

Public Storage  
Form 10-Q  
August 05, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2016

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 001-33519

PUBLIC STORAGE

(Exact name of registrant as specified in its charter)

Maryland	95-3551121
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

701 Western Avenue, Glendale, California	91201-2349
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (818) 244-8080.

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 at least 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).

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Yes  No

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

Indicate the number of the registrant’s outstanding common shares of beneficial interest, as of August 3, 2016:

Common Shares of beneficial interest, \$.10 par value per share – 173,401,388 shares

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PUBLIC STORAGE

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## PUBLIC STORAGE

## BALANCE SHEETS

(Amounts in thousands, except share data)

(Unaudited)

	June 30, 2016	December 31, 2015
<b>ASSETS</b>		
Cash and cash equivalents	\$ 260,124	\$ 104,285
Real estate facilities, at cost:		
Land	3,686,289	3,564,810
Buildings	9,884,371	9,640,451
	13,570,660	13,205,261
Accumulated depreciation	(5,064,423)	(4,866,738)
	8,506,237	8,338,523
Construction in process	228,103	219,190
	8,734,340	8,557,713
Investments in unconsolidated real estate entities	696,069	809,308
Goodwill and other intangible assets, net	213,396	211,458
Other assets	93,208	95,468
Total assets	\$ 9,997,137	\$ 9,778,232

## LIABILITIES AND EQUITY

Senior unsecured notes	\$ 379,792	\$ 263,940
Mortgage notes	57,043	55,076
Preferred shares called for redemption (Note 7)	487,500	-
Accrued and other liabilities	305,769	261,578
Total liabilities	1,230,104	580,594

Commitments and contingencies (Note 11)

Equity:

Public Storage shareholders' equity:

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Preferred Shares, \$0.01 par value, 100,000,000 shares authorized, 147,700 shares issued (in series) and outstanding, (162,200 at December 31, 2015), at liquidation preference	3,692,500	4,055,000
Common Shares, \$0.10 par value, 650,000,000 shares authorized, 173,098,015 shares issued and outstanding (172,921,241 shares at December 31, 2015)	17,310	17,293
Paid-in capital	5,598,846	5,601,506
Accumulated deficit	(491,912)	(434,610)
Accumulated other comprehensive loss	(78,991)	(68,548)
Total Public Storage shareholders' equity	8,737,753	9,170,641
Noncontrolling interests	29,280	26,997
Total equity	8,767,033	9,197,638
Total liabilities and equity	\$ 9,997,137	\$ 9,778,232

See accompanying notes.

## PUBLIC STORAGE

## STATEMENTS OF INCOME

(Amounts in thousands, except per share amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,	2015	June 30,	2015
	2016		2016	
Revenues:				
Self-storage facilities	\$ 594,387	\$ 551,028	\$ 1,168,973	\$ 1,081,665
Ancillary operations	39,801	37,587	77,001	71,829
	634,188	588,615	1,245,974	1,153,494
Expenses:				
Self-storage cost of operations	157,687	147,826	317,550	309,068
Ancillary cost of operations	14,317	13,271	27,740	24,041
Depreciation and amortization	107,013	106,473	212,141	213,619
General and administrative	18,321	20,988	41,368	45,148
	297,338	288,558	598,799	591,876
Operating income	336,850	300,057	647,175	561,618
Interest and other income	4,028	3,815	7,864	7,852
Interest expense	(1,378)	-	(2,089)	-
Equity in earnings of unconsolidated real estate entities	10,227	7,480	24,391	23,664
Foreign currency exchange gain (loss)	8,632	-	(2,322)	-
Gain on real estate investment sales	-	16,688	689	18,160
Net income	358,359	328,040	675,708	611,294
Allocation to noncontrolling interests	(1,700)	(1,635)	(3,176)	(3,108)
Net income allocable to Public Storage shareholders	356,659	326,405	672,532	608,186
Allocation of net income to:				
Preferred shareholders	(59,216)	(61,449)	(121,488)	(125,004)
Preferred shareholders - redemptions (Note 7)	(15,537)	-	(26,873)	(4,784)
Restricted share units	(1,131)	(1,030)	(2,061)	(1,859)
Net income allocable to common shareholders	\$ 280,775	\$ 263,926	\$ 522,110	\$ 476,539
Net income per common share:				
Basic	\$ 1.62	\$ 1.53	\$ 3.02	\$ 2.76

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Diluted	\$ 1.61	\$ 1.52	\$ 3.00	\$ 2.75
Basic weighted average common shares outstanding	173,087	172,629	173,032	172,575
Diluted weighted average common shares outstanding	174,000	173,387	173,925	173,377

See accompanying notes.

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## PUBLIC STORAGE

## STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	\$ 358,359	\$ 328,040	\$ 675,708	\$ 611,294
Other comprehensive income (loss):				
Aggregate foreign currency exchange income (loss)	(4,681)	17,049	(11,824)	(13,367)
Adjust for foreign currency exchange (income) loss included in net income	(6,537)	-	1,381	-
Other comprehensive income (loss)	(11,218)	17,049	(10,443)	(13,367)
Total comprehensive income	347,141	345,089	665,265	597,927
Allocation to noncontrolling interests	(1,700)	(1,635)	(3,176)	(3,108)
Comprehensive income allocable to Public Storage shareholders	\$ 345,441	\$ 343,454	\$ 662,089	\$ 594,819

See accompanying notes.

## PUBLIC STORAGE

## STATEMENTS OF EQUITY

(Amounts in thousands, except share and per share amounts)

(Unaudited)

	Cumulative Preferred Shares	Common Shares	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Public Storage Shareholders' Equity	Noncontrolling Interests	Total Equity	
Balances at December 31, 2015		\$ 4,055,000	\$ 17,293	\$ 5,601,506	\$ (434,610)	\$ (68,548)	\$ 9,170,641	\$ 26,997	\$ 9,197,638
Cumulative effect of a change in accounting principle (Note 9)	-	-	789	(789)	-	-	-	-	-
Balances at December 31, 2015, as adjusted		4,055,000	17,293	5,602,295	(435,399)	(68,548)	9,170,641	26,997	9,197,638
Issuance of 20,000 preferred shares (Note 7)	500,000	-	(16,322)	-	-	483,678	-	-	483,678
Redemption of 34,500 preferred shares (Note 7)	(862,500)	-	-	-	-	(862,500)	-	-	(862,500)
Issuance of common shares in connection with share-based compensation (176,774 shares)									

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(Note 9)	-	17	10,708	-	-	10,725	-	10,725
Cash paid in lieu of common shares, net of share-based compensation expense (Note 9)	-	-	2,165	-	-	2,165	-	2,165
Contributions by noncontrolling interests	-	-	-	-	-	-	2,747	2,747
Net income	-	-	-	675,708	-	675,708	-	675,708
Net income allocated to noncontrolling interests	-	-	-	(3,176)	-	(3,176)	3,176	-
Distributions to equity holders: Preferred shares (Note 7)	-	-	-	(121,488)	-	(121,488)	-	(121,488)
Noncontrolling interests	-	-	-	-	-	-	(3,640)	(3,640)
Common shares and restricted share units (\$3.50 per share)	-	-	-	(607,557)	-	(607,557)	-	(607,557)
Other comprehensive loss (Note 2)	-	-	-	-	(10,443)	(10,443)	-	(10,443)
Balances at June 30, 2016	\$ 3,692,500	\$ 17,310	\$ 5,598,846	\$ (491,912)	\$ (78,991)	\$ 8,737,753	\$ 29,280	\$ 8,767,033

See accompanying notes.

## PUBLIC STORAGE

## STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30, 2016	2015
Cash flows from operating activities:		
Net income	\$ 675,708	\$ 611,294
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on real estate investment sales	(689)	(18,160)
Depreciation and amortization	212,141	213,619
Equity in earnings of unconsolidated real estate entities	(24,391)	(23,664)
Distributions from retained earnings of unconsolidated real estate entities	60,587	16,361
Foreign currency exchange loss	2,322	-
Other	39,036	40,175
Total adjustments	289,006	228,331
Net cash provided by operating activities	964,714	839,625
Cash flows from investing activities:		
Capital expenditures to maintain real estate facilities	(38,236)	(29,757)
Construction in process	(134,998)	(100,393)
Acquisition of real estate facilities and intangible assets	(184,657)	(87,783)

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Distributions in excess of retained earnings from unconsolidated real estate entities	67,420	-
Proceeds from sale of real estate investments	1,393	13,929
Other	1,283	16,030
Net cash used in investing activities	(287,795)	(187,974)
Cash flows from financing activities:		
Borrowings on bank credit facility	-	11,000
Repayments on notes payable	(10,592)	(16,282)
Issuance of senior unsecured notes	113,620	-
Issuance of preferred shares	483,678	-
Issuance of common shares	10,725	10,488
Redemption of preferred shares	(375,000)	(145,000)
Cash paid upon vesting in lieu of issuing common shares	(13,304)	(13,591)
Contributions by noncontrolling interests	2,747	-
Distributions paid to Public Storage shareholders	(729,045)	(661,633)
Distributions paid to noncontrolling interests	(3,640)	(3,191)
Net cash used in financing activities	(520,811)	(818,209)
Net increase (decrease) in cash and cash equivalents	156,108	(166,558)
Net effect of foreign exchange translation on cash and cash equivalents	(269)	(898)
Cash and cash equivalents at the beginning of the period	104,285	187,712
Cash and cash equivalents at the end of the period	\$ 260,124	\$ 20,256

See accompanying notes.

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## PUBLIC STORAGE

## STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Six Months Ended June	
	30,	
	2016	2015
Supplemental schedule of non-cash investing and financing activities:		
Foreign currency translation adjustment:		
Real estate facilities, net of accumulated depreciation	\$ 641	\$ (119)
Investments in unconsolidated real estate entities	8,682	12,588
Senior unsecured notes	2,232	-
Accumulated other comprehensive loss	(11,824)	(13,367)
Preferred shares called for redemption and reclassified to liabilities	487,500	-
Preferred shares called for redemption and reclassified from equity	(487,500)	-
Real estate acquired in exchange for assumption of notes payable	(12,945)	-
Notes payable assumed in connection with acquisition of real estate	12,945	-
Accrued construction costs and capital expenditures:		
Capital expenditures to maintain real estate facilities	(6,709)	(2,704)
Construction in process	(10,904)	308
Accrued and other liabilities	17,613	2,396

See accompanying notes.

PUBLIC STORAGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(Unaudited)

1. Description of the Business

Public Storage (referred to herein as “the Company”, “we”, “us”, or “our”), a Maryland real estate investment trust (“REIT”), was organized in 1980. Our principal business activities include the ownership and operation of self-storage facilities which offer storage spaces for lease, generally on a month-to-month basis, for personal and business use, ancillary activities such as merchandise sales and tenant reinsurance to the tenants at our self-storage facilities, as well as the acquisition and development of additional self-storage space.

At June 30, 2016, we have direct and indirect equity interests in 2,310 self-storage facilities (with approximately 151 million net rentable square feet) located in 38 states in the United States (“U.S.”) operating under the “Public Storage” name. We also own one self-storage facility in London, England and we have a 49% interest in Shurgard Europe, which owns 217 self-storage facilities (with approximately 12 million net rentable square feet) located in seven Western European countries, all operating under the “Shurgard” name. We also have direct and indirect equity interests in approximately 29 million net rentable square feet of commercial space located in nine states in the U.S. primarily owned and operated by PS Business Parks, Inc. (“PSB”) under the “PS Business Parks” name. At June 30, 2016, we have an approximate 42% common equity interest in PSB.

Disclosures of the number and square footage of facilities, as well as the number and coverage of tenant reinsurance policies (Note 11) are unaudited and outside the scope of our independent registered public accounting firm’s review of our financial statements in accordance with the standards of the Public Company Accounting Oversight Board (U.S.).

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited interim financial statements were prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) as defined in the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (the “Codification”), including guidance with respect to interim financial information and in conformity with the instructions to Form 10-Q and Article 10 of Regulation S-X. While they do not include all of the disclosures required by GAAP for complete financial statements, we believe that we have included all adjustments (consisting of normal and recurring adjustments) necessary for a fair presentation. Operating results for the three and six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016 due to seasonality and other factors. These interim financial statements should be read together with the audited financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

Certain amounts previously reported in our June 30, 2015 financial statements have been reclassified to conform to the June 30, 2016 presentation. We reclassified the revenues and cost of operations, net for our wholly-owned commercial facilities and property management operations as interest and other income (aggregates of approximately \$4.0 million and \$1.1 million for the three months ended June 30, 2015, respectively, and \$8.5 million and \$2.3 million for the six months ended June 30, 2015, respectively), rather than as ancillary revenues and ancillary cost of



operations. We also revised our reportable segment presentation in Note 10, including renaming (i) our “Domestic Self-Storage” segment to “Self-Storage Operations,” (ii) our “European Self-Storage” segment to “Investment in Shurgard Europe,” (iii) our “Commercial” segment to “Investment in PSB,” removing our commercial facilities’ operations from this segment, and (iv) presenting a new segment called “Ancillary Operations” reflecting the sale of merchandise at our self-storage facilities and reinsurance of policies covering losses to goods stored by our tenants at our facilities. Each of these

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PUBLIC STORAGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(Unaudited)

reclassifications reflects changes to enhance the usefulness of this information based upon the relative significance of these activities to our aggregate operating results.

On our statement of cash flows for the six months ended June 30, 2015, we reclassified as cash flows from financing activities the \$13.6 million we paid for the restricted share units that we withheld upon their vesting for tax requirements, in connection with a recently issued accounting pronouncement related to employee share-based payment accounting we early adopted effective January 1, 2016. We previously included these amounts within operating activities (see “Recent Accounting Pronouncements and Guidance” below).

Consolidation and Equity Method of Accounting

We consider entities to be Variable Interest Entities (“VIEs”) when they have insufficient equity to finance their activities without additional subordinated financial support provided by other parties, or the equity holders as a group do not have a controlling financial interest. We consolidate VIEs when we have (i) the power to direct the activities most significantly impacting economic performance, and (ii) either the obligation to absorb losses or the right to receive benefits from the VIE. We have no involvement with any material VIEs. We consolidate all other entities when we control them through voting shares or contractual rights. The entities we consolidate, for the period in which the reference applies, are referred to collectively as the “Subsidiaries”, and we eliminate intercompany transactions and balances.

We account for our investments in entities that we do not consolidate but have significant influence over using the equity method of accounting. These entities, for the periods in which the reference applies, are referred to collectively as the “Unconsolidated Real Estate Entities”, eliminating intra-entity profits and losses and amortizing any differences between the cost of our investment and the underlying equity in net assets against equity in earnings as if the Unconsolidated Real Estate Entity were a consolidated subsidiary.

When we begin consolidating an entity, we record a gain representing the differential between the book value and fair value of any preexisting equity interest. All changes in consolidation status are reflected prospectively.

Collectively, at June 30, 2016, the Company and the Subsidiaries own 2,298 self-storage facilities in the U.S., one self-storage facility in London, England and three commercial facilities in the U.S. At June 30, 2016, the Unconsolidated Real Estate Entities are comprised of PSB, Shurgard Europe, as well as limited partnerships that own an aggregate of 12 self-storage facilities in the U.S. (these limited partnerships, for the periods in which the reference applies, are referred to as the “Other Investments”).

Use of Estimates

The financial statements and accompanying notes reflect our estimates and assumptions. Actual results could differ from those estimates and assumptions.

Income Taxes

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We have elected to be treated as a REIT, as defined in the Internal Revenue Code of 1986, as amended (the “Code”). As a REIT, we do not incur federal income tax if we distribute 100% of our REIT taxable income each year, 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.

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PUBLIC STORAGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(Unaudited)

Our merchandise and tenant reinsurance operations are subject to corporate income tax and such taxes are included in ancillary cost of operations. We also incur income and other taxes in certain states, which are included in general and administrative expense.

We recognize tax benefits of uncertain income tax positions that are subject to audit only if we believe it is more likely than not that the position would ultimately be sustained assuming the relevant taxing authorities had full knowledge of the relevant facts and circumstances of our positions. As of June 30, 2016, we had no tax benefits that were not recognized.

Real Estate Facilities

Real estate facilities are recorded at cost. We capitalize all costs incurred to develop, construct, renovate and improve facilities, including interest and property taxes incurred during the construction period. We expense internal and external transaction costs associated with acquisitions or dispositions of real estate, as well as repairs and maintenance costs, as incurred. We depreciate buildings and improvements on a straight-line basis over estimated useful lives ranging generally between 5 to 25 years.

We allocate the net acquisition cost of acquired operating self-storage facilities to the underlying land, buildings, identified intangible assets, and any noncontrolling interests that remain outstanding based upon their respective individual estimated fair values. Any difference between the net acquisition cost and the estimated fair value of the net tangible and intangible assets acquired is recorded as goodwill.

Other Assets

Other assets primarily consist of rents receivable from our tenants, prepaid expenses and restricted cash.

Accrued and Other Liabilities

Accrued and other liabilities consist primarily of rents prepaid by our tenants, trade payables, property tax accruals, accrued payroll, accrued tenant reinsurance losses, and contingent loss accruals when probable and estimable, and we believe that the fair value of our accrued and other liabilities approximates book value, due to the short period until repayment. We disclose the nature of significant unaccrued losses that are reasonably possible of occurring and, if estimable, a range of exposure.

Cash Equivalents, Marketable Securities and Other Financial Instruments

Cash equivalents represent highly liquid financial instruments such as money market funds with daily liquidity or short-term commercial paper or treasury securities maturing within three months of acquisition. Cash and cash equivalents which are restricted from general corporate use are included in other assets. Commercial paper not maturing within three months of acquisition, which we intend and have the capacity to hold until maturity, are included in marketable securities and accounted for using the effective interest method. We believe that the book

value of all such financial instruments for all periods presented approximates fair value, due to the short period to maturity.

Transfers of financial assets are recorded as sales when the asset is put presumptively beyond our and our creditors' reach, there is no impediment to the transferee's right to pledge or exchange the asset, we have surrendered effective control of the asset, we have no actual or effective right or requirement to repurchase the asset and, in the case of a transfer of a participating interest, there is no impediment to our right to pledge or exchange the participating interest we retain.

PUBLIC STORAGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(Unaudited)

Fair Value

As used herein, the term “fair value” is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Our estimates of fair value involve considerable judgment and are not necessarily indicative of the amounts that could be realized in current market exchanges.

We estimate the fair value of our cash and cash equivalents, marketable securities, other assets, debt, and other liabilities by applying a discount rate to the future cash flows of the financial instrument. The discount rate is based upon quoted interest rates for securities that have similar characteristics such as credit quality and time to maturity; such quoted interest rates are referred to generally as “Level 2” inputs.

Currency and Credit Risk

Financial instruments that are exposed to credit risk consist primarily of cash and cash equivalents, certain portions of other assets including rents receivable from our tenants and restricted cash. Cash equivalents we invest in are either money market funds with a rating of at least AAA by Standard and Poor’s, commercial paper that is rated A1 by Standard and Poor’s or deposits with highly rated commercial banks.

At June 30, 2016, due primarily to our investment in Shurgard Europe (Note 4) and our senior unsecured notes denominated in Euros (Note 5), our operating results and financial position are affected by fluctuations in currency exchange rates between the Euro, and to a lesser extent, other European currencies, against the U.S. Dollar.

Goodwill and Other Intangible Assets

Intangible assets are comprised of goodwill, the “Shurgard” trade name, acquired customers in place, and leasehold interests in land.

Goodwill totaled \$174.6 million at June 30, 2016 and December 31, 2015. The “Shurgard” trade name, which is used by Shurgard Europe pursuant to a fee-based licensing agreement, has a book value of \$18.8 million at June 30, 2016 and December 31, 2015. Goodwill and the “Shurgard” trade name have indefinite lives and are not amortized.

Acquired customers in place and leasehold interests in land are finite-lived and are amortized relative to the benefit of the customers in place or the benefit to land lease expense to each period. At June 30, 2016, these intangibles had a net book value of \$19.9 million (\$18.0 million at December 31, 2015). Accumulated amortization totaled \$51.9 million at June 30, 2016 (\$66.4 million at December 31, 2015), and amortization expense of \$10.5 million and \$15.9 million was recorded in the six months ended June 30, 2016 and 2015, respectively. The estimated future amortization expense for our finite-lived intangible assets at June 30, 2016 is approximately \$7.5 million in the remainder of 2016, \$5.6 million in 2017 and \$6.8 million thereafter. During the six months ended June 30, 2016, intangibles were increased \$12.5 million in connection with the acquisition of self-storage facilities (Note 3).

Evaluation of Asset Impairment

We evaluate our real estate and finite-lived intangible assets for impairment each quarter. If there are indicators of impairment and we determine that the asset is not recoverable from future undiscounted cash flows

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PUBLIC STORAGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(Unaudited)

to be received through the asset's remaining life (or, if earlier, the expected disposal date), we record an impairment charge to the extent the carrying amount exceeds the asset's estimated fair value or net proceeds from expected disposal.

We evaluate our investments in unconsolidated real estate entities for impairment on a quarterly basis. We record an impairment charge to the extent the carrying amount exceeds estimated fair value, when we believe any such shortfall is other than temporary.

We evaluate goodwill for impairment annually and whenever relevant events, circumstances and other related factors indicate that fair value of the related reporting unit may be less than the carrying amount. If we determine that the fair value of the reporting unit exceeds the aggregate carrying amount, no impairment charge is recorded. Otherwise, we record an impairment charge to the extent the carrying amount of the goodwill exceeds the amount that would be allocated to goodwill if the reporting unit were acquired for estimated fair value.

We evaluate the "Shurgard" trade name for impairment at least annually and whenever relevant events, circumstances and other related factors indicate that the fair value is less than the carrying amount. When we conclude that it is likely that the asset is not impaired, we do not record an impairment charge and no further analysis is performed. Otherwise, we record an impairment charge to the extent the carrying amount exceeds the asset's estimated fair value.

No impairments were recorded in any of our evaluations for any period presented herein.

#### Revenue and Expense Recognition

Revenues from self-storage facilities, which is primarily composed of rental income earned pursuant to month-to-month leases for storage space, as well as associated late charges and administrative fees, are recognized as earned. Promotional discounts reduce rental income over the promotional period, which is generally one month. Ancillary revenues and interest and other income are recognized when earned. Equity in earnings of unconsolidated real estate entities represents our pro-rata share of the earnings of the Unconsolidated Real Estate Entities.

We accrue for property tax expense based upon actual amounts billed and, in some circumstances, estimates when bills or assessments have not been received from the taxing authorities. If these estimates are incorrect, the timing and amount of expense recognition could be incorrect. Cost of operations, general and administrative expense, interest expense, as well as advertising expenditures are expensed as incurred.

#### Foreign Currency Exchange Translation

The local currency (primarily the Euro) is the functional currency for our interests in foreign operations. The related balance sheet amounts are translated into U.S. Dollars at the exchange rates at the respective financial statement date, while amounts on our statements of income are translated at the average exchange rates during the respective



period. When financial instruments denominated in a currency other than the U.S. Dollar are expected to be settled in cash in the foreseeable future, the impact of changes in the U.S. Dollar equivalent are reflected in current earnings. The Euro was translated at exchange rates of approximately 1.110 U.S. Dollars per Euro at June 30, 2016 (1.091 at December 31, 2015), and average exchange rates of 1.129 and 1.106 for the three months ended June 30, 2016 and 2015, respectively, and an average exchange rate of 1.116 for the each of six month periods ended June 30, 2016 and 2015. Cumulative translation adjustments, to the extent not included in cumulative net income, are included in equity as a component of accumulated other comprehensive income (loss).

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Comprehensive Income

Total comprehensive income represents net income, adjusted for changes in other comprehensive income (loss) for the applicable period. The aggregate foreign currency exchange gains and losses reflected on our statements of comprehensive income are primarily related to our investment in Shurgard Europe and our senior unsecured notes denominated in Euros.

Recent Accounting Pronouncements and Guidance

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, Revenue from Contracts with Customers, which requires revenue to be based upon the consideration expected from customers for promised goods or services. The new standard, effective on January 1, 2018, permits either the retrospective or cumulative effects transition method and allows for early adoption on January 1, 2017. We do not believe this standard will have a material impact on our results of operations or financial condition.

In February 2015, the FASB issued ASU 2015-02, Consolidation – Amendments to the Consolidation Analysis, which modifies (i) the criteria for and the analysis of the identification of consolidation of variable interest entities, particularly when fee arrangements and related party relationships are involved, and (ii) the consolidation analysis for partnerships. We adopted this standard effective January 1, 2016, which did not change the consolidation status of any entities in which we have an interest; however, certain entities began to be considered VIE’s as a result of the change.

In February 2016, the FASB issued ASU 2016-02, Leases, which amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The new standard, effective on January 1, 2019, requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief and allows for early adoption on January 1, 2016. We have not yet determined whether this standard will have a material effect on our results of operations or financial condition.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. We early adopted this standard effective January 1, 2016. Under this standard, a share-based compensation-related tax liability paid on behalf of employees in lieu of shares received is classified as a financing activity on the statement of cash flows, rather than as an operating activity as we had previously presented such amounts. We applied this provision retrospectively. The standard also allows a company to choose, with respect to recording share-based expense, between (i) recognizing forfeitures only as they occur or (ii) estimating future forfeitures in advance. We chose to recognize forfeitures only as they occur, rather than estimating in advance, accordingly, effective January 1, 2016, under the modified retrospective transition method as required by the standard, we recorded a cumulative-effect adjustment of \$0.8 million to increase accumulated deficit and increase paid-in capital for the impact of estimated future forfeitures after December 31, 2015 (Note 9).



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## NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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## Net Income per Common Share

Net income is allocated to (i) noncontrolling interests based upon their share of the net income of the Subsidiaries, (ii) preferred shareholders, to the extent redemption cost exceeds the related original net issuance proceeds (an "EITF D-42 allocation"), and (iii) the remaining net income allocated to each of our equity securities based upon the dividends declared or accumulated during the period, combined with participation rights in undistributed earnings.

Basic and diluted per common share are each calculated based upon net income allocable to common shareholders presented on the face of our income statement, divided by (i) in the case of basic net income per common share, weighted average common shares, and (ii) in the case of diluted income per share, weighted average common shares adjusted for the impact, if dilutive, of stock options outstanding (Note 9). The following table reconciles from basic to diluted common shares outstanding:

		Three Months Ended		Six Months Ended	
		June 30,		June 30,	
		2016	2015	2016	2015

(Amounts in thousands)

Weighted average common shares and equivalents  
outstanding:

Basic weighted average common shares outstanding	173,087	172,629	173,032	172,575
Net effect of dilutive stock options - based on treasury stock method	913	758	893	802
Diluted weighted average common shares outstanding	174,000	173,387	173,925	173,377

## 3.Real Estate Facilities

Activity in real estate facilities during the six months ended June 30, 2016 is as follows:

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	Six Months Ended June 30, 2016 (Amounts in thousands)
Operating facilities, at cost:	
Beginning balance	\$ 13,205,261
Capital expenditures to maintain real estate facilities	44,945
Acquisitions	185,150
Newly developed facilities opened for operation	136,989
Impact of foreign exchange rate changes	(1,685)
Ending balance	13,570,660
Accumulated depreciation:	
Beginning balance	(4,866,738)
Depreciation expense	(198,729)
Impact of foreign exchange rate changes	1,044
Ending balance	(5,064,423)
Construction in process:	
Beginning balance	219,190
Current development	145,902
Newly developed facilities opened for operation	(136,989)
Ending balance	228,103
Total real estate facilities at June 30, 2016	\$ 8,734,340

During the six months ended June 30, 2016, we acquired 24 self-storage facilities (1,703,000 net rentable square feet), for a total cost of \$197.6 million, consisting of \$184.7 million in cash and the assumption of \$12.9 million in mortgage debt. Approximately \$12.5 million of the total cost was allocated to intangible assets. We completed expansion and development activities during the six months ended June 30, 2016, adding 1,269,000 net rentable square feet of self-storage space, at an aggregate cost of \$137.0 million. Construction in process at June 30, 2016 consists of projects to develop new self-storage facilities and expand existing self-storage facilities, which would add a total of 4.9 million net rentable square feet of storage space, for an aggregate estimated cost of approximately \$630.7 million.

## 4. Investments in Unconsolidated Real Estate Entities

The following table sets forth our investments in, and equity earnings of, the Unconsolidated Real Estate Entities (amounts in thousands):

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	Investments in Unconsolidated Real Estate Entities at	
	June 30, 2016	December 31, 2015
PSB	\$ 407,954	\$ 414,450
Shurgard Europe	281,674	388,367
Other Investments (A)	6,441	6,491
Total	\$ 696,069	\$ 809,308

	Equity in Earnings of Unconsolidated Real Estate Entities for the			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
PSB	\$ 7,869	\$ 5,516	\$ 15,200	\$ 15,411
Shurgard Europe	1,706	1,355	7,942	7,091
Other Investments (A)	652	609	1,249	1,162
Total	\$ 10,227	\$ 7,480	\$ 24,391	\$ 23,664

(A) At June 30, 2016 and December 31, 2015, the "Other Investments" include an average 26% common equity ownership in limited partnerships that collectively own 12 self-storage facilities. In the six months ended June 30, 2016, we sold one of the Other Investments resulting in a \$0.7 million gain on real estate investment sales on our income statement.

During the six months ended June 30, 2016 and 2015, we received cash distributions from our investments in the Unconsolidated Real Estate Entities totaling \$128.0 million and \$16.4 million, respectively. For the six months ended June 30, 2016, \$67.4 million of the distributions received exceeded the retained earnings of the Unconsolidated Real Estate Entities and are presented as an investing activity on our statement of cash flows. At June 30, 2016, the cost of our investment in the Unconsolidated Real Estate Entities exceeds our pro rata share of the underlying equity by approximately \$59 million (\$62 million at December 31, 2015). This differential is being amortized as a reduction in equity in earnings of the Unconsolidated Real Estate Entities based upon allocations to the underlying net assets. Such amortization was approximately \$0.9 million and \$1.1 million during the six months ended June 30, 2016 and 2015, respectively.

Investment in PSB

PSB is a REIT traded on the New York Stock Exchange. We have an approximate 42% common equity interest in PSB as of June 30, 2016 and December 31, 2015, comprised of our ownership of 7,158,354 shares of PSB's common stock and 7,305,355 limited partnership units ("LP Units") in an operating partnership controlled by PSB. The LP Units are convertible at our option, subject to certain conditions, on a one-for-one basis into PSB common stock. Based upon the closing price at June 30, 2016 (\$106.08 per share of PSB common stock), the shares and units we owned had a market value of approximately \$1.5 billion.

The following table sets forth selected financial information of PSB. The amounts represent all of PSB's balances and not our pro-rata share.

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## NOTES TO FINANCIAL STATEMENTS

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	June 30, 2016	December 31, 2015
	(Amounts in thousands)	
Total assets (primarily real estate)	\$ 1,982,082	\$ 2,186,658
Debt	54,000	250,000
Other liabilities	74,335	76,059
Equity:		
Preferred stock	920,000	920,000
Common equity and LP units	933,747	940,599

	2016	2015
	(Amounts in thousands)	
For the six months ended June 30,		
Total revenue	\$ 192,191	\$ 185,543
Costs of operations	(61,644)	(61,803)
Depreciation and amortization	(50,255)	(53,258)
General and administrative	(9,012)	(6,896)
Other items	(4,877)	(6,409)
Gain on sale of facilities	-	12,487
Net income	66,403	69,664
Allocations to preferred shareholders and restricted share unitholders	(27,924)	(30,384)
Net income allocated to common shareholders and LP Unitholders	\$ 38,479	\$ 39,280

Investment in Shurgard Europe

For all periods presented, we had a 49% equity investment in Shurgard Europe and our joint venture partner owns the remaining 51% interest. Our equity in earnings of Shurgard Europe is comprised of our 49% share of Shurgard Europe's net income, plus 49% of the trademark license fees that Shurgard Europe pays to us for the use of the "Shurgard" trademark. The remaining 51% of the license fees paid to us are classified as interest and other income on our income statement.

Changes in foreign currency exchange rates caused our investment in Shurgard Europe to decrease by approximately \$8.7 million and \$12.6 million in the six months ended June 30, 2016 and 2015, respectively. Included in our equity in earnings of Shurgard Europe for the six months ended June 30, 2016, is an increase of \$0.9 million for the recognition of accumulated comprehensive income, representing a decrease to equity rather than an increase to investments in unconsolidated real estate entities.

The following table sets forth selected consolidated financial information of Shurgard Europe based upon all of Shurgard Europe's balances for all periods, rather than our pro rata share. Such amounts are based upon our historical acquired book basis.

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	June 30, 2016	December 31, 2015
	(Amounts in thousands)	
Total assets (primarily self-storage facilities)	\$ 1,355,170	\$ 1,476,632
Total debt to third parties	743,016	662,336
Other liabilities	123,451	110,522
Equity	488,703	703,774
Exchange rate of Euro to U.S. Dollar	1.110	1.091

	2016	2015
	(Amounts in thousands)	
For the six months ended June 30,		
Self-storage and ancillary revenues	\$ 125,546	\$ 112,683
Self-storage and ancillary cost of operations	(49,828)	(44,244)
Depreciation and amortization	(34,555)	(29,339)
General and administrative and income tax expense (a)	(12,656)	(9,987)
Interest expense on third party debt	(10,381)	(6,929)
Trademark license fee payable to Public Storage	(1,265)	(1,128)
Foreign exchange gain and other, net (b)	(1,919)	(7,713)
Net income	\$ 14,942	\$ 13,343
Average exchange rates of Euro to the U.S. Dollar	1.116	1.116

(a) Amounts include approximately \$5.7 million and \$3.4 million for the six months ended June 30, 2016 and 2015, respectively, in income tax expense.

(b) Amounts during the six months ended June 30, 2016 include a \$1.9 million foreign exchange gain on a repaid intercompany note between entities consolidated by Shurgard Europe, and amounts during the same period in 2015 include \$6.9 million in costs associated with the acquisition of real estate facilities.

## 5. Borrowings

### Credit Facility

We have a revolving credit agreement (the “Credit Facility”) with an aggregate borrowing limit totaling \$500 million, which expires on March 31, 2020. Amounts drawn on the Credit Facility bear annual interest at rates ranging from LIBOR plus 0.850% to LIBOR plus 1.450% depending upon the ratio of our Total Indebtedness to Gross Asset Value (as defined in the Credit Facility) (LIBOR plus 0.850% at June 30, 2016). In addition, we are required to pay a quarterly facility fee ranging from 0.080% per annum to 0.250% per annum depending upon the ratio of our Total Indebtedness to our Gross Asset Value (0.080% per annum at June 30, 2016). At June 30, 2016 and August 4, 2016, we had no outstanding borrowings under this Credit Facility. We had undrawn standby letters of credit, which reduce our borrowing capacity, totaling \$15.2 million at June 30, 2016 (\$14.9 million at December 31, 2015). The Credit Facility has various customary restrictive covenants, all of which we were in compliance with at June 30, 2016.

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## Senior Unsecured Notes

At June 30, 2016 and December 31, 2015, we had €342.0 million (\$379.8 million) and €242.0 million (\$263.9 million), respectively, of Euro-denominated senior unsecured notes payable to institutional investors (collectively, the “Senior Unsecured Notes”). The Senior Unsecured Notes consists of two tranches, (i) €242.0 million (2.175% fixed rate of interest) which matures in November 2025 and (ii) €100.0 million (1.54% fixed rate of interest), which was issued on April 12, 2016 for \$113.6 million in net proceeds upon converting the Euros to U.S. Dollars, which matures in April 2024. The fair value of our Senior Unsecured Notes was approximately \$395.0 million at June 30, 2016 (\$263.9 million at December 31, 2015).

We reflect changes in the U.S. Dollar equivalent of the amount payable, as a result of changes in foreign exchange rates as “foreign currency exchange gain (loss)” on our income statement (an \$8.6 million gain and a \$2.2 million loss for the three and six months ended June 30, 2016, respectively). The Senior Unsecured Notes have various customary financial covenants, all of which we were in compliance with at June 30, 2016.

## Mortgage Notes

During the six months ended June 30, 2016, we assumed mortgage debt with contractual values and interest rates of \$12.9 million and of 4.2%, respectively, which approximated market rates, in connection with the acquisition of real estate facilities.

The carrying amounts of our mortgage notes (the “Mortgage Notes”) at June 30, 2016 and December 31, 2015, totaled \$57.0 million and \$55.1 million, respectively, which approximates contractual note values and estimated fair values. These notes were assumed in connection with acquisitions of real estate facilities and recorded at fair value with any premium or discount to the stated note balance amortized using the effective interest method. At June 30, 2016, the notes are secured by 35 real estate facilities with a net book value of approximately \$181.0 million, have contractual interest rates between 2.9% and 7.1%, and mature between October 2016 and September 2028.

At June 30, 2016, approximate principal maturities of our Senior Unsecured Notes and Mortgage Notes are (amounts in thousands):

	Senior Unsecured Notes	Mortgage Notes	Total
Remainder of 2016	\$ -	\$ 18,236	\$ 18,236

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2017	-	9,434	9,434
2018	-	11,333	11,333
2019	-	1,505	1,505
2020	-	1,585	1,585
Thereafter	379,792	14,950	394,742
	\$ 379,792	\$ 57,043	\$ 436,835
Weighted average effective rate	2.0%	4.2%	2.3%

Cash paid for interest totaled \$4.7 million and \$1.5 million for the six months ended June 30, 2016 and 2015, respectively. Interest capitalized as real estate totaled \$2.6 million and \$1.2 million for the six months ended June 30, 2016 and 2015, respectively.

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## 6. Noncontrolling Interests

At June 30, 2016, the noncontrolling interests represent (i) third-party equity interests in subsidiaries owning 13 operating self-storage facilities and seven self-storage facilities that are under construction and (ii) 231,978 partnership units held by third-parties in a subsidiary that are convertible on a one-for-one basis (subject to certain limitations) into common shares of the Company at the option of the unitholder (collectively, the “Noncontrolling Interests”). At June 30, 2016, the Noncontrolling Interests cannot require us to redeem their interests, other than pursuant to a liquidation of the subsidiary. During the six months ended June 30, 2016 and 2015, we allocated a total of \$3.2 million and \$3.1 million, respectively, of income to these interests; and we paid \$3.6 million and \$3.2 million, respectively, in distributions to these interests.

During the six months ended June 30, 2016, Noncontrolling Interests contributed \$2.7 million (none during the six months ended June 30, 2015).

## 7. Shareholders' Equity

## Preferred Shares

At June 30, 2016 and December 31, 2015, we had the following series of Cumulative Preferred Shares (“Preferred Shares”) outstanding:

Series	Earliest Redemption Date	Dividend Rate	At June 30, 2016		At December 31, 2015	
			Shares Outstanding	Liquidation Preference	Shares Outstanding	Liquidation Preference
			(Dollar amounts in thousands)			
Series Q	4/14/2016	6.500%	-	\$ -	15,000	\$ 375,000
Series R	7/26/2016	6.350%	-	-	19,500	487,500
Series S	1/12/2017	5.900%	18,400	460,000	18,400	460,000
Series T	3/13/2017	5.750%	18,500	462,500	18,500	462,500
Series U	6/15/2017	5.625%	11,500	287,500	11,500	287,500
Series V	9/20/2017	5.375%	19,800	495,000	19,800	495,000
Series W	1/16/2018	5.200%	20,000	500,000	20,000	500,000
Series X	3/13/2018	5.200%	9,000	225,000	9,000	225,000
Series Y	3/17/2019	6.375%	11,400	285,000	11,400	285,000
Series Z	6/4/2019	6.000%	11,500	287,500	11,500	287,500
Series A	12/2/2019	5.875%	7,600	190,000	7,600	190,000
Series B	1/20/2021	5.400%	12,000	300,000	-	-
Series C	5/17/2021	5.125%	8,000	200,000	-	-
Total Preferred Shares			147,700	\$ 3,692,500	162,200	\$ 4,055,000

The holders of our Preferred Shares have general preference rights with respect to liquidation, quarterly distributions and any accumulated unpaid distributions. Except under certain conditions and as noted below, holders of the Preferred Shares will not be entitled to vote on most matters. In the event of a cumulative arrearage equal to six quarterly dividends, holders of all outstanding series of preferred shares (voting as a single class without regard to series) will have the right to elect two additional members to serve on our board



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of trustees (the "Board") until the arrearage has been cured. At June 30, 2016, there were no dividends in arrears.

Except under certain conditions relating to the Company's qualification as a REIT, the Preferred Shares are not redeemable prior to the dates indicated on the table above. On or after the respective dates, each of the series of Preferred Shares is redeemable at our option, in whole or in part, at \$25.00 per depositary share, plus accrued and unpaid dividends. Holders of the Preferred Shares cannot require us to redeem such shares.

Upon issuance of our Preferred Shares, we classify the liquidation value as preferred equity on our balance sheet with any issuance costs recorded as a reduction to paid-in capital.

In March 2015, we called for redemption of, and on April 15, 2015, we redeemed our 6.875% Series O Preferred Shares, at par. We recorded a \$4.8 million EITF D-42 allocation of income from our common shareholders to the holders of our Preferred Shares in the six months ended June 30, 2015 in connection with this redemption.

On January 20, 2016, we issued 12.0 million depositary shares, each representing 1/1,000 of a share of our 5.40% Series B Preferred Shares, at an issuance price of \$25.00 per depositary share, for a total of \$300.0 million in gross proceeds, and we incurred \$9.9 million in issuance costs.

On May 17, 2016, we issued 8.0 million depositary shares, each representing 1/1,000 of a share of our 5.125% Series C Preferred Shares, at an issuance price of \$25.00 per depositary share, for a total of \$200.0 million in gross proceeds, and we incurred \$6.4 million in issuance costs.

In March 2016, we called for redemption of, and on April 15, 2016, we redeemed our 6.500% Series Q Preferred Shares, at par. We recorded a \$11.3 million allocation of income from our common shareholders to the holders of our Preferred Shares in the six months ended June 30, 2016 in connection with this redemption.

In June 2016, we called for redemption of, and on July 26, 2016, we redeemed our 6.350% Series R Preferred Shares, at par. The liquidation value (at par) of \$487.5 million was reclassified as a liability at June 30, 2016. We recorded a \$15.5 million allocation of income from our common shareholders to the holders of our Preferred Shares in the three and six months ended June 30, 2016 in connection with this redemption.

#### Distributions

Common share dividends, including amounts paid to our restricted share unitholders, totaled \$312.5 million (\$1.80 per share) and \$294.3 million (\$1.70 per share) for the three months ended June 30, 2016 and 2015, respectively, and \$607.6 million (\$3.50 per share) and \$536.6 million (\$3.10 per share) for the six months ended June 30, 2016 and 2015, respectively. Preferred share dividends totaled \$59.2 million and \$61.4 million for the three months ended June 30, 2016 and 2015, respectively, and \$121.5 million and \$125.0 million for the six months ended June 30, 2016 and 2015, respectively.

8.Related Party Transactions

B. Wayne Hughes, our former Chairman and his family, including his daughter Tamara Hughes Gustavson and his son B. Wayne Hughes, Jr., who are both members of our Board of Trustees, collectively own approximately 14.3% of our common shares outstanding at June 30, 2016.

At June 30, 2016, B. Wayne Hughes and Tamara Hughes Gustavson together owned and controlled 56 self-storage facilities in Canada. These facilities operate under the “Public Storage” tradename, which we license to the owners of these facilities for use in Canada on a royalty-free, non-exclusive basis. Our

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subsidiaries reinsure risks relating to loss of goods stored by customers in these facilities, and have received approximately \$0.3 million and \$0.2 million for the six months ended June 30, 2016 and 2015, respectively. Our right to continue receiving these premiums may be qualified. We have no ownership interest in these facilities and we do not own or operate any facilities in Canada. If we chose to acquire or develop our own facilities in Canada, we would have to share the use of the “Public Storage” name in Canada with the facilities’ owners. We have a right of first refusal, subject to limitations, to acquire the stock or assets of the corporation engaged in the operation of these facilities (“PS Canada”) if their owners agree to sell them.

### 9.Share-Based Compensation

Under various share-based compensation plans and under terms established by our Board of Trustees or a committee thereof, we grant non-qualified options to purchase the Company’s common shares, as well as restricted share units (“RSUs”), to trustees, officers, and key employees.

Stock options and RSUs are considered “granted” and “outstanding” as the terms are used herein, when (i) the Company and the recipient reach a mutual understanding of the key terms of the award, (ii) the award has been authorized, (iii) the recipient is affected by changes in the market price of our stock, and (iv) it is probable that any performance and service conditions will be met.

As noted under “Recent Accounting Pronouncements and Guidance” in Note 2, we have elected to account for forfeitures of share-based payments as they occur, rather than estimating them in advance. Accordingly, we recorded a cumulative-effect adjustment of \$0.8 million to increase accumulated deficit and increase paid-in capital as of January 1, 2016, representing the impact of estimated forfeitures on our cumulative share-based compensation expense recorded through December 31, 2015.

We amortize the grant-date fair value of awards as compensation expense over the service period, which begins on the grant date and ends on the vesting date. For awards that are earned solely upon the passage of time and continued service, the entire cost of the award is amortized on a straight-line basis over the service period. For awards with performance conditions, the individual cost of each vesting is amortized separately over each individual service period (the “accelerated attribution” method).

See also “net income per common share” in Note 2 for further discussion regarding the impact of RSUs and stock options on our net income per common share and income allocated to common shareholders.

### Stock Options

Stock options vest over a three to five-year period, expire ten years after the grant date, and the exercise price is equal to the closing trading price of our common shares on the grant date. Employees cannot require the Company to settle their award in cash. We use the Black-Scholes option valuation model to estimate the fair value of our stock options.

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Outstanding stock option grants are included on a one-for-one basis in our diluted weighted average shares, to the extent dilutive, after applying the treasury stock method (based upon the average common share price during the period) to assumed exercise proceeds and measured but unrecognized compensation.

For the three and six months ended June 30, 2016, we recorded \$1.0 million and \$1.9 million, respectively, in compensation expense related to stock options, as compared to \$0.8 million and \$1.5 million, for the same periods in 2015.

During the six months ended June 30, 2016, 235,000 stock options were granted, 95,344 options were

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exercised and no options were forfeited. A total of 2,079,935 stock options were outstanding at June 30, 2016 (1,940,279 at December 31, 2015).

Restricted Share Units

RSUs generally vest ratably over a five to eight-year period from the grant date. The grantee receives dividends for each outstanding RSU equal to the per-share dividends received by our common shareholders. We expense any dividends previously paid upon forfeiture of the related RSU. Upon vesting, the grantee receives common shares equal to the number of vested RSUs, less common shares withheld in exchange for tax deposits made by the Company to satisfy the grantee's statutory tax liabilities arising from the vesting.

The fair value of our RSUs is determined based upon the applicable closing trading price of our common shares.

During the six months ended June 30, 2016, 129,624 RSUs were granted, 12,132 RSUs were forfeited and 134,763 RSUs vested. This vesting resulted in the issuance of 81,430 common shares. In addition, tax deposits totaling \$13.3 million (\$13.6 million for the same period in 2015) were made on behalf of employees in exchange for 53,333 common shares withheld upon vesting. RSUs outstanding at June 30, 2016 and December 31, 2015 were 720,117 and 737,388, respectively.

A total of \$7.5 million and \$14.5 million in RSU expense was recorded for the three and six months ended June 30, 2016, which includes approximately \$0.1 million and \$1.0 million, respectively, in employer taxes incurred upon vesting, as compared to \$6.6 million and \$13.0 million for the same periods in 2015, which includes approximately \$0.1 million and \$1.0 million, respectively, in employer taxes incurred upon vesting.

10. Segment Information

Our reportable segments reflect the significant components of our operations where discrete financial information is evaluated separately by our chief operating decision maker ("CODM"). We organize our segments based primarily upon the nature of the underlying products and services, as well as the drivers of profitability growth. The net income for each reportable segment included in the tables below are in conformity with GAAP and our significant accounting policies as denoted in Note 2. The amounts not attributable to reportable segments are aggregated under "other items not allocated to segments."

We have adjusted the classification of the "Presentation of Segment Information" below with respect to prior periods to be consistent with our current reportable segment definition, as described more fully in Note 2. Following is a description of and basis for presentation for each of our reportable segments.

Self-Storage Operations

The Self-Storage Operations segment reflects the rental operations from all self-storage facilities owned by the Company and the Subsidiaries. Our CODM reviews the net operating income ("NOI") of this segment, which

represents the related revenues less cost of operations (prior to depreciation expense), in assessing performance and making resource allocation decisions. The presentation in the tables below sets forth the NOI of this segment, as well as the depreciation expense for this segment, which while reviewed by our CODM and included in net income, is not considered by the CODM in assessing performance and decision making. For all periods presented, substantially all of our real estate facilities, goodwill and other intangible assets, other assets, and accrued and other liabilities are associated with the Self-Storage Operations segment.

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(Unaudited)

Ancillary Operations

The Ancillary Operations segment reflects the sale of merchandise and reinsurance of policies against losses to goods stored by our self-storage tenants, activities which are incidental to our primary self-storage rental activities. Our CODM reviews the NOI of these operations in assessing performance and making resource allocation decisions.

Investment in PSB

This segment represents our 42% equity interest in PSB, a publicly-traded REIT that owns, operates, acquires and develops commercial properties, primarily multi-tenant flex, office, and industrial space. PSB has a separate management team that makes its financing, capital allocation, and other significant decisions. In making resource allocation decisions with respect to our investment in PSB, the CODM reviews PSB's net income, which is detailed in PSB's periodic filings with the United States Securities and Exchange Commission ("SEC"), and as included in Note 4. The segment presentation in the tables below includes our equity earnings from PSB.

Investment in Shurgard Europe

This segment represents our 49% equity interest in Shurgard Europe, which owns and operates self-storage facilities located in seven countries in Western Europe. Shurgard Europe has a separate management team reporting to our CODM and our joint venture partner. In making resource allocation decisions with respect to our investment in Shurgard Europe, the CODM reviews Shurgard Europe's net income, which is detailed in Note 4. The segment presentation below includes our equity earnings from Shurgard Europe.

Presentation of Segment Information

The following tables reconcile NOI (as applicable) and net income of each segment to our consolidated net income (amounts in thousands):

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## PUBLIC STORAGE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(Unaudited)

Three months ended June 30, 2016

	Self-Storage Operations (Amounts in thousands)	Ancillary Operations	Investment in PSB	Investment in Shurgard Europe	Other Items Not Allocated to Segments	Total
Revenues:						
Self-storage operations	\$ 594,387	\$ -	\$ -	\$ -	\$ -	\$ 594,387
Ancillary operations	-	39,801	-	-	-	39,801
	594,387	39,801	-	-	-	634,188
Cost of operations:						
Self-storage operations	157,687	-	-	-	-	157,687
Ancillary operations	-	14,317	-	-	-	14,317
	157,687	14,317	-	-	-	172,004
Net operating income:						
Self-storage operations	436,700	-	-	-	-	436,700
Ancillary operations	-	25,484	-	-	-	25,484
	436,700	25,484	-	-	-	462,184
Other components of net income (loss):						
Depreciation and amortization	(107,013)	-	-	-	-	(107,013)
General and administrative	-	-	-	-	(18,321)	(18,321)
Interest and other income	-	-	-	-	4,028	4,028
Interest expense	-	-	-	-	(1,378)	(1,378)
Equity in earnings of						



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unconsolidated real estate entities	-	-	7,869	1,706	652	10,227
Foreign currency exchange gain	-	-	-	-	8,632	8,632
Net income (loss)	\$ 329,687	\$ 25,484	\$ 7,869	\$ 1,706	\$ (6,387)	\$ 358,359

## PUBLIC STORAGE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(Unaudited)

Three months ended June 30, 2015

	Self-Storage Operations (Amounts in thousands)	Ancillary Operations	Investment in PSB	Investment in Shurgard Europe	Other Items Not Allocated to Segments	Total
<b>Revenues:</b>						
Self-storage operations	\$ 551,028	\$ -	\$ -	\$ -	\$ -	\$ 551,028
Ancillary operations	-	37,587	-	-	-	37,587
	551,028	37,587	-	-	-	588,615
<b>Cost of operations:</b>						
Self-storage operations	147,826	-	-	-	-	147,826
Ancillary operations	-	13,271	-	-	-	13,271
	147,826	13,271	-	-	-	161,097
<b>Net operating income:</b>						
Self-storage operations	403,202	-	-	-	-	403,202
Ancillary operations	-	24,316	-	-	-	24,316
	403,202	24,316	-	-	-	427,518
<b>Other components of net income (loss):</b>						
Depreciation and amortization	(106,473)	-	-	-	-	(106,473)
General and administrative	-	-	-	-	(20,988)	(20,988)
Interest and other income	-	-	-	-	3,815	3,815
Equity in earnings of unconsolidated real estate entities	-	-	5,516	1,355	609	7,480
Gain on real estate investment sales	-	-	-	-	16,688	16,688
Net income	\$ 296,729	\$ 24,316	\$ 5,516	\$ 1,355	\$ 124	\$ 328,040

## PUBLIC STORAGE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(Unaudited)

Six months ended June 30, 2016

	Self-Storage Operations	Ancillary Operations	Investment in PSB	Investment in Shurgard Europe	Other Items Not Allocated to Segments	Total
(Amounts in thousands)						
Revenues:						
Self-storage operations	\$ 1,168,973	\$ -	\$ -	\$ -	\$ -	\$ 1,168,973
Ancillary operations	-	77,001	-	-	-	77,001
	1,168,973	77,001	-	-	-	1,245,974
Cost of operations:						
Self-storage operations	317,550	-	-	-	-	317,550
Ancillary operations	-	27,740	-	-	-	27,740
	317,550	27,740	-	-	-	345,290
Net operating income:						
Self-storage operations	851,423	-	-	-	-	851,423
Ancillary operations	-	49,261	-	-	-	49,261
	851,423	49,261	-	-	-	900,684
Other components of net income (loss):						
Depreciation and amortization	(212,141)	-	-	-	-	(212,141)
General and administrative	-	-	-	-	(41,368)	(41,368)
Interest and other income	-	-	-	-	7,864	7,864
Interest expense	-	-	-	-	(2,089)	(2,089)
Equity in earnings of unconsolidated real estate entities	-	-	15,200	7,942	1,249	24,391
Foreign currency exchange loss	-	-	-	-	(2,322)	(2,322)
Gain on real estate investment sales	-	-	-	-	689	689
Net income (loss)	\$ 639,282	\$ 49,261	\$ 15,200	\$ 7,942	\$ (35,977)	\$ 675,708

## PUBLIC STORAGE

## NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(Unaudited)

Six months ended June 30, 2015

	Self-Storage Operations	Ancillary Operations	Investment in PSB	Investment in Shurgard Europe	Other Items Not Allocated to Segments	Total
(Amounts in thousands)						
Revenues:						
Self-storage operations	\$ 1,081,665	\$ -	\$ -	\$ -	\$ -	\$ 1,081,665
Ancillary operations	-	71,829	-	-	-	71,829
	1,081,665	71,829	-	-	-	1,153,494
Cost of operations:						
Self-storage operations	309,068	-	-	-	-	309,068
Ancillary operations	-	24,041	-	-	-	24,041
	309,068	24,041	-	-	-	333,109
Net operating income:						
Self-storage operations	772,597	-	-	-	-	772,597
Ancillary operations	-	47,788	-	-	-	47,788
	772,597	47,788	-	-	-	820,385
Other components of net income (loss):						
Depreciation and amortization	(213,619)	-	-	-	-	(213,619)
General and administrative	-	-	-	-	(45,148)	(45,148)
Interest and other income	-	-	-	-	7,852	7,852
Equity in earnings of unconsolidated real estate entities	-	-	15,411	7,091	1,162	23,664
Gain on real estate investment sales	-	-	-	-	18,160	18,160
Net income (loss)	\$ 558,978	\$ 47,788	\$ 15,411	\$ 7,091	\$ (17,974)	\$ 611,294



PUBLIC STORAGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

(Unaudited)

11. Commitments and Contingencies

Contingent Losses

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.

Insurance and Loss Exposure

We have historically carried customary property, earthquake, general liability, employee medical insurance and workers compensation coverage through internationally recognized insurance carriers, subject to deductibles. Deductibles for property and general liability are \$25 million and \$2 million, respectively, per occurrence. The aggregate limits on these policies of \$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 exceeded.

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. We are subject to licensing requirements and regulations in several states. At June 30, 2016, there were approximately 923,000 certificates held by our self-storage customers, representing aggregate coverage of approximately \$2.7 billion.

12. Subsequent Events

On July 20, 2016, we issued 13.0 million depositary shares, each representing 1/1,000 of a share of our 4.95% Series D Preferred Shares, at an issuance price of \$25.00 per depositary share, for a total of \$325.0 million in gross proceeds, and we incurred \$10.6 million in issuance costs.

Subsequent to June 30, 2016, we acquired or were under contract to acquire 21 self-storage facilities (eleven in Oklahoma, four in Kentucky, two in Ohio, and one each in Georgia, Colorado, Michigan and Utah), with 1.7 million net rentable square feet, for \$169.4 million.



## ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Forward Looking Statements

This Quarterly Report on Form 10-Q 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 Part 1, Item 1A, "Risk Factors" and in our most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission (the "SEC") on February 29, 2016 and in our other filings with the SEC and the following:

- 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, changes in tax laws, 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, our tenant reinsurance business and labor, and risks related to the impact of new laws and regulations;
- risks of increased tax expense associated either with a possible failure by us to qualify as a REIT, or with challenges to the determination of taxable income for our taxable REIT subsidiaries;
- changes in federal or state tax laws related to the taxation of REITs and other corporations;
- security breaches or a failure of our networks, systems or technology could adversely impact our business, customer and employee relationships;
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- 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;

- delays in the development process;
- ongoing litigation and other legal and regulatory actions which may divert management's time and attention, require us to pay damages and expenses or restrict the operation of our business; and
- economic uncertainty due to the impact of war or terrorism.

These forward-looking statements speak only as of the date of this report. 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 this report, except where expressly 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.

### Critical Accounting Policies

Our financial statements have been prepared in accordance with United States ("U.S.") generally accepted accounting principles ("GAAP") and are affected by our judgments, assumptions and estimates. The notes to our June 30, 2016 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 REIT, as defined in the Internal Revenue Code of 1986, as amended (the "Code"). As a REIT, we do not incur federal income tax on our REIT taxable income 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 not be reasonable when compared to 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

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incorrect or we may not be aware of all such liabilities, in which case our accrued liabilities and net income could be misstated.

Accounting for acquired real estate facilities: We estimate the fair values of the land, buildings and intangible assets acquired for purposes of allocating the purchase price. Such estimates are based upon many assumptions and judgments, including (i) market rates of return and capitalization rates on real estate and intangible assets, (ii) building and material cost levels, (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.

#### Overview

Our self-storage operations generated most of our net income for all periods presented. Accordingly, a significant portion of management's 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.

We plan on growing our business organically, as well as through acquisition and development of additional facilities. During 2015, 2014 and 2013, we acquired a total of 182 facilities from third parties for approximately \$1.8 billion. During the six months ended June 30, 2016, we acquired 24 self-storage facilities for \$197.6 million. Subsequent to June 30, 2016, we acquired or were under contract to acquire 21 self-storage facilities for \$169.4 million. We will continue to seek to acquire properties; however, there is significant competition to acquire existing facilities and there can be no assurance as to the level of facilities we may acquire.

Since the beginning of 2013, we have opened development and expansion projects with a total cost of \$443.9 million, adding approximately 4.2 million net rentable square feet. As of June 30, 2016, we had additional projects which will add approximately 4.9 million net rentable square feet of storage space at a total cost of approximately \$630.7 million. A total of \$228.1 million in costs were incurred through June 30, 2016 with respect to these projects, with the remaining costs expected to be incurred primarily in the next 18 months. 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 believe that our real estate development activities are beneficial to our business operations over the long run. However, in the short run, due to the three to four year period that it takes to fill up newly developed storage space and achieve a stabilized level of cash flows, our earnings are diluted because earnings from those newly developed and expanded facilities are less than the cost of the capital required in order to fund the development cost. We believe that this dilution will grow in the remainder of 2016 and beyond due to the increasing level of development and unstabilized properties in our portfolio.

We also have equity investments in Shurgard Europe and PS Business Parks, Inc. ("PSB"). We may make further investments in these companies.

As of June 30, 2016, our capital resources over the next year are expected to be approximately \$1.4 billion which exceeds our current planned capital needs over the next year of approximately \$1.1 billion. Our capital resources include: (i) \$260.1 million of cash as of June 30, 2016, (ii) \$484.8 million of available borrowing capacity on our revolving line of credit, (iii) \$300.0 million to \$350.0 million of expected retained operating cash flow for the next twelve months, and (iv) \$314.4 million of net proceeds from the issuance of our Series D Preferred Shares on July 20, 2016. Retained operating cash flow represents our expected cash flow provided by operating activities, less shareholder distributions and capital expenditures to maintain real estate facilities.

Our planned capital needs over the next year consist of (i) \$402.6 million of remaining spend on our current development pipeline, (ii) \$169.4 million in property acquisitions currently under contract, (iii) \$26.7 million in principal repayments on existing debt, and (iv) \$487.5 million for the redemption of our Series R Preferred Shares on July 26, 2016. Our capital needs may increase significantly over the next year as we expect to increase our development pipeline and acquire additional properties.

See Liquidity and Capital Resources for further information regarding our capital requirements and anticipated sources of capital to fund such requirements.

## Results of Operations

### Operating results for the Three and Six Months Ended June 30, 2016 and 2015

For the three months ended June 30, 2016, net income allocable to our common shareholders was \$280.8 million or \$1.61 per diluted common share, compared to \$263.9 million or \$1.52 in 2015 representing an increase of \$16.9 million or \$0.09. The increase is primarily due to (i) a \$33.5 million increase in self-storage net operating income (described below) and (ii) an \$8.6 million foreign exchange translation gain associated with our euro denominated debt, partially offset by (iii) a \$15.5 million allocation to our preferred shareholders as a result of redemption activities during the three months ended June 30, 2016 and (iv) \$16.7 million in gains on sale of real estate investments recorded in the three months ended June 30, 2015.

The \$33.5 million increase in self-storage net operating income is a result of a \$23.9 million increase in our Same Store Facilities (as defined below) and a \$9.6 million increase in our Non Same Store Facilities (as defined below). Revenues for the Same Store Facilities increased 6.0% or \$29.4 million in the three months ended June 30, 2016 as compared to 2015, due primarily to higher realized annual rent per occupied square foot. Cost of operations for the Same Store Facilities increased by 4.2% or \$5.5 million in the three months ended June 30, 2016 as compared to 2015, due primarily to increased property taxes, repairs and maintenance and payroll. The increase in net operating income for the Non Same Store Facilities is due primarily to the impact of 296 self-storage facilities acquired, developed or expanded since January 2013.

For the six months ended June 30, 2016, net income allocable to our common shareholders was \$522.1 million or \$3.00 per diluted common share, compared to \$476.5 million or \$2.75 in 2015 representing an increase of \$45.6 million or \$0.25. The increase is primarily due to (i) a \$78.8 million increase in self-storage net operating income offset partially by (ii) a \$22.1 million increase in allocation to our preferred shareholders as a result of redemption activities and (iii) a \$17.5 million reduction in gains on sales of real estate investments.

The \$78.8 million increase in self-storage net operating income is a result of a \$58.4 million increase in our Same Store Facilities and a \$20.4 million increase in our Non Same Store Facilities. Revenues for the Same Store Facilities increased 6.2% or \$60.1 million in the six months ended June 30, 2016 as compared to 2015, due primarily to higher realized annual rent per occupied square foot. Cost of operations for the Same Store Facilities increased by 0.6% or \$1.7 million in the six months ended June 30, 2016 as compared to 2015, due primarily to increased property taxes, repairs and maintenance, and payroll, offset partially by lower snow removal, utilities and advertising and selling expense. The increase in net operating income for the Non Same Store Facilities is due primarily to the impact of 296 self-storage facilities acquired, developed or expanded since January 2013.

### Funds from Operations and Core Funds from Operations

Funds from Operations (“FFO”) and FFO per share are non-GAAP measures defined by the National Association of Real Estate Investment Trusts and are considered helpful measures of REIT performance by REITs and many REIT

analysts. FFO represents net income before real estate depreciation, gains and losses, and impairment charges, which are excluded because they are based upon historical real estate costs and assume that building values diminish ratably over time, while we believe that real estate values fluctuate due to market conditions. FFO and FFO per share are not a substitute for net income or earnings per share. FFO is not a substitute for GAAP net cash flow in evaluating our liquidity or ability to pay dividends, because it excludes financing

activities presented on our statements of cash flows. In addition, other REITs may compute these measures differently, so comparisons among REITs may not be helpful.

For the three months ended June 30, 2016, FFO was \$2.34 per diluted common share, as compared to \$2.15 for the same period in 2015, representing an increase of 8.8%, or \$0.19 per diluted common share.

For the six months ended June 30, 2016, FFO was \$4.43 per diluted common share, as compared to \$4.06 for the same period in 2015, representing an increase of 9.1%, or \$0.37 per diluted common share.

The following tables reconcile diluted earnings per share to FFO per share and set forth the computation of FFO per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(Amounts in thousands, except per share data)			
<b>Reconciliation of Diluted Earnings per Share to FFO per Share:</b>				
Diluted Earnings per Share	\$ 1.61	\$ 1.52	\$ 3.00	\$ 2.75
Eliminate amounts per share excluded from FFO:				
Depreciation and amortization, including amounts from investments and excluding amounts allocated to noncontrolling interests and restricted share unitholders	0.72	0.72	1.43	1.44
Gains on sale of real estate investments, including our equity share from investments, and other	0.01	(0.09)	-	(0.13)
FFO per share	\$ 2.34	\$ 2.15	\$ 4.43	\$ 4.06
<b>Computation of FFO per Share:</b>				
Net income allocable to common shareholders	\$ 280,775	\$ 263,926	\$ 522,110	\$ 476,539
Eliminate items excluded from FFO:				
Depreciation and amortization	107,013	106,473	212,141	213,619
Depreciation from unconsolidated real estate investments	19,454	19,035	38,991	37,816
Depreciation allocated to noncontrolling interests and restricted share unitholders	(876)	(828)	(1,758)	(1,755)
Gains on sale of real estate investments, including our equity share from investments, and other	-	(16,625)	(689)	(23,103)
FFO allocable to common shares	\$ 406,366	\$ 371,981	\$ 770,795	\$ 703,116
Diluted weighted average common shares	174,000	173,387	173,925	173,377
FFO per share	\$ 2.34	\$ 2.15	\$ 4.43	\$ 4.06

We also present "Core FFO per share," a non-GAAP measure that represents FFO per share excluding the impact of (i) foreign currency exchange gains and losses, (ii) EITF D-42 charges related to the redemption of preferred securities, (iii) general and administrative expenses associated with the acquisition of self-storage facilities and (iv) certain other



noncash and/or nonrecurring income or expense items. We review Core FFO per share to evaluate our ongoing operating performance, and we believe it is used by investors and REIT analysts in a similar manner. However, Core FFO per share is not a substitute for net income per share. Because other REITs may not compute Core FFO per share in the same manner as we do, may not use the same terminology or may not present such a measure, Core FFO per share may not be comparable among REITs.

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

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	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Percentage Change	2016	2015	Percentage Change
FFO per share	\$ 2.34	\$ 2.15	8.8%	\$ 4.43	\$ 4.06	9.1%
Eliminate the per share impact of items excluded from Core FFO:						
Foreign currency exchange (gain) loss, net, including our equity share from investments	(0.04)	-		0.01	-	
Application of EITF D-42	0.09	-		0.15	0.03	
Property acquisition costs	-	0.02		-	0.02	
Other items	0.01	-		0.02	-	
Core FFO per share	\$ 2.40	\$ 2.17	10.6%	\$ 4.61	\$ 4.11	12.2%
Analysis of Net Income by Reportable Segment						

The following discussion and analysis is presented and organized in accordance with Note 10 to our June 30, 2016 financial statements, "Segment Information." Accordingly, refer to the tables presented in Note 10 in order to reconcile such amounts to our total net income and for further information on our reportable segments.

#### Self-Storage Operations

Our self-storage operations are analyzed in two groups: (i) the 2,003 facilities that we have owned and operated on a stabilized basis since January 1, 2014 (the “Same Store Facilities”), and (ii) all other facilities, which are newly acquired, newly developed, or recently expanded (the “Non Same Store Facilities”). See Note 10 to our June 30, 2016 financial statements “Segment Information,” for a reconciliation of the amounts in the tables below to our total net income.

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Self-Storage Operations  
Summary

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Percentage Change	2016	2015	Percentage Change
(Dollar amounts in thousands)						
<b>Revenues:</b>						
Same Store Facilities	\$ 521,316	\$ 491,941	6.0%	\$ 1,027,452	\$ 967,368	6.2%
Non Same Store Facilities	73,071	59,087	23.7%	141,521	114,297	23.8%
	594,387	551,028	7.9%	1,168,973	1,081,665	8.1%
<b>Cost of operations:</b>						
Same Store Facilities	136,037	130,536	4.2%	275,850	274,157	0.6%
Non Same Store Facilities	21,650	17,290	25.2%	41,700	34,911	19.4%
	157,687	147,826	6.7%	317,550	309,068	2.7%
<b>Net operating income (a):</b>						
Same Store Facilities	385,279	361,405	6.6%	751,602	693,211	8.4%
Non Same Store Facilities	51,421	41,797	23.0%	99,821	79,386	25.7%
Total net operating income	436,700	403,202	8.3%	851,423	772,597	10.2%
<b>Depreciation and amortization expense:</b>						
Same Store Facilities	(81,889)	(83,418)	(1.8)%	(163,534)	(166,372)	(1.7)%
Non Same Store Facilities	(25,124)	(23,055)	9.0%	(48,607)	(47,247)	2.9%
Total depreciation and amortization expense	(107,013)	(106,473)	0.5%	(212,141)	(213,619)	(0.7)%
<b>Net income:</b>						
Same Store Facilities	303,390	277,987	9.1%	588,068	526,839	11.6%
Non Same Store Facilities	26,297	18,742	40.3%	51,214	32,139	59.4%
Total net income	\$ 329,687	\$ 296,729	11.1%	\$ 639,282	\$ 558,978	14.4%
<b>Number of facilities at period end:</b>						
Same Store Facilities				2,003	2,003	-
Non Same Store Facilities				296	247	19.8%
<b>Net rentable square footage at period end (in thousands):</b>						
Same Store Facilities				127,546	127,546	-
Non Same Store Facilities				22,788	18,337	24.3%

(a) Net operating income or “NOI” is a non-GAAP financial measure that excludes the impact of depreciation and amortization expense, which is based upon historical real estate costs and assumes that building values diminish ratably over time, while we believe that real estate values fluctuate due to market conditions. We utilize NOI in determining current property values, evaluating property performance, and in evaluating operating trends. We believe that investors and analysts utilize NOI in a similar manner. NOI is not a substitute for net income, net operating cash flow, or other related GAAP financial measures, in evaluating our operating results. See Note 10 to

our June 30, 2016 financial statements for a reconciliation of NOI to our total net income for all periods presented.

Net operating income from our self-storage operations has increased 8.3% and 10.2% in the three and six months ended June 30, 2016, respectively, as compared to the same periods in 2015. These increases are due to higher revenues in our Same Store Facilities, as well as the acquisition of new facilities and the fill-up of unstabilized facilities.

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## Same Store Facilities

The Same Store Facilities represent those facilities that have been owned and operated on a stabilized level of occupancy, revenues and cost of operations since January 1, 2014. We review the operations of our Same Store Facilities, which excludes facilities whose operating trends are significantly affected by factors such as facilities damaged by casualty events, as well as recently developed or acquired facilities, to more effectively evaluate the ongoing performance of our self-storage portfolio in 2014, 2015, and 2016. We believe the Same Store information is used by investors and analysts in a similar manner. The Same Store pool decreased from the 2,007 facilities at March 31, 2016 to 2,003 facilities at June 30, 2016 due primarily to flooding at certain properties in our Houston market. The following table summarizes the historical operating results of these 2,003 facilities (127.5 million net rentable square feet) that represent approximately 85% of the aggregate net rentable square feet of our U.S. consolidated self-storage portfolio at June 30, 2016.

## Selected Operating Data for the Same Store Facilities (2,003 facilities)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Percentage Change	2016	2015	Percentage Change
	(Dollar amounts in thousands, except weighted average amounts)					
<b>Revenues:</b>						
Rental income	\$ 498,172	\$ 469,725	6.1%	\$ 980,593	\$ 922,998	6.2%
Late charges and administrative fees	23,144	22,216	4.2%	46,859	44,370	5.6%
Total revenues (a)	521,316	491,941	6.0%	1,027,452	967,368	6.2%
<b>Cost of operations:</b>						
Property taxes	52,940	50,404	5.0%	105,776	101,014	4.7%
On-site property manager payroll	27,058	25,419	6.4%	54,159	52,527	3.1%
Supervisory payroll	9,478	9,074	4.5%	18,616	18,151	2.6%
Repairs and maintenance	10,324	9,044	14.2%	21,456	25,267	(15.1)%
Utilities	8,684	9,270	(6.3)%	18,736	19,932	(6.0)%
Advertising and selling expense	5,563	5,553	0.2%	10,655	11,758	(9.4)%
Other direct property costs	13,476	13,418	0.4%	27,137	26,515	2.3%
Allocated overhead	8,514	8,354	1.9%	19,315	18,993	1.7%
Total cost of operations (a)	136,037	130,536	4.2%	275,850	274,157	0.6%
Net operating income	385,279	361,405	6.6%	751,602	693,211	8.4%
Depreciation and amortization expense	(81,889)	(83,418)	(1.8)%	(163,534)	(166,372)	(1.7)%
Net income	\$ 303,390	\$ 277,987	9.1%	\$ 588,068	\$ 526,839	11.6%

Gross margin (before depreciation)

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and amortization expense)	73.9%	73.5%	0.5%	73.2%	71.7%	2.1%
Weighted average for the period:						
Square foot occupancy	95.3%	95.4%	(0.1)%	94.5%	94.4%	0.1%
Realized annual rental income per (b):						
Occupied square foot	\$ 16.39	\$ 15.45	6.1%	\$ 16.28	\$ 15.34	6.1%
Available square foot	\$ 15.62	\$ 14.73	6.0%	\$ 15.38	\$ 14.47	6.3%
At June 30:						
Square foot occupancy				95.2%	95.7%	(0.5)%
Annual contract rent per occupied square foot (c)				\$ 17.13	\$ 16.26	5.4%

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- (a) Revenues and cost of operations do not include tenant reinsurance and merchandise sale revenues and expenses generated at the facilities.
- (b) Realized annual rent per occupied square foot is computed by dividing 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 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.
- (c) Annual contract rent represents the applicable annualized contractual monthly rent charged to our tenants, excluding the impact of bad debt expense, promotional discounts, late charges and administrative fees.

#### Analysis of Same Store Revenue

Revenues generated by our Same Store Facilities increased by 6.0% and 6.2% in the three and six months ended June 30, 2016, respectively, as compared to the same periods in 2015 due primarily to a 6.1% increase in each of the respective periods in realized annual rental income per occupied square foot. The increase in realized annual rental income per occupied square foot was due primarily to annual rent increases given to existing tenants and, to a lesser extent, increased move-in rental rates.

Same Store weighted average square foot occupancy remained essentially flat at 95.3% and 94.5% for the three and six months ended June 30, 2016 as compared to the same periods in 2015. At June 30, 2016, occupancy was 0.5% lower than at the same time in 2015. We do not expect any significant impact from occupancy changes in the near term because we believe we are near limitations to occupancy levels inherent with approximately 5% to 7% of our tenant base vacating each month without notice.

We believe that high occupancies help maximize our rental income. We seek to maintain a weighted average square foot occupancy level of at least 90%, by regularly adjusting the rental rates and promotions offered to attract new tenants as well as adjusting our marketing efforts on both television and the Internet in order to generate sufficient move-in volume to replace tenants 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 tenants are typically higher in the summer months than in the winter months.

Increasing rental rates to existing tenants, 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 continue to pass similar rent increases to long-term tenants in the remainder of 2016 as we did the same periods in 2015.

During the three months ended June 30, 2016 and 2015, the average annualized contractual rates per occupied square foot for tenants that moved in were \$15.38 and \$14.87, respectively, and for tenants that vacated were \$15.38 and \$14.64, respectively. During the six months ended June 30, 2016 and 2015, the average annualized contractual rates per occupied square foot for tenants that moved in were \$14.72 and \$14.25, respectively, and for tenants that vacated were \$15.31 and \$14.58, respectively. Realized annual rental income per occupied square foot has increased in the three and six months ended June 30, 2016, compared to the same periods in 2015, despite average move-in rates for tenants moving in being generally less than average rates for tenants that vacate, due primarily to rate increases to existing tenants.

Promotional discounts given, based upon the move-in contractual rates for the related promotional period, totaled \$21.1 million and \$41.5 million for three and six months ended June 30, 2016, respectively, as compared to \$20.9



million and \$41.2 million for the same periods in 2015.

We believe rental growth in the remainder of 2016 will need to come from continued annual rent increases to existing tenants and higher rental rates charged to new tenants. Our future rental growth will also be dependent

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upon many factors for each market that we operate in, including demand for self-storage space, the level of new supply of self-storage space and the average length of stay of our tenants.

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 the remainder of 2016. 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 tenants moving in or moving out, the length of stay of the tenants moving in or moving out, changes in our pricing strategies, and the degree and timing of rate increases previously passed to existing tenants.

We expect year-over-year growth in our Same Store revenues will moderate as the year progresses. We are experiencing softness in demand in certain of our major markets, including Houston, Denver, Chicago, New York, and Washington D.C. We attribute some of this softness to local economic conditions and, in some markets, increased supply of newly constructed self-storage facilities; including facilities that we have constructed.

We are taking a number of actions to improve demand into our system, including increasing marketing spend on the Internet, reducing rental rates, and increasing promotional discounts. Even if these actions are successful in improving demand into our system, in at least the near term, we believe these actions will have a negative impact on our operating trends.

#### Analysis of Same Store Cost of Operations

Cost of operations (excluding depreciation and amortization) increased 4.2% and 0.6% in the three and six months ended June 30, 2016, respectively, as compared to the same periods in 2015, due primarily to increased property tax expense, on-site property manager payroll and repairs and maintenance expense (excluding snow removal cost), and for the six months ended June 30, 2016, offset partially by reduced snow removal cost, utilities and advertising and selling expense.

Property tax expense increased 5.0% and 4.7% in the three and six months ended June 30, 2016, respectively, as compared to the same periods in 2015, due primarily to higher assessed values. We expect property tax expense growth of approximately 4.5% to 5% in the remainder of 2016 due primarily to higher assessed values.

On-site property manager payroll expense increased 6.4% and 3.1% in the three and six months ended June 30, 2016, as compared to the same periods in 2015, due primarily to reductions in prior estimates of workers compensation costs recorded in the three and six months ended June 30, 2015, higher employee health care expenses and higher wage rates. We expect on-site property manager payroll expense to increase modestly in the remainder of 2016 due to inflationary wage increases and higher employee 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 4.5% and 2.6% in the three and six months ended June 30, 2016, respectively, as compared to the same periods in 2015 due primarily to higher wage rates. We expect inflationary increases in compensation rates in the remainder of 2016.

Repairs and maintenance expense increased 14.2% and decreased 15.1% in the three and six months ended June 30, 2016, as compared to the same periods in 2015. Repair and maintenance costs include snow removal expense totaling \$0.5 million and \$3.3 million in the three and six months ended June 30, 2016, respectively, as compared to \$0.3 million and \$8.5 million in the same periods in 2015. The decrease in snow removal costs was due to less snowfall in the six months ended June 30, 2016, as compared to the same period in 2015. Excluding snow removal costs, repairs and maintenance increased 12.3% and 8.0% in the three and six months ended June 30, 2016,

respectively, as compared to the same periods in 2015.

Repairs and maintenance expense levels are dependent upon many factors such as weather conditions, which can impact repair and maintenance needs including snow removal, inflation in material and labor costs, and

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random events. We expect inflationary increases in repairs and maintenance expense in the remainder of 2016, excluding snow removal expense, which is primarily weather dependent and not predictable.

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 decreased 6.3% and 6.0% in the three and six months ended June 30, 2016, respectively, as compared to the same periods in 2015, due primarily to lower usage as a result of milder weather. It is difficult to estimate future utility costs, because weather, temperature, and energy prices are volatile and not predictable. However, based upon current trends and expectations regarding commercial electricity rates, we expect inflationary increases in rates.

Advertising and selling expense is comprised principally of Internet advertising, television advertising and the operating costs of our telephone reservation center. Advertising and selling expense varies based upon demand, occupancy levels, and other factors; television and Internet advertising, in particular, can increase or decrease significantly in the short run in response to these factors. Advertising and selling expenses increased 0.2% and decreased 9.4% in the three and six months ended June 30, 2016, respectively, as compared to the same periods in 2015, due primarily to reduced television advertising costs in the six months ended June 30, 2015. As mentioned above, we have increased our Internet marketing expenditures and we plan on increasing our television advertising expenditures beginning in late August due to softness in demand in several of our larger markets. As a result, we expect advertising and selling expense to increase significantly in the three months ended September 30, 2016, as compared to the same period in 2015.

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 facilities' cash receipts, credit card fees, and the cost of operating each property's rental office including supplies and telephone data communication lines. These costs increased 0.4% and 2.3% in the three and six months ended June 30, 2016, respectively, as compared to the same periods in 2015. The increases were due primarily to higher credit card fees, offset partially by lower property insurance costs. Credit card fees increased due to a higher proportion of collections being received from credit cards and higher revenues. We expect moderate increases in other direct property costs in the remainder of 2016.

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 increased 1.9% and 1.7% in the three and six months ended June 30, 2016, as compared to the same periods in 2015, due primarily to increased compensation costs. We expect moderate growth in allocated overhead in the remainder of 2016 as compared to 2015 due to inflationary wage increases and increased headcount.

#### Analysis of Same Store Depreciation and Amortization

Depreciation and amortization for Same Store Facilities decreased 1.8% and 1.7% during the three months and six months ended June 30, 2016, as compared to the same periods in 2015. We expect similar decreases in the remainder of 2016 as compared to 2015.

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
	(Amounts in thousands, except for per square foot amounts)				
Total revenues:					
2016	\$ 506,136	\$ 521,316			
2015	\$ 475,427	\$ 491,941	\$ 516,918	\$ 508,054	\$ 1,992,340
Total cost of operations:					
2016	\$ 139,813	\$ 136,037			
2015	\$ 143,621	\$ 130,536	\$ 133,765	\$ 107,368	\$ 515,290
Property taxes:					
2016	\$ 52,836	\$ 52,940			
2015	\$ 50,610	\$ 50,404	\$ 50,053	\$ 27,958	\$ 179,025
Repairs and maintenance:					
2016	\$ 11,132	\$ 10,324			
2015	\$ 16,223	\$ 9,044	\$ 10,198	\$ 10,318	\$ 45,783
Advertising and selling expense:					
2016	\$ 5,092	\$ 5,563			
2015	\$ 6,205	\$ 5,553	\$ 6,970	\$ 6,447	\$ 25,175
REVPAF:					
2016	\$ 15.13	\$ 15.62			
2015	\$ 14.22	\$ 14.73	\$ 15.44	\$ 15.19	\$ 14.89
Weighted average realized annual rent per occupied square foot:					
2016	\$ 16.16	\$ 16.39			
2015	\$ 15.22	\$ 15.45	\$ 16.20	\$ 16.19	\$ 15.77
Weighted average occupancy levels for the period:					
2016	93.6%	95.3%			
2015	93.4%	95.4%	95.3%	93.9%	94.5%

## Analysis of Market Trends

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

## Same Store Facilities Operating Trends by Market

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change
(Amounts in thousands, except for weighted average data)						
Revenues:						
Los Angeles (204 facilities)	\$ 79,736	\$ 73,996	7.8%	\$ 157,322	\$ 145,717	8.0%
San Francisco (126 facilities)	43,842	40,772	7.5%	86,155	80,029	7.7%
New York (86 facilities)	35,299	34,016	3.8%	69,799	66,998	4.2%
Chicago (129 facilities)	29,872	29,287	2.0%	58,947	57,680	2.2%
Washington DC (78 facilities)	24,215	23,715	2.1%	47,693	46,606	2.3%
Seattle-Tacoma (82 facilities)	24,334	22,253	9.4%	47,490	43,616	8.9%
Miami (65 facilities)	22,737	21,468	5.9%	45,089	42,556	6.0%
Dallas-Ft. Worth (98 facilities)	20,873	19,408	7.5%	41,159	38,032	8.2%
Houston (75 facilities)	17,568	17,206	2.1%	35,091	33,877	3.6%
Atlanta (91 facilities)	18,168	16,749	8.5%	35,756	33,059	8.2%
Philadelphia (56 facilities)	13,039	12,352	5.6%	25,726	24,350	5.7%
Denver (44 facilities)	11,443	11,064	3.4%	22,505	21,447	4.9%
Minneapolis-St Paul (41 facilities)	9,630	9,267	3.9%	18,764	18,045	4.0%
Portland (40 facilities)	9,355	8,528	9.7%	18,273	16,549	10.4%
Orlando-Daytona (49 facilities)	9,471	8,827	7.3%	18,741	17,397	7.7%
All other markets (739 facilities)	151,734	143,033	6.1%	298,942	281,410	6.2%
Total revenues	\$ 521,316	\$ 491,941	6.0%	\$ 1,027,452	\$ 967,368	6.2%
Net operating income:						
Los Angeles	\$ 65,567	\$ 60,417	8.5%	\$ 128,469	\$ 117,667	9.2%
San Francisco	35,765	33,174	7.8%	69,760	64,422	8.3%
New York	25,586	24,435	4.7%	48,828	45,453	7.4%
Chicago	16,818	17,221	(2.3)%	32,112	31,007	3.6%
Washington DC	18,262	17,979	1.6%	35,818	34,478	3.9%
Seattle-Tacoma	19,268	17,332	11.2%	37,246	33,618	10.8%
Miami	16,453	15,060	9.2%	32,622	29,449	10.8%
Dallas-Ft. Worth	14,363	13,176	9.0%	28,190	25,426	10.9%
Houston	12,159	12,281	(1.0)%	24,459	23,991	2.0%
Atlanta	13,247	11,985	10.5%	25,952	23,411	10.9%
Philadelphia	9,465	8,888	6.5%	18,181	16,248	11.9%
Denver	8,533	8,289	2.9%	16,717	15,553	7.5%
Minneapolis-St. Paul	6,742	6,397	5.4%	12,755	12,147	5.0%
Portland	7,343	6,614	11.0%	14,170	12,632	12.2%

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Orlando-Daytona	6,568	6,069	8.2%	13,030	11,811	10.3%
All other markets	109,140	102,088	6.9%	213,293	195,898	8.9%
Total net operating income	\$ 385,279	\$ 361,405	6.6%	\$ 751,602	\$ 693,211	8.4%

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## Same Store Facilities Operating Trends by Market (Continued)

	Three Months Ended June			Six Months Ended June 30,		
	2016	2015	Change	2016	2015	Change
Weighted average square foot occupancy:						
Los Angeles	96.2%	96.0%	0.2%	95.8%	95.4%	0.4%
San Francisco	96.8%	96.7%	0.1%	96.2%	96.0%	0.2%
New York	95.1%	95.6%	(0.5)%	94.4%	94.6%	(0.2)%
Chicago	93.5%	94.1%	(0.6)%	91.9%	92.8%	(1.0)%
Washington DC	94.8%	95.0%	(0.2)%	93.2%	93.1%	0.1%
Seattle-Tacoma	97.1%	96.0%	1.1%	96.0%	94.9%	1.2%
Miami	95.4%	95.1%	0.3%	95.2%	94.8%	0.4%
Dallas-Ft. Worth	95.6%	95.8%	(0.2)%	95.0%	94.8%	0.2%
Houston	92.3%	95.1%				