

***Transcript of
Life Storage
Third Quarter 2016 Earnings Release Conference Call
November 3, 2016 - Edited***

Participants

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

Analysts

RJ Milligan – Robert W. Baird
Todd Thomas – KeyBanc Capital Markets
Gwen Clark – Evercore ISI
Smedes Rose – Citi Group
Jeff Spector – Bank of America
Guarav Mehta – Cantor Fitzgerald
Paul Adornato – BMO Capital Markets
George Hoglund – Jeffries
Ki Bin Kim – SunTrust Robinson Humphrey
Jeremy Metz - UBS

Presentation

Operator

Greetings, and welcome to the Life Storage Third 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 call is being recorded.

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

Diane Piegza – Vice President Investor Relations

Thank you, Melisa, and good morning, everyone. Thank you for joining our third quarter conference call. Participating in today's call are Dave Rogers, our Chief Executive Officer; Andy Gregoire, CFO; Ed Killeen, COO; and Paul Powell, Chief Investment Officer.

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 added a financial supplement which is available on the Investor Relations page at Lifestorage.com.

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

Andy Gregoire – Chief Financial Officer

Thanks, Diane. Last night we reported adjusted funds from operations of \$1.34 per share as a result of same-store revenue growth of 4.5% and same-store NOI growth of 5.8%. The drivers behind the revenue growth included a 30 basis point increase in average occupancy, and a 3.7% increase in rental rates.

Same-store occupancy as of September 30th was 91.9%, a 50 basis point increase over last year and an all-time high for that quarter end. The increased occupancy came at a price with free rent increasing significantly for the first time in many years.

Same-store property operating expenses increased a modest 1.8% for the quarter. This was a result of increase in repairs, and maintenance, and real estate taxes offset partially by decreases in marketing and insurance.

G&A costs were approximately \$1.5 million higher this quarter over that of the previous year. The main reasons for the increase were the fact that we operated 118 more stores at the end of this quarter as compared to last year's third quarter, and additional legal fees. The legal fees relate to a previously disclosed class action law suit in New Jersey and we now expect these elevated fees to continue into next year.

The big story for us this quarter was the acquisition of the Life Storage portfolio of 83 stores. On balance it went as planned; we acquired the company as opposed to the deeds, so there were some acquisition risk in terms of how the balance sheets fluctuated between signing the agreement and closing of the deal. We are happy to state that there were minimal surprises and the transaction came together as we expected on July 15th.

We brought the stores onto our platform during the week of August 8th, so that within a few days all 83 Life Stores were integrated into our call center, web marketing and Revman platforms. We incurred some temporary changeover costs associated with our decision to maintain dual platforms in accounting and HR, but we've been migrating away from these and by yearend any duplication will be eliminated. However, these and some unexpected startup costs put us over budget by about \$350,000. Further, we encountered some unexpected issues pertaining to the existing rent rolls at most of the stores requiring a bigger than usual cleanup of delinquent tenants. This resulted in lost opportunities to free up space for new rent paying customers. This is temporary. We will be cleaned up by yearend, but we estimated it cost us about \$300,000 for the two-and-a-half months that we operated the properties.

Overall, though, Life Stores are as advertised. You will see the progress as we have, and we'll continue to expose the activity of these stores in our supplemental information quarterly, split between the mature stores and those leasing up. The details are shown on Page 17 of the supplement.

Outside of the Life acquisition, we did have some unusual activity this quarter. We had severe flooding that impacted a number of our markets and we had to temporarily close two stores in Lafayette, Louisiana and one in St. Louis, Missouri. Although we are insured, the deductibles on our casualty policy and loss of rent coverage resulted in an unexpected charge of \$275,000.

Our balance sheet remains in great shape. During the quarter we entered into a 12-year, \$200 million term note maturing July of 2028, bearing interest at fixed rate of 3.67%. At September 30th, we had approximately \$16.1 million of cash on hand and \$260 million available on our line of credit. 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.

Looking ahead to 4Q, we have it down on a few fronts. Houston has decelerated faster than we projected and we are forecasting negative same-store growth in that market as we push incentives to maintain occupancy. Same-store property tax expense is expected to be high in the fourth quarter due to unfavorable comp the last 4Q. We

are seeing significant property tax increases at our San Antonio stores as well, which appear to be coming in \$700,000 higher than plan, although some of that is expected to be offset by lower taxes in other markets.

We are expecting same-store revenue growth for 4Q to be between 4% to 4.5% and an NOI growth around 3% to 4% due to the large quarterly property tax assessment. Property taxes are forecasted to increase 11.5% to 12.5% over 2015 levels for 4Q because of the benefit that we had last year in 4Q. This fourth quarter bump in property taxes was mostly anticipated and the annual property tax increase picked up only slightly to 6.5% to 7.5%. Expenses outside of property taxes should increase between 2.5% and 3.5% for the quarter.

Our guidance assumed an additional \$10 million of accretive acquisitions are completed over the remainder of the year. We have not included in guidance the related acquisition costs incurred to date or that could occur in the future.

As a result of the above assumption and other items noted in the press release, our revised adjusted FFO guidance for the full-year 2016 is expected to be between \$5.19 and \$5.21 per share and between \$1.30 and \$1.32 per share for the fourth quarter of 2016.

With that I'll turn the call over to Dave.

Dave Rogers – Chief Executive Officer

Thank you, Andy. The focus for us for the quarter, the rest of the year, and into next year is on our Texas exposure and on our ability to generate the expected returns from the Life Storage deal. We want to make sure we address these today. So, I'll take the easy one first.

The 83 Life Stores are a great addition to our portfolio and they're going to be fine. As Andy described, we had a couple of hiccups as we brought them off the launch pad, but they are curable and short-term, and they'll be put to bed by yearend.

As for the properties themselves, we love Sacramento, Los Angeles, Las Vegas, the three markets we underwrote 10% growth for, we'll get that. The Life Storage in Chicago, Florida, Denver, they're doing fine. We underwrote those less aggressively and should hit it. The only group that gives us pause, and only for the near-term, are the 19 in Texas, but they're best-in-market properties and they're great adds. We're glad Life Storage is ours. It moved the needle on our overall portfolio quality, got us into new and stronger markets and having had them on board now for these past weeks, we're more confident than ever that they'll perform as expected.

On a related note, we're progressing well on our rebranding. We changed over the 14 stores in the Buffalo beta market, learned what we liked concerning the signage, media coverage, and the web marketing transition, and we're ready to go starting this month in Chicago, Denver, and Los Angeles. We'll do a few markets a month so that by the start of the busy season in April, all 650 of our stores will be re-branded Life Storage. We fully expect to be right on time and right on budget.

With regard to our presence in Texas, well, that's been the situation, plus or minus, that we've dealt with for years now. As we say all the time, ours is a very market-specific business and in 2013 and 2014 where we were the storage sector's leader in top line growth, it was Texas, and especially Houston, that led the way. Now, Houston, Dallas, San Antonio, and Austin are our most challenging markets, and with 20% of our stores there, it's had an outsized impact on our same-store results.

What surprised us about Houston, and now Dallas, is the speed of the market shift. We fought this by pulling on the incentive lever really hard, something we've done very little of in the past few years in Texas. Using these incentives got the desired result. We maintained and even grew occupancy in those markets, but at a price.

When you give up the free month, you're giving up a third of the quarter's potential revenue on that space and it makes for an instant and brutal comp over the prior year.

So, we're downshifting on our near-term expectations for the Texas markets. We previously baked in and reduced results in Austin because of the large number of stores recently opened there. That's a market where the problem is virtually all over supply. The situations in Houston and Dallas, and San Antonio are a little more complex. Certainly, new supply is a factor and it will continue to be because a lot of it isn't even in place yet. But, year-over-year comps, especially in San Antonio, weigh heavily. Competitors have become ubiquitous with their free-month promotions, so we'll have to fight back. Street rate growth will be paused for a while. It's competitive, but again, I'll reiterate that this is a market-specific industry and market strength ebbs and flows in cycles.

Just a couple of years ago, Atlanta, Phoenix, and many parts of Florida were dragging us down. Now, we're enjoying real success in all those markets. So, Texas is down this year and probably next, but long-term, the four markets in that state are going to be fine. They're made for self-storage users. We'd love to have some meaningful exposure to the West Coast markets in our same-store pool. We don't yet, but we've built a real presence in California this year, so it's coming. It's good to be geographically diverse.

Andy and I have spent some time on the details here because there are a lot of moving parts to our story. I don't want to overlook the big picture. In large part, things are very good. The industry fundamentals are solid in most markets. We large players continue to build on our platform advantages, and we here at Life Storage have done a lot to grow and strengthen our company this year.

In particular, we acquired 120 high-end stores, 80 in quality infill markets such as Miami, Chicago, New England, Orlando, and the big four Texas cities. The other 40 gave us sufficient scale in three dynamic new markets for us; Los Angeles, Sacramento, and Las Vegas.

We issued almost a billion dollars of equity and we executed our first ever public debt deal along with a 12-year private placement note garnering \$800 million of long-term low-rate financing. Our balance sheet is in great shape. We increased our line capacity by \$200 million, improved our credit rating to BBB, BAA2, and we negotiated away a lot of the bothersome covenants on our existing long-term notes. We generate upwards of \$75 million of cash flow after dividends, we don't have much in the way of forward commitments, and we plan to tread lightly in the acquisition market for a while, so our liquidity position is excellent.

Going forward, we'll be focusing our energies in the coming quarters to integrate the Life Storage portfolio and the other 30 acquisitions we made this year, we will use the power of our platforms to strengthen and grow the properties in the core portfolio, and we'll be managing all of our assets for maximum internal growth.

We like the sentiment in Jethro Tull's song from years ago, "Life's a long song." I think we've done a lot this year to strengthen ourselves for the long haul and to help us fight through all the cycles.

Melissa, we can now open it up for questions.

Operator

Thank you. [Operator instructions]. Our first question comes from the line of RJ Milligan with Robert W. Baird. Please proceed with your question.

Q: Good morning, guys. Dave, you mentioned that Texas deteriorated a little bit quicker than expected, obviously increasing discounting. I'm curious, where did you underwrite the 19 assets in terms of revenue growth from Life Storage and what gives you confidence that you're going to be able to hit that underwriting?

Dave Rogers – Chief Executive Officer

We underwrote those at 6%, RJ, wrote the first year back in April when we did the underwriting. The nice thing about taking on new stores to the portfolio, is even in tougher markets, even in stores that appear to have been pretty well run, we get a nice pop almost always from both our top line growth and our economies of scale and expense. So, I think we're not going to do maybe, 6%, but we'll certainly do a lot better than the core just because they're new stores, new to our system, and we'll get some pop.

So, we're not too disturbed by it. Andy and I ran some numbers over the course of the last month as we saw Houston doing what it was doing. I think we have five stores in the Life portfolio in Houston, and there's 19 overall; 8 in Dallas, 5 in Houston, and a couple in Austin and San Antonio. So, we won't hit maybe 6%, but I think we'll come a lot closer than we originally thought just because the opportunity to improve operations is so good there. It didn't move the needle much at all on the overall yields we projected for the Life acquisition starting in 2017.

Q: Okay, I'm curious then, given the recent weakness that we've seen, especially in Texas, does that push out your timeline at all before this transaction becomes accretive?

Dave Rogers – Chief Executive Officer

No. We're going to miss by, we think—the overall yield might go from a four seven to a four six, so that won't make that much difference.

Q: Just one last question on Texas, we've been hearing from everybody that they've been very aggressive in terms of increasing property taxes. Do you think most of that is going to be a 2016 event or do you anticipate significant increases in property taxes in '17 as well?

Andy Gregoire – Chief Financial Officer

Most of it will be a 2016 event. San Antonio is the worst of the bunch, that's going to hit us pretty hard, but we had some nice wins elsewhere. We were hit in Houston last year. So Houston, actually, fourth quarter it looks like it's bad because it's comparing to a tough comp, but really, San Antonio is going to be the story from a big increase in property taxes. But, overall, we just bumped up our guidance a little bit for the annual property tax change, I think 50 basis points, and that's really San Antonio.

Q: Thank you.

Operator

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

Q: Hi, thanks. Good morning. First question, regarding the comments around the lack of aggressive property management between the deals announcement and close, can you just talk about how that impacted operations a little more specifically and maybe talk about the steps that you're taking to remedy the situation.

Andy Gregoire – Chief Financial Officer

The biggest issue there was delinquent rents probably came in \$500,000 more than we thought. On a deal of this size, it doesn't sound like a lot, but \$500,000 of customers where the auction process was not followed properly and delayed us doing those auctions, we've had to keep those customers in place, not paying us for the quarter, and probably through at least half of the fourth quarter. But, it will be cleaned up by yearend, but that cost us probably \$300,000 of lost rent we figured, those delinquent customers being in place.

Q: Okay. So, the impact should likely be less than that in the fourth quarter?

Andy Gregoire – Chief Financial Officer

Correct.

Q: Okay, and what about on the property maintenance side? Is there anything, the comments in the press release mentioned property maintenance as well. Was there something there that also—

Andy Gregoire – Chief Financial Officer

Expenses came in about \$300,000 more than we expected. A few things there; lack of HVAC maintenance, gate maintenance, there were some things that were deferred and we took care of those very quickly. That was done in the quarter, so we don't have any of that left, but that did hurt the quarter.

Dave Rogers – Chief Executive Officer

Just to keep it in perspective, I guess, had they been done during the period of operation, it wouldn't have cost the sellers any more or any less. It was a closed-loop transaction. So, we would have appreciated them doing it so that when we took over the stores there would have been, perhaps, several hundred thousand less cash in the bank, but it would have all been part of the purchase. Here, by leaving the money in the bank, we bought it and then we had to take the hit on the P&L on some of this stuff. So, just the way it worked out, but like we said, by the end of the year we should be in pretty good shape with all of it, with it cleaned up.

Q: Okay. And then, just looking at the revenue growth going forward here, the deceleration that you're anticipating in Houston next quarter, it's roughly 300 basis points on about 9% of the portfolio. So, 25 to 30 basis points or so is at impact. That would suggest that backing into the rest of the portfolio, that you're expecting similar revenue growth in the fourth quarter to get to that 4% to 4.5% forecast. Some markets maybe decelerate a little bit, some maybe improve, but on average, no changer for the balance of the portfolio except for Houston. Is that the right read?

Andy Gregoire – Chief Financial Officer

Yes, I think there are some other Texas markets that are impacted also, but we do have some great markets. The whole Florida area is really going strong, Atlanta very strong. So, we have some offsets for that weakness in Texas, so we're comfortable with the guidance.

Q: Okay. Just lastly, Dave, the incentive lever that you said you're pulling in Texas right now, since increasing the promotional discounting in those markets, are you seeing results improve? Is occupancy beginning to build a little bit?

Ed Killeen – Chief Operating Officer

Well, at this Point, Todd, we've actually been able to hold occupancy there, so pulling that lever early and strong, as Dave suggested, that would allow us to load customers into the winter season. So, yes, it's worked out quite well. As I said, occupancy is holding. Actually I think occupancy is up a few basis points in Houston, so it's worked out well for us.

Q: Okay. Thank you.

Operator

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

Q: Hi, good morning. Can you walk us through the fourth quarter guidance and how that compares to what's implied for the full-year? It seems like there's a slight mismatch, so if you could just talk about that, that would be great.

Andy Gregoire – Chief Financial Officer

Gwen, the fourth quarter guidance is exactly what we think. It's not always going to hit the mid-point of what we put out there for guidance, but we think that the guidance of 4% to 5% revenue, we reported 4.5% revenue will be in that range. Some of those things, expense wise, you can't always be exactly in the mid-point and I think we put a range there. But, we're comfortable that it will flow to the annual guidance, we did reduce that full-year revenue guidance from 5.5% to 6.5% to 5% to 6%. But it should flow through nicely from the fourth quarter into the year based on that range of 4% to 4.5%.

Q: Okay, that's helpful. And, can you just break out what you're thinking for occupancy versus rate growth in the fourth quarter?

Andy Gregoire – Chief Financial Officer

We saw 50 basis points at the end of the quarter. October we saw another 50—the same 50 basis points, so the gap held nicely in October. So, it's nice to have that lever to pull, so you're going to see some occupancy pull, many in the industry don't have to pull, but the incentives will be an easier comp, so rent rates will be part of it. It's a combination of occupancy, but there still will be enough rate growth there to pull us up in that range of 4% to 4.5% revenue growth.

Q: Okay, that's helpful. And then, just really quickly, I know some assets in Sacramento, Vegas, and some other markets in California aren't in same-store, can you just give a quick update on how these markets are faring relative to your execution?

Andy Gregoire – Chief Financial Officer

Gwen, looking at numbers, and so I have a caveat to say we ran these for two-and-a-half months. What we did is we took the average monthly revenue based on that two-and-a-half months compared to what the seller had for revenue, we couldn't really do that in NOI because their expenses were much different than ours, but on a revenue point both—all the California stores and Nevada were over 10% based on that comparable, that small timeframe we used to compare. So, they're holding up very nicely. And the other markets, Texas, a little weaker there as Dave said, but the other markets are holding up as expected.

Q: Okay, that's helpful. Thank you very much.

Operator

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

Q: Hi, thanks. You said in your opening remarks that you expect Texas to be negative in 2017, and I was just wondering if you could quantify that. You're going into the fourth quarter and I think you put Houston at negative seven or so. What do you think it is for the—maybe talk about Houston for next year and just Texas overall.

Andy Gregoire – Chief Financial Officer

Well, I think if you look at Houston, Smedes, for the fourth quarter, it does look unusual with the NOI down quite a bit. Annually, though, Houston doesn't look that bad. If you look at the annual, what Houston will end up being, if Houston does what we think it's going to do in 4Q annually, that will be a 2.6% revenue growth for 2016/2015.

Q: The pace of deceleration across the course of the year is accelerating to the negative. So, shouldn't that continue into next year?

Andy Gregoire – Chief Financial Officer

We don't see it—the biggest deceleration is behind us.

Q: Okay, so for next year when you said Texas is negative, are you thinking like down 1% or what kind of—what's your forecast at this point?

Dave Rogers – Chief Executive Officer

We like to really build our budgets from the bottom up and we haven't finished that process yet with it only being first part of November. But, obviously, the first part is going to decelerate faster just on year-over-year because the comps are tougher as we flip into the later part. I think, as Ed said, it's working. We pulled the levers, demand is there, we're holding occupancy, so we're throwing incentives out that we didn't throw out last year.

I think, as Andy said, the fourth quarter gets a little easier on the comp because we always do incentives in Q4 and Q1. So, it will decelerate, it will be—I would expect, and again, we're saying this without having done the budget, but I would expect Q1 into Q2 will decelerate like this quarter, perhaps, or a little slower than this quarter but certainly by Q3 and Q4, if only for the virtue of easier comps it should be better, but also I think we'll see the worst behind us.

Ed Killeen – Chief Operating Officer

Smedes, regarding the worst being behind us, like Andy said, just in regards to call volume and search activity in Houston, we saw the biggest call volume decline come, really, as Dave suggested earlier, it hit us pretty hard, but that didn't happen until August and that was the greatest call volume declines. Since then, that call volume has been going up week-in and week-out over the last few months. And, the same is true for search. Things were a little bit challenging in August, but we see better search results since then.

Q: Okay, thanks. I wanted to ask you, on your acquisition of the Life Storage portfolio what would you do differently in your due diligence going forward on deals where you don't have these kinds of mistakes, where there's more delinquent customers? Isn't that information made available to you before you purchase or is there no claw back feature or something, and no maintenance going on across the portfolio? It just seems like these sorts of things are things that you should have been aware of from the time you made the offer on this portfolio to closing.

Dave Rogers – Chief Executive Officer

Like I said, the maintenance part and the costs really didn't matter. It was a function of when we bought them, had they done the work they would have then paid for out of cash and we would have brought less cash on closing. So, the purchase price would have been a little bit higher and the operating expenses for the first couple quarters would have been a little lower. That's no dollars lost, it's just the way we treat them, and unfortunately it's penalizing us through the P&L.

With regard to the delinquency, yes, I think what we would have done had we looked in the mirror, we would say you know what, we saw the people, we focused really hard on hiring the 210 people that were at those stores, we wanted to make sure that that integration of employment, and procedures, and benefits, and the whole thing worked smooth. What we didn't pay attention to was their lease process, their delinquency process.

When we got into it in August, we stepped back and said we don't feel comfortable auctioning these people off, it's just—we'll put ourselves at risk. Freeze the auction process, unfortunately that resulted in keeping a lot of deadbeats there in the units that we could have had good customers for, so we're delayed. So, never having

done it this way before, I think we would have looked harder at their lease program earlier in the process rather than waiting until we put them on our system in August.

Q: Thank you.

Operator

Thank you. Our next question comes from the line of Jeff Spector with Bank of America. Please proceed with your question.

Q: Good morning. Just maybe a couple follow-ups. I guess from that last conversation, can you just confirm, again the steps you're going to take between now and the end of the year to resolve those delinquencies? Can you just explain that one more time?

Dave Rogers – Chief Executive Officer

We already did it. We basically, when we came in we said their policies, their procedures put us at risk to auction. So, we basically froze them, put ours in place with the proper notice, the registered letters, the printing, where applicable to give notice. So, we basically started late, we voided their—whatever efforts they had we voided, said it put us too much at risk, started the clock, and that's why as we go here, now, into November and December that job will be done.

I think we'll be almost five months by the end of the year. Typically, it takes 90 days, some parts 120 days. So, I feel pretty confident and I think all of us here at the table feel pretty confident those issues are done next month.

Ed Killeen – Chief Operating Officer

One of the other matters that we had to deal with was the abundance of customers that came in under the prior ownership with really extreme discounts in order to boost the occupancy a little bit. Well, all of those concessions have since burned off and we're either able to capture the rent the way it should be positioned or those customers that move out replace them with higher yield customers.

Q: Okay, thanks. That's helpful. And then, just to confirm, in Houston, what do you feel you exactly missed when you said it's weaker than expected? I just want to make sure we're following the right macro metrics or market metrics to gauge how Houston's performing early into '17.

Dave Rogers – Chief Executive Officer

I think the speed with which the pricing power went away, I guess. The demand, as Ed said, we were concerned in August but we feel better about demand. It's still a growing city, there is supply, but people, I think more than anything, are shopping. I think that's the difference, they're shopping deeper and harder, and comparing us. Whereas before, in a lot of markets we have a big advantage visibility-wise, and service-wise. In that market the traffic seems to indicate that they're shopping longer and deeper.

Q: Okay. Interesting. And then, last is any changes in length of stay or retention throughout the portfolio? Anything we should be aware of?

Ed Killeen – Chief Operating Officer

Retention is about the same, 61% of our customers stay with us at a year's time and 45% at two years' time. That's up slightly over last quarter, and I believe last quarter was nearly dead on to the quarter before. So, there hasn't been much change. Our customers remain very sticky and they absorb the rent increases as well.

Q: Great. Thank you.

Operator

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

Q: Thanks, good morning. A couple of follow-ups, you talked about increasing discounts in your Texas market. I was wondering if you could comment on have you seen any increase in discounts in any of the other markets besides Texas?

Andy Gregoire – Chief Financial Officer

Yes, we have seen increase in discount in other markets, not every market, but there's—you can usually see the softness in those markets based on the revenue growth where we're pulling the lever for free rent. We looked at free rent going from a \$900,000 last Q3 to \$1.5 million this Q3, so that was the biggest jump we've seen in a long time, that \$600,000.

That was probably the biggest we're going to see in a while. Q4 we have an easier comp. Q1 if you look at it, we gave away \$1.5 million in Q3, that is about what we gave last year Q1, January through March of '16 that's what our free rent was. So, we have some easier comps coming up, but it is in more than just Texas, but Texas is the big part of it.

Q: Great. Then, I think for Houston and Texas, you mentioned that free trade growth would be paused for a while. Can you also comment on the new rate growth that you saw in the third quarter and what kind of renewals you are sending out for fourth quarter for Houston and Texas?

Andy Gregoire – Chief Financial Officer

We backed off Houston, particularly, and some other Texas markets. In the third quarter, we did 13,000 raises, which was a little less than we did last Q3, but year-to-date we've done quite a bit more, 52,000 versus 36,000 last year. So, this time of year you usually pull back on those in place. They're still going out at ten-plus percent increases and the stickiness is there with about 12% move outs.

Q: Okay, thank you.

Operator

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

Q: Thanks, good morning. You noted that every market had a positive revenue growth in the quarter except Buffalo, your home market, and then you also mentioned that that's where you experimented with the re-branding. So, I was wondering if you could tell us what should we expect in terms of friction in the rest of the rebranding process and what did you learn?

Andy Gregoire – Chief Financial Officer

Ed can talk about the re-branding, Paul, but when you look at upstate New York, it's Buffalo, Rochester, Syracuse. Buffalo was the best of those three markets, so we're confident the name change had no impact on that deceleration. We did have a couple things happen in Buffalo and Syracuse where we bought two stores in Buffalo this year in May, good stores, well-undermanaged, they compete against our stores. So, now they're pulling from our other stores. Now that they're on the web and people can find them, those stores are working out nicely for us, they were pretty wholly occupied. Same thing happened in Syracuse. So that was really the upstate market story was Buffalo was actually better than the other two markets in upstate.

Dave Rogers – Chief Executive Officer

That's the issue with the same-store pool, we've bought good assets underperforming, we're getting them to work well. Overall, Buffalo and Syracuse are better, but the same-store optics don't make it look that way.

Ed Killeen – Chief Operating Officer

Paul, the negative impact on search was minimal in our test market in Buffalo. There was, of course, absolutely no impact when it came to local search, the map packs, that I'm sure you guys are aware of, you get listed immediately. And then paid search, we increased our budget a little bit as we bring on these markets so our paid search is strong.

The only concern that we really have is organic search, and as long as we're able to effectively transfer domain authority from Life Storage—excuse me, from unclebobs.com to lifestorage.com, we should do very well. That entails creating links and more content, and real impactful social media interactions. We've done all that and the Life Storage sites in Buffalo, especially, didn't really lose any ground but for maybe three weeks with some of the generic searches. In a matter of three weeks, we were already on the first page and things moved very quickly for us. So, that was a great indicator as to what might happen in future markets as well.

Q: Okay. Great. Thank you.

Operator

Thank you. Our next question comes from the line of George Hoglund with Jeffries. Please proceed with your question.

Q: Hi. I was wondering if you could just give a little bit more color on the promotions you're using in Texas. Is it first month free and how is it differing from what you've done historically?

Andy Gregoire – Chief Financial Officer

It is the first month free, George. We have two promos we do; we do half a month off or the first month free. Really, in Texas there's a lot of first month free. The competition there is going to that, has gone to that, so it's Jacks for openers there in Texas to have that month free. So, we are seeing a lot of that, and we talked about the dollars that have increased overall from last year. We do have some knee-jerk comps coming up, but to do that in the third quarter was unusual.

Q: Okay. Then, also, in the Austin market you guys have three C of O deals that came with the Life Storage portfolio. Given Austin's already suffering from new supply, how weak might Austin get going into '17?

Dave Rogers – Chief Executive Officer

Austin's actually strong, it's just that there is a lot of supply diluting it. So, the market's good, the supply is killing it. We inherited these, we liked them, in normal times they'd be good. We have some options we're looking at. They don't come on for a while, so we have some time to consider what we're going to do with them here, but a year ago, a year-and-a-half ago, we would have said great, this is a plus to the Life deal.

That was one of the few negatives we saw in the Life deal was the values that came with the three Austin stores. So, we have some time and we're exploring our options with what to do with them. Long-term they'll be great, but I don't know that we can bring them in again and have some more impact in the Texas market. They're going to be there though, whether we run them or not, they're going to be there.

Q: Then just the last one for me. Outside of the Texas markets, what would you say would be the next top two or three markets where you competitors are getting most aggressive with promotions?

Dave Rogers – Chief Executive Officer

I think we've seen a fair amount in Charlotte and Phoenix, I would say, the two that are markets where we have a meaningful presence, those two seem to be. Chicago also, but Chicago is such a diverse market and we play in areas where the other big competitors aren't. We're north of the city and the northern part of the city. So, I would say the ones that are having the most impact are probably Phoenix and Charlotte.

Q: Okay, thanks.

Operator

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

Q: Thank you. Good morning, guys. As I look at your stock price today, you're trading at about a 7% implied cap rate. How does that configure into how you think about capital deployment going forward? Obviously, some of the things that we've done are in the past, buying that storage at a four eight, maybe some other acquisitions or C of O deals, but 7% feels like it's pretty attractive and you have the balance sheet capacity to do something about it. So, I'm curious if you can comment on that first.

Dave Rogers – Chief Executive Officer

We've worked really hard to build ourselves to be very strong, and from the opening comments and just looking at our balance sheet, you can see that's very strong; our liquidity, likewise, is good. We did say that we're going to take our foot off the pedal with regard to acquisitions in this price metric, because certainly the sellers haven't adjusted their expectations either on C of O deals or stabilized properties. So, the mismatch is pretty great here and we're not going to bridge that gap on hope that rare will be the property where we think we can increase it fast enough to warrant buying it at our current situation.

But, in terms of what we have going, as we mentioned, we have about \$75 million worth of free cash flow. We have a quarter billion dollars availability on a line of credit. If your question is geared towards stock repurchase, it is something that you have to consider, we do have an old plan in place, we did it years ago, we've never been fans of it. You're basically playing the market, really. But, if we see that we're comfortable with things, especially in the challenging markets of Texas, if we see that we have the cash flow chugging, we're not going to do anything to jeopardize our credit rating, we're not going to do anything that's going to jeopardize the stability that we have here, but you're right, it's better than most—our stock at a 6.5% or greater is certainly a lot better buy than a lot of the properties we see.

Q: It sounds like not really your top one or two options for capital deployment even symbolically at all?

Dave Rogers – Chief Executive Officer

Don't get me wrong, we just want to—like I said, we've digested a whole bunch of stuff here, we have—I guess it would be choice one providing it doesn't jeopardize the credit rating.

Q: Okay. And, just to add to that, I realize the decrease in stock prices for the sector has happened pretty quickly over the past few months, but if your stock, if they trade at this kind of discount for a longer period of time, does that change your thinking or your willingness to do some kind of M&A, or look at M&A optionality, or no change there?

Dave Rogers – Chief Executive Officer

I don't even feel comfortable talking about it. No change there.

Q: Okay. In terms of free rent, in your same-store revenue guidance, the 4.25%, I know you addressed some of this question already, but it seems like a very muted deceleration from 3Q to 4Q. Should we expect the 4Q to be

a good run rate for going forward, or is there something else that might happen, for example, promotions, expanding beyond Texas that might bring down that same-store revenue a little bit lower as we head into 2017?

Andy Gregoire – Chief Financial Officer

I think the free rent comps get a little bit easier. I think you're right, the deceleration should be muted as we go into Q4. There'll be some because of the free rent, but the comps get much easier next year.

Q: Okay, and, just a last one for me. Can you give some stats on the street rates for this quarter and what you're seeing by October?

Andy Gregoire – Chief Financial Officer

For the quarter they were up about 2%, October a little less than that. But, that's a big picture, we're up 10% in Georgia, 10% in most of Texas—or most of Florida I should say. Texas is negative, Street rates are down a little bit. So based on mix of market, it really is a market tale of what street rates are. If you look at the deal overall, you might say it's between 1% and 2%, but that definitely doesn't tell the story of some of those very strong markets that rates are way up.

Q: Okay. Thank you, guys.

Operator

Thank you. Our final question comes from the line of Jeremy Metz with UBS. Please proceed with your question.

Q: Hi, Guys. Good morning. Just one on the Life Storage properties, the stabilized properties. The occupancy there was down to about 89%. I think that's down from a little over 92% when you first announced the deal, and I think the initial underwriting call for occupancy to go down while you focused on pushing rent. So, I'm just wondering if that's still the plan there, and therefore, should we expect to see occupancy dip a little further in the 4Q, and maybe could you talk about what sort of rent growth you are seeing across those assets versus the existing portfolio?

Andy Gregoire – Chief Financial Officer

It's typical that occupancy does come down this time of year, but you're right, we have a couple things there. We did start the auction process, we did clear out some of the bad debt, so we're starting that process which does knock occupancy a little bit, but it was non-paying occupancy so that's not a big deal. But, we're in this slower time, I think we're very comfortable with what we thought we could do with occupancy. So, it's on track with what we can do with occupancy.

Rates, like I said, California, Nevada, very strong. Other markets holding nicely except for Texas.

Q: Okay. So, generally, on track. And then, one last one. Dave, in your opening remarks you talked about the speed of the market shift in Texas and it was a bit surprising that you were able to combat some of that by ramping concessions there. So I was just wondering, as you look out at other markets in 2017, is it making you start to consider shifting strategies a bit more to ramp concessions ahead of others in the market, doing the same and, therefore, try to hold occupancy before you see a similar market shift as you saw within Texas?

Ed Killeen – Chief Operating Officer

Jeremy, we're really not seeing a similar behavior in other markets compared to the way Houston behaved since August. Again, demand remains healthy in almost all markets. Like Dave has suggested earlier, it just looks like sort of a picture of maybe some rate sensitivity, more rate sensitivity in Houston than other markets. But, I don't think you're going to see us change strategy next year if for nothing more than we're not seeing behavior like

Houston. It just seems to be a little bit off. Now, if something happens going forward, we'll react just as we did this year, but we're not seeing that right now.

Dave Rogers – Chief Executive Officer

That's the one part of our revenue management program that we are not proactive on. We are reluctantly reactive, I think, on free month incentives. We had some good stretches there and well-run properties shouldn't need them, but markets do. So, you won't see us taking the lead on free month, that's for sure.

Q: Okay. Thanks, Ed.

Operator

Thank you. Ladies and gentlemen, we have come to the end of our time for questions. I'd now like to turn the floor back to Mr. Rogers for any final remarks.

Dave Rogers – Chief Executive Officer

We appreciate your interest, we appreciate the involvement you have with us, and we really think we're in good shape going forward. This has been a great year for us, we had some hiccups, we tried to explain them. We feel confident that we have them put to bed and we'll look forward to seeing most of you in Phoenix in a couple of weeks. Thank you, everyone.