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Depository Shares Each Representing 1/1,000 of a 5.200% Cumulative Preferred Share, Series W \$.01 par value	New York Stock Exchange
Title of each class	Name of each exchange on which registered
Depository Shares Each Representing 1/1,000 of a 6.875% Cumulative Preferred Share, Series O \$.01 par value	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 6.500% Cumulative Preferred Share, Series P \$.01 par value	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 6.500% Cumulative Preferred Share, Series Q \$.01 par value	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 6.350% Cumulative Preferred Share, Series R \$.01 par value	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 5.900% Cumulative Preferred Share, Series S \$.01 par value	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 5.750% Cumulative Preferred Share, Series T \$.01 par value	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 5.625% Cumulative Preferred Share, Series U \$.01 par value	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 5.375% Cumulative Preferred Share, Series V \$.01 par value	New York Stock Exchange

Depository Shares Each Representing 1/1,000 of a 5.200% Cumulative Preferred Share, Series W \$.01 par value	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 5.200% Cumulative Preferred Share, Series X \$.01 par value	New York Stock Exchange
Common Shares, \$.10 par value.....	New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act: None (Title of class)	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes No

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer Accelerated Filer Non-accelerated Filer Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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The aggregate market value of the voting and non-voting common shares held by non-affiliates of the Registrant as of June 30, 2013:

Common Shares, \$0.10 Par Value – \$22,171,992,000 (computed on the basis of \$153.33 per share which was the reported closing sale price of the Company's Common Shares on the New York Stock Exchange on June 30, 2013).

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As of February 21, 2014, there were 172,120,701 outstanding Common Shares, \$.10 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement to be filed in connection with the Annual Meeting of Shareholders to be held in 2014 are incorporated by reference into Part III of this Annual Report on Form 10-K to the extent described therein.

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PART I

ITEM 1. Business

Forward Looking Statements

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

These forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties, which may cause our actual results and performance to be materially different from those expressed or implied in the forward-looking statements. Factors and risks that may impact our future results and performance include, but are not limited to, those described in Item 1A, "Risk Factors" and in our other filings with the Securities and Exchange Commission ("SEC") including:

- general risks associated with the ownership and operation of real estate, including changes in demand, risks related to development of self-storage facilities, potential liability for environmental contamination, natural disasters and adverse changes in laws and regulations governing property tax, real estate and zoning;
- risks associated with downturns in the national and local economies in the markets in which we operate, including risks related to current economic conditions and the economic health of our customers;
- the impact of competition from new and existing self-storage and commercial facilities and other storage alternatives;
- difficulties in our ability to successfully evaluate, finance, integrate into our existing operations, and manage acquired and developed properties;
- risks associated with international operations including, but not limited to, unfavorable foreign currency rate fluctuations, refinancing risk of affiliate loans from us, and local and global economic uncertainty that could adversely affect our earnings and cash flows;
 - risks related to our participation in joint ventures;
 - the impact of the regulatory environment as well as national, state, and local laws and regulations including, without limitation, those governing environmental, taxes and tenant insurance matters and real estate investment trusts ("REITs"), and risks related to the impact of new laws and regulations;
- risk of increased tax expense associated either with a possible failure by us to qualify as a REIT, or with challenges to intercompany transactions with our taxable REIT subsidiaries;
- changes in federal or state tax laws related to the taxation of REIT's, which could impact our status as a REIT;
- disruptions or shutdowns of our automated processes, systems and the Internet or breaches of our data security;

- risks associated with the self-insurance of certain business risks, including property and casualty insurance, employee health insurance and workers compensation liabilities;
- difficulties in raising capital at a reasonable cost; and
- economic uncertainty due to the impact of terrorism or war.

These forward looking statements speak only as of the date of this report or as of the dates indicated in the statements. All of our forward-looking statements, including those in this report, are qualified in their entirety by this statement. We expressly disclaim any obligation to update publicly or otherwise revise any forward-looking statements, whether as a result of new information, new estimates, or other factors, events or circumstances after the date of these forward looking statements, except as required by law. Given these risks and uncertainties, you should not rely on any forward-looking statements in this report, or which management may make orally or in writing from time to time, as predictions of future events nor guarantees of future performance.

General

Public Storage was organized in 1980. Effective June 1, 2007, we reorganized Public Storage, Inc. into Public Storage (referred to herein as “the Company”, “the Trust”, “we”, “us”, or “our”), a Maryland real estate investment trust (“REIT”).

At December 31, 2013, our principal business activities are as follows:

- Domestic Self-Storage:** We acquire, develop, own, and operate self-storage facilities which offer storage spaces for lease on a month-to-month basis, for personal and business use. We are the largest owner and operator of self-storage facilities in the United States (“U.S.”). We have direct and indirect equity interests in 2,200 self-storage facilities (141 million net rentable square feet of space) located in 38 states within the U.S. operating under the “Public Storage” brand name.
- European Self-Storage:** We have a 49% equity interest in Shurgard Europe, with an institutional investor owning the remaining 51% interest. Shurgard Europe owns 187 self-storage facilities (10 million net rentable square feet of space) located in seven countries in Western Europe which operate under the “Shurgard” brand name and manages one facility we own in the United Kingdom. We believe Shurgard Europe is the largest owner and operator of self-storage facilities in Western Europe.
- Commercial:** We have a 42% equity interest in PS Business Parks, Inc. (“PSB”), a publicly held REIT which owns and operates 29.7 million net rentable square feet of commercial space. We also wholly-own 1.4 million net rentable square feet of commercial space, substantially all of which is managed by PSB.

In addition, we reinsure policies against losses to goods stored by customers in our self-storage facilities, sell merchandise at our self-storage facilities and manage self-storage facilities owned by third-party owners.

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

We report annually to the SEC on Form 10-K, which includes financial statements certified by our independent registered public accountants. We have also reported quarterly to the SEC on Form 10-Q, which includes unaudited financial statements with such filings. We expect to continue such reporting.

On our website, www.publicstorage.com, we make available, free of charge, our Annual Reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after the reports and amendments are electronically filed with or furnished to the SEC.

Competition

We believe that storage customers generally store their goods within a five mile radius of their home or business. Most of our facilities compete with other nearby self-storage facilities that use the same marketing channels and offer the same service as us. Generally, our competitors attract customers using the same marketing channels we use, including Internet advertising, signage, and banners. As a result, competition is significant and affects the occupancy levels, rental rates, rental income and operating expenses of our facilities.

While competition is significant, the self-storage industry remains fragmented in the U.S. We believe that we own approximately 6% of the aggregate self-storage square footage in the U.S., and that collectively the five largest self-storage operators in the U.S. own approximately 12%, with all other self-storage space owned by numerous private regional and local operators. We believe this market fragmentation enhances the advantage of our brand name, as well as the economies of scale we enjoy with approximately 71% of our 2013 same-store revenues in the 20 Metropolitan Statistical Areas (“MSA’s”, as defined by the U.S. Census Bureau) with the highest population levels.

Such fragmentation also provides opportunities for us to acquire additional facilities; however, we compete with a wide variety of institutions and other investors who also view self-storage facilities as attractive investments. The amount of capital available for real estate investments greatly influences the competition for ownership interests in facilities and, by extension, the yields that we can achieve on newly acquired investments.

Business Attributes

We believe that we possess several primary business attributes that permit us to compete effectively:

Centralized information networks: Our centralized reporting and information network enables us to identify changing market conditions and operating trends as well as analyze customer data and quickly change each of our individual properties’ pricing and promotions on an automated basis.

Convenient shopping experience: Customers can conveniently shop the space available at our facilities, reviewing attributes such as facility location, size, amenities such as climate-control, as well as pricing, and learn about ancillary businesses through the following marketing channels:

- **Our Website:** The online marketing channel continues to grow in prominence, with approximately 55% of our move-ins in 2013 sourced through our website, as compared to 36% in 2010. In addition, we believe that many of our customers who directly call our call center, or who move-in to a facility on a walk-in basis, have already reviewed our pricing and space availability through our website. We invest extensively in advertising on the Internet to attract potential customers, primarily through the use of search engines, and we regularly update and improve our website to enhance its productivity.
- **Our Call Center:** Our call center is staffed by skilled sales specialists. Customers reach our call center by calling our advertised toll-free telephone referral number, (800) 44-

STORE, or telephone numbers provided on the Internet. We believe giving customers the option to interact with a call center agent, despite the higher marginal cost relative to an internet reservation, enhances our ability to close sales with potential storage customers.

· **Our Properties:** Customers can also shop at any one of our facilities. Property managers access the same information that is available on our website and to our call center agents, and can inform the customer of storage alternatives at that site or our other nearby storage facilities. Property managers are extensively trained to maximize the conversion of such “walk in” shoppers into customers.

Economies of scale: We are the largest provider of self-storage space in the U.S. As of December 31, 2013, we operated 2,200 self-storage facilities with over one million self-storage spaces. These facilities are generally located in major markets within 38 states in the U.S. The size and scope of our operations have enabled us to achieve high operating margins and a low level of administrative costs relative to revenues through the centralization of many functions, such as facility maintenance, employee compensation and benefits programs, revenue management, as well as the development and documentation of standardized operating procedures. We also believe that our major market concentration provides managerial efficiencies stemming from having a large number of facilities in close proximity to each other.

We believe our market share and concentration in major metropolitan centers makes various promotional and media programs more cost-beneficial for us than for our competitors. As noted above, approximately 71% of our same-store revenues for 2013 were in the 20 MSA’s with the highest population levels. Our large market share and well-recognized brand name increases the likelihood that our facilities will appear prominently in unpaid search results for “self-storage” on major online search engines, and enhances the efficiency of our bidding for paid multiple-keyword advertising. We can use television advertising in many markets, while most of our competitors cannot do so cost-effectively.

Brand name recognition: We believe that the “Public Storage” brand name is the most recognized and established name in the self-storage industry in the U.S, due to our national reach in major markets in 38 states, and our highly visible facilities, with their distinct orange colored doors and signage. We believe the “Public Storage” name is one of the most frequently used search terms used by customers using Internet search engines for self-storage. We believe that the “Shurgard” brand, used by Shurgard Europe, is a similarly established and valuable brand in Europe. We believe that the awareness of our brand name results in a high percentage of potential storage customers considering our facilities, relative to other operators.

Growth and Investment Strategies

Our growth strategies consist of: (i) improving the operating performance of our existing self-storage facilities, (ii) acquiring more facilities, (iii) developing new self-storage space, (iv) participating in the growth of commercial facilities, primarily through our investment in PSB, and (v) participating in the growth of Shurgard Europe. While our long-term strategy includes each of these elements, in the short run the level of growth in our asset base in any period is dependent upon the cost and availability of capital, as well as the relative attractiveness of investment alternatives.

Improve the operating performance of existing facilities: We seek to increase the net cash flow of our existing self-storage facilities by a) regularly analyzing our call volume, reservation activity, Internet activity, move-in/move-out rates and other market supply and demand factors and responding by adjusting our marketing activities and rental rates, b) attempting to maximize revenues through evaluating the appropriate balance between occupancy, rental rates, and promotional discounting and c) controlling operating costs. We believe that our property management personnel, systems, our convenient shopping options for the customer, and our media and Internet advertising programs will continue to enhance our ability to meet these goals.

Acquire properties owned or operated by others in the U.S.: We seek to capitalize on the fragmentation of the self-storage business through acquiring attractively priced, well-located existing self-storage facilities. We believe our presence in and knowledge of substantially all of the major markets in the U.S. enhances our ability to identify attractive acquisition opportunities. Data on the rental rates and occupancy levels of our existing facilities provide us an advantage in evaluating the potential of acquisition opportunities. The level of third-party acquisition opportunities available depends upon many factors, such as the motivation of potential sellers to liquidate their investments, as well as the financing available to self-storage owners. We decide whether to pursue acquisition opportunities based upon many factors including our opinion as to the potential for future growth, the quality of construction and location, the cash flow we expect from the facility when operated on our platform and our yield expectations.

During 2013, we acquired 121 facilities from third parties for approximately \$1.2 billion, primarily through large portfolio acquisitions. This volume was higher than in the preceding six years combined. We will continue to seek to acquire properties in 2014. While there were more sellers of self-storage facilities in 2013 due at least in part, we believe, to higher values and robust cash flows of self-storage facilities, it is uncertain as to the level of third party acquisitions we will complete in 2014.

Develop new self-storage space: The development of new self-storage locations and the expansion of existing self-storage facilities has been an important source of growth. Since the beginning of 2013, we have expanded our development efforts due in part to the significant increase in prices being paid for existing facilities, in many cases well above the cost of developing new facilities. At December 31, 2013, we had a development pipeline of projects to expand existing self-storage facilities and develop new self-storage facilities, which will add approximately 1.8 million net rentable square feet of self-storage space. The aggregate cost of these projects is estimated at \$196 million, of which \$52 million had been incurred at December 31, 2013, and the remaining costs will be incurred principally in 2014. Some of these projects are subject to significant contingencies such as entitlement approval. We expect to continue to seek additional development projects; however, due to the difficulty in finding projects that meet our risk-adjusted yield expectations, as well as the difficulty in obtaining building permits for self-storage activities in certain municipalities, it is uncertain as to how much additional development we will undertake in the future.

Participate in the growth of commercial facilities primarily through our ownership in PS Business Parks, Inc.: Our investment in PSB provides us diversification into another asset type. PSB is a stand-alone public company traded on the New York Stock Exchange. During the year ended December 31, 2013, we increased our investment in PSB by acquiring 1,356,748 shares of PSB common stock in open-market transactions and directly from PSB, for an aggregate cost of \$105.0 million.

Over the past three years, PSB has been able to grow its portfolio through acquisitions. In 2011 and 2012, PSB acquired an aggregate total of 6.8 million net rentable square feet of commercial space for an aggregate purchase price of approximately \$605.0 million. In 2013, PSB acquired 1.5 million net rentable square feet for an aggregate purchase price of \$115.6 million. As of December 31, 2013, PSB owned and operated approximately 29.7 million net rentable square feet of commercial space, and had an enterprise value of approximately \$3.9 billion (based upon the trading price of PSB's common stock combined with the liquidation value of its debt and preferred stock as of December 31, 2013).

Participate in the growth of European self-storage through ownership in Shurgard Europe: We believe Shurgard Europe is the largest self-storage company in Western Europe. It owns and operates 187 facilities with approximately 10 million net rentable square feet in: France (principally Paris), Sweden (principally Stockholm), the United Kingdom (principally London), the Netherlands, Denmark (principally Copenhagen), Belgium and Germany. We own 49% of Shurgard Europe, with the other 51% owned by a large U.S. institutional investor.

Customer awareness and availability of self-storage is significantly lower in Europe than in the U.S. However, with more awareness and product supply, we believe there is potential for increased demand for storage space in Europe. In the long run, we believe Shurgard Europe could capitalize on

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potential increased demand through the development of new facilities or, to a lesser extent, acquiring existing facilities.

Financing of the Company's Growth Strategies

Overview of financing strategy: In order to grow our asset base, access to capital is important. In general, we seek to finance our investment activities with retained cash flow and the issuance of preferred and common securities when market conditions are favorable, using bank debt as bridge financing when market conditions are not favorable.

Permanent capital: We have generally been able to raise capital through the issuance of preferred securities at an attractive cost of capital relative to the issuance of our common shares and, as a result, issuances of common shares have been minimal over the past several years. During the years ended December 31, 2013 and 2012, we issued approximately \$725.0 million and \$1.7 billion, respectively, of preferred securities. Currently, market conditions are much less favorable, with market coupon rates for our most recently issued series of preferred securities trading at approximately 6.5% (as compared to 5.2% for the preferred securities we issued in the first quarter of 2013). We believe that market coupon rates for a new issuance of our preferred securities would need to be in the area of 6.5% and the amount of capital we could raise would most likely be much lower than what we raised in the first quarter of 2013.

Bridge financing: We have in the past used our \$300 million revolving line of credit as temporary "bridge" financing and repaid such borrowings with permanent capital. At December 31, 2013, we had approximately \$50.1 million outstanding on our line of credit (none as of February 25, 2014). On December 2, 2013, we borrowed \$700 million from Wells Fargo pursuant to a term loan due in one year, in order to fund our acquisitions of self-storage facilities in the fourth quarter of 2013. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources" for more information.

Borrowing through mortgage loans or senior debt: Even though preferred securities have a higher coupon rate than long-term debt, we have generally not issued conventional debt due to refinancing risk associated with debt and other benefits of preferred securities described in more detail in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources."

We have broad powers to borrow in furtherance of our objectives without a vote of our shareholders. These powers are subject to a limitation on unsecured borrowings in our Bylaws described in "Limitations on Debt" below. Our senior debt has an "A" credit rating by Standard and Poor's. Notwithstanding our desire to continue to meet our capital needs with permanent capital, we believe this high rating, combined with our low level of debt, could allow us to issue a significant amount of unsecured debt at lower interest rates than the coupon on preferred securities if we chose to.

Assumption of Debt: Substantially all of our mortgage debt outstanding was assumed in connection with real estate acquisitions. When we have assumed debt in the past, we did so because the nature of the loan terms did not allow prepayment, or a prepayment penalty made it economically disadvantageous to prepay.

Issuance of securities in exchange for property: We have issued both our common and preferred securities in exchange for real estate and other investments in the past. Future issuances will be dependent upon our financing needs and capital market conditions at the time, including the market prices of our equity securities.

Joint Venture financing: We have used joint ventures with institutional investors and we may form additional joint ventures in the future.

Disposition of properties: Generally, we have disposed of self-storage facilities only when compelled to do so through condemnation proceedings. We do not presently intend to sell any significant number of self-storage facilities in the future, though there can be no assurance that we will not.

Investments in Real Estate and Unconsolidated Real Estate Entities

Investment Policies and Practices with respect to our investments: Following are our investment practices and policies which, though we do not anticipate any significant alteration, can be changed by our Board of Trustees without a shareholder vote:

- Our investments primarily consist of direct ownership of self-storage facilities (the nature of our self-storage facilities is described in Item 2, “Properties”), as well as partial interests in entities that own self-storage facilities.
- Our partial ownership interests primarily reflect general and limited partnership interests in entities that own self-storage facilities that are managed by us under the “Public Storage” brand name in the U.S., as well as storage facilities managed in Europe under the “Shurgard” brand name which are owned by Shurgard Europe.
- Additional acquired interests in real estate (other than the acquisition of properties from third parties) will include common equity interests in entities in which we already have an interest.
- To a lesser extent, we have interests in existing commercial properties (described in Item 2, “Properties”), containing commercial and industrial rental space, primarily through our investment in PSB.

Facilities Owned by Subsidiaries

In addition to our direct ownership of 2,172 self-storage facilities in the U.S. and one self-storage facility in London, England at December 31, 2013, we have controlling indirect interests in entities that own 14 self-storage facilities in the U.S. Due to our controlling interest in each of these entities, we consolidate the assets, liabilities, and results of operations of these entities in our financial statements.

Facilities Owned by Unconsolidated Real Estate Entities

At December 31, 2013, we also had ownership interests in entities that we do not control or consolidate. These entities include PSB, Shurgard Europe (discussed above), and various limited partnerships that own an aggregate of 14 self-storage facilities. These entities are referred to collectively as the “Unconsolidated Real Estate Entities.”

PSB, which files financial statements with the SEC, and Shurgard Europe, have debt and other obligations that we do not consolidate in our financial statements. None of the other Unconsolidated Real Estate Entities have significant amounts of debt or other obligations. See Note 4 to our December 31, 2013 financial statements for further disclosure regarding the assets, liabilities and operating results of the Unconsolidated Real Estate Entities.

Limitations on Debt

Without the consent of holders of the various series of Senior Preferred Shares, we may not take any action that would result in our “Debt Ratio” exceeding 50%. “Debt Ratio”, as defined in the related governing documents, represents generally the ratio of debt to total assets before accumulated depreciation and amortization on our balance sheet, in accordance with U.S. generally accepted accounting principles. As of December 31, 2013, the Debt Ratio was approximately 6%.

Our bank and senior unsecured debt agreements contain various customary financial covenants, including limitations on the level of indebtedness and the prohibition of the payment of dividends upon the occurrence of defined events of default. We believe we were in compliance with each of these covenants as of December 31, 2013.

Employees

We have approximately 5,200 employees in the U.S. at December 31, 2013 which are engaged primarily in property operations.

Seasonality

We experience minor seasonal fluctuations in the demand for self-storage space, with demand and rates generally higher in the summer months than in the winter months. We believe that these fluctuations result in part from increased moving activity during the summer months.

Insurance

We have historically carried customary property, earthquake, general liability, employee medical insurance and workers compensation coverage through internationally recognized insurance carriers, subject to customary levels of deductibles. The aggregate limits on these policies of approximately \$75 million for property losses and \$102 million for general liability losses are higher than estimates of maximum probable losses that could occur from individual catastrophic events determined in recent engineering and actuarial studies; however, in case of multiple catastrophic events, these limits could be exhausted.

We reinsure a program that provides insurance to our customers from an independent third-party insurer. This program covers tenant claims for losses to goods stored at our facilities as a result of specific named perils (earthquakes are not covered by this program), up to a maximum limit of \$5,000 per storage unit. We reinsure all risks in this program, but purchase insurance from an independent third party insurance company for aggregate claims between \$5.0 million and \$15.0 million per occurrence. We are subject to licensing requirements and regulations in several states. At December 31, 2013, there were approximately 759,000 certificates held by our self-storage customers, representing aggregate coverage of approximately \$1.7 billion.

ITEM 1A. Risk Factors

In addition to the other information in our Annual Report on Form 10-K, you should consider the risks described below that we believe may be material to investors in evaluating the Company. This section contains forward-looking statements, and in considering these statements, you should refer to the qualifications and limitations on our forward-looking statements that are described in Forward Looking Statements at the beginning of Item 1.

We have significant exposure to real estate risk.

Since our business consists primarily of acquiring and operating real estate, we are subject to the risks related to the ownership and operation of real estate that can adversely impact our business and financial condition. These risks include the following:

Natural disasters or terrorist attacks could cause damage to our facilities, resulting in increased costs and reduced revenues. Natural disasters, such as earthquakes, hurricanes and floods, or terrorist attacks could cause significant damage and require significant repair costs, and make facilities temporarily uninhabitable, reducing our revenues. Damage and business interruption losses could exceed the aggregate limits of our insurance coverage. In addition, because we self-insure a portion of our risks, losses below a certain level may not be covered by insurance. See Note 13 to our December 31, 2013 financial statements for a description of the risks of losses that are not covered by third-party insurance contracts. We may not have sufficient insurance coverage for losses caused by a terrorist attack, or such insurance may not be maintained, available or cost-effective. In addition, significant natural disasters, terrorist attacks, threats of future terrorist attacks, or resulting wider armed conflicts could have negative impacts on the U.S. economy, reducing storage demand and impairing our operating results.

Operating costs could increase. We could be subject to increases in insurance premiums, increased or new property tax assessments or other taxes, repair and maintenance costs, payroll, utility costs, workers compensation, and other operating expenses due to various factors such as inflation, labor shortages, commodity and energy price increases.

The acquisition of existing properties is subject to risks that may adversely affect our growth and financial results.

We have acquired material amounts of self-storage facilities from third parties in the past, and we expect to continue to do so in the future. We face significant competition for suitable acquisition properties from other real estate investors. As a result, we may be unable to acquire additional properties we desire or the purchase price for desirable properties may be significantly increased. Failures or unexpected circumstances in integrating newly acquired properties into our operations or circumstances we did not detect during due diligence, such as environmental matters, needed repairs or deferred maintenance, or the effects of increased property tax following reassessment of a newly-acquired property, as well as the general risks of real estate investment, could jeopardize realization of the anticipated earnings from an acquisition.

Development of self-storage facilities can subject us to risks. At December 31, 2013, we have a pipeline of development projects totaling \$196 million (subject to contingencies), and we expect to continue to seek additional development projects. There are significant risks involved in developing self-storage facilities, such as delays or cost increases due to changes in or failure to meet government or regulatory requirements, weather issues, unforeseen site conditions, or personnel problems. Self-storage space is generally not pre-leased, and rent-up of newly developed space can be delayed or ongoing cash flow yields can be reduced due to competition, reductions in storage demand, or other factors.

There is significant competition among self-storage facilities and from other storage alternatives. Most of our properties are self-storage facilities, which generated most of our revenue for the year ended December 31, 2013. Competition in the local market areas in which many of our properties are located is significant and has

affected our occupancy levels, rental rates and operating expenses. If development of self-storage facilities by other operators were to increase, due to increases in availability of funds for investment or other reasons, competition with our facilities could intensify.

We may incur significant liabilities from environmental contamination or moisture infiltration. Existing or future laws impose or may impose liability on us to clean up environmental contamination on or around properties that we currently or previously owned or operated, even if we were not responsible for or aware of the environmental contamination or even if such environmental contamination occurred prior to our involvement with the property. We have conducted preliminary environmental assessments on most of our properties, which have not identified material liabilities. These assessments, commonly referred to as “Phase 1 Environmental Assessments,” include an investigation (excluding soil or groundwater sampling or analysis) and a review of publicly available information regarding the site and other nearby properties.

We are also subject to potential liability relating to moisture infiltration, which can result in mold or other damage to our or our customers’ property, as well as potential health concerns. When we receive a complaint or otherwise become aware that an air quality concern exists, we implement corrective measures and seek to work proactively with our customers to resolve issues, subject to our contractual limitations on liability for such claims.

We are not aware of any environmental contamination or moisture infiltration related liabilities that could be material to our overall business, financial condition, or results of operation. However, we may not have detected all material liabilities, we could acquire properties with material undetected liabilities, or new conditions could arise or develop in the future. Settling any such liabilities could negatively impact our earnings and cash available for distribution to shareholders, and could also adversely affect our ability to sell, lease, operate, or encumber affected facilities.

We incur liability from tenant and employment-related claims. From time to time we have to make monetary settlements or defend actions or arbitration (including class actions) to resolve tenant or employment-related claims and disputes.

Economic conditions can adversely affect our business, financial condition, growth and access to capital.

Our revenues and operating cash flow can be negatively impacted by reductions in employment and population levels, household and disposable income, and other general economic factors that lead to a reduction in demand for rental space in each of the markets in which we operate our properties.

Our ability to issue preferred shares or access other sources of capital, such as borrowing, has been in the past, and may in the future be, adversely affected by challenging market conditions. The issuance of perpetual preferred securities historically has been a significant source of capital to grow our business. If we were unable to issue preferred shares or borrow at reasonable rates, prospective earnings growth through expanding our asset base could be limited.

We have exposure to European operations through our ownership in Shurgard Europe.

As a result of our ownership of 49% of the equity in Shurgard Europe’s equity with a book value of \$424.1 million at December 31, 2013, and our loan to Shurgard Europe totaling \$428.1 million at December 31, 2013, we are exposed to additional risks related to the ownership and operation of international businesses that may adversely impact our business and financial results, including the following:

- Currency risks: Currency fluctuations can impact the fair value of our equity investment in, and loan to Shurgard Europe, as well as the related income we receive as well as future repatriation of cash.
- Legislative, tax, and regulatory risks: We are subject to complex foreign laws and regulations related to permitting and land use, the environment, labor, and other areas, as well as income, property, sales, value added and employment tax laws. These laws can be difficult to apply or

interpret and can vary in each country or locality, and are subject to unexpected changes in their form and application due to regional, national, or local political uncertainty and other factors. Such changes, or Shurgard's failure to comply with these laws, could subject it to penalties or other sanctions, adverse changes in business processes, as well as potentially adverse income tax, property tax, or other tax burdens.

- Impediments to capital repatriation could negatively impact the realization of our investment in Shurgard Europe: Laws in Europe and the U.S. may create, impede or increase our cost to repatriate capital or earnings from Shurgard Europe.
- Risks of collective bargaining and intellectual property: Collective bargaining, which is prevalent in certain areas in Europe, could negatively impact Shurgard Europe's labor costs or operations.
- Potential operating and individual country risks: Economic slowdowns or extraordinary political or social change in the countries in which it operates have posed, and could continue to pose, challenges or result in future reductions of Shurgard Europe's operating cash flows.
- Impediments of Shurgard Europe's joint venture structure: Shurgard Europe's significant decisions, involving activities such as borrowing money, capital contributions, raising capital from third parties, as well as selling or acquiring significant assets, require the consent of our joint venture partner. As a result, Shurgard Europe may be precluded from taking advantage of opportunities that we would find attractive. In addition, we could be unable to separately pursue such opportunities due to certain market exclusivity provisions of the Shurgard Europe joint venture agreement, and our 49% equity investment may not be easily sold or readily accepted as collateral by potential lenders to Public Storage due to the joint venture structure.
- Risks related to Shurgard Europe's Debt: Shurgard Europe has a term loan from a bank (the "Bank Loan") with a balance of approximately €107.5 million (\$148.0 million) at December 31, 2013 maturing in November 2014 and a loan due to us (the "Shareholder Loan") totaling €311.0 million (\$428.1 million) at December 31, 2013. On January 28, 2014, our joint venture partner in Shurgard Europe acquired 51% of the Shareholder Loan at face value, using the proceeds from a bank loan (the "JV Partner Loan"), and the maturity date of the Shareholder Loan was extended to April 2019. The JV Partner Loan matures in two years and is collateralized with our joint venture partner's interests in the Shareholder Loan and their interest in Shurgard Europe. Shurgard Europe will seek to refinance the Bank Loan. If Shurgard Europe is not able to refinance its debt due to a constrained credit market, negative operating trends or other reasons, our equity investment in Shurgard Europe could be negatively impacted.

The Hughes Family could control us and take actions adverse to other shareholders.

At December 31, 2013, B. Wayne Hughes, our former Chairman, and his family, which includes two members of the board of trustees (the "Hughes Family") owned approximately 15.8% of our aggregate outstanding common shares. Our declaration of trust permits the Hughes Family to own up to 35.66% of our outstanding common shares while it generally restricts the ownership by other persons and entities to 3% of our outstanding common shares. Consequently, the Hughes Family may significantly influence matters submitted to a vote of our shareholders, including electing trustees, amending our organizational documents, dissolving and approving other extraordinary transactions, such as a takeover attempt, resulting in an outcome that may not be favorable to other shareholders.

Takeover attempts or changes in control could be thwarted, even if beneficial to shareholders.

In certain circumstances, shareholders might desire a change of control or acquisition of us, in order to realize a premium over the then-prevailing market price of our shares or for other reasons. However, the following could prevent, deter, or delay such a transaction:

- Provisions of Maryland law may impose limitations that may make it more difficult for a third party to negotiate or effect a business combination transaction or control share acquisition with Public Storage. Currently, the Board has opted not to subject the Company to these provisions of Maryland law, but it could choose to do so in the future without shareholder approval.
- To protect against the loss of our REIT status due to concentration of ownership levels, our declaration of trust generally limits the ability of a person, other than the Hughes Family or “designated investment entities” (each as defined in our declaration of trust), to own, actually or constructively, more than 3% of our outstanding common shares or 9.9% of the outstanding shares of any class or series of preferred or equity shares, in either case unless a specific exemption is granted by our board of trustees. These limits could discourage, delay or prevent a transaction involving a change in control of our company not approved by our board of trustees.
- Similarly, current provisions of our declaration of trust and powers of our Board of Trustees could have the same effect, including (1) limitations on removal of trustees in our declaration of trust, (2) restrictions on the acquisition of our shares of beneficial interest, (3) the power to issue additional common shares, preferred shares or equity shares on terms approved by the Board without obtaining shareholder approval, (4) the advance notice provisions of our bylaws and (5) the Board’s ability under Maryland law, without obtaining shareholder approval, to implement takeover defenses that we may not yet have and to take, or refrain from taking, other actions that could have the effect of delaying, deterring or preventing a transaction or a change in control.

If we failed to qualify as a REIT, we would have to pay substantial income taxes.

REITs are subject to a range of complex organizational and operational requirements. A qualifying REIT does not generally incur federal income tax on its net income that is distributed to its shareholders. Our REIT status is also dependent upon the ongoing REIT qualification of our affiliate, PSB, as a REIT, as a result of our substantial ownership interest in that company. We believe that we are organized and have operated as a REIT and we intend to continue to operate to maintain our REIT status.

There can be no assurance that we qualify or will continue to qualify as a REIT. The highly technical nature of the REIT rules, the ongoing importance of factual determinations, the possibility of unidentified issues in prior periods or changes in our circumstances, all could adversely affect our ability to comply. For any taxable year that we fail to qualify as a REIT and statutory relief provisions did not apply, we would be taxed at the regular federal corporate rates on all of our taxable income and we also could be subject to penalties and interest. We would generally not be eligible to seek REIT status again until the fifth taxable year after the first year of our failure to qualify. Any taxes, interest and penalties incurred would reduce the amount of cash available for distribution to our shareholders or for reinvestment and would adversely affect our earnings, which could have a material adverse effect.

We may pay some taxes, reducing cash available for shareholders.

Even if we qualify as a REIT for federal income tax purposes, we may be subject to some federal, foreign, state and local taxes on our income and property. Since January 1, 2001, certain corporate subsidiaries of the Company have elected to be treated as “taxable REIT subsidiaries” for federal income tax purposes, and are taxable as regular corporations and subject to certain limitations on intercompany transactions. If tax authorities determine that amounts paid by our taxable REIT subsidiaries to us are greater than what would be paid under similar arrangements among unrelated parties, we could be subject

to a 100% penalty tax on the excess payments, and ongoing intercompany arrangements could have to change, resulting in higher ongoing tax payments. To the extent the Company is required to pay federal, foreign, state or local taxes or federal penalty taxes due to existing laws or changes thereto, we will have less cash available for distribution to shareholders.

We are heavily dependent on computer systems, telecommunications and the Internet to process transactions, summarize results and manage our business and security breaches or a failure of such networks, systems or technology could adversely impact our business and customer relationships.

We are heavily dependent upon automated information technology and Internet commerce, with approximately half of our new customers coming from the telephone or over the Internet, and the nature of our business involves the receipt and retention of personal information about our customers. We centrally manage significant components of our operations with our computer systems, including our financial information, and we also rely extensively on third-party vendors to retain data, process transactions and provide other systems services. These systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer worms, viruses and other destructive or disruptive security breaches and catastrophic events.

As a result, our operations could be severely impacted by a natural disaster, terrorist attack or other circumstance that resulted in a significant outage at our systems or those of our third party providers, despite our use of back up and redundancy measures. Further, viruses and other related risks could negatively impact our information technology processes. Our or our customers' confidential information could be compromised or misappropriated, due to a breach of our network security. Such data security breaches as well as system disruptions and shutdowns could result in additional costs to repair or replace such networks or information systems and possible legal liability, including government enforcement actions and private litigation. In addition, our customers could lose confidence in our ability to protect their personal information, which could cause them to discontinue leasing our self-storage facilities. Such events could lead to lost future revenues and adversely affect our results of operations.

We have no ownership interest in Canadian self-storage facilities owned or operated by the Hughes Family.

At December 31, 2013, the Hughes Family had ownership interests in, and operated, 54 self-storage facilities in Canada (the "Canadian Self-Storage Facilities"). These facilities are operated under the "Public Storage" tradename, which we license to the Hughes Family for use in Canada on a royalty-free, non-exclusive basis. We have a right of first refusal, subject to limitations, to acquire the stock or assets of the corporation engaged in the operation of the Canadian Self-Storage Facilities if the Hughes Family or the corporation agrees to sell them. However, we do not benefit from profits or potential appreciation in value of the Canadian Self-Storage Facilities because we have no ownership interest in these facilities. We do not operate in the Canadian self-storage market, and have no plans to do so. However, if we choose to do so without acquiring the Hughes Family interests in the Canadian Self-Storage Facilities, we may have to share the use of the "Public Storage" name in Canada with the Hughes Family, unless we are able to terminate the license agreement.

Through our subsidiaries, we reinsure risks relating to loss of goods stored by customers in the Canadian Self-Storage Facilities. During the years ended December 31, 2013, 2012 and 2011, we received \$0.5 million, \$0.6 million and \$0.6 million, respectively, in reinsurance premiums attributable to the Canadian Self-Storage Facilities. Because our right to earn these premiums may be qualified, there is no assurance that these premiums will continue.

We are subject to laws and governmental regulations and actions that require us to incur compliance costs affecting our operating results and financial condition.

Our business is subject to regulation under a wide variety of U.S. federal, state and local laws, regulations and policies including those imposed by the SEC, the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act and New York Stock Exchange, as well as applicable labor laws. Although we have policies and procedures designed to comply with applicable laws and regulations, failure to comply with the various laws and regulations may result in civil and criminal liability, fines and penalties, increased costs of compliance, restatement of our financial statements and could also affect the marketability of our real estate facilities.

The Patient Protection and Affordable Care Act as well as other healthcare reform legislation recently passed or being considered by Congress and state legislatures (collectively, the “Healthcare Legislation”) are expected to impact our business beginning in 2014. Based on its current form, we believe that the Healthcare Legislation will at least moderately increase our costs; however, there could be a significant further negative impact to our costs and business depending upon how the various governmental agencies design and implement the specific regulations to implement the Patient Protection and Affordable Care Act, the nature of further legislation that may be passed at the national and local level, and other factors.

In response to current economic conditions or the current political environment or otherwise, laws and regulations could be implemented or changed in ways that adversely affect our operating results and financial condition, such as legislation that could facilitate union activity or that would otherwise increase operating costs.

All our properties must comply with the Americans with Disabilities Act and with related regulations and similar state law requirements, as well as various real estate and zoning laws and regulations, which are subject to change and could become more costly to comply with in the future. Compliance with these requirements can require us to incur significant expenditures, which would reduce cash otherwise available for distribution to shareholders. A failure to comply with these laws could lead to fines or possible awards of damages to individuals affected by the non-compliance. Failure to comply with these requirements could also affect the marketability of our real estate facilities.

Our tenant insurance business is subject to governmental regulation which could reduce our profitability or limit our growth.

We hold Limited Lines Self-Service Storage Insurance Agent licenses from a number of individual state Departments of Insurance and are subject to state governmental regulation and supervision. Our continued ability to maintain these Limited Lines Self-Service Storage Insurance Agent licenses in the jurisdictions in which we are licensed depends on our compliance with related rules and regulations. The regulatory authorities in each jurisdiction generally have broad discretion to grant, renew and revoke licenses and approvals, to promulgate, interpret, and implement regulations, and to evaluate compliance with regulations through periodic examinations, audits and investigations of the affairs of insurance agents. As a result of regulatory or private action in any jurisdiction, we may be temporarily or permanently suspended from continuing some or all of our reinsurance activities, or otherwise fined or penalized or suffer an adverse judgment. For the year ended December 31, 2013, we recorded a total of \$67.8 million in net income from our tenant reinsurance activities.

ITEM 1B.Unresolved Staff Comments

None.

ITEM 2. Properties

At December 31, 2013, we had direct and indirect ownership interests in 2,200 self-storage facilities located in 38 states within the U.S. and 188 storage facilities located in seven Western European nations:

	At December 31, 2013 Number of Storage Facilities (a)	Net Rentable Square Feet (in thousands)
U.S.:		
California:		
Southern.....	244	17,192
Northern.....	173	10,310
Texas.....	254	16,715
Florida.....	247	16,344
Illinois.....	126	7,904
Georgia.....	107	7,049
Washington.....	91	6,064
North Carolina.....	77	5,272
Virginia.....	87	5,110
New York.....	65	4,527
Colorado.....	63	3,980
New Jersey.....	56	3,549
Maryland.....	57	3,404
Minnesota.....	43	2,931
South Carolina.....	52	2,867
Michigan.....	43	2,755
Arizona.....	40	2,470
Missouri.....	37	2,136
Oregon.....	39	2,006
Pennsylvania.....	29	1,993
Indiana.....	31	1,926
Ohio.....	31	1,922
Nevada.....	27	1,818
Massachusetts.....	25	1,691
Tennessee.....	27	1,528
Kansas.....	22	1,310
Wisconsin.....	15	968
Other states (12 states).....	92	5,278
Total – U.S.....	2,200	141,019
Europe (b):		
France.....	55	2,886
Netherlands.....	40	2,180
Sweden.....	30	1,623
Belgium.....	21	1,270
United Kingdom.....	21	1,025
Germany.....	11	571
Denmark.....	10	565

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Total - Europe.....	188	10,120
Grand Total.....	2,388	151,139

- (a) See Schedule III: Real Estate and Accumulated Depreciation in the Company's 2013 financials, for a complete list of properties consolidated by the Company.
- (b) The facilities located in Europe include one facility in the United Kingdom that we wholly own, as well as the facilities owned by Shurgard Europe.

We seek to maximize our facilities' cash flow through the regular review and adjustment of rents charged and promotions granted to our existing and new incoming customers, and controlling expenses. For the year ended December 31, 2013, the weighted average occupancy level and the average realized rent per occupied square foot for our self-storage facilities were approximately 92.7% and \$14.18, respectively, in the U.S. and 79.6% and \$26.90, respectively, in Europe.

At December 31, 2013, 45 of our U.S. facilities with a net book value of \$224 million were encumbered by an aggregate of \$89 million in secured notes payable.

We have no specific policy as to the maximum size of any one particular self-storage facility. However, none of our facilities involves, or is expected to involve, 1% or more of our total assets, gross revenues or net income.

Description of Self-Storage Facilities: Self-storage facilities, which comprise the majority of our investments, offer accessible storage space for personal and business use at a relatively low cost. A user rents a fully enclosed space, securing the space with their lock, which is for the user's exclusive use and to which only the user has access on an unrestricted basis during business hours. On-site operation is the responsibility of property managers who are supervised by district managers. Some self-storage facilities also include rentable uncovered parking areas for vehicle storage. Space is rented on a month-to-month basis and rental rates vary according to the location of the property, the size of the storage space and other characteristics that affect the relative attractiveness of each particular space, such as whether the space has "drive-up" access, its proximity to elevators, or if the space is climate controlled. All of our self-storage facilities in the U.S. are operated under the "Public Storage" brand name, while our facilities in Europe are operated under the "Shurgard" brand name.

Users include individuals from virtually all demographic groups, as well as businesses. Individuals usually store furniture, household appliances, personal belongings, motor vehicles, boats, campers, motorcycles and other household goods. Businesses normally store excess inventory, business records, seasonal goods, equipment and fixtures.

Our self-storage facilities generally consist of between 350 to 750 storage spaces. Most spaces have between 25 and 400 square feet and an interior height of approximately eight to 12 feet.

We experience minor seasonal fluctuations in the occupancy levels of self-storage facilities with occupancies generally higher in the summer months than in the winter months. We believe that these fluctuations result in part from increased moving activity during the summer months and incremental demand from college students.

Our self-storage facilities are geographically diversified and are located primarily in or near major metropolitan markets in 38 states in the U.S. Generally our self-storage facilities are located in heavily populated areas and close to concentrations of apartment complexes, single family residences and commercial developments.

Competition from other self-storage facilities is significant and impacts the occupancy levels and rental rates for many of our properties.

We believe that self-storage facilities, upon achieving stabilized occupancy levels of approximately 90%, have attractive characteristics consisting of high profit margins, a broad tenant base and low levels of capital expenditures to maintain their condition and appearance. Historically, upon

reaching stabilization, our U.S. self-storage facilities have generally shown a high degree of stability in generating cash flows.

Description of Commercial Properties: We have an interest in PSB, which, as of December 31, 2013, owns and operates approximately 29.7 million net rentable square feet of commercial space in eight states. At December 31, 2013, the \$424.5 million book value and \$1.1 billion market value, respectively, of our investment in PSB represents approximately 4% and 11%, respectively of our total assets. We also directly own 1.4 million net rentable square feet of commercial space managed primarily by PSB.

The commercial properties owned by PSB consist primarily of flex, multi-tenant office and industrial space. Flex space is defined as buildings that are configured with a combination of office and warehouse space and can be designed to fit a wide variety of uses (including office, assembly, showroom, laboratory, light manufacturing and warehouse space).

Environmental Matters: We accrue environmental assessments and estimated remediation cost when it is probable that such efforts will be required and the related costs can be reasonably estimated. Our current practice is to conduct environmental investigations in connection with property acquisitions. Although there can be no assurance, we are not aware of any environmental contamination of any of our facilities, which individually or in the aggregate would be material to our overall business, financial condition, or results of operations.

ITEM 3. Legal Proceedings

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

ITEM 4. Mine Safety Disclosures

Not applicable.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

a. Market Information of the Registrant's Common Equity:

Our Common Shares (NYSE: PSA) have been listed on the New York Stock Exchange since October 19, 1984. The following table sets forth the high and low sales prices of our Common Shares on the New York Stock Exchange composite tapes for the applicable periods.

Year	Quarter	Range	
		High	Low
2012	1st	\$ 141.48	\$ 129.04
	2nd	146.49	129.77
	3rd	152.68	137.86
	4th	148.17	135.07
2013	1st	157.95	144.35
	2nd	168.66	145.04
	3rd	168.30	149.46
	4th	176.68	147.14

As of February 15, 2014, there were approximately 16,043 holders of record of our Common Shares. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

b. Dividends

We have paid quarterly distributions to our shareholders since 1981, our first full year of operations. During 2013 we paid distributions to our common shareholders of \$1.25 per common share for each of the quarters ended March 31, June 30, September 30 and \$1.40 per common share for the quarter ended December 31, representing an aggregate of \$884.2 million or \$5.15 per share. During 2012 we paid distributions to our common shareholders of \$1.10 per common share for each of the quarters ended March 31, June 30, September 30 and December 31, representing an aggregate of \$751.2 million or \$4.40 per share.

Holders of common shares are entitled to receive distributions when and if declared by our Board of Trustees out of any funds legally available for that purpose. As a REIT, we do not incur federal income tax on our REIT taxable income (generally, net rents and gains from real property, dividends, and interest) that is fully distributed each year (for this purpose, certain distributions paid in a subsequent year may be considered), and if we meet certain organizational and operational rules. We believe we have met these requirements in all periods presented herein, and we expect to continue to elect and qualify as a REIT.

For Federal income tax purposes, distributions to shareholders are treated as ordinary income, capital gains, return of capital or a combination thereof. For 2013, the dividends paid on common shares and preferred shares were classified as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Ordinary Income.....	100.0000%	100.0000%	99.8273%	99.9543%
Long-term Capital Gain.....	0.0000%	0.0000%	0.1727%	0.0457%
Total.....	100.0000%	100.0000%	100.0000%	100.0000%

For 2012, the dividends paid on common shares (\$4.40 per share) and on all the various classes of preferred shares were classified as ordinary income.

c. Equity Shares

We are authorized to issue 100,000,000 equity shares from time to time in one or more series and our Board of Trustees has broad authority to fix the dividend and distribution rights, conversion and voting rights, redemption provisions and liquidation rights of each series of equity shares. We had no equity shares outstanding for any period in the years ended December 31, 2013 and 2012.

d. Common Share Repurchases

Our Board of Trustees has authorized management to repurchase up to 35,000,000 of our common shares on the open market or in privately negotiated transactions. From the inception of the repurchase program through February 25, 2014, we have repurchased a total of 23,721,916 common shares (all purchased prior to 2010) at an aggregate cost of approximately \$679.1 million. Our common share repurchase program does not have an expiration date and there are 11,278,084 common shares that may yet be repurchased under our repurchase program as of December 31, 2013. We have no current plans to repurchase shares; however, future levels of common share repurchases will be dependent upon our available capital, investment alternatives, and the trading price of our common shares.

e. Preferred Share Redemptions

We had no preferred redemptions during the year ended December 31, 2013.

ITEM 6. Selected Financial Data

	For the year ended December 31,				
	2013	2012	2011	2010	2009
Revenues	\$ 1,981,746	\$ 1,842,504	\$ 1,735,888	\$ 1,631,294	\$ 1,607,395
Expenses:					
Cost of operations	565,161	555,904	560,509	545,921	536,555
Depreciation and amortization	387,402	357,781	357,969	353,245	339,003
General and administrative	66,679	56,837	52,410	38,487	35,735
Asset impairment charges	-	-	2,186	994	-
	1,019,242	970,522	973,074	938,647	911,293
Operating income	962,504	871,982	762,814	692,647	696,102
Interest and other income	22,577	22,074	32,333	29,017	29,813
Interest expense	(6,444)	(19,813)	(24,222)	(30,225)	(29,916)
Equity in earnings of unconsolidated real estate entities	57,579	45,586	58,704	38,352	53,244
Foreign currency exchange gain (loss)	17,082	8,876	(7,287)	(42,264)	9,662
Gain on real estate sales and debt retirement	4,233	1,456	10,801	827	37,540
Income from continuing operations	1,057,531	930,161	833,143	688,354	796,445
Discontinued operations	-	12,874	3,316	7,760	(5,989)
Net income	1,057,531	943,035	836,459	696,114	790,456
Net income allocated (to) from noncontrolling equity interests	(5,078)	(3,777)	(12,617)	(24,076)	44,165
Net income allocable to Public Storage shareholders	\$ 1,052,453	\$ 939,258	\$ 823,842	\$ 672,038	\$ 834,621
Per Common Share:					
	\$	\$	\$	\$	\$
Distributions	5.15	4.40	3.65	3.05	2.20
	\$	\$	\$	\$	\$
Net income – Basic	4.92	3.93	3.31	2.36	3.48
	\$	\$	\$	\$	\$
Net income – Diluted	4.89	3.90	3.29	2.35	3.47
Weighted average common shares – Basic	171,640	170,562	169,657	168,877	168,358

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Weighted average common shares – Diluted	172,688	171,664	170,750	169,772	168,768
Balance Sheet Data:					
Total assets	\$ 9,876,266	\$ 8,793,403	\$ 8,932,562	\$ 9,495,333	\$ 9,805,645
Total debt	\$ 839,053	\$ 468,828	\$ 398,314	\$ 568,417	\$ 518,889
Total preferred equity	\$ 3,562,500	\$ 2,837,500	\$ 3,111,271	\$ 3,396,027	\$ 3,399,777
Public Storage shareholders' equity	\$ 8,791,730	\$ 8,093,756	\$ 8,288,209	\$ 8,676,598	\$ 8,928,407
Permanent noncontrolling interests' equity	\$ 27,125	\$ 29,108	\$ 22,718	\$ 32,336	\$ 132,974
Net cash flow:					
Provided by operating activities	\$ 1,430,339	\$ 1,285,659	\$ 1,203,452	\$ 1,093,221	\$ 1,112,857
Used in investing activities	\$ (1,412,393)	\$ (290,465)	\$ (81,355)	\$ (266,605)	\$ (91,409)
Used in financing activities	\$ (16,160)	\$ (1,117,305)	\$ (1,438,546)	\$ (1,132,709)	\$ (938,401)

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with our financial statements and notes thereto.

Critical Accounting Policies

Our MD&A discusses our financial statements, which have been prepared in accordance with United States ("U.S.") generally accepted accounting principles ("GAAP"). Our financial statements are affected by our judgments, assumptions and estimates. The notes to our December 31, 2013 financial statements, primarily Note 2, summarize our significant accounting policies.

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

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

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

In addition, our taxable REIT subsidiaries are taxable as regular corporations. To the extent that amounts paid to us by our taxable REIT subsidiaries are determined by the taxing authorities to be in excess of amounts that would be paid under similar arrangements among unrelated parties, we could be subject to a 100% penalty tax on the excess payments. Such a penalty tax could have a material adverse impact on our net income.

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

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

Recording the fair value of acquired real estate facilities: In accounting for facilities acquired from third parties, we estimate the fair values of the land, buildings and intangible assets acquired. Such estimates are based upon many assumptions and judgments, including i) expected rates of return and capitalization rates on real estate assets, ii) estimated costs to replace acquired buildings and equipment in their current state, iii) comparisons of the acquired underlying land parcels to recent land transactions, and iv) future cash flows from the real estate and the existing tenant base. Others could come to materially different conclusions as to the estimated fair values, which would result in different depreciation and amortization expense, gains and losses on sale of real estate assets, and real estate and intangible assets.

MD&A Overview

Our domestic self-storage facilities generated 93% of our revenues for the year ended December 31, 2013, and also generated most of our net income and cash flow from operations. A significant portion of management time is devoted to maximizing cash flows from our existing self-storage facilities, as well as seeking additional investments in self-storage facilities.

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

During 2013, we acquired 121 self-storage facilities for approximately \$1.2 billion, substantially more than we had acquired in total in 2010, 2011 and 2012 (an aggregate of 77 facilities for \$546 million). In 2013, we took advantage of a significant increase in properties being marketed for sale, which we believe was primarily driven by easier access to capital in the current low interest rate environment and improved property valuations. We expect to continue to seek to acquire additional self-storage facilities from third parties. There is significant competition to acquire existing facilities and there can be no assurance that we will be able to acquire additional facilities at prices we will find attractive.

As of December 31 2013, we had development and expansion projects which will add approximately 1.8 million net rentable square feet of storage space at \$196 million. We expect to continue to seek additional development projects; however, the level of future development may be limited due to various constraints such as difficulty in finding available sites that meet our risk-adjusted yield expectations, as well as challenges in obtaining building permits for self-storage activities in certain municipalities.

We also have equity investments in Shurgard Europe and PS Business Parks, Inc. (“PSB”). During the year ended December 31, 2013, we increased our ownership interest in PSB by acquiring 1,356,748 shares of PSB common stock in open-market transactions and directly from PSB, for an aggregate cost of \$105.0 million. We may invest further in these entities in the future.

As of December 31, 2013, our capital commitments for 2014 exceed our expected capital resources. As of December 31, 2013, our capital resources consist of (i) approximately \$250 million of available borrowing capacity on our revolving line of credit, (ii) \$216.2 million of cash proceeds from the sale of 51% of a loan we have provided to Shurgard Europe which we received in January 2014, and (iii) \$250 million of expected 2014 retained operating cash flow. Retained operating cash flow represents our expected 2014 cash flow provided by operating activities, after deducting estimated 2014 distributions to our common and preferred shareholders, and estimated 2014 capital expenditure requirements.

At December 31, 2013, we had estimated 2014 capital commitments of \$726.2 million of debt maturities, and approximately \$145 million of remaining spend on our development pipeline. In addition, we expect that our capital commitments will continue to grow during 2014 as we continue to seek additional development and acquisition opportunities.

We believe we have a variety of possibilities to bridge the gap between our capital resources and commitments which may include raising capital through the issuance of common or preferred securities, issuing debt, expanding the borrowing capacity of our credit facility, or entering into joint venture arrangements to acquire or develop facilities. See Liquidity and Capital Resources for further information regarding our 2014 capital requirements.

Results of Operations

Operating results for 2013 as compared to 2012

For the year ended December 31, 2013, net income allocable to our common shareholders was \$844.7 million or \$4.89 per diluted common share, compared to \$669.7 million or \$3.90 per diluted common share for the same period in 2012, representing an increase of \$175.0 million or \$0.99 per diluted common share. This increase is due primarily to (i) a \$124.6 million increase in self-storage net operating income, (ii) a \$68.9 million reduction in income allocated to preferred shareholders due to redemptions, including our equity share of PSB, (iii) an \$8.2 million increase from foreign currency exchange gains, offset partially by (iv) a \$29.6 million increase in depreciation and amortization associated with acquired real estate facilities.

Operating results for 2012 as compared to 2011

For the year ended December 31, 2012, net income allocable to our common shareholders was \$669.7 million or \$3.90 per diluted common share, compared to \$561.7 million or \$3.29 per diluted common share for the same period in 2011, representing an increase of \$108.0 million or \$0.61 per diluted common share. This increase is due to (i) a \$102.5 million increase in self-storage net operating income, (ii) a \$19.6 million reduction in distributions to preferred shareholders due primarily to lower average coupon rates, and (iii) a \$16.2 million increase resulting from foreign currency exchange gains and losses in translating our Euro-denominated loan receivable from Shurgard Europe into U.S. Dollars, offset partially by (iv) a \$36.3 million decrease due to the application of EITF D-42 to our, and our equity share of PSB's, redemptions of preferred securities.

Funds from Operations and Core Funds from Operations

Funds from Operations ("FFO") is a non-GAAP term defined by the National Association of Real Estate Investment Trusts, and generally represents net income before depreciation, gains and losses, and impairment charges with respect to real estate assets. We present FFO and FFO per share because we consider FFO to be an important measure of the performance of real estate companies, as do many analysts in evaluating our Company. We believe that FFO is a helpful measure of a REIT's performance since FFO excludes depreciation, which is included in computing net income and assumes the value of real estate diminishes predictably over time. We believe that real estate values fluctuate due to market conditions and in response to inflation. FFO computations do not consider scheduled principal payments on debt, capital improvements, distributions and other obligations of the Company. FFO and FFO per share is not a substitute for our cash flow or net income per share as a measure of our liquidity or operating performance or our ability to pay dividends. Because other REITs may not compute FFO in the same manner, FFO may not be comparable among REITs.

For the year ended December 31, 2013, FFO was \$7.53 per diluted common share, as compared to \$6.31 for the same period in 2012, representing an increase of \$1.22 per diluted common share.

For the year ended December 31, 2012, FFO was \$6.31 per diluted common share, as compared to \$5.67 for the same period in 2011, representing an increase of \$0.64 per diluted common share.

The following table reconciles net income to FFO and FFO per diluted common share:

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	Year Ended December 31,		
	2013	2012	2011
	(Amounts in thousands, except per share data)		
Net income	\$ 1,057,531	\$ 943,035	\$ 836,459
Adjust for amounts not included in FFO:			
Depreciation and amortization, including discontinued operations	387,402	358,103	358,525
Depreciation from unconsolidated real estate investments	75,458	75,648	64,677
Gains on sale of real estate investments, including our equity share	(4,120)	(14,778)	(12,797)
FFO allocable to equity holders	1,516,271	1,362,008	1,246,864
Less allocation of FFO to:			
Noncontrolling equity interests	(7,275)	(6,828)	(15,539)
Preferred shareholders - distributions	(204,312)	(205,241)	(224,877)
Preferred shareholders - redemptions	-	(61,696)	(35,585)
Restricted share unitholders	(5,173)	(4,247)	(2,817)
FFO allocable to common shares	\$ 1,299,511	\$ 1,083,996	\$ 968,046
Diluted weighted average common shares	172,688	171,664	170,750
FFO per share	\$ 7.53	\$ 6.31	\$ 5.67

In addition to FFO, we often discuss “Core FFO” per share which is also a non-GAAP measure that represents FFO per share, adjusted to exclude the impact of (i) foreign currency exchange gains and losses, representing gains of \$17.1 million and \$8.9 million in 2013 and 2012, respectively, and a loss of \$7.3 million for 2011, (ii) the impact of EITF D-42, including our equity share from PSB, representing charges totaling \$68.9 million and \$32.6 million for 2012 and 2011, respectively, (none for 2013) and (iii) other items. We believe Core FFO is a helpful measure in understanding our ongoing earnings and cash flow. We also believe that the analyst community, likewise, reviews our Core FFO and Core FFO per share (or similar measures using different terminology). Core FFO is not a substitute for net income, earnings per share or cash flow from operations. Because other REITs may not compute Core FFO in the same manner as we do, may not use the same terminology, or may not present such a measure, Core FFO may not be comparable among REITs.

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

	Year Ended December 31,			Year Ended December 31,		
	2013	2012	Percentage Change	2012	2011	Percentage Change
FFO per share	\$ 7.53	\$ 6.31	19.3%	\$ 6.31	\$ 5.67	11.3%
Eliminate the per share						

impact of items excluded from Core FFO: Foreign currency exchange (gain) loss	(0.10)	(0.05)		(0.05)	0.04	
Application of EITF D-42	-	0.40		0.40	0.19	
Other items	0.01	0.02		0.02	0.03	
Core FFO per share	\$ 7.44	\$ 6.68	11.4%	\$ 6.68	\$ 5.93	12.6%

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Real Estate Operations

Self-Storage Operations: Our self-storage operations represent 93% of our revenues for the year ended December 31, 2013. Our self-storage operations are analyzed in two groups: (i) the Same Store Facilities, representing the facilities that we have owned and operated on a stabilized basis since January 1, 2011, and (ii) all other facilities, which are newly acquired, newly developed, or recently expanded facilities (the “Non Same Store Facilities”).

Self-Storage Operations

Summary	Year Ended December 31,			Year Ended December 31,		
	2013	2012	Percentage Change	2012	2011	Percentage Change
(Dollar amounts in thousands)						
Revenues:						
Same Store Facilities	\$ 1,703,294	\$ 1,616,798	5.3%	\$ 1,616,798	\$ 1,544,543	4.7%
Non Same Store Facilities	146,589	102,067	43.6%	102,067	77,256	32.1%
Total rental income	1,849,883	1,718,865	7.6%	1,718,865	1,621,799	6.0%
Cost of operations:						
Same Store Facilities	478,978	485,460	(1.3)%	485,460	496,569	(2.2)%
Non Same Store Facilities	45,108	32,181	40.2%	32,181	26,544	21.2%
Total cost of operations	524,086	517,641	1.2%	517,641	523,113	(1.0)%
Net operating income (a):						
Same Store Facilities	1,224,316	1,131,338	8.2%	1,131,338	1,047,974	8.0%
Non Same Store Facilities	101,481	69,886	45.2%	69,886	50,712	37.8%
Total net operating income	1,325,797	1,201,224	10.4%	1,201,224	1,098,686	9.3%
Depreciation and amortization expense:						
Same Store Facilities	(305,270)	(314,428)	(2.9)%	(314,428)	(322,467)	(2.5)%
Non Same Store Facilities	(79,353)	(40,543)	95.7%	(40,543)	(32,848)	23.4%
Total depreciation and amortization expense	(384,623)	(354,971)	8.4%	(354,971)	(355,315)	(0.1)%
Total net income	\$ 941,174	\$ 846,253	11.2%	\$ 846,253	\$ 743,371	13.8%
Number of facilities at period end:						
Same Store Facilities	1,949	1,949	-	1,949	1,949	-
Non Same Store Facilities	238	116	105.2%	116	89	30.3%
Net rentable square footage at period end (in thousands):						
Same Store Facilities	122,823	122,823	-	122,823	122,823	-
Non Same Store Facilities	17,464	8,814	98.2%	8,814	6,638	32.8%

(a) See “Net Operating Income” below for further information regarding this non-GAAP measure.

Net income from our Self-Storage operations has increased 11.2% in 2013 as compared to 2012 and 13.8% in 2012 as compared to 2011. These increases are due to improvements in our Same Store Facilities, as well as the acquisitions of new facilities and the fill-up of unstabilized facilities.

Same Store Facilities

The Same Store Facilities represent those facilities that have been owned and operated on a stabilized basis since January 1, 2011 and therefore provide meaningful comparisons for 2011, 2012 and 2013. The following table summarizes the historical operating results of these 1,949 facilities (122.8 million net rentable square feet) that represent approximately 88% of the aggregate net rentable square feet of our U.S. consolidated self-storage portfolio at December 31, 2013.

Selected Operating Data for the
Same Store Facilities (1,949
facilities)

	Year Ended December 31,			Year Ended December 31,		
	2013	2012	Percentage Change	2012	2011	Percentage Change
(Dollar amounts in thousands, except weighted average amounts)						
Revenues:						
Rental income	\$ 1,619,533	\$ 1,536,517	5.4%	\$ 1,536,517	\$ 1,465,038	4.9%
Late charges and administrative fees	83,761	80,281	4.3%	80,281	79,505	1.0%
Total revenues (a)	1,703,294	1,616,798	5.3%	1,616,798	1,544,543	4.7%
Cost of operations:						
Property taxes	160,027	152,191	5.1%	152,191	147,806	3.0%
On-site property manager payroll	97,563	98,326	(0.8)%	98,326	101,445	(3.1)%
Supervisory payroll	33,766	33,306	1.4%	33,306	32,187	3.5%
Repairs and maintenance	39,401	40,079	(1.7)%	40,079	45,406	(11.7)%
Utilities	36,387	36,370	0.0%	36,370	37,873	(4.0)%
Advertising and selling expense	27,083	38,871	(30.3)%	38,871	42,846	(9.3)%
Other direct property costs	49,340	50,361	(2.0)%	50,361	53,725	(6.3)%
Allocated overhead	35,411	35,956	(1.5)%	35,956	35,281	1.9%
Total cost of operations (a)	478,978	485,460	(1.3)%	485,460	496,569	(2.2)%
Net operating income (b)	1,224,316	1,131,338	8.2%	1,131,338	1,047,974	8.0%
Depreciation and amortization expense	(305,270)	(314,428)	(2.9)%	(314,428)	(322,467)	(2.5)%
Net income	\$ 919,046	\$ 816,910	12.5%	\$ 816,910	\$ 725,507	12.6%
Gross margin (before depreciation and amortization)						
	71.9%	70.0%	2.7%	70.0%	67.9%	3.1%

Weighted average for the period:

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Square foot occupancy (c)	93.3%	91.9%	1.5%	91.9%	91.3%	0.7%
Realized annual rental income per:						
Occupied square foot (d)	\$ 14.13	\$ 13.61	3.8%	\$ 13.61	\$ 13.06	4.2%
Available square foot (“REVPAF”) (d)	\$ 13.19	\$ 12.51	5.4%	\$ 12.51	\$ 11.93	4.9%
Weighted average at December 31:						
Square foot occupancy	91.8%	91.4%	0.4%	91.4%	89.6%	2.0%
Annual contract rent per occupied square foot (e)	\$ 15.02	\$ 14.43	4.1%	\$ 14.43	\$ 14.02	2.9%

(a) Revenues and cost of operations do not include ancillary revenues and expenses generated at the facilities with respect to tenant reinsurance and retail sales.

(b) See “Net Operating Income” below for a reconciliation of this non-GAAP measure to our operating income in our income statements for the years ended December 31, 2013, 2012 and 2011.

(c) Square foot occupancies represent weighted average occupancy levels over the entire period.

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

Analysis of Same Store Revenue

Revenues generated by our Same Store Facilities increased by 5.3% in 2013 as compared to 2012 due to a 1.5% increase in average occupancy and a 3.8% increase in realized rent per occupied square foot. Revenues generated by our Same Store Facilities increased by 4.7% in 2012 as compared to 2011 due to a 0.7% increase in average occupancy and a 4.2% increase in realized rent per occupied square foot. The increase in realized rent per occupied square foot in both periods was due primarily to annual rent increases given to customers that have been renting with us longer than one year, and to a lesser extent, reduced promotional discounts given to new customers.

Same Store average occupancy increased from 91.3% in 2011, to 91.9% in 2012, and to 93.3% in 2013, representing increases of 0.7% in 2012 and 1.5% in 2013. The year over year increases began primarily late in the fourth quarter of 2012, as we implemented more aggressive pricing strategies in the seasonally slow first and fourth quarters. The occupancy spread narrowed in the fourth quarter of 2013 and is expected to continue to narrow in 2014, due to more difficult comparisons.

Our future rental growth will be dependent upon many factors for each market that we operate in, including demand for self-storage space, the level of competitor supply of self-storage space, our ability to increase rental rates to new and existing customers, the level of promotional activities required, and the average length of stay of our customers.

Increasing rental rates to existing customers, generally on an annual basis, is a key component of our revenue growth. We determine the level of rental increases based upon our expectations regarding the impact of existing tenant rate increases on incremental move-outs. We expect to pass similar rent increases to long-term customers in 2014, as we did in 2013.

We believe that high occupancies help maximize our rental revenue. We seek to maintain an average occupancy level of at least 90%, by regularly adjusting the rental rates and promotions offered to attract new customers as well as adjusting our marketing efforts on both television and the Internet in order to generate sufficient move-in volume to replace customers that vacate. Demand fluctuates due to various local and regional factors, including the overall economy. Demand is higher in the summer months than in the winter months and, as a result, rental rates charged to new customers are typically higher in the summer months than in the winter months.

During 2013, 2012 and 2011, the average annualized contractual rates per occupied square foot for customers that moved in were \$12.97, \$12.76 and \$12.89, respectively, and for customers that vacated were \$13.76, \$13.54 and \$13.24, respectively. Promotional discounts, generally representing a one-month reduction in contractual rents, given in the first month of tenancy, were \$79.3 million, \$87.9 million and \$96.6 million in 2013, 2012 and 2011, respectively. Promotional discounts have declined due to higher occupancies.

We believe that the current trends in move-in, move-out, in place contractual rents and occupancy levels are consistent with our expectation of continued revenue growth in 2014. However, such trends, when viewed in the short-run, are

volatile and not necessarily predictive of our revenues going forward because they are subject to many short-term factors. Such factors include initial move-in rates, seasonal

factors, the unit size and geographical mix of the specific customers moving in or moving out, the length of stay of the customers moving in or moving out, changes in our pricing strategies, and the degree and timing of rate increases previously passed to existing customers.

Analysis of Same Store Cost of Operations

Cost of operations (excluding depreciation and amortization) decreased 1.3% in 2013 as compared to 2012 and decreased 2.2% in 2012 as compared to 2011. The decrease in 2013 was due primarily to reduced advertising and selling expense, offset partially by increased property taxes. The decrease in 2012 was due to reduced repairs and maintenance, advertising and selling expense, and on-site property manager payroll, offset partially by increased property taxes.

Property tax expense increased 5.1% in 2013 as compared to 2012 and increased 3.0% in 2012 as compared to 2011. The increase in 2013 was due primarily to higher assessed values and tax rates, while the increase in 2012 was due primarily to higher assessed values. We expect property tax growth of approximately 4.5% to 5% in 2014.

On-site property manager payroll expense decreased 0.8% in 2013 as compared to 2012 and 3.1% in 2012 as compared to 2011. These decreases were due to reductions in incentive compensation, offset partially in 2013 by higher claims expense with respect to employee health benefits. We expect on-site property manager payroll expense to increase modestly in 2014 due to higher health care costs.

Supervisory payroll expense, which represents compensation paid to the management personnel who directly and indirectly supervise the on-site property managers, increased 1.4% in 2013 as compared to 2012 and increased 3.5% in 2012 as compared to 2011. The increase in 2013 was due primarily to increases in compensation rates, while the increase in 2012 was due primarily to increased headcount. We expect inflationary increases in compensation rates and flat headcount in 2014.

Repairs and maintenance expense decreased 1.7% in 2013 as compared to 2012 and decreased 11.7% in 2012 as compared to 2011. Repair and maintenance costs include snow removal expense totaling \$5.3 million, \$2.7 million and \$4.3 million in 2013, 2012 and 2011, respectively. Excluding snow removal costs, repairs and maintenance decreased 8.7% in 2013 as compared to 2012 and 9.0% in 2012 as compared to 2011.

Repairs and maintenance expense levels are dependent upon many factors such as weather conditions, which can impact repair and maintenance needs, inflation in material and labor costs, and random events. We expect inflationary increases in repairs and maintenance expense in 2014 excluding snow removal expense. Snow removal expense is expected to be higher in the three months ending March 31, 2014 as compared to the same period in 2013 due to high levels of snowfall.

Our utility expenses are comprised primarily of electricity costs, which are dependent upon energy prices and usage levels. Changes in usage levels are driven primarily by weather and temperature. Utility expense was flat in 2013 as compared to 2012 and down 4.0% in 2012 as compared to 2011. The decrease in 2012 was due to reduced usage caused by milder weather. It is difficult to estimate future utility cost levels, because weather, temperature, and energy prices are volatile and not predictable. We do, however, expect utility expense to be higher in the first three months of 2014 as compared to the same period in 2013 due to severe winter weather in many of the markets we operate in.

Advertising and selling expense is comprised principally of Internet advertising, media advertising and the operating costs of our telephone reservation center. Advertising and selling expense varies based upon demand, occupancy levels, and other factors; media and Internet advertising, in particular, can increase or decrease significantly in the

short run in response to these factors. These costs declined 30.3% in 2013 as compared to 2012 and declined 9.3% in 2012 as compared to 2011. The decrease in 2013 is due to the phase-out of our yellow page advertising program as of December 31, 2012, as well as reduced television advertising and Internet search costs as a result of high occupancies. The decrease in 2012 is

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due primarily to reduced media advertising. Based upon current trends in move-ins, move-outs, and occupancies, we expect advertising and selling expense to be approximately flat in 2014.

Other direct property costs include administrative expenses incurred at the self-storage facilities, such as property insurance, business license costs, bank charges related to processing the properties' cash receipts, credit card fees, and the cost of operating each property's rental office including supplies and telephone data communication lines. These costs decreased 2.0% in 2013 as compared to 2012 and 6.3% in 2012 as compared to 2011. The decrease in 2013 is due to lower property insurance costs and certain administrative cost-saving efforts, offset partially by an increase in credit card fees due primarily to an increase in credit card collections. The decrease in 2012 is due principally to lower credit card fee rates. We expect moderate increases in other direct property costs in 2014.

Allocated overhead represents administrative expenses for shared general corporate functions, which are allocated to self-storage property operations to the extent their efforts are devoted to self-storage operations. Such functions include data processing, human resources, operational accounting and finance, marketing, and costs of senior executives (other than the Chief Executive Officer and Chief Financial Officer, which are included in general and administrative expense). Allocated overhead decreased 1.5% in 2013 as compared to 2012, and increased 1.9% in 2012 as compared to 2011. We expect inflationary growth in allocated overhead in 2014 as compared to the 2013.

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

For the Quarter Ended

	March 31	June 30	September 30	December 31	Entire Year
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(Amounts in thousands, except for per square foot amount)

Total revenues:

2013	\$ 409,604	\$ 420,146	\$ 441,011	\$ 432,533	\$ 1,703,294
2012	\$ 388,499	\$ 399,725	\$ 418,085	\$ 410,489	\$ 1,616,798
2011	\$ 372,073	\$ 381,301	\$ 399,864	\$ 391,305	\$ 1,544,543

Total cost of operations:

2013	\$ 131,358	\$ 122,587	\$ 124,798	\$ 100,235	\$ 478,978
2012	\$ 134,411	\$ 125,126	\$ 122,987	\$ 102,936	\$ 485,460
2011	\$ 133,232	\$ 127,781	\$ 126,615	\$ 108,941	\$ 496,569

Property taxes:

2013	\$ 44,758	\$ 44,031	\$ 43,652	\$ 27,586	\$ 160,027
2012	\$ 43,142	\$ 42,051	\$ 40,703	\$ 26,295	\$ 152,191
2011	\$ 41,472	\$ 40,383	\$ 39,713	\$ 26,238	\$ 147,806

Repairs and maintenance:

2013	\$ 10,824	\$ 9,086	\$ 9,689	\$ 9,802	\$ 39,401
2012	\$ 12,235	\$ 10,443	\$ 8,500	\$ 8,901	\$ 40,079
2011	\$ 10,792	\$ 11,029	\$ 11,008	\$ 12,577	\$ 45,406

Advertising and selling
expense:

2013	\$ 7,453	\$ 6,412	\$ 8,385	\$ 4,833	\$ 27,083
2012	\$ 10,531	\$ 10,586	\$ 10,216	\$ 7,538	\$ 38,871
2011	\$ 11,908	\$ 12,357	\$ 10,011	\$ 8,570	\$ 42,846

REVPAF:

2013	\$ 12.67	\$ 13.02	\$ 13.65	\$ 13.40	\$ 13.19
2012	\$ 12.01	\$ 12.37	\$ 12.93	\$ 12.73	\$ 12.51
2011	\$ 11.51	\$ 11.79	\$ 12.32	\$ 12.09	\$ 11.93

Weighted average realized annual rent per occupied square foot:

2013	\$ 13.79	\$ 13.85	\$ 14.46	\$ 14.41	\$ 14.13
2012	\$ 13.30	\$ 13.39	\$ 13.90	\$ 13.83	\$ 13.61
2011	\$ 12.84	\$ 12.80	\$ 13.29	\$ 13.32	\$ 13.06

Weighted average occupancy levels for
the period:

2013	91.9%	94.0%	94.4%	93.0%	93.3%
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2012	90.3%	92.4%	93.0%	92.1%	91.9%
2011	89.6%	92.1%	92.7%	90.8%	91.3%

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Analysis of Market Trends

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

Same Store Facilities Operating Trends
by Market

	Year Ended December 31,			Year Ended December 31,		
	2013	2012	Change	2012	2011	Change
	(Amounts in thousands)					
Revenues:						
Los Angeles (177 facilities)	\$ 232,877	\$ 221,310	5.2%	\$ 221,310	\$ 212,288	4.2%
San Francisco (126 facilities)	145,029	136,821	6.0%	136,821	129,608	5.6%
New York (78 facilities)	111,695	104,290	7.1%	104,290	99,361	5.0%
Chicago (125 facilities)	106,284	101,340	4.9%	101,340	97,156	4.3%
Washington DC (72 facilities)	81,815	79,348	3.1%	79,348	76,793	3.3%
Seattle-Tacoma (85 facilities)	82,111	77,251	6.3%	77,251	74,109	4.2%
Miami (59 facilities)	70,408	66,955	5.2%	66,955	63,268	5.8%
Dallas-Ft. Worth (99 facilities)	68,177	64,127	6.3%	64,127	60,851	5.4%
Houston (80 facilities)	62,205	57,637	7.9%	57,637	54,592	5.6%
Atlanta (89 facilities)	59,573	57,382	3.8%	57,382	55,045	4.2%
Philadelphia (55 facilities)	44,783	43,532	2.9%	43,532	42,206	3.1%
Denver (47 facilities)	39,808	36,921	7.8%	36,921	34,107	8.3%
Minneapolis-St Paul (41 facilities)	33,863	31,369	8.0%	31,369	29,797	5.3%
Portland (41 facilities)	30,077	28,625	5.1%	28,625	27,321	4.8%
Orlando-Daytona (45 facilities)	29,259	28,083	4.2%	28,083	27,049	3.8%
All other markets (730 facilities)	505,330	481,807	4.9%	481,807	460,992	4.5%
Total revenues	\$ 1,703,294	\$ 1,616,798	5.3%	\$ 1,616,798	\$ 1,544,543	4.7%
Net operating income:						
Los Angeles	\$ 185,930	\$ 172,382	7.9%	\$ 172,382	\$ 161,816	6.5%
San Francisco	113,509	104,514	8.6%	104,514	97,076	7.7%
New York	78,269	70,005	11.8%	70,005	65,917	6.2%
Chicago	62,378	59,892	4.2%	59,892	52,830	13.4%
Washington DC	62,444	59,901	4.2%	59,901	56,862	5.3%
Seattle-Tacoma	62,354	57,092	9.2%	57,092	54,244	5.3%
Miami	52,649	48,685	8.1%	48,685	44,977	8.2%
Dallas-Ft. Worth	46,498	41,924	10.9%	41,924	37,621	11.4%
Houston	40,853	37,367	9.3%	37,367	34,734	7.6%
Atlanta	42,171	39,055	8.0%	39,055	36,009	8.5%
Philadelphia	30,154	28,775	4.8%	28,775	26,732	7.6%
Denver	28,707	25,769	11.4%	25,769	22,521	14.4%

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Minneapolis-St. Paul	21,979	19,920	10.3%	19,920	18,309	8.8%
Portland	22,457	20,750	8.2%	20,750	19,054	8.9%
Orlando-Daytona	20,155	18,980	6.2%	18,980	17,455	8.7%
All other markets	353,809	326,327	8.4%	326,327	301,817	8.1%
Total net operating income	\$ 1,224,316	\$ 1,131,338	8.2%	\$ 1,131,338	\$ 1,047,974	8.0%

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Same Store Facilities Operating Trends by Market
(Continued)

	Year Ended December 31,			Year Ended December 31,		
	2013	2012	Change	2012	2011	Change
Weighted average square foot occupancy:						
Los Angeles	93.7%	92.6%	1.2%	92.6%	92.1%	0.5%
San Francisco	94.5%	93.2%	1.4%	93.2%	92.9%	0.3%
New York	94.7%	92.9%	1.9%	92.9%	92.7%	0.2%
Chicago	93.5%	92.3%	1.3%	92.3%	91.2%	1.2%
Washington DC	93.0%	91.9%	1.2%	91.9%	92.6%	(0.8)%
Seattle-Tacoma	93.0%	91.1%	2.1%	91.1%	91.0%	0.1%
Miami	93.9%	92.5%	1.5%	92.5%	91.8%	0.8%
Dallas-Ft. Worth	93.4%	91.7%	1.9%	91.7%	91.5%	0.2%
Houston	93.8%	91.8%	2.2%	91.8%	89.8%	2.2%
Atlanta	91.9%	90.6%	1.4%	90.6%	90.4%	0.2%
Philadelphia	93.1%	91.6%	1.6%	91.6%	91.9%	(0.3)%
Denver	94.8%	94.1%	0.7%	94.1%	91.9%	2.4%
Minneapolis-St. Paul	93.2%	91.8%	1.5%	91.8%	90.9%	1.0%
Portland	94.1%	92.8%	1.4%	92.8%	91.8%	1.1%
Orlando-Daytona	93.1%	91.8%	1.4%	91.8%	90.3%	1.7%
All other markets	92.9%	91.5%	1.5%	91.5%	90.7%	0.9%
Total weighted average occupancy	93.3%	91.9%	1.5%	91.9%	91.3%	0.7%
Realized annual rent per occupied square foot:						
Los Angeles	\$ 20.09	\$ 19.35	3.8%	\$ 19.35	\$ 18.63	3.9%
San Francisco	20.01	19.14	4.5%	19.14	18.15	5.5%
New York	21.85	20.80	5.0%	20.80	19.78	5.2%
Chicago	13.76	13.25	3.8%	13.25	12.84	3.2%
Washington DC	20.36	19.94	2.1%	19.94	19.13	4.2%
Seattle-Tacoma	15.12	14.52	4.1%	14.52	13.89	4.5%
Miami	16.84	16.20	4.0%	16.20	15.37	5.4%
Dallas-Ft. Worth	11.01	10.55	4.4%	10.55	10.00	5.5%
Houston	11.37	10.79	5.4%	10.79	10.42	3.6%
Atlanta	10.37	10.09	2.8%	10.09	9.66	4.5%
Philadelphia	13.38	13.20	1.4%	13.20	12.73	3.7%
Denver	13.22	12.35	7.0%	12.35	11.65	6.0%
Minneapolis-St. Paul	12.26	11.50	6.6%	11.50	11.01	4.5%
Portland	14.20	13.69	3.7%	13.69	13.21	3.6%
Orlando-Daytona	10.96	10.65	2.9%	10.65	10.42	2.2%
All other markets	11.43	11.06	3.3%	11.06	10.65	3.8%
Total realized rent per square foot	\$ 14.13	\$ 13.61	3.8%	\$ 13.61	\$ 13.06	4.2%

Same Store Facilities Operating Trends by Market
(Continued)

	Year Ended December 31,			Year Ended December 31,		
	2013	2012	Change	2012	2011	Change
REVPAF:						
Los Angeles	\$ 18.82	\$ 17.92	5.0%	\$ 17.92	\$ 17.15	4.5%
San Francisco	18.91	17.84	6.0%	17.84	16.87	5.7%
New York	20.68	19.33	7.0%	19.33	18.34	5.4%
Chicago	12.87	12.23	5.2%	12.23	11.71	4.4%
Washington DC	18.92	18.33	3.2%	18.33	17.71	3.5%
Seattle-Tacoma	14.06	13.23	6.3%	13.23	12.64	4.7%
Miami	15.81	14.99	5.5%	14.99	14.11	6.2%
Dallas-Ft. Worth	10.28	9.67	6.3%	9.67	9.15	5.7%
Houston	10.66	9.90	7.7%	9.90	9.36	5.8%
Atlanta	9.53	9.14	4.3%	9.14	8.73	4.7%
Philadelphia	12.45	12.09	3.0%	12.09	11.69	3.4%
Denver	12.54	11.61	8.0%	11.61	10.70	8.5%
Minneapolis-St. Paul	11.43	10.56	8.2%	10.56	10.01	5.5%
Portland	13.36	12.71	5.1%	12.71	12.13	4.8%
Orlando-Daytona	10.21	9.78	4.4%	9.78	9.40	4.0%
All other markets	10.62	10.12	4.9%	10.12	9.67	4.7%
Total REVPAF	\$ 13.19	\$ 12.51	5.4%	\$ 12.51	\$ 11.93	4.9%

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

Non Same Store Facilities

The Non Same Store Facilities at December 31, 2013 represent 238 facilities that were not stabilized with respect to occupancies or rental rates since January 1, 2011, or that we did not own as of January 1, 2011. As a result of the stabilization process and timing of when the facilities were acquired, year-over-year changes can be significant. In the following table, "Other facilities" includes all facilities that we have owned, but were not yet stabilized as of January 1, 2011, three facilities that we obtained control of and began consolidating in 2012 and a newly developed facility opened in 2013.

The following table summarizes operating data with respect to the Non Same Store Facilities:

NON SAME STORE FACILITIES	Year Ended December 31,			Year Ended December 31,		
	2013	2012	Change	2012	2011	Change
(Dollar amounts in thousands, except square foot amounts)						
Rental income:						
2013 third party acquisitions	\$ 19,309	\$ -	\$ 19,309	\$ -	\$ -	\$ -
2012 third party acquisitions	22,452	7,791	14,661	7,791	-	7,791
Other facilities	104,828	94,276	10,552	94,276	77,256	17,020
Total rental income	146,589	102,067	44,522	102,067	77,256	24,811
Cost of operations before depreciation and amortization expense:						
2013 third party acquisitions	\$ 7,574	\$ -	\$ 7,574	\$ -	\$ -	\$ -
2012 third party acquisitions	8,562	3,206	5,356	3,206	-	3,206
Other facilities	28,972	28,975	(3)	28,975	26,544	2,431
Total cost of operations	45,108	32,181	12,927	32,181	26,544	5,637
Net operating income and net income:						
2013 third party acquisitions	\$ 11,735	\$ -	\$ 11,735	\$ -	\$ -	\$ -
2012 third party acquisitions	13,890	4,585	9,305	4,585	-	4,585
Other facilities	75,856	65,301	10,555	65,301	50,712	14,589
Total net operating income (a)	101,481	69,886	31,595	69,886	50,712	19,174
Depreciation and amortization expense	(79,353)	(40,543)	(38,810)	(40,543)	(32,848)	(7,695)
Net income	\$ 22,128	\$ 29,343	\$ (7,215)	\$ 29,343	\$ 17,864	\$ 11,479
At December 31:						
Square foot occupancy:						
2013 third party acquisitions	82.6%	-	-	-	-	-
2012 third party acquisitions	86.5%	75.2%	15.0%	75.2%	-	-
Other facilities	88.3%	89.1%	(0.9)%	89.1%	84.2%	5.8%
	85.4%	86.0%	(0.7)%	86.0%	84.2%	2.1%
Annual contract rent per occupied square foot:						
2013 third party acquisitions	\$ 13.56	\$ -	-	\$ -	\$ -	-
2012 third party acquisitions	13.76	13.66	0.7%	13.66	-	-
Other facilities	16.37	15.89	3.0%	15.89	15.37	3.4%
	14.78	15.47	(4.5)%	15.47	15.37	0.7%
Number of facilities:						
2013 third party acquisitions	121	-	121	-	-	-
2012 third party acquisitions	24	24	-	24	-	24
Other facilities	93	92	1	92	89	3
	238	116	122	116	89	27

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Net rentable square feet (in thousands):

2013 third party acquisitions	8,036	-	8,036	-	-	-
2012 third party acquisitions	2,117	1,908	209	1,908	-	1,908
Other facilities	7,311	6,906	405	6,906	6,638	268
	17,464	8,814	8,650	8,814	6,638	2,176

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(a) See “Net Operating Income” below for a reconciliation of this non-GAAP measure to our net income in our statements of income for the years ended December 31, 2013, 2012 and 2011.

During 2013, we acquired 121 operating self-storage facilities from third parties (8,036,000 net rentable square feet of storage space) for approximately \$1.16 billion. During 2012, we acquired 24 operating self-storage facilities from third parties (1,908,000 net rentable square feet of storage space and unfinished space that was converted to 209,000 net rentable square feet of self-storage space in 2013 for \$20.3 million in additional development cost) for \$225.5 million in cash. During 2011, we acquired eleven operating self-storage facilities from third parties (896,000 net rentable square feet) for an aggregate cost of \$80.4 million.

For 2013, the weighted average annualized yield for the facilities acquired in 2011 and 2012 (excluding the facility that was acquired in 2012 and expanded in 2013) was 10.5% and 6.8%, respectively. The weighted average annualized yield with respect to the 2013 acquisitions is not meaningful due to our limited ownership period.

During 2013, we completed expansions to the Other Facilities, adding 300,000 net rentable square feet of self-storage space, for an aggregate cost of \$19.9 million and we opened a newly developed facility for an aggregate cost of \$16.6 million with 105,000 net rentable square feet of storage space.

We expect to increase the number of Non Same Storage Facilities over at least the next twelve months through development of additional self-storage space and acquisitions of existing facilities from third parties. As of December 31, 2013, we had development and expansion projects which will add approximately 1.8 million net rentable square feet of storage space at a total cost of approximately \$196 million. A total of \$52 million in costs were incurred through December 31, 2013, with the remaining costs expected to be incurred in 2014. Some of these projects are subject to significant contingencies such as entitlement approval. We expect to continue to seek additional development projects; however, the level of future development may be limited due to various constraints such as difficulty in finding projects that meet our risk-adjusted yield expectations and challenges in obtaining building permits for self-storage activities in certain municipalities. There is significant competition to acquire existing facilities and there can be no assurance that we will be able to acquire additional facilities at prices we will find attractive.

We believe that our management and operating infrastructure will result in newly acquired facilities stabilizing at a higher level of net operating income than was achieved by the previous owners. However, it can take 24 or more months for these newly acquired facilities to reach stabilization, and the ultimate levels of net operating income to be achieved can be affected by changes in general economic conditions. As a result, there can be no assurance that our expectations with respect to these facilities will be achieved. However, we expect the Non Same Store Facilities to continue to provide earnings growth during 2014 as these facilities approach stabilized occupancy levels and the earnings of the 2013 acquisitions are reflected in our operations for a longer period in 2014 as compared to 2013.

Equity in earnings of unconsolidated real estate entities

At December 31, 2013, we have equity investments in PSB, Shurgard Europe and various limited partnerships. We account for such investments using the equity method.

Equity in earnings of unconsolidated real estate entities for 2013, 2012 and 2011 consists of our pro-rata share of the net income of these unconsolidated real estate entities for each period. The following table sets forth the significant components of equity in earnings of unconsolidated real estate entities.

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Historical summary:	Year Ended December 31,			Year Ended December 31,		
	2013	2012	Change	2012	2011	Change

(Amounts in thousands)

Equity in earnings:

PSB	\$ 23,199	\$ 10,638	\$ 12,561	\$ 10,638	\$ 27,781	\$ (17,143)
Shurgard Europe	32,694	33,223	(529)	33,223	29,152	4,071
Other Investments	1,686	1,725	(39)	1,725	1,771	(46)
Total equity in earnings	\$ 57,579	\$ 45,586	\$ 11,993	\$ 45,586	\$ 58,704	\$ (13,118)

Investment in PSB: At December 31, 2013, we have an approximate 42% common equity interest in PSB, comprised of our ownership of 7,158,354 shares of PSB's common stock and 7,305,355 limited partnership units in an operating partnership controlled by PSB (41% as of December 31, 2012, comprised of our ownership of 5,801,606 shares of PSB's common stock and 7,305,355 limited partnership units at December 31, 2012). The limited partnership units are convertible at our option, subject to certain conditions, on a one-for-one basis into PSB common stock.

During 2013, we purchased 406,748 shares of PSB common stock in open-market transactions at an average cost of \$73.15 per share.

On November 7, 2013, we purchased 950,000 shares of PSB common stock from PSB at \$79.25 per share, concurrent with PSB's sale of 1,495,000 additional shares to the public at the same price per share.

At December 31, 2013, PSB owned and operated 29.7 million rentable square feet of commercial space located in eight states. PSB also manages commercial space that we own pursuant to property management agreements.

Equity in earnings from PSB increased to \$23.2 million in 2013 from \$10.6 million in 2012. This increase was due primarily to EITF D-42 charges from PSB's redemptions of preferred securities recorded in 2012, combined with increases in operating income for its newly acquired and same-park facilities. See Note 4 to our December 31, 2013 financial statements for selected financial information on PSB, as well as PSB's filings and selected financial information that can be accessed through the SEC, and on PSB's website, www.psbusinessparks.com.

Equity in earnings from PSB decreased to \$10.6 million in 2012, as compared to \$27.8 million in 2011. This decrease was principally due to (i) the impact of PSB's redemptions of preferred securities in 2011 and 2012, which reduced income allocated to the common equity holders in 2012, and increased income allocable to the common equity holders in 2011, (ii) increased depreciation and interest expense as a result of the properties PSB acquired in 2011 and 2012, partially offset by (iii) incremental income generated by the properties PSB acquired in 2011 and 2012.

Our investment in PSB provides us with some diversification.

Investment in Shurgard Europe: Equity in earnings of Shurgard Europe represents our 49% equity share of Shurgard Europe's net income. At December 31, 2013, Shurgard Europe's operations are comprised of 187 wholly-owned

facilities with 10 million net rentable square feet. Selected financial data for Shurgard Europe for 2013, 2012 and 2011 is included in Note 4 to our December 31, 2013 financial statements. As described in more detail in Note 4, we receive interest income and trademark license fees from Shurgard Europe.

Equity in earnings from Shurgard Europe decreased to \$32.7 million for the year ended December 31, 2013 from \$33.2 million for the same period in 2012.

Equity in earnings from Shurgard Europe increased to \$33.2 million for the year ended December 31, 2012 from \$29.2 million for the same period in 2011. The increase is due to our equity share of (i) improved property operations, (ii) reduced interest expense due to a reduction in interest rates and repayment of principal on third-party debt (iii) the impact of Shurgard Europe's March 2, 2011 acquisition of the remaining 80% interest it did not own in two joint ventures that owned 72 self-storage facilities, partially offset by (iv) a reduction in foreign currency exchange rates when converting Euros into U.S. Dollars for reporting purposes.

Shurgard Europe has no development pipeline and no expectations in the short-term of acquiring any facilities from third parties. Accordingly, at least in the short-term, our future earnings from Shurgard Europe will be affected primarily by the operating results of its existing facilities, as well as the exchange rate between the U.S. Dollar and currencies in the countries Shurgard Europe conducts its business, principally the Euro.

European Same Store Facilities: The Shurgard Europe Same Store Pool represents the 163 facilities (8.7 million net rentable square feet, representing 86% of the aggregate net rentable square feet of Shurgard Europe's self-storage portfolio) that have been consolidated and operated by Shurgard Europe on a stabilized basis since January 1, 2011 and therefore provide meaningful comparisons for 2011, 2012 and 2013. We evaluate the performance of these facilities because Shurgard Europe's ability to effectively manage stabilized facilities represents an important measure of its ability to grow its earnings over the long-term.

The following table reflects 100% of the operating results of those 163 facilities. We restate the exchange rates used in prior year's presentation to the actual exchange rates for 2013. However, only our pro rata share of the operating results for these facilities, based upon the actual exchange rates for each period, is included in "equity in earnings of unconsolidated real estate entities" on our statements of income.

In Note 4 to our December 31, 2013 financial statements, we disclose Shurgard Europe's consolidated operating results for the years ended December 31, 2013, 2012 and 2011. Shurgard Europe's consolidated operating results include 24 additional facilities that are not Same Store Facilities, and are based upon historical exchange rates rather than constant exchange rates for each of the respective periods.

Selected Operating Data for the Shurgard

Europe Same Store Pool (163 facilities):	Year Ended December 31,			Year Ended December 31,		
	2013	2012	Percentage Change	2012	2011	Percentage Change

(Dollar amounts in thousands, except weighted average data, utilizing constant exchange rates) (a)

Revenues (including late charges and administrative fees)	\$ 190,673	\$ 194,275	(1.9)%	\$ 194,275	\$ 196,163	(1.0)%
Less: Cost of operations (excluding depreciation and amortization expenses)	80,295	79,994	0.4%	79,994	83,641	(4.4)%
Net operating income (b)	\$ 110,378	\$ 114,281	(3.4)%	\$ 114,281	\$ 112,522	1.6%
Gross margin	57.9%	58.8%	(1.5)%	58.8%	57.4%	2.4%
Weighted average for the period:						
Square foot occupancy (c)	81.2%	83.1%	(2.3)%	83.1%	85.0%	(2.2)%
Realized annual rent, prior to late charges and administrative fees, per:						
Occupied square foot (d)	\$ 26.65	\$ 26.56	0.3%	\$ 26.56	\$ 26.18	1.5%
Available square foot ("REVPAF") (d)	\$ 21.64	\$ 22.07	(1.9)%	\$ 22.07	\$ 22.25	(0.8)%
Average Euro to the U.S. Dollar for the period (a):						
Constant exchange rates used herein	1.328	1.328	-	1.328	1.328	-
Actual historical exchange rates	1.328	1.285	3.3%	1.285	1.392	(7.7)%

(a) In order to isolate changes in the underlying operations from the impact of exchange rates, the amounts in this table are presented on a constant exchange rate basis. The amounts for years ended December 31, 2012 and 2011 have been restated using the actual exchange rates for the year ended December 31, 2013.

(b) We present Shurgard Europe's same-store net operating income or "NOI," which is a non-GAAP (generally accepted accounting principles) financial measure that excludes the impact of depreciation and amortization expense. We believe that NOI is a meaningful measure of operating performance, because we utilize NOI in making decisions with respect to capital allocations, in determining current property values, in evaluating property performance and in comparing period-to-period and market-to-market property operating results. In addition, we believe the investment community utilizes NOI in determining operating performance and real estate values, and does not consider depreciation expense because it is based upon historical cost. NOI is not a substitute for net income, net operating cash flow, or other related GAAP financial measures, in evaluating Shurgard Europe's operating results.

(c) Square foot occupancies represent weighted average occupancy levels over the entire period.

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

Net operating income decreased 3.4% in 2013 as compared to 2012, principally due to a reduction in revenue of 1.9% and relatively flat cost of operations. Net operating income increased 1.6% in 2012 as compared to 2011, due to decreases in expenses offset by lower revenues. While revenue declined in 2013, the most recent trends in the fourth quarter of 2013 have improved. Due to the limited number of facilities in this portfolio and lack of geographic diversification, as well as recent volatile economic conditions in

Western Europe, it is difficult to estimate revenue growth. However, based upon current trends, it appears that revenue should increase modestly in at least the first quarter of 2014.

See “Liquidity and Capital Resources – Shurgard Europe” for additional information on Shurgard Europe’s liquidity.

Other Investments: The “Other Investments” at December 31, 2013 are comprised primarily of our equity in earnings from various limited partnerships that own an aggregate of 14 self-storage facilities (792,000 net rentable square feet). Our future earnings with respect to the Other Investments will be dependent upon the operating results of the facilities these entities own. See Note 4 to our December 31, 2013 financial statements under the “Other Investments” for certain condensed combined financial information of these entities.

Ancillary Operations

Ancillary revenues and expenses include amounts associated with (i) the reinsurance of policies against losses to goods stored by customers in our self-storage facilities in the U.S., (ii) merchandise sales, (iii) commercial property operations and (iv) management of 42 facilities owned by third parties and the Unconsolidated Real Estate Entities.

Commercial property operations are included in our commercial segment and all other ancillary revenues and costs of operations are not allocated to any segment. See Note 11 to our December 31, 2013 financial statements for further information regarding our segments and for a reconciliation of these ancillary revenues and cost of operations to our net income.

The following table sets forth our ancillary operations as presented on our income statements:

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	Year Ended December 31,			Year Ended December 31,		
	2013	2012	Change	2012	2011	Change
(Amounts in thousands)						
Ancillary Revenues:						
Tenant reinsurance premiums	\$ 84,904	\$ 77,977	\$ 6,927	\$ 77,977	\$ 71,348	\$ 6,629
Commercial	14,510	14,071	439	14,071	14,592	(521)
Merchandise and other	32,449	31,591	858	31,591	28,149	3,442
Total revenues	131,863	123,639	8,224	123,639	114,089	9,550
Ancillary Cost of Operations:						
Tenant reinsurance Commercial	17,067	14,429	2,638	14,429	13,407	1,022
Merchandise and other	5,228	4,908	320	4,908	5,505	(597)
Total cost of operations	18,780	18,926	(146)	18,926	18,484	442
Commercial depreciation	41,075	38,263	2,812	38,263	37,396	867
	2,779	2,810	(31)	2,810	2,654	156
Ancillary net income:						
Tenant reinsurance Commercial	67,837	63,548	4,289	63,548	57,941	5,607
Merchandise and other	6,503	6,353	150	6,353	6,433	(80)
Total ancillary net income	13,669	12,665	1,004	12,665	9,665	3,000
	\$ 88,009	\$ 82,566	\$ 5,443	\$ 82,566	\$ 74,039	\$ 8,527

Tenant reinsurance operations: We reinsure policies offered through a non-affiliated insurance company against losses to goods stored by customers in the domestic self-storage facilities we operate. The level of tenant reinsurance revenues is largely dependent upon the level of premiums charged for such insurance and the number of customers that participate in the insurance program. Cost of operations primarily includes claims paid that are not covered by our outside third-party insurers, as well as claims adjustment expenses. These costs are dependent primarily upon the level of losses incurred, including the level of catastrophic events that occur and affect our properties thereby increasing tenant insurance claims.

The increase in tenant insurance revenues in 2013 and 2012 as compared to the respective prior years is due to (i) an increased number of customers due to higher occupancy levels, including the fill-up of non-Same Store facilities, (ii) an increase in the percentage of such customers having policies from 61% in 2011, to 63% in 2012 and 65% in 2013, (iii) an increase in average premium rates and (iv) the impact of the acquisition of 145 self-storage facilities from third parties in 2012 and 2013. Tenant insurance revenues with respect to customers in our Same Store Facilities totaled \$76.5 million, \$71.4 million and \$66.0 million in 2013, 2012 and 2011, respectively.

We expect continued increases in tenant insurance revenues in 2014 as the tenant insurance revenues with respect to the facilities we acquired in 2013 are reflected for a full year and Non-Same Store facilities continue to add customers. We expect stable participation rates and flat premium rates in 2014.

Commercial operations: We also own and operate commercial facilities, primarily the leasing of small retail storefronts and office space located on or near our existing self-storage facilities. We do not expect any significant changes in revenues or profitability from our commercial operations.

Merchandise sales and other: We sell locks, boxes, and packing supplies at our self-storage facilities, and the level of sales of these items is primarily impacted by the level of move-ins and other customer traffic at our self-storage facilities. These amounts include, to a much lesser extent, the results of our management of 42 self-storage facilities in the U.S. for third party owners and other partnerships that we account for on the equity method. In 2012 our merchandise sales and margins improved primarily as a

result of higher retail prices for our locks. We do not expect any significant changes in revenues our profitability from our merchandise sales and other in 2014.

Other Income and Expense Items

Interest and other income: Interest and other income was \$22.6 million in 2013, \$22.1 million in 2012 and \$32.3 million in 2011, respectively. Interest and other income primarily includes interest income on loans receivable from Shurgard Europe, as well as trademark license fees received from Shurgard Europe for the use of the “Shurgard” trade name. We record 51% of the aggregate interest income and trademark license fees as interest and other income, while the remaining 49% is presented as additional equity in earnings on our income statement.

Aggregate interest income and trademark license fees received from Shurgard Europe was \$20.6 million, \$20.0 million and \$26.7 million for 2013, 2012 and 2011, respectively.

The loan receivable from Shurgard Europe (the “Shareholder Loan”) is denominated in Euros and has a balance of €311.0 million (\$428.1 million) as of December 31, 2013. On January 28, 2014, our joint venture partner in Shurgard Europe acquired 51% of the Shareholder Loan at face value for €158.6 million (\$216.2 million) in cash and the maturity date of the Shareholder Loan was extended to April 2019. As a result, the 51% of the interest received on the Shareholder Loan that we previously recorded as interest income will cease as of January 28, 2014. We will continue to record interest received with respect to our remaining 49% ownership of the Shareholder Loan as additional equity in earnings on our income statement.

The terms of a loan payable by Shurgard Europe to a bank (the “Bank Loan”), with a principal amount of €107.5 million at December 31, 2013, requires significant principal repayments through the maturity date in November 2014. As a result, in 2013 and 2012 there were no principal repayments on the Shareholder Loan. All interest on the Shareholder Loan has been paid currently when due and we expect the interest to continue to be paid when due with Shurgard Europe’s operating cash flow.

The remainder of our interest and other income is comprised primarily of interest earned on cash balances as well as sundry other income items that are received from time to time in varying amounts. Interest income on cash balances has been minimal, because rates have been at historic lows of 0.1% or less, and we expect this trend to continue in the foreseeable future. Future earnings from sundry other income items are not predictable.

Depreciation and amortization: Depreciation and amortization increased to \$387.4 million for 2013 as compared to \$357.8 million for 2012 and \$358.0 million for 2011, due principally to newly acquired facilities. Included in depreciation and amortization is amortization expense of tenant intangibles for facilities acquired from third parties, which is being amortized relative to the expected future benefit of the customers in place for each period. Such amortization expense totaled \$24.1 million, \$10.5 million and \$11.9 million in 2013, 2012 and 2011, respectively. Based upon the facilities we own at December 31, 2013, amortization expense with respect to such intangibles is estimated at \$36.6 million in 2014. The level of future depreciation and amortization will primarily depend upon the level of acquisitions of facilities and the level of capital expenditures we incur on our facilities.

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

	Year Ended December 31,			Year Ended December 31,		
	2013	2012	Change	2012	2011	Change

(Amounts in thousands)

Share-based compensation expense	\$ 28,413	\$ 24,312	\$ 4,101	\$ 24,312	\$ 23,709	\$ 603
Costs of senior executives	5,309	4,736	573	4,736	3,332	1,404
Development and acquisition costs	10,475	6,355	4,120	6,355	4,129	2,226
Tax compliance costs and taxes paid	4,704	4,775	(71)	4,775	5,546	(771)
Legal costs	3,550	3,653	(103)	3,653	3,601	52
Public company costs	3,069	2,937	132	2,937	2,919	18
Other costs	11,159	10,069	1,090	10,069	9,174	895
Total	\$ 66,679	\$ 56,837	\$ 9,842	\$ 56,837	\$ 52,410	\$ 4,427

Share-based compensation expense includes the amortization of restricted share units (“RSUs”) and stock options granted to employees, as well as employer taxes incurred upon vesting of RSUs and upon exercise of employee stock options. The level of share-based compensation expense varies based upon the level of grants and forfeitures. The increase in share-based compensation costs in 2013 as compared to 2012 is due primarily to additional share-based grants. The increase in share-based compensation costs in 2012 as compared to 2011 is due primarily to additional share-based grants, offset partially by a reduction of \$5.5 million with respect to certain RSUs granted in 2011 under a performance-based plan. We expect share-based compensation expense to remain flat in 2014 as compared to 2013. See Note 10 to our December 31, 2013 financial statements for further information on our share-based compensation.

Costs of senior executives represent the cash compensation paid to our chief executive officer and chief financial officer. The increases in 2013 as compared to 2012 and in 2012 as compared to 2011 are due to increases in incentive compensation.

Development and acquisition costs represent internal and external expenses related to our acquisition and development activities and varies primarily based upon the level of development and acquisition activities undertaken. Incremental legal, transfer tax, and other related costs of approximately \$5.0 million, \$1.8 million and \$0.8 million were incurred in connection with the acquisition of real estate facilities in 2013, 2012 and 2011, respectively. The level of such costs to be incurred in 2014 will depend upon the level of acquisition activities, which is not determinable.

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

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

Public company costs represent the incremental costs of operating as a publicly-traded company, such as internal and external investor relations expenses, stock listing and transfer agent fees, board of directors’ costs, and costs associated with maintaining compliance with applicable laws and regulations, including the Dodd-Frank Act and Sarbanes-Oxley Act.

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

Interest expense: Interest expense was \$6.4 million, \$19.8 million and \$24.2 million for 2013, 2012 and 2011, respectively.

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The decreases in 2013 as compared to 2012, and 2012 as compared to 2011, are due primarily to repayments on our unsecured senior notes in 2013 and 2011, along with principal repayments on our secured mortgage debt. During 2013, 2012 and 2011, we capitalized interest of \$2.9 million, \$0.4 million and \$0.4 million, respectively, associated with our development activities. See Note 6 to our December 31, 2013 financial statements for a schedule of our notes payable balances, principal repayment requirements and average interest rates. The level of interest expense that we incur in 2014 will be dependent upon the source of funds used to refinance our term loan that matures on December 2, 2014, and when such refinance is expected to occur.

Foreign Exchange Gain (Loss): We recorded foreign currency translation gains of \$17.1 million and \$8.9 million in 2013 and 2012, respectively, and a loss \$7.3 million in 2011, representing primarily the change in the U.S. Dollar equivalent of our Euro-based Shareholder Loan due to fluctuations in exchange rates. We have not entered into any agreements to mitigate the impact of currency exchange fluctuations between the U.S. Dollar and the Euro, therefore the amount of U.S. Dollars we will receive on repayment will depend upon the currency exchange rates at that time. We record the exchange gains or losses into net income each period because of our continued expectation of repayment of the Shareholder Loan in the foreseeable future. The U.S. Dollar exchange rate relative to the Euro was approximately 1.377, 1.322 and 1.295 at December 31, 2013, December 31, 2012 and December 31, 2011, respectively.

Future foreign exchange gains or losses will be dependent primarily upon the movement of the Euro relative to the U.S. Dollar, the amount of the Shareholder Loan and our continued expectation of collecting the principal on the loan in the foreseeable future. As noted above, On January 28, 2014, our joint venture partner in Shurgard Europe acquired 51% of the Shareholder Loan at face value for €158.6 million (\$216.2 million) in cash and the maturity date of the Shareholder Loan was extended to April 2019.

Net Income Allocable to Preferred Shareholders: Allocations of net income to our preferred shareholders generally consists of allocations (i) based on distributions and (ii) in applying EITF D-42 when we redeem preferred shares. During 2012 and 2011, we redeemed certain existing series of preferred shares and issued additional preferred shares at lower coupon rates. Net income allocable to preferred shareholders in applying EITF D-42 totaled \$61.7 million and \$35.6 million in 2012 and 2011, respectively, (there were no redemptions of preferred securities and as a result, no EITF D-42 allocations in 2013). Net income allocable to preferred shareholders associated with distributions decreased during 2013 as compared to 2012, and 2012 as compared to 2011, due primarily to lower average dividend rates and lower average outstanding preferred shares. Based upon our preferred shares outstanding at December 31, 2013, our quarterly distribution to our preferred shareholders is expected to be approximately \$51.9 million.

Net Operating Income

In our discussions above, we refer to net operating income or “NOI,” which is a non-GAAP (generally accepted accounting principles) financial measure that excludes the impact of depreciation and amortization expense. We believe that NOI is a meaningful measure of operating performance, because we utilize NOI in making decisions with respect to capital allocations, in determining current property values, in evaluating property performance and in comparing period-to-period and market-to-market property operating results. In addition, we believe the investment community utilizes NOI in determining operating performance and real estate values, and does not consider depreciation expense because it is based upon historical cost. NOI is not a substitute for net income, net operating cash flow, or other related GAAP financial measures, in evaluating our operating results. The following table reconciles NOI generated by our self-storage facilities to our operating income:

Year Ended December 31,
2013 2012 2011

(Amounts in thousands)

Self-storage net operating income:			
Same Store Facilities	\$ 1,224,316	\$ 1,131,338	\$ 1,047,974
Non Same Store Facilities	101,481	69,886	50,712
	1,325,797	1,201,224	1,098,686
Self-storage depreciation expense:			
Same Store Facilities	(305,270)	(314,428)	(322,467)
Non Same Store Facilities	(79,353)	(40,543)	(32,848)
	(384,623)	(354,971)	(355,315)