Extra Space Storage Inc.
Form 10-Q
November 03, 2017

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

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to .
Commission File Number: 001-32269

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

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

2795 East Cottonwood Parkway, Suite 300
Salt Lake City, Utah 84121
(Address of principal executive offices)
Registrant's telephone number, including area code: (801) 365-4600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company; or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

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The number of shares outstanding of the registrant’s common stock, par value $0.01 per share, as of October 31, 2017, was 126,007,803.

EXTRA SPACE STORAGE INC.

TABLE OF CONTENTS

STATEMENT ON FORWARD-LOOKING INFORMATION	4
PART I. FINANCIAL INFORMATION	5
ITEM 1. FINANCIAL STATEMENTS	5
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)	11
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	27
ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	43
ITEM 4. CONTROLS AND PROCEDURES	44
PART II. OTHER INFORMATION	45
ITEM 1. LEGAL PROCEEDINGS	45
ITEM 1A. RISK FACTORS	45
ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	45
ITEM 3. DEFAULTS UPON SENIOR SECURITIES	45
ITEM 4. MINE SAFETY DISCLOSURES	45
ITEM 5. OTHER INFORMATION	45
ITEM 6. EXHIBITS	46
SIGNATURES	47

STATEMENT ON FORWARD-LOOKING INFORMATION

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

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

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in or contemplated by this report. Any forward-looking statements should be considered in light of the risks referenced in “Part II. Item 1A. Risk Factors” below and in “Part I. Item 1A. Risk Factors” included in our most recent Annual Report on Form 10-K. Such factors include, but are not limited to:

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Extra Space Storage Inc.
Condensed Consolidated Balance Sheets
(amounts in thousands, except share data)

	September 30, 2017 (Unaudited)	December 31, 2016
Assets:		
Real estate assets, net	$6,770,086	$6,770,447
Investments in unconsolidated real estate ventures	78,512	79,570
Cash and cash equivalents	63,732	43,858
Restricted cash	17,277	13,884
Receivables from related parties and affiliated real estate joint ventures	4,618	16,611
Other assets, net	152,730	167,076
Total assets	$7,086,955	$7,091,446
Liabilities, Noncontrolling Interests and Equity:		
Notes payable, net	$3,568,113	$3,213,588
Exchangeable senior notes, net	602,485	610,314
Notes payable to trusts, net	117,414	117,321
Revolving lines of credit	25,000	365,000
Accounts payable and accrued expenses	114,247	101,388
Other liabilities	85,971	87,669
Total liabilities	4,513,230	4,495,280
Commitments and contingencies		
Noncontrolling Interests and Equity:		
Extra Space Storage Inc. stockholders' equity:		
Preferred stock, $0.01 par value, 50,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock, $0.01 par value, 500,000,000 shares authorized, 126,007,207 and 125,881,460 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	1,260	1,259
Additional paid-in capital	2,567,234	2,566,120
Accumulated other comprehensive income	17,731	16,770
Accumulated deficit	(370,959)	(339,257)
Total Extra Space Storage Inc. stockholders' equity	2,215,266	2,244,892
Noncontrolling interest represented by Preferred Operating Partnership units, net of $120,230 notes receivable	154,432	147,920
Noncontrolling interests in Operating Partnership	202,232	203,354
Other noncontrolling interests	1,795	—
Total noncontrolling interests and equity	2,573,725	2,596,166
Total liabilities, noncontrolling interests and equity	$7,086,955	$7,091,446

See accompanying notes to unaudited condensed consolidated financial statements.

Extra Space Storage Inc.
Condensed Consolidated Statements of Operations
(amounts in thousands, except share data)
(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues:				
Property rental	$248,589	$224,451	$720,878	$635,730
Tenant reinsurance	25,882	22,727	73,050	64,936
Management fees and other income	9,685	10,005	29,239	30,193
Total revenues	284,156	257,183	823,167	730,859
Expenses:				
Property operations	70,430	62,341	204,370	185,883
Tenant reinsurance	6,272	4,093	13,996	12,345
Acquisition related costs and other	—	1,933	—	9,124
General and administrative	19,498	19,537	60,171	63,451
Depreciation and amortization	48,075	46,555	144,139	133,402
Total expenses	144,275	134,459	422,676	404,205
Income from operations	139,881	122,724	400,491	326,654
Gain (loss) on real estate transactions, earnout from prior acquisition and impairment of real estate	—	—	(6,019)	9,814
Interest expense	(39,766)	(33,494)	(113,192)	(97,655)
Non-cash interest expense related to amortization of discount on equity component of exchangeable senior notes	(1,268)	(1,243)	(3,827)	(3,716)
Interest income	869	1,358	2,797	4,697
Interest income on note receivable from Preferred Operating Partnership unit holder	532	1,213	2,404	3,638
Income before equity in earnings of unconsolidated real estate ventures and income tax expense	100,248	90,558	282,654	243,432
Equity in earnings of unconsolidated real estate ventures	3,990	3,625	11,407	9,813
Equity in earnings of unconsolidated real estate ventures - gain on sale of real estate assets and purchase of joint venture partners' interests	—	37,509	—	64,432
Income tax expense	(3,163)	(4,466)	(9,154)	(11,004)
Net income	101,075	127,226	284,907	306,673
Net income allocated to Preferred Operating Partnership noncontrolling interests	(3,394)	(4,144)	(10,775)	(10,758)
Net income allocated to Operating Partnership and other noncontrolling interests	(3,917)	(4,994)	(11,080)	(12,191)
Net income attributable to common stockholders	$93,764	$118,088	$263,052	$283,724
Earnings per common share				
Basic	$0.74	$0.94	$2.09	$2.26
Diluted	$0.74	$0.93	$2.07	$2.24
Weighted average number of shares				
Basic	125,717,517	125,752,291	125,665,787	125,244,761
Diluted	133,044,473	133,763,472	133,008,622	132,476,691
Cash dividends paid per common share	$0.78	$0.78	$2.34	$2.15

See accompanying notes to unaudited condensed consolidated financial statements.

Extra Space Storage Inc.
Condensed Consolidated Statements of Comprehensive Income
(amounts in thousands)
(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	$101,075	$127,226	$284,907	$306,673
Other comprehensive income (loss):				
Change in fair value of interest rate swaps	759	13,374	992	(36,571)
Total comprehensive income	101,834	140,600	285,899	270,102
Less: comprehensive income attributable to noncontrolling interests	7,342	9,761	21,886	21,120
Comprehensive income attributable to common stockholders	$94,492	$130,839	$264,013	$248,982

See accompanying notes to unaudited condensed consolidated financial statements.

Extra Space Storage Inc.
Condensed Consolidated Statement of Noncontrolling Interests and Equity
(amounts in thousands, except share data)
(unaudited)

	Noncontrolling Interests						Extra Space Storage Inc. Stockholders' Equity				
	Preferred Operating Partnership										
	Series A	Series B	Series C	Series D	Operating Partnership	Other	Shares	Par Value	Additional Paid-in Capital	Accumulate Other Comprehen Income	Ac D
Balances at December 31, 2016	$14,385	$41,902	$10,730	$80,903	$203,354	$—	125,881,460	$1,259	$2,566,120	$16,770	$(
Issuance of common stock upon the exercise of options	—	—	—	—	—	—	38,418	—	1,266	—	—
Restricted stock grants issued	—	—	—	—	—	—	93,796	1	(1)	—	—
Restricted stock grants cancelled	—	—	—	—	—	—	(6,467)	—	—	—	—
Compensation expense related to stock-based awards	—	—	—	—	—	—	—	—	7,244	—	—
Issuance of Operating Partnership units in conjunction with acquisitions	—	—	—	—	2,000	—	—	—	—	—	—
Redemption of Operating Partnership units for cash	—	—	—	—	(1,238)	—	—	—	(1,272)	—	—
Issuance of Preferred D Units in the Operating Partnership in conjunction with acquisitions	—	—	—	6,810	—	—	—	—	—	—	—
Noncontrolling Interest in	—	—	—	—	—	1,868	—	—	—	—	—

consolidated joint venture											
Repurchase of equity portion of 2013 exchangeable senior notes	—	—	—	—	—	—	—	—	(6,123)	—	—
Net income (loss)	4,294	1,886	2,028	2,567	11,153	(73)	—	—	—	—	26
Other comprehensive income	4	—	—	—	27	—	—	—	—	961	—
Distributions to Operating Partnership units held by noncontrolling interests	(4,596)	(1,886)	(2,028)	(2,567)	(13,064)	—	—	—	—	—	—
Dividends paid on common stock at $2.34 per share	—	—	—	—	—	—	—	—	—	—	(2
Balances at September 30, 2017	$14,087	$41,902	$10,730	$87,713	$202,232	$1,795	126,007,207	$1,260	$2,567,234	$17,731	$(

See accompanying notes to unaudited condensed consolidated financial statements.

Extra Space Storage Inc.
Condensed Consolidated Statements of Cash Flows
(amounts in thousands)
(unaudited)

	For the Nine Months Ended September 30,	
	2017	2016
Cash flows from operating activities:		
Net income	$284,907	$306,673
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	144,139	133,402
Amortization of deferred financing costs	9,246	9,388
Non-cash interest expense related to amortization of discount on equity component of exchangeable senior notes	3,827	3,716
Non-cash interest expense related to amortization of premium on notes payable	—	(828)
Compensation expense related to stock-based awards	7,244	6,008
Gain on sale of real estate assets and purchase of joint venture partner's interest	—	(64,432)
(Gain) loss on real estate transactions, earnout from prior acquisition and impairment of real estate	6,019	(9,814)
Distributions from unconsolidated real estate ventures in excess of earnings	3,498	3,071
Changes in operating assets and liabilities:		
Receivables from related parties and affiliated real estate joint ventures	195	923
Other assets	(15,498)	(16,059)
Accounts payable and accrued expenses	6,425	10,938
Other liabilities	(373)	3,173
Net cash provided by operating activities	449,629	386,159
Cash flows from investing activities:		
Acquisition of real estate assets	(119,040)	(763,246)
Development and redevelopment of real estate assets	(20,670)	(18,492)
Proceeds from sale of real estate assets, investments in real estate ventures and other assets	18,565	56,786
Change in restricted cash	(3,393)	14,296
Investment in unconsolidated real estate ventures	(3,021)	(25,690)
Return of investment in unconsolidated real estate ventures	581	11,991
Purchase/issuance of notes receivable	—	(18,530)
Principal payments received from notes receivable	44,869	41,393
Purchase of equipment and fixtures	(5,635)	(2,818)
Net cash used in investing activities	(87,744)	(704,310)
Cash flows from financing activities:		
Proceeds from the sale of common stock, net of offering costs	—	123,423
Repurchase of exchangeable senior notes	(19,726)	(22,192)
Proceeds from notes payable and revolving lines of credit	1,023,170	1,026,975
Principal payments on notes payable and revolving lines of credit	(1,020,144)	(565,541)
Deferred financing costs	(5,172)	(6,700)
Net proceeds from exercise of stock options	1,266	312
Proceeds from termination of interest rate cap	—	1,650
Payment of earnout from prior acquisition	—	(4,600)
Redemption of Operating Partnership units held by noncontrolling interests	(2,510)	—

Dividends paid on common stock	(294,754)	(269,630)
Distributions to noncontrolling interests	(24,141)	(22,653)
Net cash provided by (used in) financing activities	(342,011)	261,044
Net increase in cash and cash equivalents	19,874	(57,107)
Cash and cash equivalents, beginning of the period	43,858	75,799
Cash and cash equivalents, end of the period	$63,732	$18,692

9

Extra Space Storage Inc.
Condensed Consolidated Statements of Cash Flows
(amounts in thousands)
(unaudited)

	For the Nine Months Ended September 30,	
	2017	2016
Supplemental schedule of cash flow information		
Interest paid	$107,144	$94,585
Income taxes paid	8,086	10,813
Supplemental schedule of noncash investing and financing activities:		
Redemption of Operating Partnership units held by noncontrolling interests for common stock:		
Noncontrolling interests in Operating Partnership	$—	$(839)
Common stock and paid-in capital	—	839
Tax effect from vesting of restricted stock grants and option exercises		
Other assets	$—	$1,322
Additional paid-in capital	—	(1,322)
Acquisitions of real estate assets		
Real estate assets, net	$20,100	$65,960
Value of Operating Partnership units issued	(8,810)	(56,237)
Notes payable assumed	(9,463)	(9,723)
Other noncontrolling interests	(1,827)	—
Accrued construction costs and capital expenditures		
Acquisition of real estate assets	$4,874	$8,839
Development and redevelopment of real estate assets	1,558	—
Other liabilities	(6,432)	(8,839)
Distribution of real estate from investments in unconsolidated real estate ventures		
Real estate assets, net	$—	$21,587
Investments in unconsolidated real estate ventures	—	(21,587)
Disposition of real estate assets		
Real estate assets, net	$—	$(7,689)
Operating Partnership units redeemed	—	7,689
Acquisition of noncontrolling interests		
Operating Partnership units issued	$—	$(800)
Other noncontrolling interests	—	162
Additional paid-in capital	—	638

See accompanying notes to unaudited condensed consolidated financial statements.

EXTRA SPACE STORAGE INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
Amounts in thousands, except store and share data, unless otherwise stated

1. ORGANIZATION

Extra Space Storage Inc. (the "Company") is a fully-integrated, self-administered and self-managed real estate investment trust ("REIT"), formed as a Maryland corporation on April 30, 2004, to own, operate, manage, acquire, develop and redevelop professionally managed self-storage properties ("stores") located throughout the United States. The Company continues the business of Extra Space Storage LLC and its subsidiaries, which had engaged in the self-storage business since 1977. The Company's interests in its stores is held through its operating partnership, Extra Space Storage LP (the "Operating Partnership"), which was formed on May 5, 2004. The Company's primary assets are general partner and limited partner interests in the Operating Partnership. This structure is commonly referred to as an umbrella partnership REIT, or UPREIT. The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended. To the extent the Company continues to qualify as a REIT, it will not be subject to tax, with certain limited exceptions, on the taxable income that is distributed to its stockholders.

The Company invests in stores by acquiring wholly-owned stores or by acquiring an equity interest in real estate entities. At September 30, 2017, the Company had direct and indirect equity interests in 1,028 stores. In addition, the Company managed 485 stores for third parties, bringing the total number of stores which it owns and/or manages to 1,513. These stores are located in 38 states, Washington, D.C. and Puerto Rico.

The Company operates in three distinct segments: (1) rental operations; (2) tenant reinsurance; and (3) property management, acquisition and development. The rental operations activities include rental operations of stores in which we have an ownership interest. No single tenant accounts for more than 5.0% of rental income. Tenant reinsurance activities include the reinsurance of risks relating to the loss of goods stored by tenants in the Company's stores. The Company's property management, acquisition and development activities include managing, acquiring and developing stores.

2. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of the Company are presented on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information, and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they may not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2017 are not necessarily indicative of results that may be expected for the year ending December 31, 2017. The condensed consolidated balance sheet as of December 31, 2016 has been derived from the Company's audited financial statements as of that date, but does not include all of the information and footnotes required by GAAP for complete financial statements. For further information refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, as filed with the Securities and Exchange Commission.

Recently Issued Accounting Standards
In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers," which amends the guidance for revenue recognition to replace

numerous, industry-specific requirements and converges areas under this topic with those of the International Financial Reporting Standards. ASU 2014-09 outlines a five-step process for customer contract revenue recognition that focuses on transfer of control, as opposed to transfer of risk and rewards. The amendment also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash flows from contracts with customers. The new standard will become effective for annual and interim periods beginning after December 15, 2017 with early adoption permitted. The Company has determined that its property rental revenue and tenant reinsurance revenue will not be subject to the guidance in ASU 2014-09, as they qualify as lease contracts and insurance contracts, which are excluded from its scope. The Company's management fee revenue will be included in the scope of the standard. However, based on the Company's initial assessment, it appears that revenue recognized under the standard will not differ materially from revenue recognized under existing guidance. The Company continues to assess the potential impacts of ASU 2014-09. The Company anticipates adopting the standard using the modified retrospective transition method as of January 1, 2018.

EXTRA SPACE STORAGE INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
Amounts in thousands, except store and share data, unless otherwise stated

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842),” which modifies the accounting for leases, intending to increase transparency and comparability of organizations by requiring balance sheet presentation of leased assets and increased financial statement disclosure of leasing arrangements. ASU 2016-02 will require entities to recognize a liability for their lease obligations and a corresponding asset representing the right to use the underlying asset over the lease term. Lease obligations are to be measured at their present value and accounted for using the effective interest method. The accounting for the leased asset will differ slightly depending on whether the agreement is deemed to be a financing or operating lease. For financing leases, the leased asset is depreciated on a straight-line basis and depreciation expense is recorded separately from the interest expense in the statements of operations, resulting in higher expense in the earlier part of the lease term. For operating leases, the depreciation and interest expense components are combined, recognized evenly over the term of the lease, and presented as a reduction to operating income. ASU 2016-02 requires that assets and liabilities be presented or disclosed separately, and requires additional disclosure of certain qualitative and quantitative information related to these lease agreements. ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018. The Company is currently assessing the impact of the adoption of ASU 2016-02 on the Company’s consolidated financial statements.

In March 2016, the FASB issued ASU 2016-05, "Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships." ASU 2016-05 clarifies that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument does not, in and of itself, require re-designation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The Company adopted this guidance on January 1, 2017. The adoption of ASU 2016-05 did not have a material impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, “Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.” ASU 2016-09 simplifies several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This ASU is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Company adopted this guidance prospectively on January 1, 2017, and prior periods have not
been adjusted. As a result of the adoption of this guidance, the Company no longer presents the tax effects from vesting of restricted stock grants and stock option exercises on its condensed consolidated statement of noncontrolling interests and equity.

In August 2016, the FASB issued ASU 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments." ASU 2016-15 provides guidance on several specific cash flow issues, including the classification of debt prepayment or debt extinguishment costs, contingent consideration payments, and distributions received from equity method investees. This guidance is effective for fiscal years beginning after December 15, 2017. The Company is currently evaluating the new guidance to determine the impact it may have on its consolidated financial statements.

In October 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash," which requires that a statement of cash flows explains the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the new guidance to determine the impact it may have on

its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business," which provides guidance on whether transactions should be accounted for as acquisitions or disposals of assets or businesses. Specifically, when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or group of similar identifiable assets, the set of assets is not a business. Additionally, ASU 2017-01 also provides other guidance providing a more robust framework to use in determining whether a set of assets and activities is a
business. This guidance is effective for annual periods beginning after December 15, 2017. Early adoption is permitted for transactions for which the acquisition or disposition date occurs before the issuance date or effective date of the amendments, only when the transaction has not been reported in financial statements that have been issued. The Company adopted ASU 2017-01 for new acquisitions beginning on January 1, 2017. The costs related to the acquisitions of stores that qualify as asset acquisitions will be capitalized as part of the purchase.

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements for Accounting for Hedging Activities," which amends and simplifies existing guidance for the financial reporting of hedging relationships to

EXTRA SPACE STORAGE INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
Amounts in thousands, except store and share data, unless otherwise stated

allow companies to better portray the economic effects of risk management activities in their financial statements. ASU 2017-12 is effective for annual periods beginning after December 15, 2018, with early adoption permitted. The Company is currently evaluating the new guidance to determine the impact it may have on its consolidated financial statements.

3. FAIR VALUE DISCLOSURES

Derivative Financial Instruments
Currently, the Company uses interest rate swaps to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on an expectation of future interest rates (forward curves) derived from observable market interest rate forward curves.

The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees. In conjunction with the FASB's fair value measurement guidance, the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the Company and its counterparties. However, as of September 30, 2017, the Company had assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and determined that the credit valuation adjustments were not significant to the overall valuation of its derivatives. As a result, the Company determined that its derivative valuations in their entirety were classified in Level 2 of the fair value hierarchy.

The table below presents the Company's assets and liabilities measured at fair value on a recurring basis as of September 30, 2017, aggregated by the level in the fair value hierarchy within which those measurements fall.

		Fair Value Measurements at Reporting Date Using		
Description	September 30, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

Other assets - Cash Flow Hedge Swap Agreements	$ 23,584	$ — $ 23,584	$ —
Other liabilities - Cash Flow Hedge Swap Agreements	$ (1,430)	$ — $ (1,430)	$ —

The Company did not have any significant assets or liabilities that are re-measured on a recurring basis using significant unobservable inputs as of September 30, 2017 or December 31, 2016.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

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

When the Company determines that an event that may indicate impairment has occurred, the Company compares the carrying value of the related long-lived assets to the undiscounted future net operating cash flows attributable to the assets. An

impairment loss is recorded if the net carrying value of the assets exceeds the undiscounted future net operating cash flows attributable to the assets. The impairment loss recognized equals the excess of net carrying value over the related fair value of the assets.

When real estate assets are identified by management as held for sale, the Company discontinues depreciating the assets and estimates the fair value of the assets, net of selling costs. If the estimated fair value, net of selling costs, of the assets that have been identified as held for sale is less than the net carrying value of the assets, the Company would recognize an impairment loss on the assets held for sale. The operations of assets held for sale or sold during the period are presented as part of normal operations for all periods presented. As of September 30, 2017, the Company had one parcel of undeveloped land and 36 operating stores classified as held for sale. The estimated fair value less selling costs of each of these operating stores is greater than the carrying value of the assets, and therefore no loss has been recorded related to the operating stores held for sale. For the nine months ended September 30, 2017, the Company recorded an impairment loss of $6,100 relating to one parcel of land held for sale and an additional two parcels of undeveloped land where the carrying value was greater than the fair value.

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

In connection with the Company’s acquisition of stores, the purchase price is allocated to the tangible and intangible assets and liabilities acquired based on their relative fair values, which are estimated using significant unobservable inputs. The value of the tangible assets, consisting of land and buildings, is determined as if vacant. Intangible assets, which represent the value of existing tenant relationships, are recorded at their fair values based on the avoided cost to replace the current leases. The Company measures the value of tenant relationships based on the rent lost due to the amount of time required to replace existing customers, which is based on the Company’s historical experience with turnover in its stores. Debt assumed as part of an acquisition is recorded at fair value based on current interest rates compared to contractual rates. Acquisition-related transaction costs, for those qualifying as asset acquisitions, are capitalized as a component of the cost of the assets acquired.

Fair Value of Financial Instruments

The carrying values of cash and cash equivalents, restricted cash, receivables, other financial instruments included in other assets, accounts payable and accrued expenses, variable-rate notes payable, lines of credit and other liabilities reflected in the condensed consolidated balance sheets at September 30, 2017 and December 31, 2016 approximate fair value.

The fair values of the Company’s notes receivable from Preferred Operating Partnership unit holders and other fixed rate notes receivable were based on the discounted estimated future cash flows of the notes (categorized within Level 3 of the fair value hierarchy); the discount rate used approximated the current market rate for loans with similar maturities and credit quality. The fair values of the Company’s fixed-rate notes payable and notes payable to trusts were estimated using the discounted estimated future cash payments to be made on such debt (categorized within Level 3 of the fair value hierarchy); the discount rates used approximated current market rates for loans, or groups of loans, with similar maturities and credit quality. The fair value of the Company’s exchangeable senior notes was estimated using an average market price for similar securities obtained from a third party.

The fair values of the Company's fixed-rate assets and liabilities were as follows for the periods indicated:

	September 30, 2017		December 31, 2016	
	Fair Value	Carrying Value	Fair Value	Carrying Value
Notes receivable from Preferred Operating Partnership unit holders	$114,506	$120,230	$125,642	$120,230
Fixed rate notes receivable	$21,285	$20,608	$53,450	$52,201
Fixed rate notes payable and notes payable to trusts	$2,882,709	$2,900,822	$2,404,996	$2,417,558
Exchangeable senior notes	$702,118	$624,384	$706,827	$638,170

EXTRA SPACE STORAGE INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
Amounts in thousands, except store and share data, unless otherwise stated

4. EARNINGS PER COMMON SHARE

Basic earnings per common share is computed using the two-class method by dividing net income attributable to common stockholders by the weighted average number of common shares outstanding during the period. All outstanding unvested restricted stock awards contain rights to non-forfeitable dividends and participate in undistributed earnings with common stockholders; accordingly, they are considered participating securities that are included in the two-class method. Diluted earnings per common share measures the performance of the Company over the reporting period while giving effect to all potential common shares that were dilutive and outstanding during the period. The denominator includes the weighted average number of basic shares and the number of additional common shares that would have been outstanding if the potential common shares that were dilutive had been issued, and is calculated using either the two-class, treasury stock or as if-converted method, whichever is most dilutive. Potential common shares are securities (such as options, convertible debt, Series A Participating Redeemable Preferred Units (“Series A Units”), Series B Redeemable Preferred Units (“Series B Units”), Series C Convertible Redeemable Preferred Units (“Series C Units”), Series D Redeemable Preferred Units (“Series D Units”) and common Operating Partnership units (“OP Units”)) that do not have a current right to participate in earnings of the Company but could do so in the future by virtue of their option, redemption or conversion right.

In computing the dilutive effect of convertible securities, net income is adjusted to add back any changes in earnings in the period associated with the convertible security. The numerator also is adjusted for the effects of any other non-discretionary changes in income or loss that would result from the assumed conversion of those potential common shares. In computing diluted earnings per common share, only potential common shares that are dilutive (those that reduce earnings per common share) are included. For the three months ended September 30, 2017 and 2016, options to purchase approximately 45,438 and 95,031 shares of common stock, respectively, and for the nine months ended September 30, 2017 and 2016, options to purchase approximately 97,697 and 84,919 shares of common stock, respectively, were excluded from the computation of earnings per share as their effect would have been anti-dilutive.

For the purposes of computing the diluted impact of the potential exchange of the Preferred Operating Partnership units for common shares upon redemption, where the Company has the option to redeem in cash or shares and where the Company has stated the intent and ability to settle the redemption in shares, the Company divided the total value of the Preferred Operating Partnership units by the average share price for the period presented. The average share price for the three months ended September 30, 2017 and 2016 was $77.84 and $84.41, respectively, and for the nine months ended September 30, 2017 and 2016, the average share price was $76.67 and $87.22, respectively. The following table presents the number of Preferred Operating Partnership units, and the potential common shares, that were excluded from the computation of earnings per share as their effect would have been anti-dilutive.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
	Equivalent Shares (if converted)	Equivalent Shares (if converted)	Equivalent Shares (if converted)	Equivalent Shares (if converted)
Series B Units	538,312	496,412	546,526	480,419
Series C Units	380,769	351,132	386,580	339,820
Series D Units	1,126,831	—	1,091,319	417,420
	2,045,912	847,544	2,024,425	1,237,659

The Operating Partnership had $49,384 of its 2.375% Exchangeable Senior Notes due 2033 (the “2013 Notes”) issued and outstanding as of September 30, 2017. The 2013 Notes could potentially have a dilutive impact on the Company’s earnings per share calculations. The 2013 Notes are exchangeable by holders into shares of the Company’s common stock under certain circumstances per the terms of the indenture governing the 2013 Notes. The exchange price of the 2013 Notes was $53.28 per share as of September 30, 2017, and could change over time as described in the indenture. The Company has irrevocably agreed to pay only cash for the accreted principal amount of the 2013 Notes relative to its exchange obligations, but retained the right to satisfy the exchange obligation in excess of the accreted principal amount in cash and/or common stock.

The Operating Partnership had $575,000 of its 3.125% Exchangeable Senior Notes due 2035 (the “2015 Notes”) issued and outstanding as of September 30, 2017. The 2015 Notes could potentially have a dilutive impact on the Company’s earnings per share calculations. The 2015 Notes are exchangeable by holders into shares of the Company’s common stock under certain circumstances per the terms of the indenture governing the 2015 Notes. The exchange price of the 2015 Notes was $94.01 per

share as of September 30, 2017, and could change over time as described in the indenture. The Company has irrevocably agreed to pay only cash for the accreted principal amount of the 2015 Notes relative to its exchange obligations, but retained the right to satisfy the exchange obligation in excess of the accreted principal amount in cash and/or common stock.

Although the Company has retained the right to satisfy the exchange obligation in excess of the accreted principal amount of the 2013 Notes and 2015 Notes in cash and/or common stock, Accounting Standards Codification ("ASC") 260, "Earnings per Share," requires an assumption that shares would be used to pay such exchange obligation, and requires that those shares be included in the Company's calculation of weighted average common shares outstanding for the diluted earnings per share computation. For the three and nine months ended September 30, 2017 and 2016, 292,439 and 413,498 shares, respectively, related to the 2013 Notes were included in the computation for diluted earnings per share. For the three and nine months ended September 30, 2017 and 2016, no shares related to the 2015 Notes were included in the computation for diluted earnings per share as the exchange price exceeded the per share price of the Company's common stock during these periods.

For the purposes of computing the diluted impact on earnings per share of the potential exchange of Series A Units for common shares upon redemption, where the Company has the option to redeem in cash or shares and where the Company has stated the positive intent and ability to settle at least $115,000 of the instrument in cash (or net settle a portion of the Series A Units against the related outstanding note receivable), only the amount of the instrument in excess of $115,000 is considered in the calculation of shares contingently issuable for the purposes of computing diluted earnings per share as allowed by ASC 260-10-45-46. Accordingly, the number of shares included in the computation for diluted earnings per share related to the Series A Units is equal to the number of Series A Units outstanding, with no additional shares included related to the fixed $115,000 amount.

EXTRA SPACE STORAGE INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
Amounts in thousands, except store and share data, unless otherwise stated

The computation of earnings per common share was as follows for the periods presented:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income attributable to common stockholders	$93,764	$118,088	$263,052	$283,724
Earnings and dividends allocated to participating securities	(191)	(248)	(595)	(616)
Earnings for basic computations	93,573	117,840	262,457	283,108
Earnings and dividends allocated to participating securities	191	—	595	—
Income allocated to noncontrolling interest - Preferred Operating Partnership (Series A Units) and Operating Partnership	5,163	7,776	15,448	17,926
Fixed component of income allocated to noncontrolling interest - Preferred Operating Partnership (Series A Units)	(572)	(1,271)	(2,547)	(3,814)
Net income for diluted computations	$98,355	$124,345	$275,953	$297,220
Weighted average common shares outstanding:				
Average number of common shares outstanding - basic	125,717,517	125,752,291	125,665,787	125,244,761
OP Units	5,590,231	5,534,350	5,586,908	5,557,723
Series A Units	875,480	875,480	875,480	875,480
Series D Units	—	814,435	—	—
Unvested restricted stock awards included for treasury stock method	280,484	—	288,831	—
Shares related to exchangeable senior notes and dilutive stock options	580,761	786,916	591,616	798,727
Average number of common shares outstanding - diluted	133,044,473	133,763,472	133,008,622	132,476,691
Earnings per common share				
Basic	$0.74	$0.94	$2.09	$2.26
Diluted	$0.74	$0.93	$2.07	$2.24

EXTRA SPACE STORAGE INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
Amounts in thousands, except store and share data, unless otherwise stated

5. STORE ACQUISITIONS AND DISPOSITIONS

The following table shows the Company’s acquisitions of operating stores for the nine months ended September 30, 2017. The table excludes purchases of raw land or improvements made to existing assets.

			Consideration Paid							Total
Property Location	Number of Stores	Date of Acquisition	Total	Cash Paid	Loan Assumed	Non-controlling interests	Net Liabilities/(Assets) Assumed	Value of OP Units Issued	Number of OP Units Issued	Real estate assets
Georgia	1	9/1/2017	$4,246	$4,220	$—	$—	$ 26	$—	—	$4,246
Florida	1	8/4/2017	9,047	7,058	—	—	(11)	2,000	25,520	9,047
North Carolina	1	7/13/2017	8,422	8,426	—	—	(4)	—	—	8,422
Virginia	1	7/13/2017	10,251	10,215	—	—	36	—	—	10,251
Florida	1	6/12/2017	11,100	4,270	—	—	20	6,810	272,400	11,100
Florida	1	4/25/2017	7,377	7,400	—	—	(23)	—	—	7,377
Pennsylvania	1	4/11/2017	16,164	4,938	9,463	1,827	(64)	—	—	16,164
Illinois	1	2/1/2017	9,028	9,020	—	—	8	—	—	9,028
Georgia	1	1/6/2017	16,528	16,521	—	—	7	—	—	16,528
2017 Totals	9		$92,163	$72,068	$ 9,463	$ 1,827	$ (5)	$8,810	297,920	$92,163

Store Dispositions

On September 13, 2017, the Company closed on the sale of a parcel of land located in New York that had been classified as held for sale for $19,000 in cash. This parcel of land had been written down to its fair value less selling costs during the six months ended June 30, 2017, and therefore no additional gain or loss was recorded related to this sale at the time of closing.

On July 26, 2016, the Company closed on the sale of one operating store located in Indiana that had been classified as held for sale for $4,447 in cash. The Company recognized no gain or loss related to this disposition.

On April 20, 2016, the Company closed on the sale of seven operating stores located in Ohio and Indiana that had been classified as held for sale for $17,555 in cash. The Company recognized a gain of $11,265 related to this disposition.

On April 1, 2016, the Company disposed of a single store in Texas in exchange for 85,452 of our OP Units valued at $7,689. The Operating Partnership has canceled the OP Units received in this disposition. The Company recognized a gain of $93 related to this disposition.

Losses on Earnout from Prior Acquisition

In December 2014, the Company acquired a portfolio of five stores located in New Jersey and Virginia. As part of this acquisition, the Company agreed to make an additional cash payment to the sellers if the acquired stores exceeded a specified amount of net operating income for the years ending December 31, 2015 and 2016. At the acquisition date, the Company recorded an estimated liability related to this earnout provision. The operating income of these stores during the earnout period was higher than expected, resulting in an increase in the estimate of the amount due to the

sellers of $1,544, which was recorded as a loss and included in gain (loss) on real estate transactions, earnout from prior acquisition and impairment of real estate in the Company’s condensed consolidated statements of operations for the nine months ended September 30, 2016.

6. VARIABLE INTERESTS

The Operating Partnership has three wholly-owned unconsolidated subsidiaries (“Trust,” “Trust II” and “Trust III,” together, the “Trusts”) that have issued trust preferred securities to third parties and common securities to the Operating Partnership. The proceeds from the sale of the preferred and common securities were loaned in the form of notes to the Operating Partnership. The Trusts are VIEs because the holders of the equity investment at risk (the trust preferred securities) do not have the power to direct the activities of the entities that most significantly affect the entities’ economic performance because of their lack of voting or similar rights. Because the Operating Partnership’s investment in the Trusts’ common securities was financed directly

EXTRA SPACE STORAGE INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
Amounts in thousands, except store and share data, unless otherwise stated

by the Trusts as a result of its loan of the proceeds to the Operating Partnership, that investment is not considered an equity investment at risk. The Operating Partnership's investment in the Trusts is not a variable interest because equity interests are variable interests only to the extent that the investment is considered to be at risk, and therefore the Operating Partnership cannot be the primary beneficiary of the Trusts. Since the Company is not the primary beneficiary of the Trusts, they have not been consolidated. A debt obligation has been recorded in the form of notes for the proceeds as discussed above, which are owed to the Trusts. The Company has also included its investment in the Trusts' common securities in other assets on the condensed consolidated balance sheets.

The Company has not provided financing or other support during the periods presented to the Trusts that it was not previously contractually obligated to provide. The Company's maximum exposure to loss as a result of its involvement with the Trusts is equal to the total amount of the notes discussed above less the amounts of the Company's investments in the Trusts' common securities. The net amount is equal to the notes payable that the Trusts owe to third parties for their investments in the Trusts' preferred securities.

Following is a tabular comparison of the assets and liabilities the Company has recorded as a result of its involvement with the Trusts to the maximum exposure to loss the Company is subject to as a result of such involvement as of September 30, 2017:

	Notes payable to Trusts	Investment Balance	Maximum exposure to loss	Difference
Trust	$36,083	$ 1,083	$35,000	$ —
Trust II	42,269	1,269	41,000	—
Trust III	41,238	1,238	40,000	—
	119,590	$ 3,590	$116,000	—
Unamortized debt issuance costs	(2,176)			
	$117,414			

The Company had no consolidated VIEs during the nine months ended September 30, 2017.

7. DERIVATIVES

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity and credit risk, primarily by managing the amount, sources and duration of its debt funding and by using derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposure that arises from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's investments and borrowings.

Cash Flow Hedges of Interest Rate Risk
The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish these objectives, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the

life of the agreements without exchange of the underlying notional amount.

The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income ("OCI") and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. A portion of these changes is excluded from accumulated other comprehensive income as it is allocated to noncontrolling interests. During the three and nine months ended September 30, 2017 and 2016, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt. In the coming 12 months, the Company estimates that an additional $1,513 will be reclassified as an increase to interest expense.

EXTRA SPACE STORAGE INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
Amounts in thousands, except store and share data, unless otherwise stated

The Company held 30 derivative financial instruments which had a total combined notional amount of $2,255,018 as of September 30, 2017.

Fair Values of Derivative Instruments
The table below presents the fair value of the Company’s derivative financial instruments as well as their classification on the condensed consolidated balance sheets:

	Asset (Liability) Derivatives	
	September 30, 2017	December 31, 2016
Derivatives designated as hedging instruments:	Fair Value	
Other assets	$23,584	$23,844
Other liabilities	$(1,430)	$(2,447)

Effect of Derivative Instruments
The tables below present the effect of the Company’s derivative financial instruments on the condensed consolidated statements of operations for the periods presented. No tax effect has been presented as the derivative instruments are held by the Company:

	Gain (loss) recognized in OCI For the Three Months Ended September 30,		Location of amounts reclassified from OCI into income	Gain (loss) reclassified from OCI For the Three Months Ended September 30,	
Type	2017	2016		2017	2016
Swap Agreements	$(787)	$8,451	Interest expense	$(1,572)	$(4,926)

	Gain (loss) recognized in OCI For the Nine Months Ended September 30,		Location of amounts reclassified from OCI into income	Gain (loss) reclassified from OCI For the Nine Months Ended September 30,	
Type	2017	2016		2017	2016
Swap Agreements	$ (6,474)	$ (50,165)	Interest expense	$(7,497)	$(14,240)

Credit-risk-related Contingent Features
The Company has agreements with some of its derivative counterparties that contain provisions pursuant to which the Company could be declared in default of its derivative obligations if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender.

The Company also has an agreement with some of its derivative counterparties that incorporates the loan covenant provisions of the Company’s indebtedness with a lender affiliate of the derivative counterparty. Failure to comply with the loan covenant provisions would result in the Company being in default on any derivative instrument obligations covered by the agreement.

As of September 30, 2017, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $1,257. As of September 30, 2017, the Company had not posted any collateral related to these agreements. If the Company had breached any of these provisions as of September 30, 2017, it could have been required to settle its obligations under the agreements at their termination value of $1,620, including accrued interest.

EXTRA SPACE STORAGE INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
Amounts in thousands, except store and share data, unless otherwise stated

8. EXCHANGEABLE SENIOR NOTES

In September 2015, the Operating Partnership issued $575,000 of its 3.125% Exchangeable Senior Notes due 2035. Costs incurred to issue the 2015 Notes were approximately $11,992, consisting primarily of a 2.0% underwriting fee. These costs are being amortized as an adjustment to interest expense over five years, which represents the estimated term based on the first available redemption date, and are included in exchangeable senior notes, net, in the condensed consolidated balance sheets. The 2015 Notes are general unsecured senior obligations of the Operating Partnership and are fully guaranteed by the Company. Interest is payable on April 1 and October 1 of each year beginning April 1, 2016, until the maturity date of October 1, 2035. The 2015 Notes bear interest at 3.125% per annum and contain an exchange settlement feature, which provides that the 2015 Notes may, under certain circumstances, be exchangeable for cash (for the principal amount of the 2015 Notes) and, with respect to any excess exchange value, for cash, shares of the Company’s common stock, or a combination of cash and shares of the Company’s common stock, at the Company’s option. The exchange rate of the 2015 Notes as of September 30, 2017 was approximately 10.64 shares of the Company’s common stock per $1,000 principal amount of the 2015 Notes.

The Operating Partnership may redeem the 2015 Notes at any time to preserve the Company’s status as a REIT. In addition, on or after October 5, 2020, the Operating Partnership may redeem the 2015 Notes for cash, in whole or in part, at 100% of the principal amount plus accrued and unpaid interest, upon at least 30 days but not more than 60 days prior written notice to the holders of the 2015 Notes. The holders of the 2015 Notes have the right to require the Operating Partnership to repurchase the 2015 Notes for cash, in whole or in part, on October 1 of the years 2020, 2025 and 2030 (unless the Operating Partnership has called the 2015 Notes for redemption), and upon the occurrence of certain designated events, in each case for a repurchase price equal to 100% of the principal amount of the 2015 Notes plus accrued and unpaid interest. Certain events are considered “Events of Default,” as defined in the indenture governing the 2015 Notes, which may result in the accelerated maturity of the 2015 Notes.

On June 21, 2013, the Operating Partnership issued $250,000 of its 2.375% Exchangeable Senior Notes due 2033 at a 1.5% discount, or $3,750. Costs incurred to issue the 2013 Notes were approximately $1,672. These costs are being amortized as an adjustment to interest expense over five years, which represents the estimated term based on the first available redemption date, and are included in exchangeable senior notes, net, in the condensed consolidated balance sheets. The 2013 Notes are general unsecured senior obligations of the Operating Partnership and are fully guaranteed by the Company. Interest is payable on January 1 and July 1 of each year beginning January 1, 2014, until the maturity date of July 1, 2033. The 2013 Notes bear interest at 2.375% per annum and contain an exchange settlement feature, which provides that the 2013 Notes may, under certain circumstances, be exchangeable for cash (for the principal amount of the 2013 Notes) and, with respect to any excess exchange value, for cash, shares of the Company’s common stock, or a combination of cash and shares of the Company’s common stock, at the Company’s option. The exchange rate of the 2013 Notes as of September 30, 2017 was approximately 18.77 shares of the Company’s common stock per $1,000 principal amount of the 2013 Notes.

The Operating Partnership may redeem the 2013 Notes at any time to preserve the Company’s status as a REIT. In addition, on or after July 5, 2018, the Operating Partnership may redeem the 2013 Notes for cash, in whole or in part, at 100% of the principal amount plus accrued and unpaid interest, upon at least 30 days but not more than 60 days prior written notice to the holders of the 2013 Notes. The holders of the 2013 Notes have the right to require the Operating Partnership to repurchase the 2013 Notes for cash, in whole or in part, on July 1 of the years 2018, 2023 and 2028, and upon the occurrence of certain designated events, in each case for a repurchase price equal to 100% of the principal amount of the 2013 Notes plus accrued and unpaid interest. Certain events are considered “Events of Default,” as defined in the indenture governing the 2013 Notes, which may result in the accelerated maturity of the

2013 Notes.

Additionally, the 2013 Notes and the 2015 Notes can be exchanged during any calendar quarter, if the last reported sale price of the common stock of the Company is greater than or equal to 130% of the exchange price for at least 20 trading days during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter. The price of the Company's common stock exceeded 130% of the exchange price for the required time period for the 2013 Notes during the quarter ended September 30, 2017. Therefore, holders of the 2013 Notes may elect to exchange such notes during the quarter ending December 31, 2017. The price of the Company's common stock did not exceed 130% of the exchange price for the required time period for the 2015 Notes during the quarter ended September 30, 2017.

GAAP requires entities with convertible debt instruments that may be settled entirely or partially in cash upon conversion to separately account for the liability and equity components of the instrument in a manner that reflects the issuer's economic

EXTRA SPACE STORAGE INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
Amounts in thousands, except store and share data, unless otherwise stated

interest cost. The Company therefore accounts for the liability and equity components of the 2013 Notes and 2015 Notes separately. The equity components are included in paid-in capital in stockholders' equity in the condensed consolidated balance sheets, and the value of the equity components are treated as original issue discount for purposes of accounting for the debt components. The discounts are being amortized as interest expense over the remaining period of the debt through its first redemption date: July 1, 2018 for the 2013 Notes, and October 1, 2020 for the 2015 Notes. The effective interest rate on the liability components of both the 2013 Notes and the 2015 Notes is 4.0%, which approximated the market rate of interest of similar debt without exchange features (i.e. nonconvertible debt) at the time of issuance.

Information about the Company's 2013 Notes and 2015 Notes, including the total carrying amounts of the equity components, the principal amounts of the liability components, the unamortized discounts and the net carrying amounts was as follows for the periods indicated:

	September 30, 2017	December 31, 2016
Carrying amount of equity component - 2013 Notes	$—	$—
Carrying amount of equity component - 2015 Notes	22,597	22,597
Carrying amount of equity components	$22,597	$22,597
Principal amount of liability component - 2013 Notes	$49,384	$63,170
Principal amount of liability component - 2015 Notes	575,000	575,000
Unamortized discount - equity component - 2013 Notes	(475)	(1,187)
Unamortized discount - equity component - 2015 Notes	(14,091)	(17,355)
Unamortized cash discount - 2013 Notes	(110)	(281)
Unamortized debt issuance costs	(7,223)	(9,033)
Net carrying amount of liability components	$602,485	$610,314

The amount of interest cost recognized relating to the contractual interest rates and the amortization of the discounts on the liability components of the Notes were as follows for the periods indicated:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Contractual interest	$4,785	$4,867	$14,519	$14,616
Amortization of discount	1,268	1,243	3,827	3,716
Total interest expense recognized	$6,053	$6,110	$18,346	$18,332

Repurchases of 2013 Notes

During July and August 2017, the Company repurchased a total principal amount of $13,786 of the 2013 Notes. The Company paid cash of $19,853 for the total of the principal amount and the exchange value in excess of the principal amount.
The Company allocated the value of the consideration paid to repurchase the 2013 Notes (1) to the extinguishment of the liability component and (2) to the reacquisition of the equity component. The amount allocated to the extinguishment of the liability component is equal to the fair value of that component immediately prior to extinguishment. The difference between the consideration attributed to the extinguishment of the liability component and the sum of (a) the net carrying amount of the repurchased liability component, and (b) the related unamortized debt issuance costs, is recognized as a gain on debt extinguishment. The remaining settlement consideration is

allocated to the reacquisition of the equity component of the repurchased 2013 Notes and recognized as a reduction of stockholders' equity.

EXTRA SPACE STORAGE INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
Amounts in thousands, except store and share data, unless otherwise stated

Information about the repurchases is as follows:

	July/August 2017
Principal amount repurchased	$ 13,786
Amount allocated to:	
Extinguishment of liability component	$ 13,568
Reacquisition of equity component	6,285
Total consideration paid for repurchase	$ 19,853
Exchangeable senior notes repurchased	$ 13,786
Extinguishment of liability component	(13,568)
Discount on exchangeable senior notes	(183)
Related debt issuance costs	(35)
Gain/(loss) on repurchase	$ —

9. STOCKHOLDERS’ EQUITY

On May 6, 2016, the Company filed its current $400,000 "at the market" equity program with the Securities and Exchange Commission using a new shelf registration statement on Form S-3, and entered into separate equity distribution agreements with five sales agents. Under the terms of the current equity distribution agreements, the Company may from time to time offer and sell shares of common stock, up to the aggregate offering price of $400,000, through its sales agents.

During the three and nine months ended September 30, 2017, the Company did not issue any shares and had $349,375 available for issuance under the existing equity distribution agreements.

10. NONCONTROLLING INTEREST REPRESENTED BY PREFERRED OPERATING PARTNERSHIP UNITS

Classification of Noncontrolling Interests
GAAP requires a company to present ownership interests in subsidiaries held by parties other than the company in the consolidated financial statements within the equity section, but separate from the company’s equity. It also requires the amount of consolidated net income attributable to the parent and to the noncontrolling interest to be clearly identified and presented on the face of the consolidated statement of operations and requires changes in ownership interest to be accounted for similarly as equity transactions. If noncontrolling interests are determined to be redeemable, they are to be carried at their redemption value as of the balance sheet date and reported as temporary equity.

The Company has evaluated the terms of the Operating Partnership’s preferred units and classifies the noncontrolling interest represented by such preferred units as stockholders’ equity in the accompanying condensed consolidated balance sheets. The Company will periodically evaluate individual noncontrolling interests for the ability to continue to recognize the noncontrolling interest as permanent equity in the condensed consolidated balance sheets. Any noncontrolling interests that fail to qualify as permanent equity will be reclassified as temporary equity and adjusted to the greater of (1) the carrying amount and (2) the redemption value as of the end of the period in which the determination is made.

Series A Participating Redeemable Preferred Units
On June 15, 2007, the Operating Partnership entered into a Contribution Agreement with various limited partnerships affiliated with AAAAA Rent-A-Space to acquire ten stores in exchange for 989,980 Series A Units of the Operating

Partnership. The stores are located in California and Hawaii.

The partnership agreement of the Operating Partnership (as amended, the “Partnership Agreement”) provides for the designation and issuance of the Series A Units. The Series A Units will have priority over all other partnership interests of the Operating Partnership with respect to distributions and liquidation.

Under the Partnership Agreement, Series A Units in the amount of $115,000 bear a fixed priority return of 2.3% and have a fixed liquidation value of $115,000. The remaining balance participates in distributions with, and has a liquidation value equal

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to, that of the OP Units. The Series A Units are redeemable at the option of the holder, which redemption obligation may be satisfied, at the Company's option, in cash or shares of its common stock. On April 18, 2017, the holders of the Series A Units and the Operating Partnership agreed to reduce the fixed priority return on the Series A Units from 5.0% to 2.3% in exchange for a reduction in the interest rate of the related loan, as more fully described below.

On June 25, 2007, the Operating Partnership loaned the holders of the Series A Units $100,000. The note receivable bears interest at 2.1%. On April 18, 2017, a loan amendment was signed modifying the maturity date of the loan to the later of the death of the Series A Unit holder or his spouse. The loan amendment also lowered the interest rate of the loan from 4.9% to 2.1%. The loan amendment was determined to be a loan modification under GAAP, and therefore no change in value was recognized. The loan is secured by the borrower's Series A Units. The holders of the Series A Units could redeem up to 114,500 Series A Units prior to the maturity date of the loan. If any redemption in excess of 114,500 Series A Units occurs prior to the maturity date, the holder of the Series A Units is required to repay the loan as of the date of that redemption. On October 3, 2014, the holders of the Series A Units redeemed 114,500 Series A Units for $4,794 in cash and 280,331 shares of common stock. No additional redemption of Series A Units can be made without repayment of the loan. The Series A Units are shown on the balance sheet net of the $100,000 loan because the borrower under the loan receivable is also the holder of the Series A Units.

Series B Redeemable Preferred Units
On April 3, 2014, the Operating Partnership completed the purchase of a store located in Georgia. This store was acquired in exchange for $15,158 of cash and 333,360 Series B Units valued at $8,334.

On August 29, 2013, the Operating Partnership completed the purchase of 19 out of 20 stores affiliated with All Aboard Mini Storage, all of which are located in California. On September 26, 2013, the Operating Partnership completed the purchase of the remaining store. These stores were acquired in exchange for $100,876 of cash (including $98,960 of debt assumed and immediately defeased at closing), 1,342,727 Series B Units valued at $33,568, and 1,448,108 OP Units valued at $62,341.

The Partnership Agreement provides for the designation and issuance of the Series B Units. The Series B Units rank junior to the Series A Units, on parity with the Series C Units and Series D Units, and senior to all other partnership interests of the Operating Partnership with respect to distributions and liquidation.

The outstanding Series B Units have a liquidation value of $25.00 per unit for a fixed liquidation value of $41,902. Holders of the Series B Units receive distributions at an annual rate of 6.0%. These distributions are cumulative. The Series B Units became redeemable at the option of the holder on the first anniversary of the date of issuance, which redemption obligation may be satisfied at the Company's option in cash or shares of its common stock.

Series C Convertible Redeemable Preferred Units
The Company completed the purchase of twelve stores in California between December 2013 and May 2014. The Company previously held 35% interests in five of these stores and a 40% interest in one store through six separate joint ventures. These stores were acquired in exchange for a total of approximately $45,722 of cash, the assumption of $37,532 in existing debt, and the issuance of 704,016 Series C Units valued at $30,960.

The Partnership Agreement provides for the designation and issuance of the Series C Units. The Series C Units rank junior to the Series A Units, on parity with the Series B Units and Series D Units, and senior to all other partnership interests of the Operating Partnership with respect to distributions and liquidation.

The outstanding Series C Units have a liquidation value of $42.10 per unit for a fixed liquidation value of $29,639. From issuance to the fifth anniversary of issuance, each Series C Unit holder will receive quarterly distributions equal to the quarterly distribution per OP Unit plus $0.18. Beginning on the fifth anniversary of issuance, each Series C Unit holder will receive a fixed quarterly distribution equal to the aggregate quarterly distribution payable in respect of such Series C Unit during the four quarters immediately preceding the fifth anniversary of issuance, divided by four. These distributions are cumulative. The Series C Units became redeemable at the option of the holder one year from the date of issuance, which redemption obligation may be satisfied at the Company's option in cash or shares of its common stock. The Series C Units are convertible into OP Units at the option of the holder at a rate of 0.9145 OP Units per Series C Unit converted. This conversion option expires upon the fifth anniversary of the date of issuance.

EXTRA SPACE STORAGE INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
Amounts in thousands, except store and share data, unless otherwise stated

In December 2014, the Operating Partnership loaned certain holders of the Series C Units $20,230. The notes receivable, which are collateralized by the Series C Units, bear interest at 5.0% per annum and mature on December 15, 2024. The Series C Units are shown on the balance sheet net of the $20,230 loan because the borrower under the loan receivable is also the holder of the Series C Units.

Series D Redeemable Preferred Units
On June 12, 2017, the Operating Partnership completed the acquisition of a store located in Florida. This store was acquired in exchange for $4,270 in cash and 272,400 Series D-5 Preferred Units ("D-5 Units") valued at $6,810.
On November 8, 2016, the Operating Partnership completed the acquisition of a store located in Illinois. This store was acquired in exchange for 486,244 Series D-4 Preferred Units ("D-4 Units") valued at $12,156.
On June 10, 2016, the Operating Partnership completed the acquisition of four stores located in Illinois. These stores were acquired in exchange for 2,201,467 Series D-3 Preferred Units ("D-3 Units") valued at $55,037.
In December 2014, the Operating Partnership completed the acquisition of a store located in Florida. This store was acquired in exchange for $5,621 in cash and 548,390 Series D-1 Preferred Units ("D-1 Units," and together with the D-3 Units, D-4 Units and D-5 Units, "Series D Units") valued at $13,710.

The Partnership Agreement provides for the designation and issuance of the Series D Units. The Series D Units rank junior to the Series A Units, on parity with the Series B Units and Series C Units, and senior to all other partnership interests of the Operating Partnership with respect to distributions and liquidation.

The Series D Units have a liquidation value of $25.00 per unit, for a fixed liquidation value of $87,713. Holders of the Series D Units receive distributions at an annual rate between 3.5% to 5.0%. These distributions are cumulative. The Series D Units become redeemable at the option of the holder on the first anniversary of the date of issuance, which redemption obligation may be satisfied at the Company's option in cash or shares of its common stock. In addition, the D-3 Units are convertible into OP Units at the option of the holder until the tenth anniversary of the date of issuance, with the number of OP Units to be issued equal to $25.00 per D-3 Unit, divided by the value of a share of common stock as of the exchange date.

11. NONCONTROLLING INTEREST IN OPERATING PARTNERSHIP

The Company's interest in its stores is held through the Operating Partnership. ESS Holding Business Trust I, a wholly-owned subsidiary of the Company, is the sole general partner of the Operating Partnership. ESS Holding Business Trust II, also a wholly-owned subsidiary of the Company, is a limited partner of the Operating Partnership. Between its general partner and limited partner interests, the Company held a 91.1% ownership interest in the Operating Partnership as of September 30, 2017. The remaining ownership interests in the Operating Partnership (including Preferred Operating Partnership units) of 8.9% are held by certain former owners of assets acquired by the Operating Partnership.

The noncontrolling interest in the Operating Partnership represents OP Units that are not owned by the Company. In conjunction with the formation of the Company, and as a result of subsequent acquisitions, certain persons and entities contributing interests in stores to the Operating Partnership received limited partnership interests in the form of OP Units. Limited partners who received OP Units in the formation transactions or in exchange for contributions for interests in stores have the right to require the Operating Partnership to redeem part or all of their OP Units for cash based upon the fair market value of an equivalent number of shares of the Company's common stock (based on the ten-day average trading price) at the time of the redemption. Alternatively, the Company may, in its sole discretion, elect to acquire those OP Units in exchange for shares of its common stock on a one-for-one basis, subject to

anti-dilution adjustments provided in the Partnership Agreement. The ten-day average closing stock price at September 30, 2017 was $79.26 and there were 5,599,662 OP Units outstanding. Assuming that all of the OP Unit holders exercised their right to redeem all of their OP Units on September 30, 2017 and the Company elected to pay the OP Unit holders cash, the Company would have paid $443,829 in cash consideration to redeem the units.

On August 4, 2017, the Company purchased one store located in Florida. As part of the consideration for this acquisition, 25,520 OP Units were issues with a total value of $2,000.

During the three months ended September 30, 2017, no OP Units were redeemed. During the nine months ended September 30, 2017, 33,896 OP Units were redeemed for $2,510 in cash.

EXTRA SPACE STORAGE INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
Amounts in thousands, except store and share data, unless otherwise stated

GAAP requires a company to present ownership interests in subsidiaries held by parties other than the company in the consolidated financial statements within the equity section, but separate from the company's equity. It also requires the amount of consolidated net income attributable to the parent and to the noncontrolling interest to be clearly identified and presented on the face of the consolidated statement of operations, and requires changes in ownership interest to be accounted for similarly as equity transactions. If noncontrolling interests are determined to be redeemable, they are to be carried at their redemption value as of the balance sheet date and reported as temporary equity.

The Company has evaluated the terms of the OP Units and classifies the noncontrolling interest represented by the OP Units as stockholders' equity in the accompanying condensed consolidated balance sheets. The Company will periodically evaluate individual noncontrolling interests for the ability to continue to recognize the noncontrolling amount as permanent equity in the condensed consolidated balance sheets. Any noncontrolling interests that fail to qualify as permanent equity will be reclassified as temporary equity and adjusted to the greater of (1) the carrying amount and (2) the redemption value as of the end of the period in which the determination is made.

12. OTHER NONCONTROLLING INTERESTS

Other noncontrolling interests represent the ownership interests of a third party in two consolidated joint ventures as of September 30, 2017. One joint venture owns an operating store in Texas, and the other owns a store in Pennsylvania. The voting interests of the third-party owners are between 20.0% and 27.0%.

13. EQUITY IN EARNINGS OF UNCONSOLIDATED REAL ESTATE VENTURES—GAIN ON PURCHASE OF JOINT VENTURE PARTNER'S INTEREST

On September 16, 2016, the Company acquired 23 stores from its ESS PRISA II LLC joint venture ("PRISA II") in a step acquisition. These stores are located in Arizona, California, Connecticut, Florida, Indiana, Kentucky, Massachusetts, Maryland, Michigan, New Jersey, New Mexico, Ohio, Tennessee and Virginia. The Company owned 4.42% of PRISA II, with the other 95.58% owned by affiliates of Prudential Global Investment Management ("Prudential"). PRISA II created a new subsidiary, Extra Space Properties 131 LLC ("ESP 131"), and transferred 23 stores into ESP 131. PRISA II then distributed ESP 131 to the Company and Prudential on a pro rata basis. This distribution was accounted for as a spinoff, and was therefore recorded at the net carrying amount of the properties of $4,326. Immediately after the distribution, the Company acquired Prudential's 95.58% interest in ESP 131 for $238,679, resulting in 100% ownership of ESP 131 and the related 23 stores. Based on the purchase price of Prudential's share of ESP 131, the Company determined that the fair value of its investment in ESP 131 immediately prior to the acquisition of Prudential's share was $10,988, and the Company recorded a gain of $6,662 as a result of re-measuring to fair value its existing equity interest in ESP 131. This gain is included in equity in earnings of unconsolidated real estate ventures - gain on sale of real estate assets and purchase of joint venture partners' interests on the Company's condensed consolidated statements of operations. The Company recorded fixed assets related to this acquisition of $248,530, which includes total cash paid, the investment in ESP 131, and the step acquisition gain, less net assets acquired. Subsequent to these transactions, PRISA II owned 42 stores. The Company sold its 4.42% interest in PRISA II to Prudential immediately following these transactions for $34,758 in cash. The carrying value of the Company's investment prior to the acquisition was $3,912, and the Company recorded a gain on the sale of $30,846. This gain is included in equity in earnings of unconsolidated real estate ventures - gain on sale of real estate assets and purchase of joint venture partners' interests on the Company's condensed consolidated statements of operations.

26

EXTRA SPACE STORAGE INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
Amounts in thousands, except store and share data, unless otherwise stated

On February 2, 2016, the Company acquired six stores from its VRS Self Storage LLC joint venture ("VRS") in a step acquisition. These stores are located in Florida, Maryland, Nevada, New York, and Tennessee. The Company owns 45.0% of VRS, with the other 55.0% owned by affiliates of Prudential. VRS created a new subsidiary, Extra Space Properties 122 LLC ("ESP 122") and transferred six stores into ESP 122. VRS then distributed ESP 122 to the Company and Prudential on a pro rata basis. This distribution was accounted for as a spinoff, and was therefore recorded at the net carrying amount of the stores of $17,261. Immediately after the distribution, the Company acquired Prudential's 55.0% interest in ESP 122 for $53,940, resulting in 100% ownership of ESP 122 and the related six stores. Based on the purchase price of Prudential's share of ESP 122, the Company determined that the fair value of its investment in ESP 122 immediately prior to the acquisition of Prudential's share was $44,184, and the Company recorded a gain of $26,923 during the nine months ended September 30, 2016 as a result of remeasuring to fair value its existing equity interest in ESP 122. This gain is included in equity in earnings of unconsolidated real estate ventures - gain on sale of real estate assets and purchase of joint venture partners' interests on the Company's condensed consolidated statements of operations. The Company recorded fixed assets related to this acquisition of $98,082, which includes total cash paid, the investment in ESP 122, and the step acquisition gain, less net assets acquired.

14. SEGMENT INFORMATION

The Company operates in three distinct segments: (1) rental operations; (2) tenant reinsurance; and (3) property management, acquisition and development. Management fees collected for consolidated joint venture stores are eliminated in consolidation. Financial information for the Company's business segments is presented below:

	September 30, 2017	December 31, 2016
Balance Sheet		
Investment in unconsolidated real estate ventures		
Rental operations	$78,512	$79,570
Total assets		
Rental operations	$6,728,499	$6,731,292
Tenant reinsurance	42,786	44,524
Property management, acquisition and development	315,670	315,630
	$7,086,955	$7,091,446

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Statement of Operations				
Total revenues				
Rental operations	$248,589	$224,451	$720,878	$635,730
Tenant reinsurance	25,882	22,727	73,050	64,936
Property management, acquisition and development	9,685	10,005	29,239	30,193
	284,156	257,183	823,167	730,859
Operating expenses, including depreciation and amortization				
Rental operations	115,162	106,530	341,191	312,389
Tenant reinsurance	6,272	4,093	13,996	12,345
Property management, acquisition and development	22,841	23,836	67,489	79,471
	144,275	134,459	422,676	404,205
Income (loss) from operations				

Rental operations	133,427	117,921	379,687	323,341
Tenant reinsurance	19,610	18,634	59,054	52,591
Property management, acquisition and development	(13,156)	(13,831)	(38,250)	(49,278)
	139,881	122,724	400,491	326,654
Gain (loss) on real estate transactions, earnout from prior acquisition and impairment of real estate				
Property management, acquisition and development	—	—	(6,019)	9,814
Interest expense				
Rental operations	(38,379)	(32,619)	(109,414)	(95,125)
Property management, acquisition and development	(1,387)	(875)	(3,778)	(2,530)
	(39,766)	(33,494)	(113,192)	(97,655)
Non-cash interest expense related to the amortization of discount on equity component of exchangeable senior notes				
Property management, acquisition and development	(1,268)	(1,243)	(3,827)	(3,716)
Interest income				
Property management, acquisition and development	869	1,358	2,797	4,697
Interest income on note receivable from Preferred Operating Partnership unit holder				
Property management, acquisition and development	532	1,213	2,404	3,638
Equity in earnings of unconsolidated real estate ventures				
Rental operations	3,990	3,625	11,407	9,813
Equity in earnings of unconsolidated real estate ventures - gain on sale of real estate assets and purchase of joint venture partners' interests				
Property management, acquisition and development	—	37,509	—	64,432
Income tax (expense) benefit				
Rental operations	(834)	(550)	(1,759)	(1,840)
Tenant reinsurance	(3,572)	(3,504)	(10,701)	(9,352)
Property management, acquisition and development	1,243	(412)	3,306	188
	(3,163)	(4,466)	(9,154)	(11,004)
Net income (loss)				
Rental operations	98,204	88,377	279,921	236,189
Tenant reinsurance	16,038	15,130	48,353	43,239
Property management, acquisition and development	(13,167)	23,719	(43,367)	27,245
	$101,075	$127,226	$284,907	$306,673

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2017	2016	2017	2016
Depreciation and amortization expense				
Rental operations	$44,732	$44,189	$136,821	$126,506
Property management, acquisition and development	3,343	2,366	7,318	6,896
	$48,075	$46,555	$144,139	$133,402
Statement of Cash Flows				
Acquisition of real estate assets				
Property management, acquisition and development			$(119,040)	$(763,246)
Development and redevelopment of real estate assets				
Property management, acquisition and development			$(20,670)	$(18,492)

15. COMMITMENTS AND CONTINGENCIES

As of September 30, 2017, the Company is involved in various legal proceedings and is subject to various claims and complaints arising in the ordinary course of business. Because litigation is inherently unpredictable, the outcome of these matters cannot presently be determined with any degree of certainty. In accordance with applicable accounting guidance, management establishes an accrued liability for litigation when those matters present loss contingencies that are both probable and reasonably estimable. In such cases, there may be an exposure to loss in excess of any amounts accrued. The estimated loss, if any, is based upon currently available information and is subject to significant judgment, a variety of assumptions, and known and unknown uncertainties. The Company could in the future incur judgments or enter into settlements of claims that could have a material adverse effect on its results of operations in any particular period, notwithstanding the fact that the Company is currently vigorously defending any legal proceedings against it.

As of September 30, 2017, the Company was under agreement to acquire 35 stores at a total purchase price of $462,116. Of these stores, 23 are scheduled to close in 2017 at a purchase price of $308,225, nine are scheduled to close in 2018 at a purchase price of $118,463, and three are scheduled to close thereafter at a purchase price of $35,428. Additionally, the Company is under agreement to acquire 19 stores with joint venture partners, for a total investment of $96,750. Six of these stores are scheduled to close in 2017, while the remaining 13 stores are expected to close in 2018.

The Company owns and/or operates stores located in Texas, Florida, and Puerto Rico that were impacted by Hurricanes Harvey, Irma, and Maria during the three months ended September 30, 2017. Losses incurred to date by these hurricanes include property damage, net of insurance recoveries, of $2,110, and tenant reinsurance claims of $2,250, which are included in property operations and tenant reinsurance on the Company's condensed consolidated statements of operations.

Although there can be no assurance, the Company is not aware of any material environmental liability, for which it believes it will be ultimately responsible, that could have a material adverse effect on its financial condition or results of operations. However, changes in applicable environmental laws and regulations, the uses and conditions of properties in the vicinity of the Company’s stores, the activities of its tenants and other environmental conditions of which the Company is unaware with respect to its stores could result in future material environmental liabilities.

16. SUBSEQUENT EVENTS

Subsequent to September 30, 2017, the Company purchased seven stores located in Georgia, Maryland, Oregon, Virginia and Washington for a total purchase price of $83,125.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Amounts in thousands, except store and share data

CAUTIONARY LANGUAGE

The following discussion and analysis should be read in conjunction with our unaudited "Condensed Consolidated Financial Statements" and the "Notes to Condensed Consolidated Financial Statements (unaudited)" appearing elsewhere in this report and the "Consolidated Financial Statements," "Notes to Consolidated Financial Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in our Form 10-K for the year ended December 31, 2016. We make statements in this section that are forward-looking statements within the meaning of the federal securities laws. For a complete discussion of forward-looking statements, see the section in this Form 10-Q entitled "Statement on Forward-Looking Information."

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations are based on our unaudited condensed consolidated financial statements contained elsewhere in this report, which have been prepared in accordance with GAAP. Our notes to the unaudited condensed consolidated financial statements contained elsewhere in this report and the audited financial statements contained in our Form 10-K for the year ended December 31, 2016 describe the significant accounting policies essential to our unaudited condensed consolidated financial statements. Preparation of our financial statements requires estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions that we have used are appropriate and correct based on information available at the time they were made. These estimates, judgments and assumptions can affect our reported assets and liabilities as of the date of the financial statements, as well as the reported revenues and expenses during the period presented. If there are material differences between these estimates, judgments and assumptions and actual facts, our financial statements may be affected.

In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require our judgment in its application. There are areas in which our judgment in selecting among available alternatives would not produce a materially different result, but there are some areas in which our judgment in selecting among available alternatives would produce a materially different result. See the notes to the unaudited condensed consolidated financial statements that contain additional information regarding our accounting policies and other disclosures.

OVERVIEW

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

We derive substantially all of our revenues from rents received from tenants under leases at each of our wholly-owned stores; from our tenant reinsurance program; and from management fees on the stores we manage for joint venture partners and unaffiliated third parties. Our management fee is equal to approximately 6.0% of cash collected from the managed stores.

We operate in competitive markets, often where consumers have multiple stores from which to choose. Competition has impacted, and will continue to impact, our store results. We experience seasonal fluctuations in occupancy levels,

with occupancy levels generally higher in the summer months due to increased moving activity. Our operating results depend materially on our ability to lease available self-storage units and actively manage rental rates, and on the ability of our tenants to make required rental payments. We believe that we are able to respond quickly and effectively to changes in local, regional and national economic conditions by centrally adjusting rental rates through the combination of our revenue management team and our industry-leading technology systems.

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

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

PROPERTIES

As of September 30, 2017, we owned, had ownership interests in, or managed 1,513 stores in 38 states, Washington, D.C. and Puerto Rico. Of these 1,513 stores, we owned 844 stores, we held joint venture interests in 184 stores, and our taxable REIT subsidiary, Extra Space Management, Inc., operated an additional 485 stores that are owned by third parties. These operating stores contain approximately 114.0 million square feet of rentable space in approximately 1.0 million units.

Our stores are generally situated in convenient, highly visible locations clustered around large population centers such as Atlanta, Baltimore/Washington, D.C., Boston, Chicago, Dallas, Houston, Las Vegas, Los Angeles, Miami, New York City, Orlando, Philadelphia, Phoenix, St. Petersburg/Tampa and San Francisco/Oakland. These markets contain above-average population growth and income demographics. The clustering of assets around these population centers enables us to reduce our operating costs through economies of scale. Our acquisitions and management business have given us an increased scale in many core markets as well as a foothold in many markets where we had no previous presence.

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

As of September 30, 2017, approximately 920,000 tenants were leasing storage units at the 1,513 operating stores that we own and/or manage, primarily on a month-to-month basis, providing the flexibility to increase rental rates over time as market conditions permit. Existing tenants generally receive rate increases at least annually, for which no direct correlation has been drawn to our vacancy trends. Although leases are short-term in duration, the typical tenant tends to remain at our stores for an extended period of time. For stores that were stabilized as of September 30, 2017, the average length of stay was approximately 14.5 months for tenants who have vacated in the last 12 months.

The average annual rent per square foot for our existing customers at stabilized stores, net of discounts and bad debt, was $15.77 for the three months ended September 30, 2017, compared to $15.24 for the three months ended September 30, 2016. Average annual rent per square foot for new leases was $16.90 for the three months ended

September 30, 2017, compared to $16.06 for the three months ended September 30, 2016. The average discount, as a percentage of rental revenues, during these periods was 3.7% and 2.9%, respectively.

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

Stabilized Store Data Based on Location

The following table presents additional information regarding the occupancy of our stabilized stores by state as of September 30, 2017 and 2016. The information as of September 30, 2016 is on a pro forma basis as though all the stores owned and/or managed at September 30, 2017 were under our control as of September 30, 2016.

		Company	Pro forma	Company	Pro forma	Company	Pro forma
Location	Number of Stores	Number of Units as of September 30, 2017 [1]					