

Public Storage
Form 10-K
February 26, 2013

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

FORM 10-K

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

For the fiscal year ended December 31, 2012.

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)

(818) 244-8080

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Depository Shares Each Representing 1/1,000 of a 6.875% Cumulative Preferred Share, Series O \$.01 par value	New York Stock Exchange

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Depository Shares Each Representing 1/1,000 of a 6.500% Cumulative Preferred Share, Series P \$.01 par value	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 6.500% Cumulative Preferred Share, Series Q \$.01 par value	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 6.350% Cumulative Preferred Share, Series R \$.01 par value	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 5.900% Cumulative Preferred Share, Series S \$.01 par value	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 5.750% Cumulative Preferred Share, Series T \$.01 par value	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 5.625% Cumulative Preferred Share, Series U \$.01 par value	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 5.375% Cumulative Preferred Share, Series V \$.01 par value	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 5.200% Cumulative Preferred Share, Series W \$.01 par value	New York Stock Exchange
Common Shares, \$.10 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None (Title of class)

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

Yes No

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

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Yes No

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

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

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

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

Yes No

The aggregate market value of the voting and non-voting common shares held by non-affiliates of the Registrant as of June 30, 2012:

Common Shares, \$0.10 Par Value – \$20,712,158,000 (computed on the basis of \$144.41 per share which was the reported closing sale price of the Company's Common Shares on the New York Stock Exchange on June 30, 2012).

As of February 22, 2013, there were 171,728,085 outstanding Common Shares, \$.10 par value.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement to be filed in connection with the Annual Meeting of Shareholders to be held in 2013 are incorporated by reference into Part III of this Annual Report on Form 10-K to the extent described therein.

PART I

ITEM 1. Business

Forward Looking Statements

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

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

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

- risks related to the concentration of approximately 20% of our facilities in California;

- difficulties in raising capital at a reasonable cost; and
- economic uncertainty due to the impact of terrorism or war.

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

General

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

At December 31, 2012, our principal business activities are as follows:

- Domestic Self-Storage:** We acquire, develop, own, and operate self-storage facilities which offer storage spaces for lease, generally on a month-to-month basis, for personal and business use. We are the largest owner and operator of self-storage facilities in the United States (“U.S.”). We have direct and indirect equity interests in 2,078 self-storage facilities (132 million net rentable square feet of space) located in 38 states within the U.S. operating under the “Public Storage” brand name.
- European Self-Storage:** We have a 49% equity interest in Shurgard Europe, with an institutional investor owning the remaining 51% interest. Shurgard Europe owns 188 self-storage facilities (10 million net rentable square feet of space) located in seven countries in Western Europe which operate under the “Shurgard” brand name, and manages one facility located in the United Kingdom that we wholly own. We believe Shurgard Europe is the largest owner and operator of self-storage facilities in Western Europe.
- Commercial:** We have a 41% equity interest in PS Business Parks, Inc. (“PSB”), a publicly held REIT which owns and operates 28.3 million net rentable square feet of commercial space. We also wholly-own 1.4 million net rentable square feet of commercial space, substantially all of which is managed by PSB.

We conduct certain other activities that are not reported as separate segments including (i) the reinsurance of policies against losses to goods stored by tenants in our self-storage facilities, (ii) the sale of merchandise at our self-storage facilities and (iii) management of self-storage facilities owned by third-party owners and entities that we have an ownership interest in but are not consolidated.

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

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

financial statements with such filings. We expect to continue such reporting.

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

Competition

We believe that storage customers generally store their goods within a five mile radius of their home or business, and most of our facilities compete with other nearby self-storage facilities for these customers. Our competitors attract customers using the same marketing channels we use, including Internet advertising, yellow pages, signage, and banners. We believe customers usually have many choices among local operators, each who can meet their storage needs, and as a result, competition is significant and affects the occupancy levels, rental rates, rental income and operating expenses of our facilities.

While competition is significant, the self-storage industry remains fragmented in the U.S. We believe that we own approximately 5% of the aggregate self-storage square footage in the U.S., and that collectively the five largest self-storage operators in the U.S. own approximately 11%, with the remaining 89% owned by numerous private regional and local operators. This market fragmentation enhances the advantage of our economies of scale and brand name recognition. Our economies of scale are driven primarily by our concentration in major metropolitan markets; approximately 71% of our same-store revenues for 2012 were in the 20 Metropolitan Statistical Areas (“MSA’s”, as defined by the U.S. Census Bureau) with the highest population levels.

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

Business Attributes

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

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

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

- **Our Website:** The online marketing channel continues to grow in prominence, with approximately 47% of our move-ins in 2012 sourced through our website, as compared to 36% in 2010. In addition, we believe that many of our customers who directly call our call center, or who move-in to a facility on a walk-in basis, have often already reviewed our pricing and space availability through our website. We invest extensively in advertising on the Internet to attract potential customers, primarily through the use of search engines, and we regularly update and improve our website to enhance its productivity.
- **Our Call Center:** Our call center is staffed by sales specialists who are trained in phone selling skills. Customers reach our call center by calling i) our advertised toll-free telephone referral number, (800) 44-STORE, ii) an

individual storage location's telephone number advertised on each sign of our storage facilities, or iii) telephone numbers provided on our website. We believe giving customers the option to interact with a call center agent, despite the higher marginal cost relative to an internet reservation, enhances our ability to close sales with potential storage customers.

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

Economies of scale: We are the largest provider of self-storage space in the U.S. As of December 31, 2012, we operated 2,078 self-storage facilities in which we had an interest with over one million self-storage spaces rented. These facilities are generally located in major markets within 38 states in the U.S. The size and scope of our operations have enabled us to achieve high operating margins and a low level of administrative costs relative to revenues through the centralization of many functions, such as facility maintenance, employee compensation and benefits programs, revenue management, as well as the development and documentation of standardized operating procedures. We also believe that our major market concentration provides managerial efficiencies stemming from having a large number of facilities in close proximity to each other.

Our market share and concentration in major metropolitan centers makes various promotional and media programs more cost-beneficial for us than for our competitors. As noted above, approximately 71% of our same-store revenues for 2012 were in the 20 MSA’s with the highest population levels. Our large market share and well-recognized brand name increases the likelihood that our facilities will appear prominently in unpaid search results for “self-storage” in Google and other search engines, and enhances the efficiency of our bidding for paid multiple-keyword advertising. We can use television advertising in many markets, while most of our competitors cannot do so cost-effectively.

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

Growth and Investment Strategies

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

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

Acquire properties owned or operated by others in the U.S.: We seek to capitalize on the fragmentation of the self-storage business through acquiring attractively priced, well-located existing self-storage facilities. We believe our presence in and knowledge of substantially all of the major markets in the U.S. enhances our ability to identify attractive acquisition opportunities. Data on the rental rates and occupancy levels of our existing facilities provide us an advantage in evaluating the potential of acquisition opportunities. Over the past three years, we have acquired 77 facilities from third parties (5.5 million net rentable square feet) for approximately \$546 million, including 24 facilities (1.9 million net rentable square feet) for approximately \$226 million in 2012. The level of third-party acquisition opportunities available depends upon many factors, such as the motivation of potential sellers to liquidate their investments as well as the financing available to self-storage owners. We decide whether to pursue any such acquisition opportunities based upon many factors including our opinion as to the potential for future growth, the quality of construction and location, and our yield expectations. We will continue to seek to acquire properties in 2013.

Develop new self-storage space: The development of new self-storage locations and the expansion of existing self-storage facilities has been, from time to time, an important source of growth. Over the past three years our development activities were minimal. We have recently expanded our development efforts due in part to the significant increase in prices being paid for existing facilities, in many cases well above the cost of developing new facilities. At December 31, 2012, we had a development pipeline of projects to expand existing self-storage facilities and develop new self-storage facilities, which will add approximately 1.3 million net rentable square feet of self-storage space. The aggregate cost of these projects is estimated at \$169 million, of which \$36 million had been incurred at December 31, 2012, and the remaining costs will be incurred principally in 2013. Some of these projects are subject to significant contingencies such as entitlement approval. We expect to continue to seek additional development projects and have hired additional personnel; however, due to the difficulty in finding projects that meet our risk-adjusted yield expectations, as well as the difficulty in obtaining building permits for self-storage activities in certain municipalities, it is uncertain as to how much additional development we will undertake in the future.

Participate in the growth of commercial facilities primarily through our ownership in PS Business Parks, Inc.: Our investment in PSB provides us diversification into another asset type, and we have no plans of disposing of our investment in PSB. During 2010 and 2011, the challenging economic trends in commercial real estate resulted in year over year decreases in rental income for PSB's "Same Park" facilities. During 2012, economic trends have improved, and PSB's "Same Park" facilities had growth in rental income. It is uncertain what impact these trends will have on PSB's future occupancy levels and rental income.

Over the past three years, PSB has been able to grow its portfolio through acquisitions. In 2010 and 2011, PSB acquired an aggregate total of 7.9 million net rentable square feet of commercial space for an aggregate purchase price of approximately \$855.2 million, and in 2012, PSB acquired 1.2 million net rentable square feet for an aggregate purchase price of \$52.5 million. PSB is a stand-alone public company traded on the New York Stock Exchange. As of December 31, 2012, PSB owned and operated approximately 28.3 million net rentable square feet of commercial space, and had an enterprise value of approximately \$3.4 billion (based upon the trading price of PSB's common stock combined with the liquidation value of its debt and preferred stock as of December 31, 2012).

Participate in the growth of European self-storage through ownership in Shurgard Europe: Shurgard Europe is the largest self-storage company in Western Europe, and owns and operates 188 facilities with approximately 10 million net rentable square feet in seven countries: France (principally Paris), Sweden (principally Stockholm), the United Kingdom (principally London), the Netherlands, Denmark (principally Copenhagen), Belgium and Germany. We own 49% of Shurgard Europe, with the other 51% owned by a large U.S. institutional investor.

Customer awareness and availability of self-storage is significantly lower in Shurgard Europe's markets than in the U.S. With more awareness and product supply, we believe there is potential for increased demand for storage space in Europe. In the long run, we believe Shurgard Europe could capitalize on potential increased demand through the development of new facilities or, to a lesser extent, acquiring existing facilities.

Shurgard Europe has a term loan from a bank (the "Bank Loan") with a balance of approximately €159.5 million (\$210.8 million) at December 31, 2012, which matures in November 2014. Shurgard Europe also has a loan due to us totaling €311.0 million (\$411.0 million) at December 31, 2012, which matures in February 2015. The Bank Loan requires Shurgard Europe to utilize a significant amount of its operating cash flow to reduce the outstanding principal. As a result, and in the absence of additional capital contributions by either us or our joint venture partner, Shurgard Europe's ability to finance new investments will be constrained until its debt is refinanced.

Financing of the Company's Growth Strategies

Overview of financing strategy: We have historically financed our investment activities with permanent capital, predominantly retained cash flow, the net proceeds from the issuance of preferred securities and common shares. Since we rarely dispose of our investments, we believe that financing with substantially permanent capital properly matches our long-lived real estate assets and avoids future refinancing risk. Further, we have elected to use preferred securities as a form of leverage despite the fact that the dividend rates of our preferred securities exceed the prevailing market interest rates on conventional debt, because of certain benefits described in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations-Liquidity and Capital Resources." Our present intention is to continue to finance substantially all our growth with internally generated cash flows and permanent capital. We believe that we are not dependent upon raising capital to fund our ongoing operations or meet our obligations. However, in order to grow our asset base, access to capital is important.

Issuance of preferred and common securities: When seeking capital, we generally select the lowest-cost form of permanent capital which is dependent on market conditions. During periods of favorable market conditions, we have generally been able to raise capital from preferred securities at an attractive cost of capital relative to the issuance of our common shares. During the years ended December 31, 2012 and 2011, we issued approximately \$1.7 billion and \$862.5 million, respectively, of preferred securities, and on January 16, 2013, we issued another \$500.0 million of preferred securities. In December 2012, we raised approximately \$101 million from the sale of Public Storage common shares owned by a wholly-owned subsidiary, which will enable that subsidiary to efficiently liquidate.

Borrowing on Line of Credit: We have in the past used our \$300 million revolving line of credit as temporary "bridge" financing, and repaid borrowings with permanent capital. Most recently, on December 27, 2012, we borrowed \$133.0 million on our line of credit to fund a portion of cash redemption costs for preferred securities, and on January 16, 2013 all outstanding amounts were repaid following the issuance of preferred securities.

Borrowing through mortgage loans or senior debt: While it is not our present intention to issue additional debt as a long-term financing strategy, we have broad powers to borrow in furtherance of our objectives without a vote of our shareholders. These powers are subject to a limitation on unsecured borrowings in our Bylaws described in "Limitations on Debt" below.

Our senior debt has an "A" credit rating by Standard and Poor's. Notwithstanding our desire to continue to meet our capital needs with permanent capital, this high rating, combined with our low level of debt, could allow us to issue a significant amount of unsecured debt at lower interest rates than the coupon on preferred securities if we were to choose to do so.

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

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

Joint Venture financing: In the past, we have formed joint ventures, and in the future we may form additional joint ventures to facilitate the funding of future developments or acquisitions. However, we can generally issue preferred securities on more favorable terms than joint venture financing.

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

Investments in Real Estate and Unconsolidated Real Estate Entities

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

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

Facilities Owned by Subsidiaries

In addition to our direct ownership of 2,049 self-storage facilities in the U.S. and one self-storage facility in London, England at December 31, 2012, we have controlling indirect interests in entities that own 15 self-storage facilities in the U.S. with approximately one million net rentable square feet. Due to our controlling interest in each of these entities, we consolidate the assets, liabilities, and results of operations of these entities in our financial statements.

Facilities Owned by Unconsolidated Real Estate Entities

At December 31, 2012, we had ownership interests in entities that we do not control or consolidate, comprised of PSB, Shurgard Europe (discussed above), and various limited partnerships that own an aggregate of 14 self-storage facilities with approximately 0.8 million net rentable square feet of storage space. These entities are referred to collectively as the “Unconsolidated Real Estate Entities.”

PSB, which files financial statements with the SEC, and Shurgard Europe, have debt and other obligations that we do not consolidate in our financial statements. None of the other Unconsolidated Real Estate Entities have significant amounts of debt or other obligations. See Note 4 to our December 31, 2012 financial statements for further disclosure regarding the assets, liabilities and operating results of the Unconsolidated Real Estate Entities.

Limitations on Debt

Without the consent of holders of the various series of Senior Preferred Shares, we may not take any action that would result in our “Debt Ratio” exceeding 50%. “Debt Ratio”, as defined in the related governing documents, represents generally the ratio of debt to total assets before accumulated depreciation and amortization on our balance sheet, in accordance with U.S. generally accepted accounting principles. As of December 31, 2012, the Debt Ratio was approximately 4%.

Our bank and senior unsecured debt agreements contain various customary financial covenants, including limitations on the level of indebtedness and the prohibition of the payment of dividends upon the occurrence of defined events of default. We believe we have met each of these covenants as of December 31, 2012.

Employees

We have approximately 5,000 employees in the U.S. at December 31, 2012 who render services on behalf of the Company, primarily personnel engaged in property operations.

Seasonality

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

Insurance

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

Our tenant insurance program reinsures a program that provides insurance to certificate holders against claims for property losses due to specific named perils (earthquakes are not covered by these policies) to goods stored by tenants at our self-storage facilities for individual limits up to a maximum of \$5,000. We have third-party insurance coverage for claims paid exceeding \$5.0 million resulting from any one individual event, to a limit of \$15.0 million. At December 31, 2012, there were approximately 700,000 certificate holders held by our self-storage tenants participating in this program, representing aggregate coverage of approximately \$1.5 billion. We rely on a third-party insurance company to provide the insurance and are subject to licensing requirements and regulations in several states.

ITEM 1A. Risk Factors

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

We have significant exposure to real estate risk.

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

Natural disasters or terrorist attacks could cause damage to our facilities, resulting in increased costs and reduced revenues. Natural disasters, such as earthquakes, hurricanes and floods, or terrorist attacks could cause significant damage and require significant repair costs, and make facilities temporarily uninhabitable, reducing our revenues. Damage and business interruption losses could exceed the aggregate limits of our insurance coverage. In addition, because we self-insure a portion of our risks, losses below a certain level may not be covered by insurance. See Note 13 to our December 31, 2012 financial statements for a description of the risks of losses that are not covered by third-party insurance contracts. We may not have sufficient insurance coverage for losses caused by a terrorist attack, or such insurance may not be maintained, available or cost-effective. In addition, significant natural disasters, terrorist attacks, threats of future terrorist attacks, or resulting wider armed conflicts could have negative impacts on the U.S. economy, reducing storage demand and impairing our operating results.

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

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

Development of self-storage facilities can subject us to risks. At December 31, 2012, we have a pipeline of development projects totaling \$169 million (subject to contingencies), and we expect to continue to seek additional development projects. There are significant risks involved in developing self-storage facilities, such as delays or cost increases due to changes in or failure to meet government or regulatory requirements, weather issues, unforeseen site conditions, or personnel problems. Self-storage space is generally not pre-leased, and rent-up of newly developed space can be delayed or ongoing cash flow yields can be reduced due to competition, reductions in storage demand, or other factors.

There is significant competition among self-storage facilities and from other storage alternatives. Most of our properties are self-storage facilities, which generated most of our revenue for the year ended December 31,

2012. Competition in the local market areas in which many of our properties are located is significant and has affected our occupancy levels, rental rates and operating expenses. If development of self-storage facilities by other operators were to increase, due to increases in availability of funds for investment or other reasons, competition with our facilities could intensify.

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

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

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

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

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

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

Our ability to issue preferred shares or access other sources of capital, such as borrowing, has been in the past, and may in the future be, adversely affected by challenging credit market conditions. The issuance of perpetual preferred securities historically has been a significant source of capital to grow our business. We believe that we have sufficient working capital and capacity under our credit facilities and our retained cash flow from operations to continue to operate our business as usual and meet our current obligations. However, if we were unable to issue preferred shares or borrow at reasonable rates, prospective earnings growth through expanding our asset base would be limited.

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

As a result of our ownership of 49% of the equity in Shurgard Europe with a book value of \$411.1 million at December 31, 2012, and our loan to Shurgard Europe totaling \$411.0 million at December 31, 2012, we are exposed to additional risks related to the ownership and operation of international businesses that may adversely impact our business and financial results, including the following:

- Currency risks: Currency fluctuations can impact the fair value of our investment in, and loan to Shurgard Europe, as well as the related income we receive.

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