

Public Storage  
Form 10-Q  
July 31, 2017  
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, 2017

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  
(State or other jurisdiction of  
incorporation or organization)

95-3551121  
(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).

Yes  No

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

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Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company

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

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 July 27, 2017:

Common Shares of beneficial interest, \$.10 par value per share – 174,002,754 shares

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## PUBLIC STORAGE

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## PUBLIC STORAGE

## BALANCE SHEETS

(Amounts in thousands, except share data)

|   | June 30,<br>2017<br>(Unaudited) | December 31,<br>2016 |
|---|---------------------------------|----------------------|
| <b>ASSETS</b>   |                                 |                      |
| Cash and cash equivalents   | \$ 358,266                      | \$ 183,688           |
| Real estate facilities, at cost:  |                                 |                      |
| Land  | 3,809,491                       | 3,781,479            |
| Buildings   | 10,349,848                      | 10,181,750           |
|   | 14,159,339                      | 13,963,229           |
| Accumulated depreciation  | (5,482,071)                     | (5,270,963)          |
|   | 8,677,268                       | 8,692,266            |
| Construction in process   | 282,374                         | 230,310              |
|   | 8,959,642                       | 8,922,576            |
| Investments in unconsolidated real estate entities  | 715,268                         | 689,207              |
| Goodwill and other intangible assets, net   | 207,203                         | 212,719              |
| Other assets  | 125,348                         | 122,148              |
| Total assets  | \$ 10,365,727                   | \$ 10,130,338        |
| <b>LIABILITIES AND EQUITY</b>   |                                 |                      |
| Senior unsecured notes  | \$ 390,692                      | \$ 359,810           |
| Mortgage notes  | 30,086                          | 30,939               |
| Preferred shares called for redemption (Note 7)   | 460,000                         | -                    |
| Accrued and other liabilities   | 322,923                         | 297,935              |
| Total liabilities   | 1,203,701                       | 688,684              |
| Commitments and contingencies (Note 11)   |                                 |                      |
| Equity:   |                                 |                      |
| Public Storage shareholders' equity:  |                                 |                      |
| Preferred Shares, \$0.01 par value, 100,000,000 shares authorized, 167,500 shares issued (in series) and outstanding, (174,700 at December 31, 2016), at liquidation preference | 4,187,500                       | 4,367,500            |
| Common Shares, \$0.10 par value, 650,000,000 shares authorized, 173,699,438 shares issued and outstanding (173,288,787 shares at December 31, 2016)                             | 17,370                          | 17,329               |
| Paid-in capital   | 5,625,784                       | 5,609,768            |
| Accumulated deficit   | (609,424)                       | (487,581)            |

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|   |               |               |
|---|---------------|---------------|
| Accumulated other comprehensive loss      | (82,143)      | (95,106)      |
| Total Public Storage shareholders' equity | 9,139,087     | 9,411,910     |
| Noncontrolling interests                  | 22,939        | 29,744        |
| Total equity                              | 9,162,026     | 9,441,654     |
| Total liabilities and equity              | \$ 10,365,727 | \$ 10,130,338 |

See accompanying notes.

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## PUBLIC STORAGE

## STATEMENTS OF INCOME

(Amounts in thousands, except per share amounts)

(Unaudited)

|   | Three Months Ended |            | Six Months Ended |              |
|---|--------------------|------------|------------------|--------------|
|   | June 30,           |            | June 30,         |              |
|   | 2017               | 2016       | 2017             | 2016         |
| Revenues:   |                    |            |                  |              |
| Self-storage facilities                                   | \$ 624,199         | \$ 594,387 | \$ 1,231,977     | \$ 1,168,973 |
| Ancillary operations                                      | 40,113             | 39,801     | 77,882           | 77,001       |
|   | 664,312            | 634,188    | 1,309,859        | 1,245,974    |
| Expenses:   |                    |            |                  |              |
| Self-storage cost of operations                           | 171,195            | 157,687    | 343,173          | 317,550      |
| Ancillary cost of operations                              | 11,383             | 14,317     | 22,307           | 27,740       |
| Depreciation and amortization                             | 110,177            | 107,013    | 221,106          | 212,141      |
| General and administrative                                | 14,992             | 18,321     | 40,020           | 41,368       |
|   | 307,747            | 297,338    | 626,606          | 598,799      |
| Operating income  | 356,565            | 336,850    | 683,253          | 647,175      |
| Interest and other income                                 | 4,155              | 4,028      | 8,153            | 7,864        |
| Interest expense  | (1,116)            | (1,378)    | (2,164)          | (2,089)      |
| Equity in earnings of unconsolidated real estate entities | 20,068             | 10,227     | 40,017           | 24,391       |
| Foreign currency exchange (loss) gain                     | (25,440)           | 8,632      | (31,006)         | (2,322)      |
| Gain on real estate investment sales                      | 975                | -          | 975              | 689          |
| Net income  | 355,207            | 358,359    | 699,228          | 675,708      |
| Allocation to noncontrolling interests                    | (1,505)            | (1,700)    | (3,084)          | (3,176)      |
| Net income allocable to Public Storage shareholders       | 353,702            | 356,659    | 696,144          | 672,532      |
| Allocation of net income to:                              |                    |            |                  |              |
| Preferred shareholders                                    | (61,281)           | (59,216)   | (121,402)        | (121,488)    |
| Preferred shareholders - redemptions (Note 7)             | (14,638)           | (15,537)   | (14,638)         | (26,873)     |
| Restricted share units                                    | (1,102)            | (1,131)    | (2,292)          | (2,061)      |
| Net income allocable to common shareholders               | \$ 276,681         | \$ 280,775 | \$ 557,812       | \$ 522,110   |
| Net income per common share:                              |                    |            |                  |              |
| Basic   | \$ 1.59            | \$ 1.62    | \$ 3.22          | \$ 3.02      |
| Diluted   | \$ 1.59            | \$ 1.61    | \$ 3.20          | \$ 3.00      |
| Basic weighted average common shares outstanding          | 173,602            | 173,087    | 173,483          | 173,032      |
| Diluted weighted average common shares outstanding        | 174,075            | 174,000    | 174,072          | 173,925      |

See accompanying notes.

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## PUBLIC STORAGE

## STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

(Unaudited)

|   | Three Months Ended<br>June 30, |            | Six Months Ended June<br>30, |            |
|---|--------------------------------|------------|------------------------------|------------|
|   | 2017                           | 2016       | 2017                         | 2016       |
| Net income  | \$ 355,207                     | \$ 358,359 | \$ 699,228                   | \$ 675,708 |
| Other comprehensive income (loss):  |                                |            |                              |            |
| Aggregate foreign currency exchange loss  | (15,358)                       | (4,681)    | (18,043)                     | (11,824)   |
| Adjust for aggregate foreign currency exchange<br>loss (gain) in equity in earnings of unconsolidated<br>real estate entities | -                              | 2,095      | -                            | (941)      |
| Adjust for aggregate foreign currency exchange<br>loss (gain) included in net income  | 25,440                         | (8,632)    | 31,006                       | 2,322      |
| Other comprehensive income (loss)   | 10,082                         | (11,218)   | 12,963                       | (10,443)   |
| Total comprehensive income  | 365,289                        | 347,141    | 712,191                      | 665,265    |
| Allocation to noncontrolling interests  | (1,505)                        | (1,700)    | (3,084)                      | (3,176)    |
| Comprehensive income allocable to<br>Public Storage shareholders  | \$ 363,784                     | \$ 345,441 | \$ 709,107                   | \$ 662,089 |

See accompanying notes.

## PUBLIC STORAGE

## STATEMENTS OF EQUITY

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

(Unaudited)

|  | Cumulative<br>Preferred<br>Shares | Common<br>Shares | Paid-in<br>Capital | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Loss | Total<br>Public<br>Storage<br>Shareholders'<br>Equity | Noncontrolling<br>Interests | Total<br>Equity |
|--|-----------------------------------|------------------|--------------------|------------------------|---|---|-----------------------------|-----------------|
| Balances at<br>December 31,<br>2016  | \$ 4,367,500                      | \$ 17,329        | \$ 5,609,768       | \$ (487,581)           | \$ (95,106)                                   | \$ 9,411,910  | \$ 29,744                   | \$ 9,441,654    |
| Issuance of<br>11,200<br>preferred<br>shares (Note 7)  | 280,000                           | -                | (8,943)            | -                      | -   | 271,057   | -                           | 271,057         |
| Redemption of<br>18,400<br>preferred<br>shares (Note 7)  | (460,000)                         | -                | -                  | -                      | -   | (460,000)   | -                           | (460,000)       |
| Issuance of<br>common shares<br>in connection<br>with<br>share-based<br>compensation<br>(410,651 shares)<br>(Note 9) | -                                 | 41               | 31,861             | -                      | -   | 31,902  | -                           | 31,902          |
| Cash paid in<br>lieu of common<br>shares, net of<br>share-based<br>compensation<br>expense (Note 9)                  | -                                 | -                | 799                | -                      | -   | 799   | -                           | 799             |
| Acquisition of<br>noncontrolling<br>interests  | -                                 | -                | (7,701)            | -                      | -   | (7,701)   | (6,724)                     | (14,425)        |
| Contributions<br>by<br>noncontrolling<br>interests   | -                                 | -                | -                  | -                      | -   | -   | 584                         | 584             |

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|   |              |           |              |              |             |              |           |              |
|---|--------------|-----------|--------------|--------------|-------------|--------------|-----------|--------------|
| Net income  | -            | -         | -            | 699,228      | -           | 699,228      | -         | 699,228      |
| Net income allocated to noncontrolling interests            | -            | -         | -            | (3,084)      | -           | (3,084)      | 3,084     | -            |
| Distributions to equity holders:                            |              |           |              |              |             |              |           |              |
| Preferred shares (Note 7)                                   | -            | -         | -            | (121,402)    | -           | (121,402)    | -         | (121,402)    |
| Noncontrolling interests                                    | -            | -         | -            | -            | -           | -            | (3,749)   | (3,749)      |
| Common shares and restricted share units (\$4.00 per share) | -            | -         | -            | (696,585)    | -           | (696,585)    | -         | (696,585)    |
| Other comprehensive income (Note 2)                         | -            | -         | -            | -            | 12,963      | 12,963       | -         | 12,963       |
| Balances at June 30, 2017                                   | \$ 4,187,500 | \$ 17,370 | \$ 5,625,784 | \$ (609,424) | \$ (82,143) | \$ 9,139,087 | \$ 22,939 | \$ 9,162,026 |

See accompanying notes.

## PUBLIC STORAGE

## STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

|   | Six Months Ended June 30,<br>2017 | 2016       |
|---|-----------------------------------|------------|
| Cash flows from operating activities:   |                                   |            |
| Net income  | \$ 699,228                        | \$ 675,708 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                   |            |
| Gain on real estate investment sales  | (975)                             | (689)      |
| Depreciation and amortization   | 221,106                           | 212,141    |
| Equity in earnings of unconsolidated real estate entities                         | (40,017)                          | (24,391)   |
| Distributions from retained earnings of unconsolidated real estate entities       | 26,525                            | 60,587     |
| Foreign currency exchange loss  | 31,006                            | 2,322      |
| Share-based compensation expense  | 12,563                            | 15,469     |
| Other   | 15,891                            | 23,567     |
| Total adjustments   | 266,099                           | 289,006    |
| Net cash provided by operating activities   | 965,327                           | 964,714    |
| Cash flows from investing activities:   |                                   |            |
| Capital expenditures to maintain real estate facilities                           | (52,095)                          | (38,236)   |
| Construction in process   | (164,544)                         | (134,998)  |
| Acquisition of real estate facilities and intangible assets                       | (34,407)                          | (184,657)  |
| Distributions in excess of retained earnings from                                 |                                   |            |

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|   |            |            |
|---|------------|------------|
| unconsolidated real estate entities                                     | -          | 67,420     |
| Proceeds from sale of real estate investments                           | 5,596      | 1,393      |
| Other   | 28         | 1,283      |
| Net cash used in investing activities                                   | (245,422)  | (287,795)  |
| Cash flows from financing activities:                                   |            |            |
| Repayments on notes payable   | (841)      | (10,592)   |
| Issuance of senior unsecured notes                                      | -          | 113,620    |
| Issuance of preferred shares  | 271,057    | 483,678    |
| Issuance of common shares   | 31,902     | 10,725     |
| Redemption of preferred shares  | -          | (375,000)  |
| Cash paid upon vesting of restricted share units                        | (11,764)   | (13,304)   |
| Acquisition of noncontrolling interests                                 | (14,425)   | -          |
| Contributions by noncontrolling interests                               | 584        | 2,747      |
| Distributions paid to Public Storage shareholders                       | (817,987)  | (729,045)  |
| Distributions paid to noncontrolling interests                          | (3,749)    | (3,640)    |
| Net cash used in financing activities                                   | (545,223)  | (520,811)  |
| Net increase in cash and cash equivalents                               | 174,682    | 156,108    |
| Net effect of foreign exchange translation on cash and cash equivalents | (104)      | (269)      |
| Cash and cash equivalents at the beginning of the period                | 183,688    | 104,285    |
| Cash and cash equivalents at the end of the period                      | \$ 358,266 | \$ 260,124 |

See accompanying notes.



## PUBLIC STORAGE

## STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

|  | Six Months Ended June<br>30, |           |
|--|------------------------------|-----------|
|  | 2017                         | 2016      |
| Supplemental schedule of non-cash investing and financing activities:  |                              |           |
| Foreign currency translation adjustment:                               |                              |           |
| Real estate facilities, net of accumulated depreciation                | \$ (374)                     | \$ 641    |
| Investments in unconsolidated real estate entities                     | (12,569)                     | 8,682     |
| Senior unsecured notes   | 30,882                       | 2,232     |
| Accumulated other comprehensive loss                                   | (18,043)                     | (11,824)  |
| Preferred shares called for redemption and reclassified to liabilities | 460,000                      | 487,500   |
| Preferred shares called for redemption and reclassified from equity    | (460,000)                    | (487,500) |
| Real estate acquired in exchange for assumption of mortgage notes      | -                            | (12,945)  |
| Mortgage notes assumed in connection with acquisition of real estate   | -                            | 12,945    |
| Accrued construction costs and capital expenditures:                   |                              |           |
| Capital expenditures to maintain real estate facilities                | (1,445)                      | (6,709)   |
| Construction in process  | (2,336)                      | (10,904)  |
| Accrued and other liabilities  | 3,781                        | 17,613    |

See accompanying notes.





PUBLIC STORAGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(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, 2017, we have direct and indirect equity interests in 2,358 self-storage facilities (with approximately 156 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 219 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 seven states in the U.S. primarily owned and operated by PS Business Parks, Inc. (“PSB”) under the “PS Business Parks” name. At June 30, 2017, 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

We have prepared the accompanying interim financial statements in accordance with U.S. generally accepted accounting principles (“GAAP”) as set forth in the Accounting Standards Codification (the “Codification”) of the Financial Accounting Standards Board (“FASB”), and in conformity with the rules and regulations of the Securities and Exchange Commission (“SEC”). In our opinion, the interim financial statements presented herein reflect all adjustments, of a normal recurring nature, that are necessary to fairly present the interim financial statements. Because they do not include all of the disclosures required by GAAP for complete annual financial statements, 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, 2016.

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

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PUBLIC STORAGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(Unaudited)

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 or loss 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, 2017, the Company and the Subsidiaries own 2,346 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, 2017, 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.

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

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.

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, 2017, 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 acquire, develop, construct, renovate and improve facilities, including interest and property taxes incurred during the construction period and, effective October 1, 2016, the external transaction costs associated with acquisitions of real estate. Prior to October 1, 2016, transaction costs for acquisitions were included in general and administrative expense on our income statements. This change was made due to a change in GAAP, which results in real estate facility acquisitions generally being considered acquisitions of assets rather than business combinations. We allocate the net acquisition cost of acquired real estate

facilities to the underlying land, buildings, and identified intangible assets based upon their respective individual estimated fair values.

Costs associated with dispositions of real estate, as well as repairs and maintenance costs, are expensed as incurred. We depreciate buildings and improvements on a straight-line basis over estimated useful lives ranging generally between 5 to 25 years.

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PUBLIC STORAGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(Unaudited)

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. We believe 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. 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.

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 & Poor’s, commercial paper that is rated A1 by Standard & Poor’s or deposits with highly rated commercial banks.

At June 30, 2017, 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.

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PUBLIC STORAGE

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(Unaudited)

Goodwill totaled \$174.6 million at June 30, 2017 and December 31, 2016. 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, 2017 and December 31, 2016. 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 assets 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, 2017, these intangibles had a net book value of \$13.8 million (\$19.3 million at December 31, 2016). Accumulated amortization totaled \$34.8 million at June 30, 2017 (\$54.0 million at December 31, 2016), and amortization expense of \$8.0 million and \$10.5 million was recorded in the six months ended June 30, 2017 and 2016, respectively. The estimated future amortization expense for our finite-lived intangible assets at June 30, 2017 is approximately \$4.6 million in the remainder of 2017, \$3.1 million in 2018 and \$6.1 million thereafter. During the six months ended June 30, 2017, intangibles were increased \$2.5 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 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 other indefinite-lived intangible assets, such as 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.





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Revenue and Expense Recognition

Revenues from self-storage facilities, which are primarily composed of rental income earned pursuant to month-to-month leases, 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 1.142 U.S. Dollars per Euro at June 30, 2017 (1.052 at December 31, 2016), and average exchange rates of 1.099 and 1.129 for the three months ended June 30, 2017 and 2016, respectively, and average exchange rates of 1.082 and 1.116 for the six months ended June 30, 2017 and 2016, respectively. 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).

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 comprised primarily of foreign currency exchange gains and losses on our investment in Shurgard Europe and our senior unsecured notes denominated in Euros.

Recently 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, primarily because most of our revenue is from

rental revenue, which this standard does not cover and because we do not provide any material associated services to our tenants.

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 do not believe this standard will have a material impact on our results of operations or financial condition,

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because substantially all of our lease revenues are derived from month-to-month self-storage leases, and we do not have material amounts of lease expense.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments. The new standard provides guidance on certain specific cash flow issues, including, but not limited to, debt prepayment or extinguishment costs and distributions received from equity method investees. The standard is effective for periods beginning after December 15, 2017, with early adoption permitted and shall be applied retrospectively where practicable. The Company adopted the new guidance effective January 1, 2017 and has elected to use the cumulative earnings approach to classify distributions received from equity method investees. Under the cumulative earnings approach, distributions up to the amount of cumulative equity in earnings recognized will be treated as returns on investment and those in excess of that amount will be treated as returns of investment. The adoption of the cumulative earnings approach had no impact on our consolidated financial statements for the periods presented.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230) - Restricted Cash, which requires the statement of cash flows to explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The new guidance also requires entities to reconcile such total to amounts on the balance sheet and disclose the nature of the restrictions. The standard is effective on January 1, 2018, with early adoption permitted. The standard requires the use of the retrospective transition method. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

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 is 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 net income 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:



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|  | Three Months Ended |      | Six Months Ended |      |
|--|--------------------|------|------------------|------|
|  | June 30,           |      | June 30,         |      |
|  | 2017               | 2016 | 2017             | 2016 |

(Amounts in thousands)

Weighted average common shares and equivalents  
outstanding:

|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Basic weighted average common<br>shares outstanding                      | 173,602 | 173,087 | 173,483 | 173,032 |
| Net effect of dilutive stock options -<br>based on treasury stock method | 473     | 913     | 589     | 893     |
| Diluted weighted average common<br>shares outstanding                    | 174,075 | 174,000 | 174,072 | 173,925 |

## 3.Real Estate Facilities

Activity in real estate facilities during the six months ended June 30, 2017 is as follows:

|   | Six Months<br>Ended<br>June 30, 2017<br>(Amounts in<br>thousands) |
|---|---|
| Operating facilities, at cost:                          |   |
| Beginning balance                                       | \$ 13,963,229   |
| Capital expenditures to maintain real estate facilities | 53,540  |
| Acquisitions  | 31,883  |
| Dispositions  | (1,036)   |
| Newly developed facilities opened for operation         | 110,794   |

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|   |              |
|---|--------------|
| Impact of foreign exchange rate changes         | 929          |
| Ending balance                                  | 14,159,339   |
| Accumulated depreciation:                       |              |
| Beginning balance                               | (5,270,963)  |
| Depreciation expense                            | (210,676)    |
| Dispositions                                    | 123          |
| Impact of foreign exchange rate changes         | (555)        |
| Ending balance                                  | (5,482,071)  |
| Construction in process:                        |              |
| Beginning balance                               | 230,310      |
| Current development                             | 166,880      |
| Newly developed facilities opened for operation | (110,794)    |
| Dispositions                                    | (4,022)      |
| Ending balance                                  | 282,374      |
| Total real estate facilities at June 30, 2017   | \$ 8,959,642 |

During the six months ended June 30, 2017, we acquired seven self-storage facilities (398,000 net rentable square feet), for a total cost of \$34.4 million, in cash. Approximately \$2.5 million of the total cost was allocated to intangible assets. We completed development and redevelopment activities during the six months ended June 30, 2017, adding 736,000 net rentable square feet of self-storage space, at an aggregate cost of

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\$110.8 million. Construction in process at June 30, 2017 consists of projects to develop new self-storage facilities and redevelop existing self-storage facilities, which will add a total of 5.6 million net rentable square feet of storage space at an aggregate estimated cost of approximately \$658.6 million. During the six months ended June 30, 2017, we sold a parcel of land held for development and other portions of real estate facilities in connection with eminent domain proceedings for a total of approximately \$5.9 million in cash proceeds, of which \$0.3 million was collected in 2016, and recorded a related gain on real estate investment sales of approximately \$1.0 million in the three and six months ended June 30, 2017.

## 4. Investments in Unconsolidated Real Estate Entities

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

|                   | Investments in<br>Unconsolidated Real<br>Estate Entities at |                      |
|-------------------|---|----------------------|
|                   | June 30,<br>2017  | December<br>31, 2016 |
| PSB               | \$ 404,610  | \$ 402,765           |
| Shurgard Europe   | 304,217   | 280,019              |
| Other Investments | 6,441   | 6,423                |
| Total             | \$ 715,268  | \$ 689,207           |

|                 | Equity in Earnings of Unconsolidated Real<br>Estate Entities for the |          |                              |           |
|-----------------|--|----------|------------------------------|-----------|
|                 | Three Months Ended<br>June 30,                                       |          | Six Months Ended<br>June 30, |           |
|                 | 2017   | 2016     | 2017                         | 2016      |
| PSB             | \$ 12,733  | \$ 7,869 | \$ 26,433                    | \$ 15,200 |
| Shurgard Europe | 6,650  | 1,706    | 12,241                       | 7,942     |

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|                   |           |           |           |           |
|-------------------|-----------|-----------|-----------|-----------|
| Other Investments | 685       | 652       | 1,343     | 1,249     |
| Total             | \$ 20,068 | \$ 10,227 | \$ 40,017 | \$ 24,391 |

During the six months ended June 30, 2017 and 2016, we received cash distributions from our investments in the Unconsolidated Real Estate Entities totaling \$26.5 million and \$128.0 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, 2017, the cost of our investment in the Unconsolidated Real Estate Entities exceeds our pro rata share of the underlying equity by approximately \$51.0 million (\$54.0 million at December 31, 2016). 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 \$0.7 million and \$0.9 million during the six months ended June 30, 2017 and 2016, 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, 2017 and December 31, 2016, 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, 2017 (\$132.39 per share of PSB common stock), the shares and units we owned had a market value of approximately \$1.9 billion. At June 30, 2017, the adjusted tax basis of our investment in PSB was less than its book value of \$404.6 million.



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

|  | 2017                   | 2016       |
|--|------------------------|------------|
|  | (Amounts in thousands) |            |
| For the six months ended June 30,                                      |                        |            |
| Total revenue  | \$ 200,113             | \$ 192,191 |
| Costs of operations  | (61,283)               | (61,644)   |
| Depreciation and amortization  | (46,706)               | (50,255)   |
| General and administrative   | (5,274)                | (9,012)    |
| Other items  | (716)                  | (4,877)    |
| Gain on real estate investment sales                                   | 5,074                  | -          |
| Net income   | 91,208                 | 66,403     |
| Allocations to preferred shareholders and restricted share unitholders | (26,327)               | (27,924)   |
| Net income allocated to common shareholders and LP Unitholders         | \$ 64,881              | \$ 38,479  |

|                                       | June 30,<br>2017       | December<br>31,<br>2016 |
|---------------------------------------|------------------------|-------------------------|
|                                       | (Amounts in thousands) |                         |
| Total assets (primarily real estate)  | \$ 1,998,058           | \$ 2,119,371            |
| Debt                                  | 101,000                | -                       |
| Preferred stock called for redemption | -                      | 230,000                 |
| Other liabilities                     | 77,643                 | 78,657                  |

|                            |         |         |
|----------------------------|---------|---------|
| Equity:                    |         |         |
| Preferred stock            | 879,750 | 879,750 |
| Common equity and LP units | 939,665 | 930,964 |

#### 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 and 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 are classified as interest and other income on our income statement.

Changes in foreign currency exchange rates increased our investment in Shurgard Europe by approximately \$12.6 million and decreased it by \$8.7 million in the six months ended June 30, 2017 and 2016, respectively.

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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|   | 2017                   | 2016       |
|---|------------------------|------------|
|   | (Amounts in thousands) |            |
| For the six months ended June 30,                 |                        |            |
| Self-storage and ancillary revenues               | \$ 124,886             | \$ 125,546 |
| Self-storage and ancillary cost of operations     | (46,539)               | (49,828)   |
| Depreciation and amortization                     | (29,578)               | (34,555)   |
| General and administrative                        | (6,376)                | (7,006)    |
| Interest expense on third party debt              | (10,099)               | (10,381)   |
| Trademark license fee payable to Public Storage   | (1,249)                | (1,265)    |
| Income tax expense                                | (7,092)                | (5,650)    |
| Foreign exchange loss                             | (220)                  | (1,919)    |
| Net income  | \$ 23,733              | \$ 14,942  |
| Average exchange rates of Euro to the U.S. Dollar | 1.082                  | 1.116      |

|  | June 30,<br>2017       | December<br>31,<br>2016 |
|--|------------------------|-------------------------|
|  | (Amounts in thousands) |                         |
| Total assets (primarily self-storage facilities) | \$ 1,376,966           | \$ 1,261,912            |
| Total debt to third parties                      | 720,509                | 666,926                 |
| Other liabilities                                | 116,085                | 106,916                 |
| Equity   | 540,372                | 488,070                 |
| Exchange rate of Euro to U.S. Dollar             | 1.142                  | 1.052                   |

## 5. Borrowings

### Credit Facility

We have a revolving credit agreement (the “Credit Facility”) with a \$500 million borrowing limit, 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, 2017). We are also 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, 2017). At June 30, 2017, we had no outstanding borrowings under this Credit Facility. At July 28, 2017, outstanding borrowings under this Credit Facility totaled \$55.2 million. We had undrawn standby letters of credit, which reduce our borrowing capacity, totaling \$15.4 million at June 30, 2017 (\$15.2 million at December 31, 2016). The Credit Facility has various customary restrictive covenants, all of which we were in compliance with at June 30, 2017.

### Senior Unsecured Notes

At June 30, 2017 and December 31, 2016, we had €342.0 million (\$390.7 million) and €342.0 million (\$359.8 million), respectively, of Euro-denominated senior unsecured notes payable (collectively, the “Senior Unsecured Notes”) to institutional investors. The Senior Unsecured Notes consists of two tranches, (i) €242.0 million (2.175% fixed rate of interest) which was issued on November 3, 2015 for \$264.3 million in

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net proceeds upon converting the Euros to U.S. Dollars, 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 \$403.3 million at June 30, 2017 (\$381.8 million at December 31, 2016).

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 (loss) gain” on our income statement (losses of \$25.4 million and \$31.0 million for the three and six months ended June 30, 2017, respectively, as compared to a gain of \$8.6 million and a loss of \$2.3 million for the same periods in 2016, respectively). The Senior Unsecured Notes have various customary financial covenants, all of which we were in compliance with at June 30, 2017.

## Mortgage Notes

The carrying amounts of our mortgage notes (the “Mortgage Notes”) at June 30, 2017 and December 31, 2016, totaled \$30.1 million and \$30.9 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, 2017, the notes are secured by 30 real estate facilities with a net book value of approximately \$119.8 million, have contractual interest rates between 2.9% and 7.1%, and mature between November 2018 and September 2028.

At June 30, 2017, approximate principal maturities of our Senior Unsecured Notes and Mortgage Notes are (amounts in thousands):

|                                 | Senior<br>Unsecured<br>Notes | Mortgage<br>Notes | Total      |
|---------------------------------|------------------------------|-------------------|------------|
| Remainder of 2017               | \$ -                         | \$ 857            | \$ 857     |
| 2018                            | -                            | 11,241            | 11,241     |
| 2019                            | -                            | 1,505             | 1,505      |
| 2020                            | -                            | 1,585             | 1,585      |
| 2021                            | -                            | 1,503             | 1,503      |
| Thereafter                      | 390,692                      | 13,395            | 404,087    |
|                                 | \$ 390,692                   | \$ 30,086         | \$ 420,778 |
| Weighted average effective rate | 2.0%                         | 4.0%              | 2.1%       |

Cash paid for interest totaled \$4.3 million and \$4.7 million for the six months ended June 30, 2017 and 2016, respectively. Interest capitalized as real estate totaled \$2.1 million and \$2.6 million for the six months ended June 30, 2017 and 2016, respectively.

## 6. Noncontrolling Interests

At June 30, 2017, the noncontrolling interests represent (i) third-party equity interests in subsidiaries owning 11 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, 2017, 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, 2017 and 2016, we allocated a total of \$3.1 million and \$3.2 million, respectively, of income to these interests; and we paid \$3.7 million and \$3.6 million, respectively, in distributions to these interests.

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During the six months ended June 30, 2017, we acquired Noncontrolling Interests for \$14.4 million (none in the six months ended June 30, 2016), in cash, of which \$7.7 million was allocated to Paid-in capital and \$6.7 million as a reduction to Noncontrolling Interests. During the six months ended June 30, 2017 and 2016, Noncontrolling Interests contributed \$0.6 million and \$2.7 million, respectively.

## 7.Shareholders' Equity

## Preferred Shares

At June 30, 2017 and December 31, 2016, we had the following series of Cumulative Preferred Shares ("Preferred Shares") outstanding:

| Series                 | Earliest Redemption Date | Dividend Rate | At June 30, 2017              |                        | At December 31, 2016 |                        |
|------------------------|--------------------------|---------------|-------------------------------|------------------------|----------------------|------------------------|
|                        |                          |               | Shares Outstanding            | Liquidation Preference | Shares Outstanding   | Liquidation Preference |
|                        |                          |               | (Dollar amounts in thousands) |                        |                      |                        |
| Series S               | 1/12/2017                | 5.900%        | -                             | \$ -                   | 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                | 12,000               | 300,000                |
| Series C               | 5/17/2021                | 5.125%        | 8,000                         | 200,000                | 8,000                | 200,000                |
| Series D               | 7/20/2021                | 4.950%        | 13,000                        | 325,000                | 13,000               | 325,000                |
| Series E               | 10/14/2021               | 4.900%        | 14,000                        | 350,000                | 14,000               | 350,000                |
| Series F               | 6/2/2022                 | 5.150%        | 11,200                        | 280,000                | -                    | -                      |
| Total Preferred Shares |                          |               | 167,500                       | \$ 4,187,500           | 174,700              | \$ 4,367,500           |

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 of trustees (the "Board") until the arrearage has been cured. At June 30, 2017, 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.



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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.

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. 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.

On June 2, 2017, we issued 11.2 million depositary shares, each representing 1/1,000 of a share of our 5.150% Series F Preferred Shares, at an issuance price of \$25.00 per depositary share, for a total of \$280.0 million in gross proceeds, and we incurred \$8.9 million in issuance costs.

In June 2017, we called for redemption of, and on July 26, 2017, we redeemed our 5.900% Series S Preferred Shares, at par. The liquidation value (at par) of \$460.0 million was reclassified as a liability at June 30, 2017. We recorded a \$14.6 million allocation of income from our common shareholders to the holders of our Preferred Shares in the three and six months ended June 30, 2017 in connection with this redemption.

Common share dividends, including amounts paid to our restricted share unitholders, totaled \$348.4 million (\$2.00 per share) and \$312.5 million (\$1.80 per share) for the three months ended June 30, 2017 and 2016, respectively, and \$696.6 million (\$4.00 per share) and \$607.6 million (\$3.50 per share) for the six months ended June 30, 2017 and 2016, respectively. Preferred share dividends totaled \$61.3 million and \$59.2 million for the three months ended June 30, 2017 and 2016, respectively, and \$121.4 million and \$121.5 million for the six months ended June 30, 2017 and 2016, 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, collectively own approximately 14.3% of our common shares outstanding at June 30, 2017.

At June 30, 2017, B. Wayne Hughes and Tamara Hughes Gustavson together owned and controlled 57 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. 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. Our subsidiaries reinsure risks relating to loss of goods stored by customers in these facilities, and have

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June 30, 2017

(Unaudited)

received approximately \$481,000 and \$326,000 for the six months ended June 30, 2017 and 2016, respectively. Our right to continue receiving these premiums may be qualified.

### 9.Share-Based Compensation

Under various share-based compensation plans and under terms established by our Board 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.

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).

In amortizing share-based compensation expense, we do not estimate future forfeitures in advance. Instead, we reverse previously amortized share-based compensation expense with respect to grants that are forfeited in the period the employee terminates employment.

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.

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, 2017, we recorded \$1.0 million and \$2.8 million, respectively, in compensation expense related to stock options, as compared to \$1.0 million and \$1.9 million, for the same periods in 2016. Amounts for the three and six months ended June 30, 2017 reflect a reduction in compensation expense of \$0.8 million related to stock options forfeited during the period.

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During the six months ended June 30, 2017, 1,076,000 stock options were granted, 352,295 options were exercised and 200,000 options were forfeited. A total of 2,519,145 stock options were outstanding at June 30, 2017 (1,995,440 at December 31, 2016).

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June 30, 2017

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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, 2017, 194,427 RSUs were granted, 73,994 RSUs were forfeited and 106,068 RSUs vested. This vesting resulted in the issuance of 58,356 common shares. In addition, tax deposits totaling \$11.8 million (\$13.3 million for the same period in 2016) were made on behalf of employees in exchange for 47,712 common shares withheld upon vesting. A total of 711,006 RSUs were outstanding at June 30, 2017 (696,641 at December 31, 2016).

A total of \$3.3 million and \$10.4 million in RSU expense was recorded for the three and six months ended June 30, 2017, which includes approximately \$0.1 million and \$0.6 million in employer taxes incurred upon vesting, as compared to \$7.5 million and \$14.5 million for the same periods in 2016, which includes approximately \$0.1 million and \$1.0 million, respectively, in employer taxes incurred upon vesting. Amounts for the three and six months ended June 30, 2017 reflect a reduction in RSU expense of \$4.6 million related to RSUs forfeited during the period.

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."

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.

#### 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

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(Unaudited)

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 is 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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June 30, 2017

(Unaudited)

Three months ended June 30, 2017

|  | Self-Storage<br>Operations<br>(Amounts in thousands) | Ancillary<br>Operations | Investment<br>in PSB | Investment<br>in<br>Shurgard<br>Europe | Other<br>Items Not<br>Allocated<br>to<br>Segments | Total      |
|--|--|-------------------------|----------------------|--|---|------------|
| <b>Revenues:</b>   |  |                         |                      |  |   |            |
| Self-storage operations                                      | \$ 624,199   | \$ -                    | \$ -                 | \$ -                                   | \$ -  | \$ 624,199 |
| Ancillary operations   | -  | 40,113                  | -                    | -                                      | -   | 40,113     |
|  | 624,199  | 40,113                  | -                    | -                                      | -   | 664,312    |
| <b>Cost of operations:</b>                                   |  |                         |                      |  |   |            |
| Self-storage operations                                      | 171,195  | -                       | -                    | -                                      | -   | 171,195    |
| Ancillary operations   | -  | 11,383                  | -                    | -                                      | -   | 11,383     |
|  | 171,195  | 11,383                  | -                    | -                                      | -   | 182,578    |
| <b>Net operating income:</b>                                 |  |                         |                      |  |   |            |
| Self-storage operations                                      | 453,004  | -                       | -                    | -                                      | -   | 453,004    |
| Ancillary operations   | -  | 28,730                  | -                    | -                                      | -   | 28,730     |
|  | 453,004  | 28,730                  | -                    | -                                      | -   | 481,734    |
| <b>Other components of net income (loss):</b>                |  |                         |                      |  |   |            |
| Depreciation and amortization                                | (110,177)  | -                       | -                    | -                                      | -   | (110,177)  |
| General and administrative                                   | -  | -                       | -                    | -                                      | (14,992)  | (14,992)   |
| Interest and other income                                    | -  | -                       | -                    | -                                      | 4,155   | 4,155      |
| Interest expense   | -  | -                       | -                    | -                                      | (1,116)   | (1,116)    |
| Equity in earnings of<br>unconsolidated real estate entities | -  | -                       | 12,733               | 6,650                                  | 685   | 20,068     |
| Foreign currency exchange loss                               | -  | -                       | -                    | -                                      | (25,440)  | (25,440)   |
| Gain on real estate investment sales                         | -  | -                       | -                    | -                                      | 975   | 975        |
| Net income (loss)  | \$ 342,827   | \$ 28,730               | \$ 12,733            | \$ 6,650                               | \$ (35,733)                                       | \$ 355,207 |





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## NOTES TO FINANCIAL STATEMENTS

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Three months ended June 30, 2016

|  | Self-Storage<br>Operations<br>(Amounts in thousands) | Ancillary<br>Operations | Investment<br>in PSB | Investment<br>in<br>Shurgard<br>Europe | Other<br>Items Not<br>Allocated<br>to<br>Segments | Total      |
|--|--|-------------------------|----------------------|--|---|------------|
| <b>Revenues:</b>   |  |                         |                      |  |   |            |
| Self-storage operations                                      | \$ 594,387   | \$ -                    | \$ -                 | \$ -                                   | \$ -  | \$ 594,387 |
| Ancillary operations   | -  | 39,801                  | -                    | -                                      | -   | 39,801     |
|  | 594,387  | 39,801                  | -                    | -                                      | -   | 634,188    |
| <b>Cost of operations:</b>                                   |  |                         |                      |  |   |            |
| Self-storage operations                                      | 157,687  | -                       | -                    | -                                      | -   | 157,687    |
| Ancillary operations   | -  | 14,317                  | -                    | -                                      | -   | 14,317     |
|  | 157,687  | 14,317                  | -                    | -                                      | -   | 172,004    |
| <b>Net operating income:</b>                                 |  |                         |                      |  |   |            |
| Self-storage operations                                      | 436,700  | -                       | -                    | -                                      | -   | 436,700    |
| Ancillary operations   | -  | 25,484                  | -                    | -                                      | -   | 25,484     |
|  | 436,700  | 25,484                  | -                    | -                                      | -   | 462,184    |
| <b>Other components of net income<br/>(loss):</b>            |  |                         |                      |  |   |            |
| 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<br>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 |



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## NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(Unaudited)

Six months ended June 30, 2017

|  | Self-Storage<br>Operations<br>(Amounts in thousands) | Ancillary<br>Operations | Investment<br>in PSB | Investment<br>in<br>Shurgard<br>Europe | Other<br>Items Not<br>Allocated<br>to<br>Segments | Total        |
|--|--|-------------------------|----------------------|--|---|--------------|
| <b>Revenues:</b>   |  |                         |                      |  |   |              |
| Self-storage operations                                      | \$ 1,231,977   | \$ -                    | \$ -                 | \$ -                                   | \$ -  | \$ 1,231,977 |
| Ancillary operations   | -  | 77,882                  | -                    | -                                      | -   | 77,882       |
|  | 1,231,977  | 77,882                  | -                    | -                                      | -   | 1,309,859    |
| <b>Cost of operations:</b>                                   |  |                         |                      |  |   |              |
| Self-storage operations                                      | 343,173  | -                       | -                    | -                                      | -   | 343,173      |
| Ancillary operations   | -  | 22,307                  | -                    | -                                      | -   | 22,307       |
|  | 343,173  | 22,307                  | -                    | -                                      | -   | 365,480      |
| <b>Net operating income:</b>                                 |  |                         |                      |  |   |              |
| Self-storage operations                                      | 888,804  | -                       | -                    | -                                      | -   | 888,804      |
| Ancillary operations   | -  | 55,575                  | -                    | -                                      | -   | 55,575       |
|  | 888,804  | 55,575                  | -                    | -                                      | -   | 944,379      |
| <b>Other components of net income (loss):</b>                |  |                         |                      |  |   |              |
| Depreciation and amortization                                | (221,106)  | -                       | -                    | -                                      | -   | (221,106)    |
| General and administrative                                   | -  | -                       | -                    | -                                      | (40,020)  | (40,020)     |
| Interest and other income                                    | -  | -                       | -                    | -                                      | 8,153   | 8,153        |
| Interest expense   | -  | -                       | -                    | -                                      | (2,164)   | (2,164)      |
| Equity in earnings of<br>unconsolidated real estate entities | -  | -                       | 26,433               | 12,241                                 | 1,343   | 40,017       |
| Foreign currency exchange loss                               | -  | -                       | -                    | -                                      | (31,006)  | (31,006)     |
| Gain on real estate investment sales                         | -  | -                       | -                    | -                                      | 975   | 975          |
| Net income (loss)  | \$ 667,698   | \$ 55,575               | \$ 26,433            | \$ 12,241                              | \$ (62,719)                                       | \$ 699,228   |



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## NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(Unaudited)

Six months ended June 30, 2016

|  | Self-Storage<br>Operations<br>(Amounts in thousands) | Ancillary<br>Operations | Investment<br>in PSB | Investment<br>in<br>Shurgard<br>Europe | Other<br>Items Not<br>Allocated<br>to<br>Segments | Total        |
|--|--|-------------------------|----------------------|--|---|--------------|
| 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<br>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   |



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NOTES TO FINANCIAL STATEMENTS

June 30, 2017

(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 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 \$25.0 million and \$2.0 million, respectively, per occurrence. The aggregate limits on these policies of \$75.0 million for property losses and \$102.0 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, 2017, there were approximately 936,000 certificates held by our self-storage customers, representing aggregate coverage of approximately \$2.9 billion.

12. Subsequent Events

Subsequent to June 30, 2017, we acquired or were under contract to acquire (subject to customary closing conditions) seven self-storage facilities, with 432,000 net rentable square feet, for \$47.1 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," "should," "estimates" and similar expressions.

These forward-looking statements involve known and unknown 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 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 28, 2017 and in our other filings with the SEC including:

- general risks associated with the ownership and operation of real estate, including changes in demand, risk 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 real estate investment trust ("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;
- 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 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 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 MD&A discusses our financial statements, which 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, 2017 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, certain of our consolidated corporate subsidiaries have elected to be treated as "taxable REIT subsidiaries" for federal income tax purposes, which are taxable as regular corporations and subject to certain limitations on intercompany transactions. If tax authorities determine that amounts paid by our taxable REIT subsidiaries to us are not reasonable 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. We estimate such liabilities based upon many factors such as assumptions of past and future trends and our evaluation of likely outcomes. However, the estimates of known liabilities could be incorrect or we may not be aware of all such liabilities, in which case our accrued liabilities and net income could be misstated.

**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 generate most of our net income, and we believe that our earnings growth is most impacted by the level of organic growth in our existing self-storage portfolio. Accordingly, a significant portion of management's time is devoted to maximizing cash flows from our existing 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 organically as well as through the acquisition and development of additional facilities. Since the beginning of 2015 through June 30, 2017, we acquired a total of 79 facilities with 5.8 million net rentable square feet from third parties for approximately \$632.3 million, and since January 1, 2013, we opened newly developed and redeveloped self-storage space for a total cost of \$686.6 million, adding approximately 6.1 million net rentable square feet.

Subsequent to June 30, 2017, we acquired or were under contract to acquire (subject to customary closing conditions) seven self-storage facilities for \$47.1 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.

As of June 30, 2017, we had additional development projects which will add approximately 5.6 million net rentable square feet at a total cost of approximately \$658.6 million. We expect to continue to seek additional development projects; however, the level of future development may be limited due to various constraints such as difficulty in finding available sites that meet our risk-adjusted yield expectations, as well as challenges in obtaining building permits for self-storage activities in certain municipalities.

We believe that our development and redevelopment activities are beneficial to our business over the long run. However, in the short run, such activities dilute our earnings due to the three to four year period that it takes to fill up newly developed and redeveloped storage facilities and reach a stabilized level of cash flows offset by the cost of capital to fund the cost, combined with related overhead expenses flowing through general and administrative expense. We believe this dilution will increase in 2017 and beyond, because of an increased level of net rentable square feet being added to our portfolio due to continued development efforts.

As of June 30, 2017, our capital resources over the next year are expected to be approximately \$1.1 billion which exceeds our current planned capital needs over the next year of approximately \$885.0 million. Our capital resources include: (i) \$358.3 million of cash as of June 30, 2017, (ii) \$484.6 million of available borrowing capacity on our revolving line of credit, and (iii) approximately \$250.0 million of expected retained operating cash flow for the next twelve months. Retained operating cash flow represents our expected cash flow provided by operating activities, less shareholder distributions and capital expenditures to maintain our real estate facilities.

Our planned capital needs over the next year consist of (i) \$376.2 million of remaining spend on our current development pipeline, (ii) \$47.1 million in property acquisitions currently under contract, (iii) \$1.7 million in principal repayments on existing debt, and (iv) \$460.0 million for the redemption of our Series S Preferred Shares on July 26, 2017. Our capital needs may increase significantly over the next year as we expect to increase our development pipeline and acquire additional properties. We may also redeem outstanding preferred securities or repurchase shares of our common stock in the future.

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, 2017 and 2016

For the three months ended June 30, 2017, net income allocable to our common shareholders was \$276.7 million or \$1.59 per diluted common share, compared to \$280.8 million or \$1.61 in 2016, representing a decrease of \$4.1 million or \$0.02. The decrease is due primarily to a \$34.1 million increase in foreign exchange translation losses associated with our euro denominated debt partially offset by a \$16.3 million increase in self-storage net operating income and a \$9.8 million increase in equity in earnings of real estate entities.

The \$16.3 million increase in self-storage net operating income is a result of a \$10.2 million increase in our Same Store Facilities (as defined below) and a \$6.1 million increase in our Non Same Store Facilities (as defined below). Revenues for the Same Store Facilities increased 3.3% or \$17.8 million in the three months ended June 30, 2017 as compared to 2016, due primarily to higher realized annual rent per occupied square foot. Cost of operations for the Same Store Facilities increased by 5.4% or \$7.6 million in the three months ended June 30, 2017 as compared to 2016, due primarily to increased property taxes, repairs and maintenance and advertising and selling costs. The increase in net operating income for the Non Same Store Facilities is due primarily to the impact of 292 self-storage facilities acquired, developed or expanded since January 2015.

For the six months ended June 30 2017, net income allocable to our common shareholders was \$557.8 million or \$3.20 per diluted common share, compared to \$522.1 million or \$3.00 in 2016, representing an increase of \$35.7 million or \$0.20. The increase is due primarily to a \$37.4 million increase in self-storage net operating income, a \$15.6 million increase in equity in earnings of real estate entities and a \$12.2 million decrease in EITF D-42 charges as a result of our preferred redemption activities in 2017 compared to 2016 partially offset by a \$28.7 million increase in foreign exchange translation losses associated with our euro denominated debt.

The \$37.4 million increase in self-storage net operating income is a result of a \$25.4 million increase in our Same Store Facilities and \$12.0 million increase in our Non Same Store Facilities. Revenues for the Same Store Facilities increased 3.7% or \$38.6 million in the six months ended June 30, 2017 as compared to 2016, due primarily to higher realized annual rent per occupied square foot. Cost of operations for the Same Store Facilities increased by 4.7% or \$13.2 million in the six months ended June 30, 2017 as compared to 2016, due primarily to increased property taxes, repairs and maintenance and advertising and selling costs. The increase in net operating income for the Non Same Store Facilities is due primarily to the impact of 292 self-storage facilities acquired, developed or expanded since January 2015.

## 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 or 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 investing and 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, 2017, FFO was \$2.31 per diluted common share, as compared to \$2.34 for the same period in 2016, representing a decrease of 1.3%, or \$0.03 per diluted common share.

For the six months ended June 30, 2017, FFO was \$4.65 per diluted common share, as compared to \$4.43 for the same period in 2016, representing an increase of 5.0%, or \$0.22 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<br>June 30,                |            | Six Months Ended<br>June 30, |            |
|--|---|------------|------------------------------|------------|
|  | 2017  | 2016       | 2017                         | 2016       |
|  | (Amounts in thousands, except per share data) |            |                              |            |
| Reconciliation of Diluted Earnings per Share to FFO per Share:                                   |   |            |                              |            |
| Diluted Earnings per Share   | \$ 1.59                                       | \$ 1.61    | \$ 3.20                      | \$ 3.00    |
| Eliminate amounts per share excluded from FFO:   |   |            |                              |            |
| Depreciation and amortization allocable to common shareholders                                   | 0.73  | 0.72       | 1.46                         | 1.43       |
| Gains on sale of real estate investments, including our equity share from investments, and other | (0.01)  | 0.01       | (0.01)                       | -          |
| FFO per share  | \$ 2.31                                       | \$ 2.34    | \$ 4.65                      | \$ 4.43    |
| Computation of FFO per Share:  |   |            |                              |            |
| Net income allocable to common shareholders  | \$ 276,681                                    | \$ 280,775 | \$ 557,812                   | \$ 522,110 |
| Eliminate items excluded from FFO:   |   |            |                              |            |
| Depreciation and amortization  | 110,177                                       | 107,013    | 221,106                      | 212,141    |
| Depreciation from unconsolidated real estate investments   | 17,368  | 19,454     | 34,581                       | 38,991     |
| Depreciation allocated to noncontrolling interests and restricted share unitholders              | (837)   | (876)      | (1,799)                      | (1,758)    |
| Gains on sale of real estate investments, including our equity share from investments            | (1,466)                                       | -          | (3,077)                      | (689)      |
| FFO allocable to common shares   | \$ 401,923                                    | \$ 406,366 | \$ 808,623                   | \$ 770,795 |
| Diluted weighted average common shares   | 174,075                                       | 174,000    | 174,072                      | 173,925    |
| FFO per share  | \$ 2.31                                       | \$ 2.34    | \$ 4.65                      | \$ 4.43    |

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) reversals of accruals with respect to share based awards forfeited by executive officers and (iv) certain other

non-cash 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:

|  | Three Months Ended June 30, |         |                   | Six Months Ended June 30, |         |                   |
|--|-----------------------------|---------|-------------------|---------------------------|---------|-------------------|
|  | 2017                        | 2016    | Percentage Change | 2017                      | 2016    | Percentage Change |
| FFO per share  | \$ 2.31                     | \$ 2.34 | (1.3)%            | \$ 4.65                   | \$ 4.43 | 5.0%              |
| Eliminate the per share impact of items excluded from Core FFO, including our equity share from investments: |                             |         |                   |                           |         |                   |
| Foreign currency exchange loss (gain)  | 0.15                        | (0.04)  |                   | 0.18                      | 0.01    |                   |
| Application of EITF D-42   | 0.08                        | 0.09    |                   | 0.08                      | 0.15    |                   |
| Reversals of accruals on forfeited executive share-based awards  | (0.03)                      | -       |                   | (0.03)                    | -       |                   |
| Other items  | -                           | 0.01    |                   | -                         | 0.02    |                   |
| Core FFO per share   | \$ 2.51                     | \$ 2.40 | 4.6%              | \$ 4.88                   | \$ 4.61 | 5.9%              |

#### 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, 2017 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 2,055 facilities that we have owned and operated on a stabilized basis since January 1, 2015 (the “Same Store Facilities”), and (ii) all other facilities, which are newly acquired, newly developed, or recently redeveloped (the “Non Same Store Facilities”). See Note 10 to our June 30, 2017 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, |              |                   |
|--|-----------------------------|------------|-------------------|---------------------------|--------------|-------------------|
|  | 2017                        | 2016       | Percentage Change | 2017                      | 2016         | Percentage Change |
| (Dollar amounts in thousands)                                    |                             |            |                   |                           |              |                   |
| <b>Revenues:</b>   |                             |            |                   |                           |              |                   |
| Same Store Facilities  | \$ 550,018                  | \$ 532,227 | 3.3%              | \$ 1,087,163              | \$ 1,048,533 | 3.7%              |
| Non Same Store Facilities  | 74,181                      | 62,160     | 19.3%             | 144,814                   | 120,440      | 20.2%             |
|  | 624,199                     | 594,387    | 5.0%              | 1,231,977                 | 1,168,973    | 5.4%              |
| <b>Cost of operations:</b>                                       |                             |            |                   |                           |              |                   |
| Same Store Facilities  | 147,305                     | 139,735    | 5.4%              | 296,312                   | 283,076      | 4.7%              |
| Non Same Store Facilities  | 23,890                      | 17,952     | 33.1%             | 46,861                    | 34,474       | 35.9%             |
|  | 171,195                     | 157,687    | 8.6%              | 343,173                   | 317,550      | 8.1%              |
| <b>Net operating income (a):</b>                                 |                             |            |                   |                           |              |                   |
| Same Store Facilities  | 402,713                     | 392,492    | 2.6%              | 790,851                   | 765,457      | 3.3%              |
| Non Same Store Facilities  | 50,291                      | 44,208     | 13.8%             | 97,953                    | 85,966       | 13.9%             |
| Total net operating income                                       | 453,004                     | 436,700    | 3.7%              | 888,804                   | 851,423      | 4.4%              |
| <b>Depreciation and amortization expense:</b>                    |                             |            |                   |                           |              |                   |
| Same Store Facilities  | (88,124)                    | (89,998)   | (2.1)%            | (175,303)                 | (179,665)    | (2.4)%            |
| Non Same Store Facilities  | (22,053)                    | (17,015)   | 29.6%             | (45,803)                  | (32,476)     | 41.0%             |
| Total depreciation and amortization expense                      | (110,177)                   | (107,013)  | 3.0%              | (221,106)                 | (212,141)    | 4.2%              |
| <b>Net income:</b>   |                             |            |                   |                           |              |                   |
| Same Store Facilities  | 314,589                     | 302,494    | 4.0%              | 615,548                   | 585,792      | 5.1%              |
| Non Same Store Facilities  | 28,238                      | 27,193     | 3.8%              | 52,150                    | 53,490       | (2.5)%            |
| Total net income   | \$ 342,827                  | \$ 329,687 | 4.0%              | \$ 667,698                | \$ 639,282   | 4.4%              |
| <b>Number of facilities at period end:</b>                       |                             |            |                   |                           |              |                   |
| Same Store Facilities  |                             |            |                   | 2,055                     | 2,055        | -                 |
| Non Same Store Facilities  |                             |            |                   | 292                       | 244          | 19.7%             |
| <b>Net rentable square footage at period end (in thousands):</b> |                             |            |                   |                           |              |                   |
| Same Store Facilities  |                             |            |                   | 131,275                   | 131,275      | -                 |
| Non Same Store Facilities  |                             |            |                   | 23,617                    | 19,059       | 23.9%             |

(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 property 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, 2017 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 3.7% and 4.4% in the three and six months ended June 30, 2017 as compared to the same periods in 2016. These increases are due to higher revenues in our Same Store Facilities, as well as the acquisition and development of new facilities and the fill-up of unstabilized facilities.

## Same Store Facilities

The Same Store Facilities represent those facilities that have been owned and operated at a stabilized level of occupancy, revenues and cost of operations since January 1, 2015. We review the operations of our Same Store Facilities, which excludes facilities whose operating trends are significantly affected by factors such as casualty events, as well as recently developed or acquired facilities, to more effectively evaluate the ongoing performance of our self-storage portfolio in 2015, 2016, and 2017. The Same Store pool decreased from 2,060 facilities at March 31, 2017 to 2,055 facilities at June 30, 2017. We believe the Same Store information is used by investors and analysts in a similar manner. The following table summarizes the historical operating results of these 2,055 facilities (131.3 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, 2017.

## Selected Operating Data for the Same Store Facilities (2,055 facilities)

|  | Three Months Ended June 30, |            |                   | Six Months Ended June 30, |              |                   |
|--|-----------------------------|------------|-------------------|---------------------------|--------------|-------------------|
|  | 2017                        | 2016       | Percentage Change | 2017                      | 2016         | Percentage Change |
| (Dollar amounts in thousands, except weighted average amounts) |                             |            |                   |                           |              |                   |
| <b>Revenues:</b>   |                             |            |                   |                           |              |                   |
| Rental income  | \$ 526,151                  | \$ 508,619 | 3.4%              | \$ 1,039,200              | \$ 1,000,740 | 3.8%              |
| Late charges and administrative fees                           | 23,867                      | 23,608     | 1.1%              | 47,963                    | 47,793       | 0.4%              |
| Total revenues (a)   | 550,018                     | 532,227    | 3.3%              | 1,087,163                 | 1,048,533    | 3.7%              |
| <b>Cost of operations:</b>                                     |                             |            |                   |                           |              |                   |
| Property taxes   | 56,557                      | 54,101     | 4.5%              | 112,794                   | 107,982      | 4.5%              |
| On-site property manager payroll                               | 27,481                      | 27,822     | (1.2)%            | 54,924                    | 55,604       | (1.2)%            |
| Supervisory payroll  | 9,896                       | 9,682      | 2.2%              | 20,030                    | 19,049       | 5.1%              |
| Repairs and maintenance  | 11,431                      | 10,679     | 7.0%              | 23,165                    | 22,175       | 4.5%              |
| Utilities  | 9,305                       | 9,072      | 2.6%              | 19,490                    | 19,469       | 0.1%              |
| Advertising and selling expense                                | 8,104                       | 5,721      | 41.7%             | 14,894                    | 10,948       | 36.0%             |
| Other direct property costs                                    | 14,674                      | 13,891     | 5.6%              | 29,320                    | 27,965       | 4.8%              |
| Allocated overhead   | 9,857                       | 8,767      | 12.4%             | 21,695                    | 19,884       | 9.1%              |
| Total cost of operations (a)                                   | 147,305                     | 139,735    | 5.4%              | 296,312                   | 283,076      | 4.7%              |
| Net operating income   | 402,713                     | 392,492    | 2.6%              | 790,851                   | 765,457      | 3.3%              |
| Depreciation and amortization expense                          | (88,124)                    | (89,998)   | (2.1)%            | (175,303)                 | (179,665)    | (2.4)%            |
| Net income   | \$ 314,589                  | \$ 302,494 | 4.0%              | \$ 615,548                | \$ 585,792   | 5.1%              |
| Gross margin (before depreciation and amortization expense)    | 73.2%                       | 73.7%      | (0.7)%            | 72.7%                     | 73.0%        | (0.4)%            |
| <b>Weighted average for the period:</b>                        |                             |            |                   |                           |              |                   |
| Square foot occupancy  | 94.5%                       | 95.4%      | (0.9)%            | 93.8%                     | 94.5%        | (0.7)%            |

Realized annual rental income per (b):

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|                       |          |          |      |          |          |      |
|-----------------------|----------|----------|------|----------|----------|------|
| Occupied square foot  | \$ 16.97 | \$ 16.26 | 4.4% | \$ 16.89 | \$ 16.14 | 4.6% |
| Available square foot | \$ 16.03 | \$ 15.50 | 3.4% | \$ 15.83 | \$ 15.25 | 3.8% |

At June 30:

|   |  |  |  |          |          |        |
|---|--|--|--|----------|----------|--------|
| Square foot occupancy                             |  |  |  | 94.6%    | 95.3%    | (0.7)% |
| Annual contract rent per occupied square foot (c) |  |  |  | \$ 17.66 | \$ 17.05 | 3.6%   |

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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 agreed upon monthly rate that is paid by our tenants in place at the time of measurement. Contract rates are initially set in the lease agreement upon move-in, and we adjust them from time to time with notice. Contract rent excludes other fees that are charged on a per-item basis, such as late charges and administrative fees, does not reflect the impact of promotional discounts, and does not reflect the impact of rents that are written off as uncollectible.

#### Analysis of Same Store Revenue

Revenues generated by our Same Store Facilities increased by 3.3% and 3.7% in the three and six months ended June 30, 2017 as compared to the same periods in 2016, due primarily to increases of 4.4% and 4.6% for the respective periods in realized annual rental income per occupied square foot.

Year-over-year growth in our Same Store revenues has declined from 6.3% in the second quarter of 2016 as compared to the same period in 2015, to 3.3% in the second quarter of 2017 as compared to the same period in 2016. We are experiencing softness in demand in substantially all of our major markets, which has led to a lack of pricing power with respect to new tenants. We attribute some of this softness to local economic conditions and, in some markets most notably Dallas, Houston, Chicago, Denver, Miami, and New York, increased supply of newly constructed self-storage facilities.

Same Store weighted average square foot occupancy was 94.5% and 93.8% during the three and six months ended June 30, 2017 and 2016, respectively, as compared to 95.4% and 94.5% during the same periods in 2016. At June 30, 2017, occupancy was 0.7% lower than the occupancy at June 30, 2016. 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.

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. Rental rate increases to existing tenants in the three and six months ended June 30, 2017 have been similar to the same periods in 2016, and we expect rate increases to existing tenants in the remainder of 2017 to be similar to the same period in 2016.

Annual contract rent per occupied foot increased 3.6% from June 30, 2016 to June 30, 2017, as compared to a 5.1% increase from December 31, 2015 to December 31, 2016. These year-over-year increases were primarily driven by annual rate increases given to existing tenants, partially offset by the net impact of replacing vacating tenants with new tenants with lower contract rates, or “rent roll down.” The reduction in the year over year growth in average

contract rent per occupied foot to 3.6% from 5.1% is due primarily to a greater degree of rent roll down.

During the three months ended June 30, 2017, the contract rent for tenants who moved in decreased 2.2% to \$15.08 per foot as compared to \$15.42 for the same period in 2016, and the contract rent for tenants who moved out increased 3.5% to \$15.92 per foot as compared to \$15.38 per foot for the same period in 2016. During the six months ended June 30, 2017, the contract rent for tenants who moved in decreased 0.8% to \$14.64 per foot as

compared to \$14.75 per foot for the same period in 2016, and the contract rent for tenants who moved out increased 3.4% to \$15.81 per foot as compared to \$15.28 per foot for the same period in 2016.

In order to stimulate move-in volume, we often give promotional discounts, generally in the form of a "\$1.00 rent for the first month" offer. Promotional discounts, based upon the move-in contractual rates for the related promotional period, totaled \$21.5 million and \$41.7 million for the three and six months ended June 30, 2017, respectively, as compared to \$21.6 million and \$42.4 million for the same periods in 2016.

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. Demand fluctuates due to various local and regional factors, including the overall economy. Demand into our system is also impacted by new supply of self-storage space as well as alternatives to self-storage.

We believe rental growth in the remainder of 2017 will need to come primarily from continued annual rent increases to existing tenants. Our future rental growth will also be dependent 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 2017. 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 are taking a number of actions to improve demand into our system, including (i) increasing marketing spend on the Internet and television, and (ii) reducing rental rates and increasing promotional discounts to new tenants. Even if these actions are successful in improving demand into our system, in at least the near term, we believe these actions may have a negative impact on our revenue trends due to less growth in initial rental rates and increased promotional discounts.

#### Analysis of Same Store Cost of Operations

Cost of operations (excluding depreciation and amortization) increased 5.4% and 4.7% in the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016, due primarily to increased property tax expense and advertising and selling expense.

Property tax expense increased 4.5% in each of the three and six months ended June 30, 2017 as compared to the same periods in 2016, due primarily to higher assessed values. We expect property tax expense growth of approximately 4.5% in the remainder of 2017 due primarily to higher assessed values.

On-site property manager payroll expense decreased 1.2% in each of the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016, due primarily to reduced workers compensation costs as a result of a reduction to prior estimates. We expect on-site property manager payroll expense to increase on an inflationary basis in the remainder of 2017.

Supervisory payroll expense, which represents compensation paid to the management personnel who directly and indirectly supervise the on-site property managers, increased 2.2% and 5.1% in the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016, due primarily to wage rate increases and increased

headcount. We expect greater than inflationary increases in wage rates and increased headcount for the remainder of 2017.

Repairs and maintenance expense increased 7.0% and 4.5% in the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. Repair and maintenance costs include snow removal

expense totaling \$0.2 million and \$2.2 million in the three and six months ended June 30, 2017, respectively, as compared to \$0.5 million and \$3.4 million for the same periods in 2016. Excluding snow removal costs, repairs and maintenance increased 10.3% and 11.2% in the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016.

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 random events. We expect inflationary increases in repairs and maintenance expense in the remainder of 2017, 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 increased 2.6% and 0.1% in the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. 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 term. Advertising and selling expenses increased 41.7% and 36.0% in the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. As mentioned above, we have increased our Internet marketing and television advertising expenditures. We expect continued increases in advertising and selling expense in the remainder of 2017.

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 5.6% and 4.8% in the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. The increases were due primarily to higher credit card fees 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 2017.

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 12.4% and 9.1% in the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016, due primarily to increased headcount. We expect similar increases in allocated overhead in the remainder of 2017.

#### Analysis of Same Store Depreciation and Amortization

Depreciation and amortization for Same Store Facilities decreased 2.1% and 2.4% in the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. We expect depreciation to be flat in the remainder of 2017 as compared to the same periods in 2016.

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:   |  |            |              |             |              |
| 2017  | \$ 537,145   | \$ 550,018 |              |             |              |
| 2016  | \$ 516,306   | \$ 532,227 | \$ 554,998   | \$ 543,661  | \$ 2,147,192 |
| Total cost of operations:                                       |  |            |              |             |              |
| 2017  | \$ 149,007   | \$ 147,305 |              |             |              |
| 2016  | \$ 143,341   | \$ 139,735 | \$ 146,135   | \$ 115,045  | \$ 544,256   |
| Property taxes:   |  |            |              |             |              |
| 2017  | \$ 56,237  | \$ 56,557  |              |             |              |
| 2016  | \$ 53,881  | \$ 54,101  | \$ 53,808    | \$ 31,409   | \$ 193,199   |
| Repairs and maintenance:  |  |            |              |             |              |
| 2017  | \$ 11,734  | \$ 11,431  |              |             |              |
| 2016  | \$ 11,496  | \$ 10,679  | \$ 11,143    | \$ 11,213   | \$ 44,531    |
| Advertising and selling expense:                                |  |            |              |             |              |
| 2017  | \$ 6,790   | \$ 8,104   |              |             |              |
| 2016  | \$ 5,227   | \$ 5,721   | \$ 7,746     | \$ 7,318    | \$ 26,012    |
| REVPAF:   |  |            |              |             |              |
| 2017  | \$ 15.63   | \$ 16.03   |              |             |              |
| 2016  | \$ 15.00   | \$ 15.50   | \$ 16.12     | \$ 15.81    | \$ 15.61     |
| Weighted average realized annual rent per occupied square foot: |  |            |              |             |              |
| 2017  | \$ 16.81   | \$ 16.97   |              |             |              |
| 2016  | \$ 16.02   | \$ 16.26   | \$ 16.93     | \$ 16.87    | \$ 16.52     |
| Weighted average occupancy levels for the period:               |  |            |              |             |              |
| 2017  | 93.1%  | 94.5%      |              |             |              |
| 2016  | 93.6%  | 95.4%      | 95.3%        | 93.8%       | 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, |              |        |
|--|-----------------------------|------------|--------|---------------------------|--------------|--------|
|  | 2017                        | 2016       | Change | 2017                      | 2016         | Change |
| (Amounts in thousands, except for weighted average data) |                             |            |        |                           |              |        |
| Revenues:  |                             |            |        |                           |              |        |
| Los Angeles (201 facilities)                             | \$ 82,531                   | \$ 78,053  | 5.7%   | \$ 163,131                | \$ 153,964   | 6.0%   |
| San Francisco (123 facilities)                           | 45,658                      | 44,059     | 3.6%   | 90,159                    | 86,585       | 4.1%   |
| New York (84 facilities)                                 | 35,004                      | 34,235     | 2.2%   | 69,386                    | 67,674       | 2.5%   |
| Chicago (129 facilities)                                 | 30,200                      | 29,872     | 1.1%   | 59,863                    | 58,947       | 1.6%   |
| Miami (78 facilities)                                    | 26,517                      | 25,948     | 2.2%   | 52,792                    | 51,390       | 2.7%   |
| Washington DC (84 facilities)                            | 26,767                      | 26,232     | 2.0%   | 52,818                    | 51,625       | 2.3%   |
| Atlanta (98 facilities)                                  | 20,367                      | 19,713     | 3.3%   | 40,303                    | 38,765       | 4.0%   |
| Seattle-Tacoma (69 facilities)                           | 20,156                      | 19,224     | 4.8%   | 39,635                    | 37,485       | 5.7%   |
| Houston (79 facilities)                                  | 17,720                      | 18,130     | (2.3)% | 35,512                    | 36,168       | (1.8)% |
| Dallas-Ft. Worth (82 facilities)                         | 16,908                      | 16,569     | 2.0%   | 33,572                    | 32,675       | 2.7%   |
| Philadelphia (56 facilities)                             | 13,468                      | 12,813     | 5.1%   | 26,521                    | 25,283       | 4.9%   |
| West Palm Beach (41 facilities)                          | 12,425                      | 11,854     | 4.8%   | 24,727                    | 23,402       | 5.7%   |
| Orlando-Daytona (62 facilities)                          | 12,713                      | 11,982     | 6.1%   | 25,009                    | 23,653       | 5.7%   |
| Minneapolis-St Paul<br>(44 facilities)                   | 11,127                      | 10,781     | 3.2%   | 21,745                    | 21,056       | 3.3%   |
| Portland (40 facilities)                                 | 9,680                       | 9,355      | 3.5%   | 19,029                    | 18,273       | 4.1%   |
| All other markets<br>(785 facilities)                    | 168,777                     | 163,407    | 3.3%   | 332,961                   | 321,588      | 3.5%   |
| Total revenues   | \$ 550,018                  | \$ 532,227 | 3.3%   | \$ 1,087,163              | \$ 1,048,533 | 3.7%   |
| Net operating income:                                    |                             |            |        |                           |              |        |
| Los Angeles  | \$ 68,338                   | \$ 64,156  | 6.5%   | \$ 134,464                | \$ 125,687   | 7.0%   |
| San Francisco  | 37,070                      | 35,911     | 3.2%   | 72,930                    | 70,051       | 4.1%   |
| New York   | 25,028                      | 24,885     | 0.6%   | 48,111                    | 47,433       | 1.4%   |
| Chicago  | 17,427                      | 16,818     | 3.6%   | 32,765                    | 32,112       | 2.0%   |
| Miami  | 18,913                      | 18,748     | 0.9%   | 37,661                    | 37,143       | 1.4%   |
| Washington DC  | 19,941                      | 19,795     | 0.7%   | 39,060                    | 38,794       | 0.7%   |
| Atlanta  | 14,752                      | 14,374     | 2.6%   | 29,166                    | 28,104       | 3.8%   |
| Seattle-Tacoma   | 15,740                      | 15,114     | 4.1%   | 30,754                    | 29,197       | 5.3%   |
| Houston  | 11,772                      | 12,406     | (5.1)% | 23,752                    | 24,906       | (4.6)% |
| Dallas-Ft. Worth   | 11,204                      | 11,282     | (0.7)% | 22,299                    | 22,127       | 0.8%   |
| Philadelphia   | 9,618                       | 9,195      | 4.6%   | 18,674                    | 17,752       | 5.2%   |
| West Palm Beach  | 9,008                       | 8,673      | 3.9%   | 18,030                    | 17,104       | 5.4%   |
| Orlando-Daytona  | 9,045                       | 8,413      | 7.5%   | 17,886                    | 16,615       | 7.6%   |
| Minneapolis-St. Paul                                     | 7,681                       | 7,526      | 2.1%   | 14,681                    | 14,274       | 2.9%   |



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|                            |            |            |      |            |            |      |
|----------------------------|------------|------------|------|------------|------------|------|
| Portland                   | 7,501      | 7,343      | 2.2% | 14,616     | 14,170     | 3.1% |
| All other markets          | 119,675    | 117,853    | 1.5% | 236,002    | 229,988    | 2.6% |
| Total net operating income | \$ 402,713 | \$ 392,492 | 2.6% | \$ 790,851 | \$ 765,457 | 3.3% |

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Same Store Facilities Operating Trends by Market (Continued)

|  | Three Months Ended June 30, |          |        | Six Months Ended June 30, |          |        |
|--|-----------------------------|----------|--------|---------------------------|----------|--------|
|  | 2017                        | 2016     | Change | 2017                      | 2016     | Change |
| Weighted average square foot occupancy:        |                             |          |        |                           |          |        |
| Los Angeles                                    | 96.0%                       | 96.2%    | (0.2)% | 95.8%                     | 95.8%    | 0.0%   |
| San Francisco                                  | 96.0%                       | 96.8%    | (0.8)% | 95.6%                     | 96.2%    | (0.6)% |
| New York                                       | 94.7%                       | 95.2%    | (0.5)% | 94.0%                     | 94.4%    | (0.4)% |
| Chicago  | 92.4%                       | 93.5%    | (1.2)% | 91.3%                     | 91.9%    | (0.7)% |
| Miami  | 93.7%                       | 95.5%    | (1.9)% | 93.6%                     | 95.1%    | (1.6)% |
| Washington DC                                  | 94.2%                       | 94.8%    | (0.6)% | 92.9%                     | 93.1%    | (0.2)% |
| Atlanta  | 94.2%                       | 95.6%    | (1.5)% | 93.3%                     | 94.6%    | (1.4)% |
| Seattle-Tacoma                                 | 95.8%                       | 97.2%    | (1.4)% | 94.8%                     | 96.1%    | (1.4)% |
| Houston  | 90.1%                       | 92.8%    | (2.9)% | 90.2%                     | 92.5%    | (2.5)% |
| Dallas-Ft. Worth                               | 93.7%                       | 95.6%    | (2.0)% | 93.3%                     | 95.0%    | (1.8)% |
| Philadelphia                                   | 95.6%                       | 95.2%    | 0.4%   | 94.8%                     | 94.3%    | 0.5%   |
| West Palm Beach                                | 94.6%                       | 95.8%    | (1.3)% | 94.6%                     | 95.6%    | (1.0)% |
| Orlando-Daytona                                | 95.6%                       | 95.5%    | 0.1%   | 95.1%                     | 95.1%    | 0.0%   |
| Minneapolis-St. Paul                           | 94.3%                       | 94.9%    | (0.6)% | 91.9%                     | 92.6%    | (0.8)% |
| Portland                                       | 96.5%                       | 97.6%    | (1.1)% | 95.8%                     | 97.0%    | (1.2)% |
| All other markets                              | 94.6%                       | 95.3%    | (0.7)% | 93.7%                     | 94.4%    | (0.7)% |
| Total weighted average square foot occupancy   | 94.5%                       | 95.4%    | (0.9)% | 93.8%                     | 94.5%    | (0.7)% |
| Realized annual rent per occupied square foot: |                             |          |        |                           |          |        |
| Los Angeles                                    | \$ 24.42                    | \$ 23.04 | 6.0%   | \$ 24.20                  | \$ 22.79 | 6.2%   |
| San Francisco                                  | 25.06                       | 23.94    | 4.7%   | 24.84                     | 23.65    | 5.0%   |
| New York                                       | 24.45                       | 23.77    | 2.9%   | 24.40                     | 23.67    | 3.1%   |
| Chicago  | 15.40                       | 15.05    | 2.3%   | 15.46                     | 15.10    | 2.4%   |
| Miami  | 20.00                       | 19.19    | 4.2%   | 19.91                     | 19.03    | 4.6%   |
| Washington DC                                  | 20.82                       | 20.23    | 2.9%   | 20.81                     | 20.25    | 2.8%   |
| Atlanta  | 12.68                       | 12.10    | 4.8%   | 12.64                     | 11.99    | 5.4%   |
| Seattle-Tacoma                                 | 18.63                       | 17.47    | 6.6%   | 18.48                     | 17.21    | 7.4%   |
| Houston  | 13.98                       | 13.85    | 0.9%   | 13.96                     | 13.85    | 0.8%   |
| Dallas-Ft. Worth                               | 13.20                       | 12.69    | 4.0%   | 13.15                     | 12.57    | 4.6%   |
| Philadelphia                                   | 15.49                       | 14.80    | 4.7%   | 15.36                     | 14.69    | 4.6%   |
| West Palm Beach                                | 17.78                       | 16.74    | 6.2%   | 17.69                     | 16.54    | 7.0%   |
| Orlando-Daytona                                | 13.19                       | 12.44    | 6.0%   | 13.03                     | 12.31    | 5.8%   |
| Minneapolis-St. Paul                           | 14.35                       | 13.81    | 3.9%   | 14.40                     | 13.83    | 4.1%   |
| Portland                                       | 18.45                       | 17.61    | 4.8%   | 18.25                     | 17.28    | 5.6%   |
| All other markets                              | 13.83                       | 13.28    | 4.1%   | 13.76                     | 13.18    | 4.4%   |
| Total realized rent per occupied square foot   | \$ 16.97                    | \$ 16.26 | 4.4%   | \$ 16.89                  | \$ 16.14 | 4.6%   |



Same Store Facilities Operating Trends by Market  
(Continued)

|                      | Three Months Ended June |          |        | Six Months Ended June |          |        |
|----------------------|-------------------------|----------|--------|-----------------------|----------|--------|
|                      | 30,<br>2017             | 2016     | Change | 30,<br>2017           | 2016     | Change |
| REVPAF:              |                         |          |        |                       |          |        |
| Los Angeles          | \$ 23.45                | \$ 22.17 | 5.8%   | \$ 23.17              | \$ 21.84 | 6.1%   |
| San Francisco        | 24.05                   | 23.18    | 3.8%   | 23.74                 | 22.76    | 4.3%   |
| New York             | 23.16                   | 22.62    | 2.4%   | 22.94                 | 22.34    | 2.7%   |
| Chicago              | 14.22                   | 14.07    | 1.1%   | 14.10                 | 13.88    | 1.6%   |
| Miami                | 18.73                   | 18.32    | 2.2%   | 18.63                 | 18.11    | 2.9%   |
| Washington DC        | 19.60                   | 19.18    | 2.2%   | 19.33                 | 18.86    | 2.5%   |
| Atlanta              | 11.94                   | 11.57    | 3.2%   | 11.80                 | 11.35    | 4.0%   |
| Seattle-Tacoma       | 17.84                   | 16.99    | 5.0%   | 17.53                 | 16.55    | 5.9%   |
| Houston              | 12.60                   | 12.85    | (1.9)% | 12.60                 | 12.80    | (1.6)% |
| Dallas-Ft. Worth     | 12.36                   | 12.13    | 1.9%   | 12.26                 | 11.93    | 2.8%   |
| Philadelphia         | 14.81                   | 14.08    | 5.2%   | 14.56                 | 13.86    | 5.1%   |
| West Palm Beach      | 16.82                   | 16.04    | 4.9%   | 16.73                 | 15.81    | 5.8%   |
| Orlando-Daytona      | 12.61                   | 11.88    | 6.1%   | 12.39                 | 11.70    | 5.9%   |
| Minneapolis-St. Paul | 13.54                   | 13.11    | 3.3%   | 13.23                 | 12.80    | 3.4%   |
| Portland             | 17.80                   | 17.18    | 3.6%   | 17.48                 | 16.77    | 4.2%   |
| All other markets    | 13.09                   | 12.66    | 3.4%   | 12.90                 | 12.44    | 3.7%   |
| Total REVPAF         | \$ 16.03                | \$ 15.50 | 3.4%   | \$ 15.83              | \$ 15.25 | 3.8%   |

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

## Non Same Store Facilities

The Non Same Store Facilities at June 30, 2017 represent 292 facilities that were not stabilized with respect to occupancies or rental rates since January 1, 2015, or that we did not own as of January 1, 2015. As a result of the stabilization process and timing of when the facilities were acquired, year-over-year changes can be significant.

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

| NON SAME STORE FACILITIES                                 | Three Months Ended June 30, |           |          | Six Months Ended June 30, |           |            |
|---|-----------------------------|-----------|----------|---------------------------|-----------|------------|
|   | 2017                        | 2016      | Change   | 2017                      | 2016      | Change     |
| (Dollar amounts in thousands, except square foot amounts) |                             |           |          |                           |           |            |
| Revenues:   |                             |           |          |                           |           |            |
| 2017 acquisitions   | \$ 799                      | \$ -      | \$ 799   | \$ 1,138                  | \$ -      | \$ 1,138   |
| 2016 acquisitions   | 9,031                       | 3,264     | 5,767    | 17,612                    | 5,103     | 12,509     |
| 2015 acquisitions   | 4,214                       | 3,777     | 437      | 8,286                     | 7,372     | 914        |
| Developed facilities                                      | 9,781                       | 5,194     | 4,587    | 17,906                    | 9,451     | 8,455      |
| Other facilities  | 50,356                      | 49,925    | 431      | 99,872                    | 98,514    | 1,358      |
| Total revenues  | 74,181                      | 62,160    | 12,021   | 144,814                   | 120,440   | 24,374     |
| Cost of operations:                                       |                             |           |          |                           |           |            |
| 2017 acquisitions   | 229                         | -         | 229      | 380                       | -         | 380        |
| 2016 acquisitions   | 3,502                       | 1,174     | 2,328    | 6,984                     | 1,725     | 5,259      |
| 2015 acquisitions   | 1,374                       | 1,275     | 99       | 2,709                     | 2,567     | 142        |
| Developed facilities                                      | 4,831                       | 2,623     | 2,208    | 8,994                     | 4,433     | 4,561      |
| Other facilities  | 13,954                      | 12,880    | 1,074    | 27,794                    | 25,749    | 2,045      |
| Total cost of operations                                  | 23,890                      | 17,952    | 5,938    | 46,861                    | 34,474    | 12,387     |
| Net operating income:                                     |                             |           |          |                           |           |            |
| 2017 acquisitions   | 570                         | -         | 570      | 758                       | -         | 758        |
| 2016 acquisitions   | 5,529                       | 2,090     | 3,439    | 10,628                    | 3,378     | 7,250      |
| 2015 acquisitions   | 2,840                       | 2,502     | 338      | 5,577                     | 4,805     | 772        |
| Developed facilities                                      | 4,950                       | 2,571     | 2,379    | 8,912                     | 5,018     | 3,894      |
| Other facilities  | 36,402                      | 37,045    | (643)    | 72,078                    | 72,765    | (687)      |
| Net operating income                                      | 50,291                      | 44,208    | 6,083    | 97,953                    | 85,966    | 11,987     |
| Depreciation and amortization expense                     | (22,053)                    | (17,015)  | (5,038)  | (45,803)                  | (32,476)  | (13,327)   |
| Net income  | \$ 28,238                   | \$ 27,193 | \$ 1,045 | \$ 52,150                 | \$ 53,490 | \$ (1,340) |

At June 30:

Square foot occupancy:

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|  |          |          |         |
|--|----------|----------|---------|
| 2017 acquisitions                              | 93.0%    | -        | -       |
| 2016 acquisitions                              | 90.3%    | 91.7%    | (1.5)%  |
| 2015 acquisitions                              | 94.2%    | 92.3%    | 2.1%    |
| Developed facilities                           | 72.5%    | 65.8%    | 10.2%   |
| Other facilities                               | 89.0%    | 92.4%    | (3.7)%  |
|  | 86.4%    | 88.2%    | (2.0)%  |
| Annual contract rent per occupied square foot: |          |          |         |
| 2017 acquisitions                              | \$ 9.70  | \$ -     | -       |
| 2016 acquisitions                              | 9.96     | 11.10    | (10.3)% |
| 2015 acquisitions                              | 13.87    | 13.09    | 6.0%    |
| Developed facilities                           | 13.29    | 12.73    | 4.4%    |
| Other facilities                               | 17.16    | 16.80    | 2.1%    |
|  | \$ 14.89 | \$ 15.52 | (4.1)%  |

| NON SAME STORE<br>FACILITIES (Continued) | Six Months Ended June 30, |        |        |
|--|---------------------------|--------|--------|
|  | 2017                      | 2016   | Change |
| Number of facilities:                    |                           |        |        |
| 2017 acquisitions                        | 7                         | -      | 7      |
| 2016 acquisitions                        | 55                        | 24     | 31     |
| 2015 acquisitions                        | 17                        | 17     | -      |
| Developed facilities                     | 39                        | 29     | 10     |
| Other facilities                         | 174                       | 174    | -      |
|  | 292                       | 244    | 48     |
| Net rentable square feet (in thousands): |                           |        |        |
| 2017 acquisitions                        | 398                       | -      | 398    |
| 2016 acquisitions                        | 4,121                     | 1,703  | 2,418  |
| 2015 acquisitions                        | 1,285                     | 1,285  | -      |
| Developed facilities                     | 4,473                     | 3,113  | 1,360  |
| Other facilities                         | 13,340                    | 12,958 | 382    |
|  | 23,617                    | 19,059 | 4,558  |

The facilities included above under “2017 acquisitions,” “2016 acquisitions,” and “2015 acquisitions” were acquired at a cost of \$34.4 million, \$429.1 million, and \$168.8 million, respectively.

For the six months ended June 30, 2017, the weighted average annualized yield on cost, based upon net operating income, for the facilities acquired in each of 2016 and 2015 was 5.0% and 6.6%, respectively. The yields for the facilities acquired in the six months ended June 30, 2017 were not meaningful due to our limited ownership period.

We believe that our management and operating infrastructure allows us to generate higher net operating income from newly acquired facilities than was achieved by the previous owners. However, it can take 24 or more months for us to fully achieve the higher net operating income, and the ultimate levels of net operating income to be achieved can be affected by changes in general economic conditions. As a result, there can be no assurance that we will achieve our expectations with respect to these newly acquired facilities.

Since the beginning of 2013, we have opened newly developed facilities with a total cost of \$524.4 million and redeveloped existing facilities, expanding their square footage, for a total cost of \$162.2 million. The newly developed facilities are included in “Developed facilities” and the redeveloped facilities are included in “Other facilities” in the table above. We believe that our real estate development activities are beneficial to our business over the long run. However, in the short run, development activities dilute our earnings due to the three to four year period to reach a stabilized level of cash flows and the cost of capital to fund development, combined with general and administrative expenses associated with development. We believe this dilution will increase in the remainder of 2017 and beyond, because of an increased level of net rentable square feet being added to our portfolio.

We expect the Non Same Store Facilities to continue to provide increased net operating income in 2017 as these facilities approach stabilized occupancy levels and the earnings of the 2017 and 2016 acquisitions are reflected in our operations for a longer period in 2017 as compared to 2016.

We also expect to increase the number and net rentable square feet of Non Same Store Facilities through development of new self-storage facilities, redevelopment of existing facilities and acquisitions of facilities.

As of June 30, 2017, we had development and redevelopment projects which will add approximately 5.6 million net rentable square feet of storage space at a total cost of approximately \$658.6 million. Some of these projects are subject to significant contingencies such as entitlement approval. We expect to continue to seek additional development projects; however, the level of future development may be limited due to various constraints



such as difficulty in finding projects that meet our risk-adjusted yield expectations and challenges in obtaining building permits for self-storage activities in certain municipalities.

Subsequent to June 30, 2017, we acquired or were under contract to acquire (subject to customary closing conditions) seven self-storage facilities for \$47.1 million. We will continue to seek to acquire properties; however, there is significant competition to acquire existing facilities and therefore the dollar value of acquisitions is unpredictable.

Depreciation and amortization with respect to the Non Same Store Facilities totaled \$22.1 million and \$45.8 million for the three and six months ended June 30, 2017, respectively, as compared to \$17.0 million and \$32.5 million for the same periods in 2016. These amounts include i) depreciation of the buildings acquired or developed, which is recorded generally on a straight line basis, and ii) amortization of cost allocated to the tenants in place upon acquisition of a facility, which is recorded based upon the benefit of such existing tenants to each period and thus is highest when the facility is first acquired and declines as such tenants vacate. With respect to Non Same Store Facilities owned at June 30, 2017, depreciation of buildings and amortization of tenant intangibles is expected to total \$36.9 million and \$4.0 million, respectively, in the remainder of 2017. The level of future depreciation and amortization will also depend upon the level of acquisitions of facilities and the level of newly developed storage space.

#### Ancillary Operations

Ancillary revenues and expenses include amounts associated with the reinsurance of policies against losses to goods stored by tenants in our self-storage facilities in the U.S. and the sale of merchandise at our self-storage facilities. The following table sets forth our ancillary operations:

|                             | Three Months Ended June 30, |           |          | Six Months Ended June 30, |           |          |
|-----------------------------|-----------------------------|-----------|----------|---------------------------|-----------|----------|
|                             | 2017                        | 2016      | Change   | 2017                      | 2016      | Change   |
|                             | (Amounts in thousands)      |           |          |                           |           |          |
| <b>Revenues:</b>            |                             |           |          |                           |           |          |
| Tenant reinsurance premiums | \$ 30,979                   | \$ 29,829 | \$ 1,150 | \$ 60,919                 | \$ 58,471 | \$ 2,448 |
| Merchandise                 | 9,134                       | 9,972     | (838)    | 16,963                    | 18,530    | (1,567)  |
| Total revenues              | 40,113                      | 39,801    | 312      | 77,882                    | 77,001    | 881      |
| <b>Cost of Operations:</b>  |                             |           |          |                           |           |          |
| Tenant reinsurance          | 5,986                       | 8,257     | (2,271)  | 12,263                    | 16,432    | (4,169)  |
| Merchandise                 | 5,397                       | 6,060     | (663)    | 10,044                    | 11,308    | (1,264)  |
| Total cost of operations    | 11,383                      | 14,317    | (2,934)  | 22,307                    | 27,740    | (5,433)  |
| <b>Net income</b>           |                             |           |          |                           |           |          |
| Tenant reinsurance          | 24,993                      | 21,572    | 3,421    | 48,656                    | 42,039    | 6,617    |
| Merchandise                 | 3,737                       | 3,912     | (175)    | 6,919                     | 7,222     | (303)    |
| Total net income            | \$ 28,730                   | \$ 25,484 | \$ 3,246 | \$ 55,575                 | \$ 49,261 | \$ 6,314 |

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Tenant reinsurance operations: Our tenants have the option of purchasing insurance from a non-affiliated insurance company to cover certain losses to their goods stored at our facilities. A wholly-owned, consolidated subsidiary of Public Storage fully reinsures such policies, and thereby assumes all risk of losses under these policies from the insurance company. The subsidiary receives reinsurance premiums, substantially equal to the premiums collected from our tenants, from the non-affiliated insurance company. Such reinsurance premiums are shown as “Tenant reinsurance premiums” in the above table.

The subsidiary pays a fee to Public Storage to assist with the administration of the program and to allow the insurance to be marketed to our tenants. This fee represents a substantial amount of the reinsurance premiums received by our subsidiary. The fee is eliminated in consolidation and is therefore not shown in the above table.

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Tenant reinsurance revenue increased \$1.2 million and \$2.4 million in the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016, due primarily to an increase in our tenant base due to newly acquired and developed facilities.

Cost of operations primarily includes claims paid that are not covered by our outside third-party insurers, as well as claims adjustment expenses. Tenant reinsurance cost of operations decreased \$2.3 million and \$4.2 million in the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. These decreases are due primarily to lower claims, primarily water related claims which were elevated in the six months ended June 30, 2016 due mostly to flooding in Houston and South Carolina.

Merchandise sales: We sell locks, boxes, and packing supplies at our self-storage facilities, and the level of sales of these items is primarily impacted by the level of move-ins and other customer traffic at our self-storage facilities. We do not expect any significant changes in revenues or profitability from our merchandise sales in the remainder of 2017.

#### Equity in earnings of unconsolidated real estate entities

At June 30, 2017, we have equity investments in PSB, Shurgard Europe and various limited partnerships. We account for such investments using the equity method and record our pro-rata share of the net income of these entities for each period. The following table, and the discussion below, sets forth the significant components of our equity in earnings of unconsolidated real estate entities:

|                          | Three Months Ended June 30, |           |          | Six Months Ended June 30, |           |           |
|--------------------------|-----------------------------|-----------|----------|---------------------------|-----------|-----------|
|                          | 2017                        | 2016      | Change   | 2017                      | 2016      | Change    |
|                          | (Amounts in thousands)      |           |          |                           |           |           |
| Equity in earnings:      |                             |           |          |                           |           |           |
| PSB                      | \$ 12,733                   | \$ 7,869  | \$ 4,864 | \$ 26,433                 | \$ 15,200 | \$ 11,233 |
| Shurgard Europe          | 6,650                       | 1,706     | 4,944    | 12,241                    | 7,942     | 4,299     |
| Other Investments        | 685                         | 652       | 33       | 1,343                     | 1,249     | 94        |
| Total equity in earnings | \$ 20,068                   | \$ 10,227 | \$ 9,841 | \$ 40,017                 | \$ 24,391 | \$ 15,626 |

Investment in PSB: At June 30, 2017 and December 31, 2016, we had approximately a 42% common equity interest in PS Business Parks, Inc. ("PSB"), comprised of our ownership of 7,158,354 shares of PSB's common stock and 7,305,355 limited partnership units in an operating partnership controlled by PSB. The limited partnership units are convertible at our option, subject to certain conditions, on a one-for-one basis into PSB common stock.

At June 30, 2017, PSB owned and operated 28.0 million rentable square feet of commercial space located in six states. PSB also manages commercial space that we own pursuant to property management agreements.

Equity in earnings from PSB increased \$4.9 million and \$11.2 million in the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016, due primarily to improved operating results of their real estate facilities, lower interest expense due to the repayment of debt and gains on real estate investment sales. See Note 4 to our June 30, 2017 financial statements for selected financial information on PSB, as well as PSB's filings and selected financial information that can be accessed through the SEC, and on PSB's website, [www.psbusinessparks.com](http://www.psbusinessparks.com).

Investment in Shurgard Europe: We have a 49% equity share in Shurgard Europe's net income. At June 30, 2017, Shurgard Europe's operations are comprised of 219 wholly-owned facilities with 12 million net rentable square feet. See Note 4 to our June 30, 2017 financial statements for selected financial data on Shurgard Europe for the six months ended June 30, 2017 and 2016. As described in more detail in Note 4, we receive trademark license fees from Shurgard Europe.

Our equity in earnings from Shurgard Europe increased \$4.9 million and \$4.3 million in the three and six months ended June 30, 2017, respectively, as compared to the same periods in 2016. The increases are due

primarily to improved property operations and decreased depreciation expense associated with tenant intangibles on newly acquired facilities. The increase for the three months ended June 30, 2017 also reflects our \$2.1 million equity share of a foreign currency exchange loss recorded in the three months ended June 30, 2016 on an intercompany note between entities consolidated by Shurgard Europe. For purposes of recording our equity in earnings from Shurgard Europe, the Euro was translated at exchange rates of approximately 1.142 U.S. Dollars per Euro at June 30, 2017 (1.052 at December 31, 2016), and average exchange rates of 1.099 and 1.129 for the three months ended June 30, 2017 and 2016, respectively, and average exchange rates of 1.082 and 1.116 for the six months ended June 30, 2017 and 2016, respectively.

Our future earnings from Shurgard Europe will be affected primarily by the operating results of its existing facilities, the exchange rate between the U.S. Dollar and currencies in the countries in which Shurgard Europe conducts its business (principally the Euro), the impact of income taxes, and the degree to which Shurgard Europe reinvests the cash it generates from operations into real estate investments or distributes the amounts to its shareholders.

Unlike our operations in the United States, Shurgard Europe operates through taxable corporations in each of the countries in which it does business and incurs tax expense. Our equity share of such income tax expense was approximately \$2.0 million and \$3.5 million for the three and six months ended June 30, 2017, respectively, as compared to \$1.3 million and \$2.8 million for the same periods in 2016.

#### Analysis of items not allocated to segments

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

|                                     | Three Months Ended June 30, |           |            | Six Months Ended June 30, |           |            |
|-------------------------------------|-----------------------------|-----------|------------|---------------------------|-----------|------------|
|                                     | 2017                        | 2016      | Change     | 2017                      | 2016      | Change     |
|                                     | (Amounts in thousands)      |           |            |                           |           |            |
| Share-based compensation expense    | \$ 4,265                    | \$ 8,431  | \$ (4,166) | \$ 13,162                 | \$ 16,483 | \$ (3,321) |
| Costs of senior executives          | 416                         | 416       | -          | 5,036                     | 5,216     | (180)      |
| Development and acquisition costs   | 1,912                       | 2,275     | (363)      | 5,189                     | 5,089     | 100        |
| Tax compliance costs and taxes paid | 1,098                       | 767       | 331        | 2,447                     | 2,205     | 242        |
| Legal costs                         | 1,735                       | 1,027     | 708        | 3,681                     | 3,808     | (127)      |
| Public company costs                | 1,023                       | 906       | 117        | 2,148                     | 1,923     | 225        |
| Other costs                         | 4,543                       | 4,499     | 44         | 8,357                     | 6,644     | 1,713      |
| Total                               | \$ 14,992                   | \$ 18,321 | \$ (3,329) | \$ 40,020                 | \$ 41,368 | \$ (1,348) |

Share-based compensation expense includes the amortization of restricted share units and stock options granted to employees and trustees, as well as related employer taxes. Share-based compensation expense varies based upon the level of grants and forfeitures as well as the Company's common share price on the date of grant. Share-based compensation costs in the three and six months ended June 30, 2017 include a \$5.4 million reversal of previously amortized costs, due to the forfeiture of share-based compensation resulting from the retirement of certain senior executives in the quarter ended June 30, 2017. Share-based compensation expense in the last half of 2017 is expected to increase modestly from the amounts expensed in the last half of 2016. See Note 9 to our June 30, 2017 financial statements for further information on our share-based compensation.

Costs of senior executives represent the cash compensation paid to our chief executive officer and chief financial officer.

Development and acquisition costs primarily represent internal and external expenses related to our development activities and the acquisition of real estate facilities and varies primarily based upon the level of development activities undertaken. The amounts in the above table are net of \$2.0 million and \$4.1 million for the three and six months ended June 30, 2017, respectively, and \$2.2 million and \$4.3 million for the same periods in

2016, in development costs that were capitalized to newly developed and redeveloped self-storage facilities. Development and acquisition costs are expected to increase modestly in the remainder of 2017.

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

Legal costs include internal personnel as well as fees paid to legal firms and other third parties with respect to general corporate legal matters and risk management, and varies based upon the level of legal activity. The future level of legal costs is not determinable.

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

Other costs represent professional and consulting fees, payroll and overhead that are not directly attributable to our property operations. Such costs vary depending upon the level of corporate activities and initiatives and, as such, are not predictable.

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

Interest and other income: Interest and other income is comprised primarily of the net income from our commercial operations and property management operations and to a lesser extent interest earned on cash balances, trademark license fees received from Shurgard Europe, as well as sundry other income items that are received from time to time in varying amounts. Amounts attributable to our commercial operations and property management operations totaled \$2.6 million and \$5.2 million for the three and six months ended June 30, 2017, respectively, as compared to \$3.0 million and \$5.7 million for the same periods in 2016. We do not expect any significant changes in interest and other income in the remainder of 2017.

Interest expense: For the three and six months ended June 30, 2017, interest expense was \$1.1 million and \$2.2 million, respectively, (\$1.4 million and \$2.1 million for the same periods in 2016). During the three and six months ended June 30, 2017, we capitalized \$1.1 million and \$2.1 million, respectively, in interest on our outstanding debt (\$1.2 million and \$2.6 million for the same periods in 2016). At June 30, 2017, we had \$420.8 million of debt outstanding, with an average interest rate of 2.1%. See Note 5 to our June 30, 2017 financial statements for further information on our debt balances. Future interest expense will be dependent upon the level of outstanding debt and the amount of in-process development costs.

Foreign Exchange Gain (Loss): For the three and six months ended June 30, 2017, we recorded foreign currency translation losses of \$25.4 million and \$31.0 million, respectively, representing the change in the U.S. Dollar equivalent of our Senior Unsecured Notes due to fluctuations in exchange rates (a gain of \$8.6 million and a loss of \$2.3 million for the same periods in 2016). The Euro was translated at exchange rates of approximately 1.142 U.S. Dollars per Euro at June 30, 2017, 1.068 at March 31, 2017 and 1.052 at December 31, 2016. Future gains and losses on foreign currency translation will be dependent upon changes in the relative value of the Euro to the U.S. Dollar, and the level of Euro-denominated debt outstanding.

Net Income Allocable to Preferred Shareholders: Net income allocable to preferred shareholders based upon distributions increased in the three months ended June 30, 2017 as compared to the same period in 2016, due primarily to higher outstanding preferred shares partially offset by lower average rates. Net income allocable to preferred shareholders was approximately flat in the six months ended June 30, 2017 as compared to the same period in 2016. We also allocated \$14.6 million in each of the three and six month periods ended June 30, 2017, and \$15.5 million and \$26.9 million in the three and six months ended June 30, 2016, respectively, of income from our common shareholders to the holders of our Preferred Shares due to redemptions of preferred securities. Based upon



our preferred shares outstanding at June 30, 2017 (excluding the Series S Preferred Shares which were redeemed on July 26, 2017), our quarterly distribution to our preferred shareholders is expected to be approximately \$56.9 million.

## Liquidity and Capital Resources

**Financial Strategy:** As a REIT, we generally distribute 100% of our taxable income to our shareholders, which relative to a taxable C corporation, limits the amount of cash flow from operations that we can retain for investments. As a result, in order to grow our asset base, access to capital is important. Historically we have primarily financed our cash investment activities with retained operating cash flow combined with the proceeds from the issuance of preferred securities. Over the past eighteen months, we began to diversify our capital sources by issuing medium term debt.

Our financial profile is characterized by strong credit metrics, including low leverage relative to our total capitalization and operating cash flows. We are one of the highest rated REITs, as rated by major rating agencies Moody's and Standard & Poor's. Our senior debt has an "A" credit rating by Standard & Poor's and "A2" by Moody's. Our credit ratings on each of our series of preferred shares are "A3" by Moody's and "BBB+" by Standard & Poor's. Our credit profile and ratings enables us to effectively access both the public and private capital markets to raise capital.

We have a \$500.0 million revolving line of credit which we occasionally use as temporary "bridge" financing until we are able to raise longer term capital. As of June 30, 2017, there were no borrowings outstanding on the revolving line of credit, however, we do have approximately \$15.4 million of outstanding letters of credit which limits our borrowing capacity to \$484.6 million. As of July 28, 2017, we had borrowed an additional \$55.2 million on our revolving line of credit, thereby reducing our available borrowing capacity by that amount. Over the long-term, we expect to fund our capital requirements with retained operating cash flow, the issuance of medium or long term debt, and proceeds from the issuance of common and preferred securities. We will select among these sources of capital based upon availability, relative cost, the desire for leverage, and considering potential constraints caused by certain features of capital sources, such as debt covenants.

**Liquidity and Capital Resource Analysis:** We believe that our net cash provided by our operating activities will continue to be sufficient to enable us to meet our ongoing requirements for principal payments on debt, maintenance capital expenditures, and distributions to our shareholders for the foreseeable future.

As of June 30, 2017, our capital resources over the next year are expected to be approximately \$1.1 billion which exceeds our current planned capital needs over the next year of approximately \$885.0 million. Our capital resources include: (i) \$358.3 million of cash as of June 30, 2017, (ii) \$484.6 million of available borrowing capacity on our revolving line of credit, and (iii) approximately \$250.0 million of expected retained operating cash flow for the next twelve months. Retained operating cash flow represents our expected cash flow provided by operating activities, less shareholder distributions and capital expenditures to maintain our real estate facilities.

Our planned capital needs over the next year consist of (i) \$376.2 million of remaining spend on our current development pipeline, (ii) \$47.1 million in property acquisitions currently under contract, (iii) \$1.7 million in principal repayments on existing debt, and (iv) \$460.0 million for the redemption of our Series S Preferred Shares on July 26, 2017. Our capital needs may increase significantly over the next year as we expect to increase our development pipeline and acquire additional properties. We may also redeem outstanding preferred securities or repurchase shares of our common stock in the future.

To the extent our retained operating cash flow and line of credit are insufficient to fund our activities, we believe we have a variety of possibilities to raise additional capital including issuing common or preferred securities, issuing debt, or entering into joint venture arrangements to acquire or develop facilities.

Required Debt Repayments: As of June 30, 2017, our outstanding debt totaled approximately \$420.8 million, consisting of \$30.1 million of secured debt and \$390.7 million of unsecured debt. Approximate principal maturities are as follows (amounts in thousands):

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|                   |            |
|-------------------|------------|
| Remainder of 2017 | \$ 857     |
| 2018              | 11,241     |
| 2019              | 1,505      |
| 2020              | 1,585      |
| 2021              | 1,503      |
| Thereafter        | 404,087    |
|                   | \$ 420,778 |

The remaining maturities on our debt over at least the next five years are nominal compared to our expected annual retained operating cash flow.

**Capital Expenditure Requirements:** Capital expenditures include general maintenance, major repairs or replacements to elements of our facilities to keep our facilities in good operating condition and maintain their visual appeal. Capital expenditures do not include costs relating to the development of new facilities or redevelopment of existing facilities to increase their available rentable square footage.

Capital expenditures totaled \$53.5 million in the six months ended June 30, 2017 and are expected to be approximately \$120 million for the year ending December 31, 2017. For the last four years, capital expenditures have ranged between approximately \$0.45 and \$0.60 per net rentable square foot per year.

**Requirement to Pay Distributions:** For all periods presented herein, we have elected to be treated as a REIT, as defined in the 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.

Distributions paid during the six months ended June 30, 2017 totaled \$818.0 million, consisting of \$121.4 million to preferred shareholders and \$696.6 million to common shareholders and restricted share unitholders. All of these distributions were REIT qualifying distributions.

We estimate the annual distribution requirements with respect to our Preferred Shares outstanding at June 30, 2017, excluding our Series S Preferred Shares redeemed on July 26, 2017, to be approximately \$227.8 million per year.

On July 26, 2017, our Board declared a regular common quarterly dividend of \$2.00 per common share. Our consistent, long-term dividend policy has been to distribute only our taxable income. Future quarterly distributions with respect to the common shares will continue to be determined based upon our REIT distribution requirements after taking into consideration distributions to the preferred shareholders and will be funded with cash provided by operating activities.

We estimate we will pay approximately \$7.0 million per year in distributions to noncontrolling interests outstanding at June 30, 2017.

**Real Estate Investment Activities:** Subsequent to June 30, 2017, we acquired or were under contract to acquire (subject to customary closing conditions) seven self-storage facilities for \$47.1 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.

As of June 30, 2017 we had development and redevelopment projects at a total cost of approximately \$658.6 million. A total of \$282.4 million of these costs were incurred through June 30, 2017, with the remaining cost to complete of \$376.2 million expected to be incurred primarily in the next 18 months. Some of these projects are subject to significant contingencies such as entitlement approval. We expect to continue to seek additional projects; however, the level of future development and redevelopment may be limited due to various constraints

such as difficulty in finding projects that meet our risk-adjusted yield expectations and challenges in obtaining building permits for self-storage activities in certain municipalities.

**Redemption of Preferred Securities:** Historically, we have taken advantage of refinancing higher coupon preferred securities with lower coupon preferred securities. In the future, we may also elect to finance the redemption of preferred securities with proceeds from the issuance of debt. On July 26, 2017, we redeemed at par our 5.90% Series S Preferred Shares with \$460.0 million outstanding. As of July 28, 2017, we have two series of preferred securities that are eligible for redemption, at our option and with 30 days' notice; our 5.75% Series T Preferred Shares, with \$462.5 million outstanding and our 5.625% Series U Preferred Shares, with \$287.5 million outstanding. On September 20, 2017, our 5.375% Series V Preferred Shares with \$495.0 million outstanding become redeemable. Redemption of such preferred shares will depend upon many factors. None of our preferred securities are redeemable at the option of the holders.

**Repurchases of Common Shares:** Our Board has authorized management to repurchase up to 35,000,000 of our common shares on the open market or in privately negotiated transactions. During the three months ended June 30, 2017, we did not repurchase any of our common shares. From the inception of the repurchase program through July 28, 2017, we have repurchased a total of 23,721,916 common shares at an aggregate cost of approximately \$679.1 million. Future levels of common share repurchases will be dependent upon our available capital, investment alternatives and the trading price of our common shares.

#### Contractual Obligations

Our significant contractual obligations at June 30, 2017 and their impact on our cash flows and liquidity are summarized below for the years ending December 31 (amounts in thousands):

|   | Total        | Remainder<br>of 2017 | 2018      | 2019      | 2020      | 2021      | Thereafter |
|---|--------------|----------------------|-----------|-----------|-----------|-----------|------------|
| Mortgage notes (1)                            | \$ 35,017    | \$ 1,478             | \$ 12,601 | \$ 2,316  | \$ 2,316  | \$ 2,135  | \$ 14,171  |
| Senior unsecured notes (2)                    | 452,171      | 3,886                | 7,772     | 7,772     | 7,772     | 7,772     | 417,197    |
| Preferred shares called<br>for redemption (3) | 461,885      | 461,885              | -         | -         | -         | -         | -          |
| Operating leases (4)                          | 88,775       | 2,195                | 4,416     | 4,369     | 4,363     | 4,357     | 69,075     |
| Construction commitments (5)                  | 199,152      | 159,322              | 39,830    | -         | -         | -         | -          |
| Total   | \$ 1,237,000 | \$ 628,766           | \$ 64,619 | \$ 14,457 | \$ 14,451 | \$ 14,264 | \$ 500,443 |

(1) Amounts include principal and interest payments (all of which are fixed-rate) on our secured notes (the "Mortgage Notes") based on their contractual terms. See Note 5 to our June 30, 2017 financial statements for additional information on our notes payable.

(2) Reflects interest and principal on €342.0 million of Euro-denominated senior unsecured notes. See Note 5 to our June 30, 2017 financial statements for further information on our senior unsecured notes.

(3) Represents the liquidation amount including accrued dividends for our Series S Preferred Shares which were redeemed on July 26, 2017.

(4) Represents future contractual payments on land, equipment and office space under various operating leases.

(5) Represents future expected development spending that was under contract at June 30, 2017.

We estimate the annual distribution requirements with respect to our Preferred Shares outstanding at June 30, 2017 (excluding the Series S Preferred Shares which were redeemed on July 26, 2017), to be approximately \$227.8 million per year. Dividends are paid when and if declared by our Board and accumulate if not paid.

Off-Balance Sheet Arrangements: At June 30, 2017, we had no material off-balance sheet arrangements as defined under Regulation S-K 303(a)(4) and the instructions thereto.

### ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

To limit our exposure to market risk, we are capitalized primarily with preferred and common equity. Our preferred shares are redeemable at our option generally five years after issuance, but the holder has no redemption option. Our debt is our only market-risk sensitive portion of our capital structure, which totals \$420.8 million and represents 4.6% of the book value of our equity at June 30, 2017.

We have foreign currency exposure at June 30, 2017 related to i) our investment in Shurgard Europe, with a book value of \$304.2 million and ii) €342.0 million (\$390.7 million) of Euro-denominated senior unsecured notes payable.

The fair value of our fixed rate debt at June 30, 2017 is approximately \$433.4 million. The table below summarizes the annual maturities of our fixed rate debt, which had a weighted average fixed rate of 2.1% at June 30, 2017. See Note 5 to our June 30, 2017 financial statements for further information regarding our fixed rate debt (amounts in thousands).

|                 | Remainder<br>of<br>2017 | 2018      | 2019     | 2020     | 2021     | Thereafter | Total      |
|-----------------|-------------------------|-----------|----------|----------|----------|------------|------------|
| Fixed rate debt | \$ 857                  | \$ 11,241 | \$ 1,505 | \$ 1,585 | \$ 1,503 | \$ 404,087 | \$ 420,778 |

#### ITEM 4. Controls and Procedures

##### Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports we file and submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported within the time periods specified in accordance with SEC guidelines and that such information is communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure based on the definition of "disclosure controls and procedures" in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures in reaching that level of reasonable assurance. We also have investments in certain unconsolidated real estate entities and because we do not control these entities, our disclosure controls and procedures with respect to such entities are substantially more limited than those we maintain with respect to our consolidated subsidiaries.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures, as required by Exchange Act Rule 13a-15(b), as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective, at a reasonable assurance level.

##### Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



## Part II. OTHER INFORMATION

### ITEM 1. Legal Proceedings

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

### ITEM 1A. Risk Factors

In addition to the other information in this Quarterly Report on Form 10-Q, you should carefully consider the risks described in our Annual Report on Form 10-K filed for the year ended December 31, 2016, in Part I, Item 1A, Risk Factors, and in our other filings with the SEC. These factors may materially affect our business, financial condition and operating results and could cause our actual results to differ materially from expectations. In addition, in considering the forward-looking statements contained in this Form 10-Q and elsewhere, you should refer to the qualifications and limitations on our forward-looking statements that are described in Forward Looking Statements at the beginning of Part I, Item 2 of this Form 10-Q.

### ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds Common Share Repurchases

Our Board has authorized management to repurchase up to 35,000,000 of our common shares on the open market or in privately negotiated transactions. From the inception of the repurchase program through July 28, 2017, we have repurchased a total of 23,721,916 common shares (all purchased prior to 2010) at an aggregate cost of approximately \$679.1 million. Our common share repurchase program does not have an expiration date and there are 11,278,084 common shares that may yet be repurchased under our repurchase program as of June 30, 2017. We have no current plans to repurchase shares; however, future levels of common share repurchases will be dependent upon our available capital, investment alternatives, and the trading price of our common shares.

#### Preferred Share Redemptions

We had no preferred redemptions during the three months ended June 30, 2017.

ITEM 6. Exhibits

Exhibits required by Item 601 of Regulation S-K are filed herewith or incorporated herein by reference and are listed in the attached Exhibit Index which is incorporated herein by reference.

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

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DATED: July 28, 2017

PUBLIC STORAGE

By: /s/ John Reyes

John Reyes

Senior Vice President and Chief Financial Officer

(Principal financial officer and duly authorized officer)

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PUBLIC STORAGE  
INDEX TO EXHIBITS (1)  
(Items 15(a)(3) and 15(c))

- 3.1 Articles Supplementary for the 5.15% Cumulative Preferred Shares of Beneficial Interest, Series F, (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed on May 24, 2017 and incorporated herein by reference).
- 12 Statement Re: Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends. Filed herewith.
- 31.1 Rule 13a – 14(a) Certification. Filed herewith.
- 31.2 Rule 13a – 14(a) Certification. Filed herewith.
- 32 Section 1350 Certifications. Filed herewith.
- 101 .INS XBRL Instance Document. Filed herewith.
- 101 .SCH XBRL Taxonomy Extension Schema. Filed herewith.
- 101 .CAL XBRL Taxonomy Extension Calculation Linkbase. Filed herewith.
- 101 .DEF XBRL Taxonomy Extension Definition Linkbase. Filed herewith.
- 101 .LAB XBRL Taxonomy Extension Label Linkbase. Filed herewith.
- 101 .PRE XBRL Taxonomy Extension Presentation Link. Filed herewith.

(1) SEC File No. 001-33519 unless otherwise indicated.

