

***Transcript of
Life Storage***
**Fourth Quarter 2016 Earnings Release Conference Call - Edited
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Participants

Diane Piegza – Vice President, Investor Relations
Dave Rogers – Chief Executive Officer
Andy Gregoire – Chief Financial Officer
Paul Powell – Chief Investment Officer
Ed Killeen – Chief Operating Officer

Analysts

Juan Sanabria – Bank of America
Gaurav Mehta – Cantor Fitzgerald
Todd Thomas – KeyBanc Capital Markets
Ki Bin Kim – SunTrust Robinson Humphrey
George Hoglund – Jefferies
Smedes Rose – Citigroup
Gwen Clark – Evercore ISI
Barry Oxford – D.A. Davidson
Paul Adornato – BMO Capital Markets
RJ Milligan – Robert W. Baird
Jonathan Hughes – Raymond James
David Corak – FBR Capital Markets
Todd Stender – Wells Fargo

Presentation

Operator

Greetings and welcome to the Life Storage Fourth Quarter 2016 Earnings Release Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Ms. Diane Piegza, Vice President, Investor Relations for Life Storage. Thank you. You may begin.

Diane Piegza – Vice President, Investor Relations

Thank you, Melissa, and good morning, everyone. Thank you for joining our fourth quarter and full year 2016 conference call. Leading today's call will be Dave Rogers, our Chief Executive Officer. Also participating are Andy Gregoire, Ed Killeen and Paul Powell. As a reminder, the following discussion and answers to your questions contain forward-looking statements. Our actual results may differ from those projected, due to risks and uncertainties with the Company's business. Additional information concerning these factors is included in the Company's latest SEC filings. For your reference and in addition to our press release, we have included a financial supplement, which is available on the Investor Relations page, at lifestorage.com.

At this time, I will turn the call over to Andy.

Dave Rogers – Chief Executive Officer

Dave.

Diane Piegza – Vice President, Investor Relations

Dave.

Dave Rogers – Chief Executive Officer

Thank you, Diane, and welcome to our call. Q4 wrapped up the most ambitious and progressive year in our 32-year history. We acquired and assimilated 120 new stores, entered three big new markets, greatly improved the quality of our portfolio, and changed our long-standing company name. Except for the rebranding, most of the heavy lift was done by the end of Q3. So, this quarter we let the dust settle a little bit, and we like what we see. Results from the LA, Sacramento and Vegas markets are meeting our high expectations. The lease-up in the CFO stores are ahead of plan in almost every instance. The benefits we planned as a result of increasing our scale are there, and the sign change and rebranding effort remains on budget and ahead of schedule.

The name change has quickly become a catalyst for a significant boost. We've built a tremendous marketing campaign around the new brand, both poignant and effective. Life Storage has been well-received by our operating team, our customer base, especially the commercial tenants, and the communities we do business in. Organic search results have measurably improved, driven by some clever programs we've initiated. The new brand's also helped us in a big way on the property management front. At the end of 2016, we had 69 JV stores and 26 third-party stores in the fold. Since the first of this year, we've added 12 stores to that, with five more coming online as soon as construction is finished, and some 30 more are in late stage negotiations. We really expect property management to be a major growth driver for us in the coming quarters and years, all as a result of an upgraded image derived from a great new name.

For the foreseeable future, we will not be active in the acquisition market. We did buy two stores in the fourth quarter that had been under contract since early 2016. One was a CO deal in Chicago and the other was a stabilized property in Orlando that came to us via the management pipeline. We're in contract to acquire two more CO deals later in 2017 for a total cost of \$22 million. One of those is in Charlotte, and the other one is again in Chicago. These have been in the hopper for quite some time, and we're not currently seeking many more. One way we may add some flags to the portfolio is via joint venture purchases. In January, we added four stores to our California markets and one in Long Island City using JVs. The purchase price of the five stores totaled \$135 million. The capital we contributed was about \$28 million. We're currently considering adding one more California store to one of the JVs.

Stepping back and looking at the macro picture, the self-storage sector, as has been more than well-documented, hit some speed bumps during the past seven or eight months. While somewhat sudden and rather unexpected, we don't think this recent deceleration of fundamentals warrants the malaise it's generated. Yes, pricing power has been diminished and leasing incentives are again necessary.

Operating costs, especially property taxes, are increasing by fairly substantial amounts. New construction is putting supply back into the equation again. And, in a number of markets, Texas especially, these factors have given us a reason for somewhat of a pause. The strong tailwinds we've enjoyed for many consecutive quarters have swung around to present us with a bit of a headwind, but we've been here before and, compared to other challenging periods, the outlook this time doesn't look nearly as dire.

Occupancy for many in the industry, and here at Life Storage specifically, is at a record high for December and we've hit record highs almost every month this year. Demand is strong, as phone and web inquiries have increased year-over-year again this quarter. After years of significant and sustained NOI growth, especially in a

non-inflationary time, this remains a pretty attractive business. As we always say at this time of year when introducing guidance, we'll have a much clearer picture in a few weeks. We think we've positioned ourselves well to take on the recent challenges to our sector, and we're looking forward to the upcoming leasing season. The moves we made in 2016 made us bigger, better, and, as Chicago's song says, we're feeling stronger every day. Andy?

Andy Gregoire – Chief Financial Officer

Thanks, Dave. Last night, we reported adjusted funds from operations of \$1.31 per share, a result of same-store revenue growth of 4% and same-store NOI growth of 3.7% for the quarter. The drivers behind the revenue growth included a 50 basis point increase in average occupancy and a 2.9% increase in rental rates. The increase in occupancy was achieved in the face of our rebranding, which not only is a testament to all of our employees, especially the marketing team, but to the strength of the Life Storage brand. Same-store occupancy at December 31, 2016 was 90.4%, an all-time high for a year-end.

Same-store property operating expenses increased 4.6% for the quarter. This was a result of increases in real estate taxes, repairs and maintenance, and internet marketing, offset partially by decreases in other advertising and insurance. Although our same-store real estate taxes increased by 5.6% for the quarter, it was less than we had expected, despite the significant increases in San Antonio, Phoenix, portions of Florida and Raleigh, North Carolina. This favorable variance from expectations was offset by some higher than expected real estate taxes on properties not in the same-store pool.

G&A costs were approximately \$1.4 million higher this quarter over that of the previous year fourth quarter. The main reasons for the increase were the fact that we operated 117 more stores at the end of this year as compared to last year, costs associated with the name change, increases in wages in our call center, and additional legal fees. We had a few unusual items this quarter. We recognized a \$623,000 gain on a land taking, which we eliminated from adjusted FFO. In addition, we wrote off \$1.8 million of property deposits assumed with the Life Storage acquisition. We made the decision not to pursue the acquisition of two Texas C of O properties for which the previous owners of Life had put deposits on.

In regard to the 83 Life Storage properties acquired in July, we have made excellent progress in cleaning up customer accounts and are excited to be entering the busy season with a cleaner rent roll and a true occupancy in the mid-80s. As we said last year, we felt the 92% occupancy of the mature portfolio was inflated with a less than quality customer base, attracted with significant upfront specials. This puts us in a solid position to grow occupancy at market rates. For the 11 non-stable stores acquired with Life, the occupancies continue to grow nicely.

Our balance sheet remains in great shape. At December 31st, we had approximately \$24 million of cash on hand and \$247 million available on our line of credit. We have no material debt maturities until December of 2019, when our line of credit matures. We were not active with our ATM program this quarter, and we have no plans to be active with that program, based on our current stock price.

With regard to guidance, we have included in our release the expected ranges of revenue and expenses for the first quarter and the entire year. Same-store revenue and NOI growth for Q1 should be in the 3% to 4% range. Expenses outside of property taxes should increase between 2.5% and 3.5% for the quarter. Property taxes are forecasted to increase 5% to 6% over Q1 of 2016. Once again, we are not including in our same-store group any stores acquired as certificate of occupancy over the last three years, since the high occupancies at these stores were obtained with below-market rates.

Our guidance assumes no additional accretive acquisitions. Guidance does assume \$0.01 to \$0.03 per share of FFO dilution from the certificate of occupancy deals we have completed to date or that we expect to complete in

2017. As a result of the above assumptions, we are forecasting adjusted funds from operation for the full year 2017 to be between \$5.50 and \$5.60 per share, and between \$1.24 and \$1.28 per share for the first quarter of 2017.

With that, Melissa, we can open the call for questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question comes from the line of Juan Sanabria with Bank of America. Please proceed with your question.

Juan Sanabria: Hi, Good morning. Thanks for the time. I was just hoping you could talk to the revenue trajectory you expect in 2017, particularly relative to how you view supply coming on. It seems like you are expecting kind of a flat growth, 3% to 4%, for the year and for the first quarter. What gives you confidence that we won't see any deceleration this year relative to what we saw last year in the face of what seems to be increasing supply?

Andy Gregoire – Chief Financial Officer

Hi, Juan, it's Andy. When we built the budgets, and we start those through our area managers and work with the revenue management team, there's a couple of trends we've looked at that helped us guide through the year. First half of the year tough free rent trends. So we are going to have some headwinds from a free rent point of view first half of the year.

First half of the year though, we think we're going to have good occupancy trends. We think we can hold some occupancy gains in first of the year. Second half of the year sort of flips around, the free rent trend gets easier, we don't expect much occupancy gain. But all in all, we are trying to maximize revenue, and we think we can keep it steady but pulling those levers at different times of the year.

Juan Sanabria: Okay, great. And is there anything you could say in terms of supply expectations, new store openings this year versus last, and any sort of visibility into '18 at this point?

Paul Powell – Chief Investment Officer

Good morning Juan, this is Paul. Yes, on our internal analysis of new supply, we've identified a total of 227 stores that compete within five miles of our properties. Of that, many, 144, are in construction or in planning and 83 have open. So, we've been saying this year we thought to be 700 to 800, which we still believe going into '18. It's hard to say, but I would expect to see at least that many, maybe a little bit more. There may be some additional development in secondary and tertiary markets. But, as of now, we think 2017 will be 800 to 900, and then maybe the same going into 2018.

Juan Sanabria: Great thank you very much.

Operator

Thank you. Our next question comes from line of Gaurav Mehta with Cantor Fitzgerald. Please proceed with your question.

Gaurav Mehta: Yes, hi, good morning. So couple of questions on transaction, I think in your prepared remarks, you mentioned that you may not be looking to buy anything on the wholly-owned side, but you may buy assets in the JV. So I was wondering, if you could expand on what's the difference in the asset quality that you may buy for wholly-owned portfolio versus what would buy for your JV by portfolio?

Dave Rogers – Chief Executive Officer

Not much. This is Dave, Gaurav. We keep standards both on properties that we like to acquire for JVs, as well as those that we want to manage for third parties. So we would look to have at least B quality properties in markets where we already have a presence or where we can garner scale really quickly. So, of course, we work with our JV partner on these, but the interests are pretty well-aligned. I don't think you'll see much of a difference between a JV store, or even a third-party managed store, from our core properties.

Gaurav Mehta: Okay. Then, given that same-store revenue growth in '17, it's lower than what we saw in '16 and '15. I was wondering, if you have seen any impact on the cap rates that you're seeing in the private market?

Dave Rogers – Chief Executive Officer

Not really. There's some product out there. We look at all of it, even though we may not be pulling the trigger, we certainly look at a lot, and I don't think we're seeing much of a disconnect yet between cap rates. Even with a little bit of pressure on interest rates, and perhaps some of the larger buyers setting off to the sideline, there's still a lot of interest in these properties. And, the story has been the last year or so, if the sellers don't get their price, they pull it off the market. So cap rates in the private side are holding.

Gaurav Mehta: Okay. And then lastly, could you provide some more detail on the right-off that you had in Austin for the two CO assets?

Andy Gregoire – Chief Financial Officer

Yes, Gaurav, those properties were put under contract by the previous owners of Life. They had deposits down, non-refundable deposits, on those. We wanted to take time to analyze those after we made the acquisition and, once we did, we weren't comfortable with two of the properties. There is a third that we really do like and that we may do a lease agreement on, and we're negotiating a lease now on a third one. But those two, we just didn't like the properties and felt it was best to walk away than to spend the money on those facilities in Texas.

Paul Powell – Chief Investment Officer

Yes, Gaurav, this is Paul. Just a quick add to that. We had looked at all three of these properties prior to Life getting the deals. We had passed on them, mainly because two of them compete with each other and the pricing expectations were higher than we wanted to pay at that time. We just didn't like the two. We do like the third one, which, as Andy said, we are currently negotiating lease on.

Gaurav Mehta: Okay, thanks for taking the questions.

Dave Rogers – Chief Executive Officer

You're welcome.

Operator

Thank you. Our next question comes from line of Todd Thomas with KeyBanc Capital Markets. Please proceed with your questions.

Todd Thomas: Hi, thanks. Good morning. Can you talk about trends that you're seeing and move in-rates, whether you're seeing a decrease in move-in rates stabilized on a year-over-year basis? And, then on the free rent side, it sounds like you're expecting concessions to stabilize in the second half of the year. Is that a flat year-over-year impact, essentially, that's in the model for the second half of '17?

Andy Gregoire – Chief Financial Officer

Correct. For the free rent, it's flat for the second half of the year. In rates, Todd, at the end of the year, our street rates were right on top of December 2015. So they were even with the prior-year. This time of year, we normally

do have roll downs, because those customer who moved in in June and July move out, half of them are gone within six months remember, so, as they move out in the lower rent period, you have roll down in the few months of the year. That's typical. There's nothing atypical about what we're seeing now. Rents, obviously, being flat year-over-year is something new; we haven't seen a lot of that. But, we would hope that with these occupancies as we head into the busy season, we're comfortable that we will have some pricing power.

Todd Thomas: Okay. And, when do you normally start to see sequential occupancy increases in the portfolio? When's the peak leasing season really kick off for you traditionally?

Dave Rogers – Chief Executive Officer

I'd say the middle of May gets it going. By the 1st of June, we have a pretty good handle on what things are looking like. Starts in May, but by May 15th, May 20th, those weekends that are in that period are what really tells the story for us.

Todd Thomas: Okay, got it. And then, on the operating expense growth in the quarter, pretty outsized growth on the Internet marketing that you mentioned, also repairs and maintenance. How much of that has to do with rebranding that might be spilling into the same-store? Can you just talk about those items and what we should expect heading into 2017.

Andy Gregoire – Chief Financial Officer

On the Internet marketing, we are typical of—about 5% to 8% growth is standard typical growth. The rest of it is rebranding related. So, we expect that to continue through the first half of 2017. R&M-wise, Hurricane Matthew actually caused damage to quite a few of our stores, but it was minor damage. And all that had to be repaired; it was trees down, fences down, that type of thing. So, there was a lot of repairs related to Matthew, but no major destruction. It was just a lot of minor items.

Todd Thomas: Okay.

Ed Killeen, Chief Operating Officer

Todd, during the fourth quarter and heading into the first quarter, the marketing spend on a market-by-market basis, as we transition to the Life Storage brand will be about 20% to 25% increase. But, I think overall next year, as Andy said, our increase will be somewhere in the 5% to 8%.

Andy Gregoire – Chief Financial Officer

Yes. ex that charge in the first year should in the 5% to 8%.

Todd Thomas: Okay thank you.

Operator

Thank you. Our next question comes from the line of Ki Bin Kim with SunTrust Robinson Humphrey. Please proceed with you question.

Ki Bin Kim: Thank you, good morning everyone. So, can we first start off with some stats on street rates or promotions as you've seen so far in mid-February or end of January?

Andy Gregoire – Chief Financial Officer

Sure. Street rates are down a little bit, they were zero at the end of the year. They were slightly negative at the end of January, Ki Bin. Free rent, fourth quarter we were up \$500,000 over previous fourth quarter, Q1 maybe a little less than that, but still we got a top comp Q1 and Q2 from a free rent point of view. So, we will have still some headwinds from the free rent.

Ki Bin Kim: Okay.

Andy Gregoire – Chief Financial Officer

And, we are offering more free rent.

Ki Bin Kim: Okay. And just going back to the guidance of 3.5%. It seems our revenue growth in the first quarter is down from 4% in the fourth quarter. Basically, you're expecting a soft landing. No further deceleration for the rest of the year. My question is, can you help us understand what are the underlying ingredients of that? I know you already gave some information, but I guess, essentially, what you are expecting for existing customer rate increase contribution and what are you expecting, specifically, for street rate growth for rest of the year to get to that point?

Andy Gregoire – Chief Financial Officer

Sure. I think, you hit on the one point. The in-place customer—and now with over 60% of our customers with us over a year, we don't do a lot of in-place in Q4 and Q1, but we expect in Q2 that will be a driver of some revenue growth there. So we have a lot—40% of our customers right now are below street rate. So, of those 60% that have been with us more than a year, 40% of them are below street rate. So, it's a good place to be. We think that's going to push us come the busy season in the second half of the year. We talked about free rent having some tough comps first half but easier second half of the year. And, I forget the other part of your question sorry about that Ki Bin.

Ki Bin Kim: No, that's okay. The street rate portion of it—what are you basically implying modeling in for street rate growth for the rest of the year?

Andy Gregoire – Chief Financial Officer

Yes. I think it will be pretty muted the first half of the year, busy season. We're only talking 3% growth in the street rate.

Ki Bin Kim: Okay. And, when you think about that 3% projection, and I think you are saying for the busy season not the full-year, is that projection driven by market level predictions or is it just on the higher level portfolio? I asked that because I wanted to see if you're projecting some markets to be a bigger driver of that growth versus—

Andy Gregoire – Chief Financial Officer

Exactly. We're talking in overall numbers here, but if we talk Atlanta and Miami and St. Louis, Tampa, and Phoenix, you're going to see rates are up in those areas 5% to 7%. Then you see them in Houston down 7% to 8%. So it does very tremendously from market to market.

Ki Bin Kim: Thank you.

Operator

Thank you our next question comes from the line of George Hoggund with Jefferies. Please proceed with you question.

George Hoggund: Good morning. In terms of the guidance, given the amount of deceleration, what gives you the confidence to have a relatively narrow range on both the same-store NOI growth and the FFO per share growth?

Andy Gregoire – Chief Financial Officer

George I think we build these models, we look at our projections, every year when we go into the year we're comfortable with that. "Hey, this is what we can do this is a reasonable expectation." And, we try to get a range from our reasonable expectation. Based on what we are seeing and what we've seen in January, there's nothing right now that's telling us any differently than what we thought in the first half regarding free rent being a headwind and second half it shouldn't be. What we're seeing is that reaction to the free rent and some of it name change. We're seeing occupancy growth. So, we are comfortable that we can pull that lever and increase the occupancy for the first half of the year. Second half of the year, at these occupancy levels, they are still all-time highs. We should have some pricing power, as we did in 2016. Not as strong as we've had in '15 and in the first half of '16, but there still will be the ability to push rates in many markets; not all markets, but many markets.

George Hoglund: Okay. And, then, with the new brand are there any plans to ramp up the third party management program in 2017?

Dave Rogers – Chief Executive Officer

Yes. We love what the brand has done for us. Not to speak ill of our old name but, unfortunately, I think we handicapped our marketing guys with that. Then we had a lot of people who came to our office, who were very impressed with our people, with our platforms, and with the success that we've had. It wasn't until after we changed the brand that we realized how many people turned us down just because they didn't want to put the name Uncle Bob's Self-Storage on their brand-new facilities.

So we're enjoying a bit of an up-swell here. We had some people come back to us who had turned us down in the fall. Fortunately, they had not selected another provider. But, our guys are busy. We're ramping up a little bit here right now, and we expect to do more. But, I think third party management is a game that we played quite quietly for the last three years. We want to make some more noise in that facet of our business.

George Hoglund: Okay. And just one last one. As far as the \$250 million line balance, what are the plans to turn that out in the near-term?

Andy Gregoire – Chief Financial Officer

We don't have any plans in the near-term to term that out. We'll see how the market reacts over the next year or so. And we have until the end of 2019. There's no need to term that out. We're comfortable with \$250 million to \$300 million of floating rate line of credit balance out there of our \$500 million that we have available. So we are fine with the level we are at.

Dave Rogers – Chief Executive Officer

We just did, as you probably know, our first publicly executed debt deal. And, I think we would wait at least until we had uses of \$300 million before we went back to that market. When we get there, that's probably when we'll do it.

George Hoglund: Okay. Thank you.

Operator

Thank you. Our next question comes from line Smedes Rose with Citigroup. Pleased proceed with your question.

Smedes Rose: Hi. I wanted to ask you a little more about the fourth quarter results, particularly in Houston, where it looks like you came in a little better than expected. And, it seems by implication that the balance of the portfolio maybe did a little worse than expected, relative to your guidance, and you only had two months left in the year at that point. So, can you talk a little bit about what you're seeing on the ground in Houston? And, what happened across the balance of the portfolio that seems like maybe it was a little worse than what you thought?

Andy Gregoire – Chief Financial Officer

Hi Smedes. Yes, a few things. In Houston, we actually saw free rent start to level off later in the fourth quarter. So we're comfortable that occupancy was holding where we wanted it to. We didn't need to pull the free rent lever as hard as we thought we were going to have to in Houston, which was good. But, there's other markets where we did have to start that. We did see some new comps in Raleigh-Durham and in Dallas and some other Texas markets where we had to start pulling a little harder on the free rent lever.

Smedes Rose: So, when you say that like that, that you saw new free rent and stuff happening in Raleigh. Are these facilities that are opening that you are not aware of in advance, or are they opening faster than you thought? Just trying to get a handle on—it seems like you're having a tough time really nailing your guidance, particularly when you only had two months left in the quarter and the variance is quite significant. I'm just trying to wonder—how are you going to handle on what's happening on supply? Is that opening faster? Are you not aware of it? What's maybe some color around that?

Andy Gregoire – Chief Financial Officer

I think there's couple things going on there, Smedes. We are very aware of the new comps. When they open exactly, no. So, we could be off a month or two when they're going to open. That does happen. But we just felt that with, the name change, it'd be better to have some free rent in some of these markets. It grew occupancy. It just worked out well. And, it's what we expected. It just—sometimes that free rent lever, when you pull it to maintain occupancy, hurts you in the short-term. But, we don't see that long-term. We see that as a headwind in the first half of the 2017.

Ed Killeen, Chief Operating Officer

Smedes, where we would see...

Smedes Rose: Okay.

Ed Killeen, Chief Operating Officer

Go ahead, I'm sorry.

Smedes Rose: No that's okay. Go ahead.

Ed Killeen, Chief Operating Officer

I was going to say where we see incoming competition and new development, it's not—we don't think it's a matter of a market being oversaturated. It's a temporary position where we have to meet and compete with these comps that come in. And, as they raise occupancy, things begin to normalize. It doesn't appear to be the days where there's 2,000 and 3,000 properties coming on and the market would suddenly become oversaturated and the demand just wasn't there. It's just, again, a short-term position. You have to do that if a comp moves in next door or down the street. And, then things begin to normalize a little bit.

Smedes Rose: Okay. You mentioned 227 stores opening or open during construction. Could you give some extra detail just around Houston, specifically, on what you're seeing on supply additions that you think come online over the course of the year? And do you think that market is sort of bottomed out here now?

Paul Powell – Chief Investment Officer

Smedes, this is Paul. In Houston, in the fourth quarter, we identified 14 within our 5 mile radius of our stores. Two of them were in planning, 10 of them were in construction, and the remaining had already opened. So we do know there's additional development going on in Houston. I think it slowed down to some degree. But, we've seen other markets where there's a higher potential for more supply.

Smedes Rose: All right, thank you

Operator

Thank you our next comes from the line of Gwen Clark with Evercore ISI. Please proceed with your question.

Gwen Clark: Hi, Good morning. So I know you guys talked about expense growth. But can you walk us through the different line items and how you are getting to the 7% increase in taxes for the year?

Andy Gregoire – Chief Financial Officer

Yes. The taxes, Gwen, are very property specific. There is some headwind in Chicago. We had a great year in Chicago. We thought we were going to get hit with a few, and we're not. So, next year, you should expect that we do see some headwinds in Chicago regarding these real estate taxes. And, there's quite a few markets Texas and Florida that we still have properties that have the potential to be seen as undervalued. So, we will see some pressure there, and that's what we're modeling in right now.

Otherwise, on the expense growth, we see some pressure on the repairs and maintenance from snow plowing potential in the first few months of the year, as the Northeast got hit pretty good, and we will see if that plays out. So, maybe we are conservative there, but we put extra in there compared to last year for the snowplow. Benefits, we are seeing some pressure, payroll and benefits. Payroll is 3% up and then benefits pushing that old payroll and benefits, probably up over 4% growth just in that line item.

Other than that we don't see—our insurance renewed March 1st, and we do have some pressure there. We had a lot of damage last year from different situations, hail damage, a lot of claims. So, our insurance premiums will increase come March 1.

Gwen Clark: Okay, that's helpful. So, as you think about operating cost, excluding taxes, is it possible to quantify how much of that increase might be due to the rebranding?

Andy Gregoire – Chief Financial Officer

I would say none of that is due to the rebranding. None of that cost built there due to the rebranding, other than Internet marketing in the first half of the year. We would expect some pressure on that. As you saw in the fourth quarter, some 20 some odd percent more we spend in that market as it switches over. We still have those switch overs going through April, so we'll see the pressure on that line item.

Gwen Clark: Okay. That's helpful. Thank you.

Dave Rogers – Chief Executive Officer

You're welcome.

Operator

Thank you. Our next question comes from the line of Barry Oxford with D.A. Davidson. Please proceed with question.

Barry Oxford: Great. Thanks, guys. Getting back to the property management fees and the fact that that's going to be growing. How should we think about that line item from a modeling standpoint?

Dave Rogers – Chief Executive Officer

For this year, I think you won't see that much of a difference. If we add say maybe 30, 50 stores, we will be ramping up our team. So, as we've talked about on prior calls, the margins in this business are really not very good. You're taking essentially about a 6% fee and some absorption of costs, but you are basically —we staff

our G&A for those stores just like we do are corporately owned in our JV stores. In other words, we have x amount of people, for example, about 18 stores per area manager, say 50 stores per IT support tech or property maintenance staffing, one call center rep for every 12 stores.

So you are scaling up, and it's costing some 3% to 4% of that fee just to manage those stores properly. So the impact on balance sheet would be nil. The impact on the guidance is not that significant this year. It's a nice part of our business right now, but the incremental add in 2017 is not the reason we are doing this. We are doing this in large part for scale. It helps to spread the Internet advertising across. It helps to add more stores in more markets. We are doing it just to put our presence out there in a better way in the markets that we're in. It certainly pays its way. We call it paid due diligence. These are stores, as I mentioned before, that we would want to own eventually, so this gives us a great opportunity to understand and operate the stores, but as far as an impact on FFO not significant for this year.

Barry Oxford: Okay, great, thanks. Thanks for that color. When I look at same-store NOI and the growth for 2017, how do you look at the Life Storage portfolio? I would imagine that would be above the average that you currently are showing that, that portfolio would do better than the 275 to 375 you have.

Andy Gregoire – Chief Financial Officer

You are right Barry. This is Andy. We do expect that, again those properties once we cleaned up the AR, took their occupancy from a 92% inflated occupancy down to an 85% true occupancy on a mature portfolio. They have great run room there to grow NOI, so it will grow significantly faster than the same-store.

Barry Oxford: Great. Okay guys, thanks so much.

Dave Rogers – Chief Executive Officer

You're welcome.

Operator

Thank you. Our next question comes from the line of Paul Adornato with BMO Capital Markets. Please proceed with your question.

Paul Adornato: Hi thanks, good morning. Just a follow-up. In the past, we spoke about the potential harm done by localized price wars. I was wondering if you saw that happen during the winter and if you're seeing it now, and what your feeling is on competition out there. Sounds like you're a little bit more optimistic on marked behavior if you will.

Ed Killeen, Chief Operating Officer

Yes. We are a bit more optimistic. We are a lot more optimistic. While we are seeing development and new comps come in, that in many cases you really do have to compete toe to toe, example being in Raleigh where a new comp opened right across the street. We've got a new comp in Miami right down the street. Yes, there is going to be a bit of a price war, but again that's sort of a temporary position that we have to take. It's not a case where the market is suddenly oversaturated with the multiple of locations. There is going to be a limited time period where that comp is going to want to build occupancy and you're going to need to compete. But it's nothing that we really weren't prepared for. We know there's new comps coming in. There is new development. And you just simply need to compete. And, again, it's sort of a temporary blip on the screen that you have to deal with, and you need to be the better provider.

Paul Adornato: Got it, thank you.

Operator

Thank you. Our next question comes from the line of RJ Milligan with Robert W. Baird. Please proceed with your question.

RJ Milligan: Hey guys, good morning. Andy, you gave us a stat, basically 40% of the customers are below street rate. What percentage of the customers do you think are at street rates and what percentages do you think are above street rates?

Andy Gregoire – Chief Financial Officer

RJ, end of the year, at the current rate of 8% and 52% were above the current rate.

Dave Rogers – Chief Executive Officer

Keep in mind that, at the end of the year, our rate structure is about as low as gets, so this is the nadir for that kind of stat. If you look at that same stat in say July, when rates are high, it's considerably different.

RJ Milligan: Okay. But it's fair to assume that this 52% as they roll off are going to roll down?

Andy Gregoire – Chief Financial Officer

Yes, those 52%, yes, if they roll off this time of year. If they roll off in June or July, no, they would not have rolled down.

RJ Milligan: Okay. And then, Dave, you had given some comments on last quarter's conference call about the expected yield on the Life Storage portfolio acquisition. I was just curious if you could give any more colors as to—if you think that's going to hit underwriting or where you are relative to underwriting?

Dave Rogers – Chief Executive Officer

Andy said it best the other day when we were talking about things. I would say we're very close. We're probably six months behind and about 10 basis points low, and the main reason for the 10 basis points is Texas. We underwrote Texas less aggressively than we did California and Vegas and even Chicago. But, nonetheless, when we went into contract on this in April and May, we did not expect the headwinds that we saw in Texas starting in the mid-summer.

So I think we are close. I think we are fooling ourselves if we think Texas is going to pull the load the way we thought it would, but certainly the other markets are on target. Sacramento is great. We love Los Angeles. There's only three from Life in Los Angeles, but the other nine that we bought earlier in the year are doing well. So we are close, but the Texas storm has got us a little off course.

RJ Milligan: And, then, do you think that the trajectory, over say year two and your three, you're eventually going to get to the original underwriting? Or, do you think that it's just, given the weakness in Texas, you're just not going to hit what the expectations were for the longer-term yield on that project or that portfolio?

Dave Rogers – Chief Executive Officer

I think so. I mean I think Texas, as we said before, in 2013, 2014 was just screaming. It carried our portfolio. Now in 2015 and 2016 and probably 2017, it's going to—I mean, actually even in 2016 I think we were 4.5% top-line growth in the first and second quarters. So, we got to wait out 2017 and probably part of 2018, but it'll be back. So if you look at the projected NOI for late 2018 and 2019, it comes right back and we are there. So yes, it was one of the best things we ever did. This was a big deal, and it made us, as we've been joking about, bigger, better and stronger. But, it's no joke, it's worked. I told our Board we essentially did this big transaction, this formative deal, as well as the 30 some stores we bought in the first quarter, we did all these great things, and then we did it all in a blizzard, the whole sector segue from tailwind to headwind caught us. But, it's fine. The properties are great. If you believe all in self-storage, you really have to believe in the Life Storage acquisition and we do.

RJ Milligan: Great. Thank you, guys.

Operator

Thank you. Our next question comes from the line of Jonathan Hughes with Raymond James. Please proceed with your question.

Jonathan Hughes: Hi, good morning. Thanks for taking my questions. Just a few more on Texas. You've given a lot of color in Houston, but when do you think we'll see peak deliveries in the other three major Texas markets of Dallas, Austin and San Antonio? Is that a summer or fall event or middle of 2018? Just trying to get some color there.

Paul Powell – Chief Investment Officer

Hey, Jonathan, this is Paul. Yes, in San Antonio, we've identified six. Four have been open two in construction. And I have already talked about Austin. And well, in Austin we are showing 11 total; all those are under construction. In Dallas, I don't have Dallas right in front of me at the moment. But yes, there is still a lot of development. I know public storage is doing a lot in Dallas or the northern part of Dallas. There yet to come online. And actually I just found Dallas there. We've identified 28, 10 of them in construction, 13 have opened, and another five in planning. So Dallas wise was a little bit of concern. But, again, at some point, we think it's going to slow down. This year it's going to be little difficult. Going into '18 is yet to be seen, but we're tracking this quarterly or actually daily with our in-the-field personnel. So, we can update this on a quarterly basis for you, but Dallas is looking like the most active right now.

Ed Killeen – Chief Operating Officer

I think something to keep in mind though, even looking at Dallas, is the size of that market and the trade areas and how the market is just so spread out geographically, and we've got 19 some locations around. So that is the big number, but that doesn't necessarily mean that those properties are right inside that five mile trade area; they could be on the outskirts, they might end up not being comps to us. So, we've got to sort of let that play out before we really see how they're going to impact our performance.

Jonathan Hughes: Okay. And, is Houston the only Texas market where you project potentially negative revenue and NOI growth for the year?

Andy Gregoire – Chief Financial Officer

Yes, it is.

Jonathan Hughes: Okay, great. And then switching to some northern markets, New York and Chicago saw about 300 basis point sequential deceleration in the revenue growth in the quarter. Did you see a lot of new supply delivered in those markets or increased discounting by peer? I'm just trying to get a sense of why those were a little weaker than the overall portfolio.

Andy Gregoire – Chief Financial Officer

Jonathan, New York was a little bit of a different situation. We have two stores there where we see the need for climate. So we basically have moved out customers. We're putting in climate control. So, that caused the revenue issue in that area. Otherwise, that would've showed a little better growth along 3.7% or so. It would've shown better in the quarter had we not done that, still not as strong as it had been. So, there is a little weakness there, and it is more free rent in that area than we've been going through the slow season using, but those two stores definitely had an impact on that market. In Chicago, there is some new supply in Chicago, but we feel comfortable with that we are positioned well in that market.

Dave Rogers – Chief Executive Officer

Yes. Some of that new supply is us. So you fight that battle same-store total versus total revenue much like we do in Buffalo and a couple other places where we've brought on some new stuff that's not in the same-store pool. So we are pretty much done adding our CO stuff. I think the Chicago market is ramping down a little bit as far as new supply goes. But, it's a good market, but it doesn't always show up in the same-store number.

Jonathan Hughes: Then, could you maybe quantify what's in the pipeline in Chicago? I don't know if I heard that or if you mentioned that earlier.

Paul Powell – Chief Investment Officer

In Chicago, we are showing 13, eight of them which have opened and another five either in construction or planning.

Jonathan Hughes: And, a few of those are your own, right?

Paul Powell – Chief Investment Officer

No, these are not our own.

Jonathan Hughes: Okay. All right, that's it for me. I will hop off. Thanks, guys.

Dave Rogers – Chief Executive Officer

You're welcome.

Operator

Thank you. Our next question comes from the line of David Corak with FBR Capital Markets. Please proceed with your question.

David Corak: Hey, good morning, guys. One other questions already addressed this a bit, but just wanted to follow up on in place renewal rate expectations for next year. Can you give us just maybe a range mid-single-digit to high-single-digit renewal growth that you're baking into your guidance range?

Andy Gregoire – Chief Financial Officer

From a revenue point of view?

David Corak: Yes.

Andy Gregoire – Chief Financial Officer

1.5% revenue growth would come in place customers. That's on the high end of what normally, we would see, but we think we had a lot of potential this year from our customers that are under street rate.

David Corak: Okay, that's great. And then same kind of question from non-rental fees, non-rental income, insurance fees. How much of that is driven by insurance fees?

Andy Gregoire – Chief Financial Officer

You won't see a whole lot of growth in insurance other than penetration. Our insurance administration fee did not change from 2016 to 2017. We did have to change from 2015 to 2016, which helped that line item. We have no change from 2016 to 2017 in that line. So it's really just penetration. It will show 4% to 5% growth over the year, maybe a little heavier in the front part of the year.

Ed Killeen – Chief Operating Officer

Our current penetration rate is 59.2% and that's up 173 points. But, more importantly, is our capture rate at 85%, and that continues to grow. So, the teams really continue to improve in that area, and they know how to sell insurance, or promote insurance I should say.

David Corak: Fair enough. Okay, and then I appreciate the commentary on the free rent comps. Could you just help quantify it, in terms of comps for 2016, maybe in terms of percentage of new customers who actually received a discounted promotion or free rent? I know you guys usually have the dollar amount. But, could you help us understand the percentage of new customers that are actually receiving a discount?

Ed Killeen – Chief Operating Officer

Well, of all of our ins, 66% of our customers received free rent, versus 60% last year same period, and 53% in Q3.

David Corak: Okay. And, what is kind of your guidance assume for next year?

Andy Gregoire – Chief Financial Officer

It's very similar levels. In the slower time, you're going to be in the 60% of customers will get free rent. In the summer months, it will be in the 40%.

David Corak: Okay, great. That's help for me. Thanks guys.

Operator

Thank you. Our next question comes from the line of Todd Stender with Wells Fargo. Please proceed with your question.

Todd Stender: Hi, thanks. And, it sounds like you're not willing to acquire stabilized properties on balance sheet, but you do have an appetite within JVs. Can you just go through some of the growth and return expectations for JV deals? And, then maybe just touch on new supply in the markets you're looking at for JVs, see if that's factoring in as well? Thanks.

Dave Rogers – Chief Executive Officer

Yes, the return expectation—we're partnered with folks who have the same philosophy we do, with regards to hold periods, with regards to leverage use of leverage fixed rates, and so forth. So the balance sheets of the joint ventures kind of mirror ours, maybe a bit more leverage, but it's non-recourse mortgage financing. So that's the main difference. We look for properties—in some cases in the past, we did a couple deals that we thought, were very solid. We called them bonds-like in terms of their yield expectations. They had gone through the downturn with very little detrimental impact. We didn't see a lot of growth potential in them. We were fooled. We didn't realize the power of our platforms back in 2011, but that was one reason we did that. We did some pretty extensive JV acquiring in 2011 was to take what we expected to be not significantly high-growth assets, but rather steady eddies and put them on.

Right now we are in a situation where our currency is, we think, undervalued. So we are looking to our JV partners, if they are willing to grow with us, to just basically use the lever of their capital at say, at an 80% to 20% blend, their 80% our 20% and 50% or so leveraged with mortgage debt. That's basically the main driver right now.

We have not changed our acquisition philosophy as a result of our financing circumstances. So what becomes of it is we have a pari passu fiduciary arrangement, we do take a management fee for running the property, and we try to keep it simple. There's not really much in the way of promotes or other financial wrangling. It's pretty straightforward, borne of circumstance.

Todd Stender: Okay. Thanks, Dave. And, just going back to the Austin C of O deals, it wasn't a surprise that you walked away from them, but maybe I miss this, what's the real cost or equity that you are losing by not pursuing these? Is it more than just the deposit? What other value are you walking away from?

Dave Rogers – Chief Executive Officer

That was it. They placed it. We wanted time to analyze, to dig in a little bit more after, otherwise, we probably would've written it off right at the acquisition date. But, we went through and did quite a bit of talking with the developers and got to understand it a little better, and just thought the risk reward in Austin was too great. So, fortunately the contracts were structured that the only penalty was forfeiture of deposit, and that made the decision easy.

Todd Stender: That's all it was? It was \$1.8 million?

Dave Rogers – Chief Executive Officer

Correct.

Todd Stender: Great. Okay, thank you.

Operator

Thank you. [Operator Instructions] Our next question is a follow-up from the line of Ki Bin Kim with SunTrust Robinson Humphrey. Please proceed with your question.

Ki Bin Kim: Thanks. Could you talk about if maybe overall industry level demand, would you expect that to grow, compared to previous years? And, are you seeing any changes in contribution from different customer buckets?

Dave Rogers – Chief Executive Officer

I think demand is everybody that's everybody's sort of golden goose to try to capture right. Where does demand come from? Why does it come? Certainly it grows with population growth. Certainly, we can make some inroads. We see a greater growth every year in our business customers. We worked hard at that. Because we have a platform of stores that we bought that were not very focused on business customers, we are hoping to make some inroads there.

Ed Killeen – Chief Operating Officer

Yes. Looking at the demand piece and that customer segmentation that you are asking about, we are making a great effort to look to attract commercial customers, corporate customers, and that's a program that we've been working on for several years, and we've really—it's reached a much greater level of sophistication, and the features and benefits that we are able to provide for these corporate customers are well beyond what is typically available from the self-storage segment. So we are really excited about continuing to grow that piece of our business.

Ki Bin Kim: Okay. And as you're testing different things, right, in terms of pushing street rates or customer rate increases or just the overall level of activity that you are seeing at your website, how many click you're getting, any incremental changes you are seeing there? Are customers becoming more sense of surprise, less so? Any kind of color on that would be useful.

Ed Killeen – Chief Operating Officer

Well, I think something to keep in mind during this transition, even where there is a bit of instability in our ranking online, our organic traffic, or click-through, in the fourth quarter is up 75%. Even when you look at that on a store-to-store basis, not same-store of course but average, we are up 30%. So, the demand is there, and, we think, not in a large part, that it's going to continue to grow because of our brand. The strength of this new brand is really

giving us the opportunity to sort of redefine ourselves in the market and change the personality and the perception of the company.

The Uncle Bob's name offered sort of a folksy friendly appeal and might have even signaled bargain rates and discounts and maybe even lower quality. And, as much as we all love the brand, this is a much different brand. We're trying to attract a different customer, and we are seeing that in the feedback that we get from the customers online; our current customers, our business customers, our third-party management customers, and it really is, like David said, the strength of this brand is really something else, and we are seeing it, and we are going to continue to see it in all effects at all customer touch points.

Ki Bin Kim: Okay. Fine. To clarify, you're saying that on a store level basis you are seeing a 30% increase in Internet.

Ed Killeen – Chief Operating Officer

If you look at the number of stores we had, beginning fourth quarter last year and fourth quarter 2016, it is a 30% increase in click through or search. Overall it's a 75%, but, again you're adding 100 some odd stores to the base in the fourth quarter.

Ki Bin Kim: Okay. So it's not in same-store.

Paul Powell – Chief Investment Officer

Yes. It can't be same-store, because it's online.

Ki Bin Kim: Okay. I just wanted to clarify that. Okay, thank you.

Operator

Thank you. Our next question is another follow-up from the line of George Hoglund with Jefferies. Please proceed with your question

George Hoglund: Looking at the JV programs what are you hearing from current and potential partners in terms of appetite for acquisitions?

Dave Rogers – Chief Executive Officer

We think it's there. We have dealt primarily with one JV partner. We did bring on another one this year for the Long Island property, but there are others that have been knocking on the door, and Paul has had conversations and expects to continue. So, there's an institutional demand. These are fairly deep-pocketed, well-recognized names. So, I think the appetite on the private side and in institutional money is certainly there for stores. That's what's keeping the cap rates where they are. I don't know what 2017 brings in terms of actually pulling the trigger. The big thing with those players is they want scale immediately and they want terrific returns immediately, and so do we. So, it makes it a little tough in that regard. But, I would say overall institutional appetite is strong; there's a lot of interest. Whether or not that involves a lot of deals being penned in sort of a new format, we'll see, but there's certainly an interest.

George Hoglund: Given that significant amount of capital from private equity and sovereign wealth and that want to get into storage in a big way, do you think it's possible we see any take private transactions amongst the public REITs this year?

Dave Rogers – Chief Executive Officer

That's speculation. I don't know. That size has not been on the radar. There was activity for Life Storage, there was activity for Smart Stop there was—the billion dollar range, yes. You're are talking a whole different level when you are getting into the four legacy REITs. I don't know that that's there.

George Hoglund: Okay. Thank you.

Operator

Thank you. Our next question comes from the line of Smedes Rose with Citigroup. Please proceed with your question.

Michael Bilerman: Hey, it's Michael Bilerman with Smedes. David, I have two questions. The first, you talked about your cost to capital or where your stock is at that doesn't give you the ability to want to pursue a lot of external growth outside of leveraging your joint venture partners, who can put up 80% of the capital, and Life Storage would also have some fee income in that. Can you talk about the flip side of that comment, which is you have a very solid balance sheet despite some out performance today. Your stock is at very depressed levels. Would you or the board entertain a stock buyback program, and is that something that's on the docket?

Dave Rogers – Chief Executive Officer

It is something we've addressed at both of our last board meetings. It's sort of a balance. We do have uses for funds in the E&E program in winding up the sign change and the rebranding, and depending on what kind of JV interest we are able to take. So, yes, it's there. We also balance that against the fact that it took us about—we were a BBB- company for about 17 years, we finally attained BBB. So there is implications there as well. But certainly we have—I think, in order of preference, we would want to obviously take care of our construction and deferred maintenance needs, we want to take care of the E&E allocation that we set aside. If the JVs are there, I think that provides, given the scale in the fee income, a little better return at this point on a buyback. But, that is certainly in the mix, and if that's the best use of funds and it works to keep our balance sheet protected, yes, that's something that's been under consideration now.

Michael Bilerman: And then can you talk a little bit about any plan changes at the board level. Your board is basically split now, three members that are 22 years of tenure between Bob, Chuck, and Ken. And then three newer members over the last two years and one that had been there for five. I guess how do you think about board composition going forward? Is there a desire to begin to rotate off another, either Ken or Chuck or Bob, to continue to get board refresh and reduce age but more importantly reduce tenure on the board?

Dave Rogers – Chief Executive Officer

That's something that the governance and nominating committee takes up every year. I'm not on the board, but I know that they do discuss it on a regular basis. We were tremendously energized with the—two, and even Steve, five years ago, made a big difference on our board. So, that's something they keep in front of themselves all the time. I would not expect a change this year, but I know it's been in the conversation quite—they've gone deep.

Michael Bilerman: Well, I guess, is there a thought—I mean a six member board is relatively small in REIT world, especially now given size that the old Sovran has become. So, is there a thought not only of replacing three members that have been there the entire time, but adding and expanding the board. And, I also think about it from the perspective of, if your stock is very cheap, you don't want to be in a position where someone does that for you. So I'm just curious. You mention you're not on the board. Is there a recommendation that you're putting forth as CEO to the board?

Dave Rogers – Chief Executive Officer

No, on that part, no. Only because we think that we—the founders have a significant part of the board. There's not room for another. You raise an interesting point when you say that we've grown now, and that was one of the

topics at our recent meeting, that it's not the same company anymore. So, all of what you said has been under consideration I know. I'm not able to talk about where it goes, but it certainly has been considered and we're not the same small company we were even two years ago. So these things have all been in consideration and will be in consideration as we go forward.

Michael Bilerman: Well, you've spoken bigger, better, and stronger could apply to a lot of things, and certainly the board could be one, making it bigger, better and stronger. Certainly, the stock price hopefully would then follow suit. Thank you.

Dave Rogers – Chief Executive Officer

Understood. Thank you.

Operator

Thank you. Mr. Rogers there are no further question at this time. I will turn the floor back to you for final remarks.

Dave Rogers – Chief Executive Officer

Thank you everyone for your interest. We look forward to seeing you in the coming weeks. And, enjoy the balance of the earnings season. Thank you.