%
Virginia	1	558	502	55,900	56,405	93.6	%	89.2	%
Total Wholly-Owned in Lease-up	40	28,632	20,313	3,027,497	2,202,012	76.9	%	67.4	%
Joint-Venture Stores									
Arizona	1	603	606	62,200	62,200	87.1	%	39.2	%

Colorado	1	816	—	84,830	—	38.1	%	—	%
Florida	1	637	—	66,816	—	1.5	%	—	%
New Jersey	1	869	873	74,152	74,521	92.8	%	45.3	%
New York	3	3,853	1,109	209,522	66,950	49.6	%	25.7	%
Oregon	2	795	285	71,605	27,100	45.1	%	31.8	%
South Carolina	1	669	649	78,085	70,570	66.4	%	28.0	%
Texas	1	533	—	55,275	—	58.6	%	—	%
Washington	1	634	—	82,485	—	66.8	%	—	%
Total Joint-Venture in Lease-up	12	9,409	3,522	784,970	301,341	55.0	%	34.4	%
Managed Stores									
Arizona	1	836	—	89,695	—	62.9	%	—	%
California	5	3,920	1,608	491,191	209,030	66.1	%	58.4	%
Colorado	4	2,417	1,173	273,520	134,844	64.1	%	59.0	%
Connecticut	1	360	—	37,436	—	71.6	%	—	%
Florida	3	1,994	1,407	194,571	150,438	88.1	%	60.3	%
Georgia	3	1,922	553	225,376	69,367	43.5	%	54.4	%
Illinois	8	4,919	672	492,235	46,417	34.3	%	83.6	%
Indiana	2	964	—	111,112	—	45.3	%	—	%
Kentucky	2	1,439	—	138,076	—	8.0	%	—	%
Maryland	3	1,726	1,318	144,230	115,650	84.8	%	75.7	%
Massachusetts	2	1,920	902	153,533	70,106	48.0	%	56.7	%
Minnesota	1	626	—	62,597	—	93.8	%	—	%
Missouri	1	608	—	63,100	—	41.6	%	—	%
Nevada	1	1,450	1,470	197,351	196,486	88.8	%	66.2	%
New Hampshire	1	372	—	35,196	—	47.6	%	—	%
New Jersey	2	882	—	126,396	—	43.6	%	—	%
New York	1	534	344	56,150	33,684	77.0	%	91.0	%
North Carolina	7	4,284	1,611	464,431	199,433	55.1	%	54.2	%
Ohio	2	736	528	87,663	64,500	60.7	%	59.3	%
Oklahoma	1	360	—	68,235	—	13.6	%	—	%
South Carolina	4	2,905	1,616	325,511	165,011	48.6	%	65.6	%
Texas	7	4,846	570	534,569	65,409	22.8	%	2.4	%
Utah	1	375	—	44,149	—	62.9	%	—	%
Virginia	1	455	455	51,299	51,289	91.0	%	93.2	%
Wisconsin	2	1,935	—	226,813	—	21.0	%	—	%
Total Managed in Lease-up	66	42,785	14,227	4,694,435	1,571,664	50.6	%	61.1	%
Total Lease-up Stores	118	80,826	38,062	8,506,902	4,075,017	60.4	%	62.5	%

(1) Represents unit count as of December 31, 2016, which may differ from unit count as of December 31, 2015, due to unit conversions or expansions.

(2) Represents net rentable square feet as of December 31, 2016, which may differ from net rentable square feet as of December 31, 2015, due to unit conversions or expansions.

(3) In October 2014, a store located in Venice, California was damaged by fire. In 2016, the store was re-opened for operation and is continuing to lease up.

Item 3. Legal Proceedings

We are involved in various legal proceedings and are subject to various claims and complaints arising in the ordinary course of business. Because litigation is inherently unpredictable, the outcome of these matters cannot presently be determined with any degree of certainty. In accordance with applicable accounting guidance, management establishes an accrued liability for litigation when those matters present loss contingencies that are both probable and reasonably estimable. In such cases, there may be an exposure to loss in excess of any amounts accrued. The estimated loss, if any, is based upon currently available information and is subject to significant judgment, a variety of assumptions, and known and unknown uncertainties. Therefore, any estimate(s) of loss disclosed below represents what management believes to be an estimate of loss only for certain matters meeting these criteria and does not represent our maximum loss exposure. We could in the future incur judgments or enter into settlements of claims that could have a material adverse effect on our results of operations in any particular period, notwithstanding the fact that we are currently vigorously defending any legal proceedings against us.

We currently have several legal proceedings pending against us that include causes of action alleging wrongful foreclosure, violations of various state specific self-storage statutes, and violations of various consumer fraud acts. As a result of these litigation matters, we have recorded a liability of $5.6 million which is included in other liabilities on the consolidated balance sheets.

Item 4. Mine Safety Disclosures

Not Applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock has been traded on the New York Stock Exchange (“NYSE”) under the symbol “EXR” since our IPO on August 17, 2004. Prior to that time there was no public market for our common stock.

The following table presents, for the periods indicated, the high and low sales price for our common stock as reported by the NYSE and the per share dividends declared:

		Range		Dividends
Year	Quarter	High	Low	Declared
2015	1st	$67.65	$57.11	$ 0.47
	2nd	70.50	63.54	0.59
	3rd	77.51	65.82	0.59
	4th	90.22	75.55	0.59
2016	1st	93.46	78.42	0.59
	2nd	94.04	84.95	0.78
	3rd	94.38	76.17	0.78
	4th	77.66	68.78	0.78

On February 21, 2017, the closing price of our common stock as reported by the NYSE was $78.37. At February 21, 2017, we had 355 holders of record of our common stock. Certain shares of the Company are held in “street” name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number.

Holders of shares of common stock are entitled to receive distributions when declared by our board of directors out of any assets legally available for that purpose. As a REIT, we are required to distribute at least 90% of our “REIT taxable income," which is generally equivalent to our net taxable ordinary income, determined without regard to the deduction for dividends paid to our stockholders annually in order to maintain our REIT qualification for U.S. federal income tax purposes. We have historically made regular quarterly distributions to our stockholders.

Information about our equity compensation plans is incorporated by reference in Item 12 of Part III of this Annual Report on Form 10-K.

Unregistered Sales of Equity Securities

On November 8, 2016, our Operating Partnership issued 486,244 Series D-4 Preferred Units in connection with the acquisition of a store located in Illinois. This store was acquired in exchange for the Series D-4 Preferred Units, valued at $12.2 million.

On November 2, 2016, our Operating Partnership issued 77,575 common OP units ("OP Units") in connection with the acquisition of a store located in Maryland. The store was acquired in exchange for the OP units, valued at $5.8 million, and approximately $9.0 million in cash.

The terms of the common and preferred OP Units are governed by the Operating Partnership's Fourth Amended and Restated Agreement of Limited Partnership. The OP Units will be redeemable, at the option of the holders following the expiration of a lock-up period commencing on the date of issuance and ending on August 15, 2018, which redemption obligation may be satisfied, at our option, in cash or shares of our common stock.

The OP Units were issued in private placements in reliance on Section 4(a)(2) of the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

All other unregistered sales of equity securities during the year ended December 31, 2016 have previously been disclosed in filings with the SEC.

Item 6. Selected Financial Data

The following table presents selected financial data and should be read in conjunction with the financial statements and notes thereto included in Item 8, "Financial Statements and Supplementary Data" and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-K (amounts in thousands, except share and per share data).

	For the Year Ended December 31,				
	2016	2015	2014	2013	2012
Revenues:					
Property rental	$864,742	$676,138	$559,868	$446,682	$346,874
Tenant reinsurance, management fees and other income	127,133	106,132	87,287	73,931	62,522
Total revenues	991,875	782,270	647,155	520,613	409,396
Expenses:					
Property operations	250,005	203,965	172,416	140,012	114,028
Tenant reinsurance	15,555	13,033	10,427	9,022	7,869
Acquisition related costs and other	12,111	69,401	9,826	8,618	5,351
General and administrative	81,806	67,758	60,942	54,246	50,454
Depreciation and amortization	182,560	133,457	115,076	95,232	74,453
Total expenses	542,037	487,614	368,687	307,130	252,155
Income from operations	449,838	294,656	278,468	213,483	157,241
Interest expense	(138,459)	(98,992)	(84,013)	(73,034)	(72,294)
Interest income	10,998	8,311	6,457	5,599	6,666
Loss on extinguishment of debt related to portfolio acquisition, gain (loss) on real estate transactions, earnout from prior acquisitions, sale of other assets and property casualty loss, net	8,465	1,501	(12,009)	(8,193)	—
Income before equity in earnings of real estate ventures and income tax expense	330,842	205,476	188,903	137,855	91,613
Equity in earnings of unconsolidated real estate ventures	12,895	12,351	10,541	11,653	10,859
Equity in earnings of unconsolidated real estate ventures - gain on sale of real estate assets and purchase of joint venture partners' interests	69,199	2,857	4,022	46,032	30,630
Income tax expense	(15,847)	(11,148)	(7,570)	(9,984)	(5,413)
Net income	397,089	209,536	195,896	185,556	127,689
Noncontrolling interests in Operating Partnership and other noncontrolling interests	(30,962)	(20,062)	(17,541)	(13,480)	(10,380)
Net income attributable to common stockholders	$366,127	$189,474	$178,355	$172,076	$117,309
Earnings per common share					
Basic	$2.92	$1.58	$1.54	$1.54	$1.15
Diluted	$2.91	$1.56	$1.53	$1.53	$1.14
Weighted average number of shares					
Basic	125,087,554	119,816,743	115,713,807	111,349,361	101,766,385
Diluted	125,948,076	126,918,869	121,435,267	113,105,094	103,767,365
Cash dividends paid per common share	$2.93	$2.24	$1.81	$1.45	$0.85

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	As of December 31,				
	2016	2015	2014	2013	2012
Balance Sheet Data					
Total assets	$7,091,446	$6,071,407	$4,381,987	$3,977,140	$3,223,477
Total notes payable, notes payable to trusts, exchangeable senior notes and revolving lines of credit, net	$4,306,223	$3,535,621	$2,349,764	$1,946,647	$1,577,599
Noncontrolling interests	$351,274	$283,527	$174,558	$173,425	$53,524
Total stockholders' equity	$2,244,892	$2,089,077	$1,737,425	$1,758,470	$1,491,807
Other Data					
Net cash provided by operating activities	$539,263	$367,329	$337,581	$271,259	$215,879
Net cash used in investing activities	$(1,032,035)	$(1,625,664)	$(564,948)	$(366,976)	$(606,938)
Net cash provided by financing activities	$460,831	$1,286,471	$148,307	$191,655	$395,360

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. We make statements in this section that are forward-looking statements within the meaning of the federal securities laws. For a complete discussion of forward-looking statements, see the section in this Form 10-K entitled "Statements Regarding Forward-Looking Information." Certain risk factors may cause actual results, performance or achievements to differ materially from those expressed or implied by the following discussion. For a discussion of such risk factors, see the section in this Form 10-K entitled "Risk Factors." Amounts in thousands, except share and per share data.

Overview

We are a fully integrated, self-administered and self-managed real estate investment trust, or REIT, formed to continue the business commenced in 1977 by Extra Space Storage LLC and its subsidiaries to own, operate, manage, acquire, develop and redevelop professionally managed stores.

At December 31, 2016, we owned, had ownership interests in, or managed 1,427 operating stores in 38 states, Washington, D.C. and Puerto Rico. Of these 1,427 operating stores, we owned 836, we held joint venture interests in 180 stores, and our taxable REIT subsidiary, Extra Space Management, Inc., operated an additional 411 stores that are owned by third parties. These operating stores contain approximately 107 million square feet of rentable space in approximately 960,000 units and currently serve a customer base of approximately 850,000 tenants.

Our stores are generally situated in convenient, highly visible locations clustered around large population centers such as Atlanta, Baltimore/Washington, D.C., Boston, Chicago, Dallas, Houston, Las Vegas, Los Angeles, Miami, New York City, Orlando, Philadelphia, Phoenix, St. Petersburg/Tampa and San Francisco/Oakland. These areas all enjoy above average population growth and income levels. The clustering of our assets around these population centers enables us to reduce our operating costs through economies of scale. We consider a store to be in the lease-up stage after it has been issued a certificate of occupancy, but before it has achieved stabilization. We consider a store to be stabilized once it has achieved either an 80% occupancy rate for a full year measured as of January 1 of the current year, or has been open for three years prior to the January 1 of the current year.

To maximize the performance of our stores, we employ industry-leading revenue management systems. Developed by our management team, these systems enable us to analyze, set and adjust rental rates in real time across our portfolio in order to respond to changing market conditions. We believe our systems and processes allow us to more proactively manage revenues.

We derive substantially all of our revenues from rents received from tenants under leases at each of our wholly-owned stores, from management fees on the stores we manage for joint-venture partners and unaffiliated third parties, and from our tenant reinsurance program. Our management fee is generally equal to approximately 6.0% of cash collected from total revenues generated by the managed stores. We also receive an asset management fee of 0.5% of the total asset value from one of our joint ventures.

We operate in competitive markets, often where consumers have multiple stores from which to choose. Competition has impacted, and will continue to impact, our store results. We experience seasonal fluctuations in occupancy levels, with occupancy levels generally higher in the summer months due to increased moving activity. Our operating results depend materially on our ability to lease available self-storage units, to actively manage unit rental rates, and on the ability of our tenants to make required rental payments. We believe that we are able to respond quickly and effectively to changes in local, regional and national economic conditions by adjusting rental rates through the combination of our revenue management team and our industry-leading technology systems.

We continue to evaluate a range of new initiatives and opportunities in order to enable us to maximize stockholder value. Our strategies to maximize stockholder value include the following:

- Maximize the performance of our stores through strategic, efficient and proactive management. We pursue revenue-generating and expense-minimizing opportunities in our operations. Our revenue management team seeks to maximize revenue by responding to changing market conditions through our advanced technology system's ability to provide real-time, interactive rental rate and discount management. Our size allows us greater ability than the majority of our competitors to implement more effective online marketing programs, which we believe will attract more customers to our stores at a lower net cost.
- Acquire self-storage stores. Our acquisitions team continues to pursue the acquisition of multi-store portfolios and single stores that we believe can provide stockholder value. We have established a reputation as a reliable, ethical buyer, which we believe enhances our ability to negotiate and close acquisitions. In addition, we believe our status as an UPREIT enables flexibility when structuring deals. We continue to review available acquisitions. As interest rates increase, our expectation is that capitalization rates will also increase and that prices will begin to decrease. We remain a disciplined buyer and only execute acquisitions that we believe will strengthen our portfolio and increase stockholder value.
- Expand our management business. Our management business enables us to generate increased revenues through management fees and expand our geographic footprint. We believe this expanded footprint enables us to reduce our operating costs through economies of scale. In addition, we see our management business as a future acquisition pipeline. We pursue strategic relationships with owners whose stores would enhance our portfolio in the event an opportunity arises to acquire such stores.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our financial statements have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates and assumptions, including those that impact our most critical accounting policies. We base our estimates and assumptions on historical experience and on various other factors that we believe are reasonable under the circumstances. A summary of significant accounting policies is also provided in
the notes to our consolidated financial statements (see Note 2 to our consolidated financial statements). Actual results may differ from these estimates. We believe the following are our most critical accounting policies:

CONSOLIDATION: Arrangements that are not controlled through voting or similar rights are accounted for as variable interest entities ("VIEs"). An enterprise is required to consolidate a VIE if it is the primary beneficiary of the VIE.

A VIE is created when (i) the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or (ii) the entity's equity holders as a group either: (a) lack the power, through voting or similar rights, to direct the activities of the entity that most significantly impact the entity's economic performance, (b) are not obligated to absorb expected losses of the entity if they occur, or (c) do not have the right to receive expected residual returns of the entity if they occur. If an entity is deemed to be a VIE, the enterprise that is deemed to have a variable interest, or combination of variable interests, that provides the enterprise with a controlling financial interest in the VIE is considered the primary beneficiary and must consolidate the VIE.

We have concluded that under certain circumstances when we enter into arrangements for the formation of joint ventures, a VIE may be created under condition (i) or (ii)(b) or (ii)(c) of the previous paragraph. For each VIE created, we have performed a qualitative analysis, including considering which party, if any, has the power to direct the activities most significant to the economic performance of each VIE and whether that party has the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could be significant to the VIE. If we are determined to be the primary beneficiary of the VIE, the assets, liabilities and operations of the VIE are consolidated with our financial statements. As of December 31, 2016, we had no consolidated VIEs. Additionally, our Operating Partnership has notes payable to three trusts that are VIEs under condition (ii)(a) above. Since the Operating Partnership is not the primary beneficiary of the trusts, these VIEs are not consolidated.

REAL ESTATE ASSETS: Real estate assets are stated at cost, less accumulated depreciation. Direct and allowable internal costs associated with the development, construction, renovation, and improvement of real estate assets are capitalized. Interest, property taxes, and other costs associated with development incurred during the construction period are capitalized.

Expenditures for maintenance and repairs are charged to expense as incurred. Major replacements and betterments that improve or extend the life of the asset are capitalized and depreciated over their estimated useful lives. Depreciation is computed using the straight-line method over the estimated useful lives of the buildings and improvements, which are generally between 5 and 39 years.

In connection with our acquisition of operating stores, the purchase price is allocated to the tangible and intangible assets and liabilities acquired based on their fair values, which are estimated using significant unobservable inputs. The value of the tangible assets, consisting of land and buildings, is determined as if vacant. Intangible assets, which represent the value of existing tenant relationships, are recorded at their fair values based on the avoided cost to replace the current leases. We measure the value of tenant relationships based on the rent lost due to the amount of time required to replace existing customers, which is based on our historical experience with turnover in our facilities. Debt assumed as part of an acquisition is recorded at fair value based on current interest rates compared to contractual rates. Acquisition-related transaction costs are expensed as incurred.

Stores purchased at the time of certificate of occupancy issuance are considered asset acquisitions. As such, the purchase price is allocated to the land and buildings acquired based on their fair values. Any debt assumed as part of the acquisition is recorded at fair value based on current interest rates compared to contractual rates. Acquisition-related transactions costs are capitalized as part of the purchase price.

Intangible lease rights include: (1) purchase price amounts allocated to leases on three stores that cannot be classified as ground or building leases; these rights are amortized to expense over the term of the leases; and (2) intangibles related to ground leases on eight stores where the ground leases were assumed by us at rates that were different than the current market rates for similar leases. The value associated with these assumed leases were recorded as intangibles, which will be amortized over the lease terms.

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

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

When real estate assets are identified as held for sale, we discontinue depreciating the assets and estimate the fair value of the assets, net of selling costs. If the estimated fair value, net of selling costs, of the assets that have been identified as held for sale is less than the net carrying value of the assets, we would recognize a loss on the disposal group classified as held for sale. The operations of assets held for sale or sold during the period are presented as part of normal operations for all periods presented.

INVESTMENTS IN UNCONSOLIDATED REAL ESTATE VENTURES: Our investments in real estate joint ventures where we have significant influence but not control, and joint ventures which are VIEs in which we are not the primary beneficiary, are recorded under the equity method of accounting on the accompanying consolidated financial statements.

Under the equity method, our investment in real estate ventures is stated at cost and adjusted for our share of net earnings or losses and reduced by distributions. Equity in earnings of real estate ventures is generally recognized based on our ownership interest in the earnings of each of the unconsolidated real estate ventures. For the purposes of presentation in the statement of cash flows, we follow the “look through” approach for classification of distributions from joint ventures. Under this approach, distributions are reported under operating cash flow unless the facts and circumstances of a specific distribution clearly indicate that it is a return of capital (e.g., a liquidating dividend or distribution of the proceeds from the joint venture’s sale of assets) in which case it is reported as an investing activity.

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

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES: The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability or firm commitment attributable to a particular risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

For derivatives designated as fair value hedges, changes in the fair value of the derivative and the hedged item related to the hedged risk are recognized in earnings. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income, outside of earnings and subsequently reclassified to earnings when the hedged transaction affects earnings.

REVENUE AND EXPENSE RECOGNITION: Rental revenues are recognized as earned based upon amounts that are currently due from tenants. Leases are generally on month-to-month terms. Prepaid rents are recognized on a straight-line basis over the term of the leases. Promotional discounts are recognized as a reduction to rental income over the promotional period. Late charges, administrative fees, merchandise sales and truck rentals are recognized in income when earned. Management fee revenues are recognized monthly as services are performed and in accordance with the terms of the related management agreements. Equity in earnings of real estate entities is recognized based on our ownership interest in the earnings of each of the unconsolidated real estate entities. Interest income is recognized as earned.

Property expenses, including utilities, property taxes, repairs and maintenance and other costs to manage the facilities are recognized as incurred. We accrue for property tax expense based upon invoice amounts, estimates and historical trends. If these estimates are incorrect, the timing of expense recognition could be affected.

Tenant reinsurance premiums are recognized as revenue over the period of insurance coverage. We record an unpaid claims liability at the end of each period based on existing unpaid claims and historical claims payment history. The unpaid claims liability represents an estimate of the ultimate cost to settle all unpaid claims as of each period end, including both reported but unpaid claims and claims that may have been incurred but have not been reported. We use a third party claims administrator to adjust all tenant reinsurance claims received. The administrator evaluates each claim to determine the ultimate claim loss and includes an estimate for claims that may have been incurred but not reported. Annually, a third party actuary evaluates the adequacy of the unpaid claims liability. Prior year claim reserves are adjusted as experience develops or new information becomes known. The impact of such adjustments is included in the current period operations. The unpaid claims liability is not discounted to its present value. Each tenant chooses the amount of insurance coverage they want through the tenant reinsurance program. Tenants can purchase policies in amounts of two thousand dollars to ten thousand dollars of insurance coverage in exchange for a monthly fee. Our exposure per claim is limited by the maximum amount of coverage chosen by each tenant. We purchase reinsurance for losses exceeding a set amount on any one event. We do not currently have any amounts recoverable under the reinsurance arrangements.

INCOME TAXES: We have elected to be treated as a REIT under Sections 856 through 860 of the Internal Revenue Code. In order to maintain our qualification as a REIT, among other things, we are required to distribute at least 90% of our REIT taxable income to our stockholders and meet certain tests regarding the nature of our income and assets. As a REIT, we are not subject to federal income tax with respect to that portion of our income which meets certain criteria and is distributed annually to our stockholders. We plan to continue to operate so that we meet the requirements for taxation as a REIT. Many of these requirements, however, are highly technical and complex. If we were to fail to meet these requirements, we would be subject to federal income tax. We are subject to certain state and local taxes. Provision for such taxes has been included in income tax expense in our consolidated statements of operations.

We have elected to treat one of our corporate subsidiaries, Extra Space Management, Inc., as a taxable REIT subsidiary ("TRS"). In general, our TRS may perform additional services for tenants and generally may engage in any real estate or non-real estate related business. A TRS is subject to corporate federal income tax. Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities. Interest and penalties relating to uncertain tax positions will be recognized in income tax expense when incurred.

RECENT ACCOUNT PRONOUNCEMENTS: For a discussion of recent accounting pronouncements affecting our business, see Item 8, "Financial Statements and Supplementary Data–Recently Issued Accounting Standards."

RESULTS OF OPERATIONS

Comparison of the Year Ended December 31, 2016 to the Year Ended December 31, 2015

Overview

Results for the year ended December 31, 2016 included the operations of 1,016 stores (836 wholly-owned, one in a consolidated joint venture, and 179 in joint ventures accounted for using the equity method) compared to the results for the year ended December 31, 2015, which included the operations of 999 stores (746 wholly-owned, one in a consolidated joint venture, and 252 in joint ventures accounted for using the equity method).

Revenues

The following table presents information on revenues earned for the years indicated:

	For the Year Ended December 31,				
	2016	2015	$ Change	% Change	
Revenues:					
Property rental	$864,742	$676,138	$188,604	27.9	%
Tenant reinsurance	87,291	71,971	15,320	21.3	%
Management fees and other income	39,842	34,161	5,681	16.6	%
Total revenues	$991,875	$782,270	$209,605	26.8	%

Property Rental—The increase in property rental revenues for the year ended December 31, 2016 was primarily the result of an increase of $144,985 associated with acquisitions completed in 2016 and 2015. We acquired 99 stores during the year ended December 31, 2016 and 171 stores during the year ended December 31, 2015. Property rental revenue also increased by $42,171 during the year ended December 31, 2016 as a result of increases in rental rates to new and existing customers at our stabilized stores. Revenues at our lease-up stores increased by $3,439 for the year ended December 31, 2016 due primarily to increases in occupancy. The achieved rental rate to new tenants on wholly owned properties for the year ended December 31, 2016 increased an average of approximately 7.0% over the prior year. These increases were offset by decreases in property revenue of $1,991 for the year ended December 31, 2016 related to the sales of stores during 2016.

Tenant Reinsurance—The increase in tenant reinsurance revenues was due primarily to the increase in stores operated. We operated 1,427 stores at December 31, 2016, compared to 1,347 stores at December 31, 2015.

Management Fees and Other Income—Our TRS manages stores owned by our joint ventures and third parties. Management fees generally represent 6.0% of cash collected from stores owned by third parties and unconsolidated joint ventures. We also earn an asset management fee from the Storage Portfolio I ("SPI") joint venture, equal to 0.50% multiplied by the total asset value, provided certain conditions are met. The increase in management fees is due primarily to an increase in the revenues at the stores we managed. At December 31, 2016, we managed 591 stores for third parties and non-consolidated joint ventures, compared to 601 stores at December 31, 2015. The decrease in the number of stores managed is due primarily to our acquisition of 40 stores from our joint ventures during 2016.

Expenses

The following table presents information on expenses for the years indicated:

	For the Year Ended December 31, 2016	2015	$ Change	% Change
Expenses:				
Property operations	$250,005	$203,965	$46,040	22.6 %
Tenant reinsurance	15,555	13,033	2,522	19.4 %
Acquisition related costs and other	12,111	69,401	(57,290)	(82.5)%
General and administrative	81,806	67,758	14,048	20.7 %
Depreciation and amortization	182,560	133,457	49,103	36.8 %
Total expenses	$542,037	$487,614	$54,423	11.2 %

Property Operations—The increase in property operations expense consists primarily of an increase of $45,055 related to acquisitions completed in 2016 and 2015. We acquired 99 operating stores during the year ended December 31, 2016 and 171 stores during the year ended December 31, 2015.

Tenant Reinsurance—Tenant reinsurance expense represents the costs that are incurred to provide tenant reinsurance. The change is due primarily to the increase in the number of stores we owned and/or managed. At December 31, 2016, we owned and/or managed 1,427 stores compared to 1,347 stores at December 31, 2015.

Acquisition Related Costs and Other—These costs relate primarily to acquisition activities during the periods indicated. The decrease in these expenses for the year ended December 31, 2016 compared to the prior year was due to a decrease in the number of acquisitions. We acquired 99 properties during the year ended December 31, 2016 compared to 171 during the prior year. Included in the acquisitions completed in 2015 was the acquisition of SmartStop Self Storage Inc. ("SmartStop") on October 1, 2015. As part of this acquisition, we recorded an expense of $38,360 related to defeasance costs and prepayment penalties incurred related to the repayment of SmartStop's existing debt as of the acquisition date. We incurred $8,053 of professional fess/closing costs, $6,338 of severance-related costs, $1,327 of other payroll-related costs and $9,043 of other acquisition related costs as a result of the acquisition of SmartStop, for a total of $63,121.

General and Administrative—General and administrative expenses primarily include all expenses not directly related to our stores, including corporate payroll, travel and professional fees. These expenses are recognized as incurred. General and administrative expenses for the year ended December 31, 2016 increased when compared to the same periods in the prior year primarily due to the overall cost associated with the management of additional stores. At December 31, 2016, we owned and/or managed 1,427 stores compared to 1,347 stores at December 31, 2015. Additionally, during 2016, we accrued a $4,000 expense related to the potential settlement of a legal action. We did not observe any material trends in specific payroll, travel or other expenses that contributed significantly to the increase in general and administrative expenses apart from the increase due to the management of additional stores.

Depreciation and Amortization—Depreciation and amortization expense increased as a result of the acquisition of new stores. We acquired 99 operating stores during the year ended December 31, 2016, and 171 operating stores during the year ended December 31, 2015.

Other Income and Expenses

The following table presents information on other revenues and expenses for the years indicated:

	For the Year Ended December 31,			
	2016	2015	$ Change	% Change
Other income and expenses:				
Gain on real estate transactions, earnout from prior acquisition and sale of other assets	$8,465	$1,501	$6,964	464.0 %
Interest expense	(133,479)	(95,682)	(37,797)	39.5 %
Non-cash interest expense related to amortization of discount on equity component of exchangeable senior notes	(4,980)	(3,310)	(1,670)	50.5 %
Interest income	6,148	3,461	2,687	77.6 %
Interest income on note receivable from Preferred Operating Partnership unit holder	4,850	4,850	—	—
Equity in earnings of unconsolidated real estate ventures	12,895	12,351	544	4.4 %
Equity in earnings of unconsolidated real estate ventures - gain on sale of real estate assets and purchase of joint venture partners' interests	69,199	2,857	66,342	2,322.1 %
Income tax expense	(15,847)	(11,148)	(4,699)	42.2 %
Total other expense, net	$(52,749)	$(85,120)	$32,371	(38.0)%

Gain on Real Estate Transactions, Earnout from Prior Acquisition and Sale of Other Assets— During the year ended December 31, 2016, through various transactions, we sold a total of nine stores located in Indiana, Ohio and Texas. We received a total of $22,002 in cash and 85,452 of our OP Units valued at $7,689 in exchange for these stores. The Operating Partnership has canceled the OP Units received. We recognized a total gain of $11,358 related to these dispositions.

During 2014, we acquired a portfolio of five stores. As part of this acquisition, we agreed to make an additional cash payment to the sellers if the acquired stores exceeded a specified amount of net operating income for the years ending December 31, 2015 and 2016. At the acquisition date, we recorded an estimated liability related to this provision. As the operating income of these stores during the earnout period was higher than originally estimated, an additional payment was due to the sellers of $4,284, which was recorded as a loss during 2016.

In 2011, we acquired a single store in Florida. As part of the acquisition, we agreed to make an additional cash payment to the sellers if the acquired store exceeded a specified amount of net rental income for the period of 12 consecutive months ending June 30, 2015. During 2014, we recorded a liability of $2,500 as an estimate of the payment that would become due. The $400 gain recorded during 2015 represents the adjustment needed to true up the existing liability to the amount owed to the sellers as of June 30, 2015.

During 2015, we determined that one of our acquisitions was purchased at below its market value, and therefore recorded a $1,101 gain at the time of the acquisition, which represents the excess of the fair value of the store acquired over the consideration paid.

Interest Expense—The increase in interest expense during the year ended December 31, 2016 was primarily the result of higher debt balances when compared to the prior year. The total face value of our debt, including our lines of credit, was $4,363,697 at December 31, 2016 compared to $3,598,254 at December 31, 2015.

Non-cash Interest Expense Related to Amortization of Discount on Equity Component of Exchangeable Senior Notes—Represents the amortization of the discounts related to the equity components of the exchangeable senior notes issued by our Operating Partnership. Our Operating Partnership has issued and outstanding 2.375% Exchangeable Senior Notes due 2033 (the "2013 Notes") and 3.125% Exchangeable Senior Notes due 2035 (the "2015 Notes.") The 2013 Notes and the 2015 Notes both have an effective interest rate of 4.0% relative to the carrying amount of the liability. The increase for the year ended December 31, 2016 when compared to the same period in the prior year is due to the issuance of $575,000 principal amount of the 2015 Notes in September 2015 and related discount of $22,597.

Interest Income—Interest income represents amounts earned on cash and cash equivalents deposited with financial institutions and interest earned on notes receivable. The increase for the year ended December 31, 2016 is related primarily to the increase in the average notes receivable balances outstanding when compared to the prior year. The majority of the increase in interest income related to the $84,331 of notes receivable issued in conjunction with the acquisition of SmartStop in October 2015. These notes have a 7.0% interest rate which increases to 9.0% in February 2017. As of December 31, 2016, the remaining principal balance was $52,201.
Interest Income on Note Receivable from Preferred Operating Partnership Unit Holder—Represents interest on a $100,000 loan to the holder of the Operating Partnership’s Series A Participating Redeemable Preferred Units (the “Series A Units”).

Equity in Earnings of Unconsolidated Real Estate Ventures—Equity in earnings of unconsolidated real estate ventures represents the income earned through our ownership interests in unconsolidated joint ventures. The increase for the year ended December 31, 2016 compared to the same period in the prior year was primarily the result of an increase in our ownership interest from 2.0% to approximately 4.0% in the ESS PRISA LLC ("PRISA") joint venture and from 2.0% to approximately 4.4% in the ESS PRISA II LLC ("PRISA II") joint venture, as well as an increase in revenue at the stores owned by our joint ventures. These increases were offset by an overall decrease in the number of stores owned by our joint ventures, primarily due to our acquisition of 40 of these stores as noted below.

On April 25, 2016, we and affiliates of Prudential Financial, Inc. ("Prudential") entered into the “Second Amendment to Amended and Restated Operating Agreement of ESS PRISA LLC” and the “First Amendment to Amended and Restated Operating Agreement of ESS PRISA II LLC” (the “Amendments”). The Amendments are deemed effective as of April 1, 2016. Under the Amendments, we gave up any future rights to receive distributions from these joint ventures at the higher “excess profit participation” percentage of 17.0% in exchange for a higher equity ownership percentage. Our equity ownership in ESS PRISA LLC increased from 2.0% to 4.0%, and our equity ownership in ESS PRISA II LLC increased from 2.0% to 4.4%.

Equity in Earnings of Unconsolidated Real Estate Ventures—Gain on Sale of Real Estate Assets and Purchase of Joint Venture Partners’ Interests—On November 17, 2016, we acquired 11 stores from our ESS WCOT LLC joint venture ("WCOT") in a step acquisition. We owned 5.0% of WCOT, with the other 95.0% owned by affiliates of Prudential. WCOT created a new subsidiary, Extra Space Storage 132 LLC ("ESS 132"), and transferred 11 stores into ESS 132. WCOT then distributed ESS 132 to Prudential and us on a pro rata basis. This distribution was accounted for as a spinoff, and was therefore recorded at the net carrying amount of the properties of $68,814 . Immediately after the distribution, we acquired Prudential's 95.0% interest in ESS 132 for $153,304, resulting in 100% ownership of ESS 132 and the related 11 stores. Based on the purchase price of Prudential's share of ESS 132, we determined that the fair value of our investment in ESS 132 immediately prior to the acquisition of Prudential's share was $8,119, and we recorded a gain of $4,651 as a result of re-measuring to fair value our existing equity interest in ESS 132.

On September 16, 2016, we acquired 23 stores from PRISA II in a step acquisition. We owned 4.4% of PRISA II, with the other 95.6% owned by affiliates of Prudential. PRISA II created a new subsidiary, Extra Space Properties 131 LLC ("ESP 131"), and transferred 23 stores into ESP 131. PRISA II then distributed ESP 131 to Prudential and us on a pro rata basis. This distribution was accounted for as a spinoff, and was therefore recorded at the net carrying amount of the properties of $4,326. Immediately after the distribution, we acquired Prudential's 95.6% interest in ESP 131 for $238,679, resulting in 100% ownership of ESP 131 and the related 23 stores. Based on the purchase price of Prudential's share of ESP 131, we determined that the fair value of our investment in ESP 131 immediately prior to the acquisition of Prudential's share was $10,988, and we recorded a gain of $6,778 as a result of re-measuring to fair value our existing equity interest in ESP 131. Subsequent to these transactions, PRISA II owned 42 stores. We then sold our remaining interest in PRISA II to Prudential for $34,758 in cash. As a result of this sale, we recognized a gain of $30,846.

On February 2, 2016, we acquired six stores from our VRS Self Storage LLC joint venture (“VRS”) in a step acquisition. We owned 45.0% of VRS, with the other 55.0% owned by Prudential. VRS created a new subsidiary, Extra Space Properties 122 LLC (“ESP 122”) and transferred six stores into ESP 122. VRS then distributed ESP 122 to Prudential and us on a pro rata basis. This distribution was accounted for as a spinoff, and was therefore recorded at the net carrying amount of the properties of $17,261, Immediately after the distribution, we acquired Prudential’s 55.0% interest in ESP 122 for $53,940, resulting in 100% ownership of ESP 122 and the related six stores. Based on the purchase price of Prudential’s share of ESP 122, we determined that the fair value of our investment in ESP 122 immediately prior to the acquisition of Prudential’s share was $44,184, and we recorded a gain of $26,923 as a result of re-measuring to fair value our existing equity interest in ESP 122.

In March 2015, one of our joint ventures sold a store located in New York to a third party and recognized a gain of $60,495. We recognized our 2.0% share of this gain, or $1,228.

In March 2015 we acquired a joint venture partner's 82.4% equity interest in an existing joint venture which had one store. We previously held the remaining 17.6% equity interest in this joint venture. Prior to the acquisition, we accounted for our equity interest in this joint venture as an equity-method investment. We recognized a non-cash gain of $1,629 as a result of re-measuring the fair value of our equity interest in this joint venture held before the acquisition.

Income Tax Expense—Income tax expense is the result of income earned by our TRS which includes income from our management company and reinsurance activities.

Net Income Allocated to Noncontrolling Interests

The following table presents information on net income allocated to noncontrolling interests for the years indicated:

	For the Year Ended December 31,			
	2016	2015	$ Change	% Change
Net income allocated to noncontrolling interests:				
Net income allocated to Preferred Operating Partnership noncontrolling interests	$(14,700)	$(11,718)	$(2,982)	25.4 %
Net income allocated to Operating Partnership and other noncontrolling interests	(16,262)	(8,344)	(7,918)	94.9 %
Total income allocated to noncontrolling interests:	$(30,962)	$(20,062)	$(10,900)	54.3 %

Net Income Allocated to Preferred Operating Partnership Noncontrolling Interests—Income allocated to the Preferred Operating Partnership noncontrolling interests for the year ended December 31, 2016 represents the fixed distributions paid to the preferred unit holders as follows: the Series A Redeemable Preferred Units ("Series A Units") receive distributions at an annual rate of 5.0%, plus approximately 0.70% of net income after the allocation of the fixed distributions, the Series B Redeemable Preferred Units ("Series B Units") receive distributions at an annual rate of 6.0%, the Series C Convertible Redeemable Preferred Units ("Series C Units") receive, from issuance until the fifth anniversary of issuance, an annual rate of $0.18 plus the then-payable quarterly distribution per OP Unit, and the Series D Redeemable Preferred Units ("Series D Units") receive distributions at an annual rate of 5.0%.

Net Income Allocated to Operating Partnership and Other Noncontrolling Interests—Income allocated to the Operating Partnership represents approximately 4.2% and 4.2% of net income after the allocation of the fixed distribution paid to the Preferred Operating Partnership unit holders for the years ended December 31, 2016 and 2015, respectively.

Comparison of the Year Ended December 31, 2015 to the Year Ended December 31, 2014

Overview

Results for the year ended December 31, 2015, included the operations of 999 stores (747 of which were consolidated and 252 of which were in joint ventures accounted for using the equity method) compared to the results for the year ended December 31, 2014, which included the operations of 828 stores (576 of which were consolidated and 252 of which were in joint ventures accounted for using the equity method).

Revenues

The following table presents information on revenues earned for the years indicated:

	For the Year Ended December 31,			
	2015	2014	$ Change	% Change
Revenues:				
Property rental	$676,138	$559,868	$116,270	20.8 %

Tenant reinsurance	71,971	59,072	12,899	21.8	%
Management fees and other income	34,161	28,215			