

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

**FORM 10 -K**

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

For the fiscal year ended December 31, 2016.

or

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

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

Commission File Number: 001-33519

**PUBLIC STORAGE**

(Exact name of Registrant as specified in its charter)

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

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

(818) 244-8080

(Registrant's telephone number, including area code)

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Depository Shares Each Representing 1/1,000 of a 5.90% Cumulative Preferred Share, Series S \$.01 par value	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 5.750% Cumulative Preferred Share, Series T \$.01 par value	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 5.625% Cumulative Preferred Share, Series U \$.01 par value	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 5.375% Cumulative Preferred Share, Series V \$.01 par value	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 5.200% Cumulative Preferred Share, Series W \$.01 par value	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 5.200% Cumulative Preferred Share, Series X \$.01 par value	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 6.375% Cumulative Preferred Share, Series Y \$.01 par value	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 6.000% Cumulative Preferred Share, Series Z \$.01 par value	New York Stock Exchange

Depository Shares Each Representing 1/1,000 of a 5.875 % Cumulative Preferred Share, Series A \$.01 par value	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 5.400% Cumulative Preferred Share, Series B \$.01 par value	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 5.125 % Cumulative Preferred Share, Series C \$.01 par value	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 4.95 0% Cumulative Preferred Share, Series D \$.01 par value	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 4.9 00% Cumulative Preferred Share, Series E \$.01 par value	New York Stock Exchange
Common Shares, \$.10 par value	New York Stock Exchange

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

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

Yes  No

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

Yes  No

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

Yes  No

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

Yes  No

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

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

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

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

Yes  No

The aggregate market value of the voting and non-voting common shares held by non-affiliates of the Registrant as of June 30, 2016:

Common Shares, \$0.10 Par Value Per Share – \$37,898,005,000 (computed on the basis of \$255.59 per share, which was the reported closing sale price of the Company's Common Shares on the New York Stock Exchange (the "NYSE") on June 30, 2016).

As of February 27, 2017, there were 173,638,361 outstanding Common Shares, \$0.10 par value per share.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive proxy statement to be filed in connection with the Annual Meeting of Shareholders to be held in 2017 are incorporated by reference into Part III of this Annual Report on Form 10-K to the extent described therein.

## **PART I**

### **ITEM 1. Business**

#### **Forward Looking Statements**

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

## **General**

Public Storage (referred to herein as “the Company”, “we”, “us”, or “our”), a Maryland REIT, was organized in 1980.

At December 31, 2016, our principal business activities were as follows:

- (i) **Self-storage Operations**: We acquire, develop, own, and operate self-storage facilities which offer storage spaces for lease on a month-to-month basis, for personal and business use. We are the largest owner and operator of self-storage facilities in the United States (the “U.S.”). We have direct and indirect equity interests in 2,336 self-storage facilities that we consolidate (an aggregate of 154 million net rentable square feet of space) located in 38 states within the U.S. operating under the “Public Storage” brand name. We also own one self-storage facility in London, England which is managed by Shurgard Europe (defined below).
- (ii) **Ancillary Operations**: We reinsure policies against losses to goods stored by customers in our self-storage facilities, and sell merchandise, primarily locks and cardboard boxes, at our self-storage facilities.
- (iii) **Investment in PS Business Parks**: We have a 42% equity interest in PS Business Parks, Inc. (“PSB”), a publicly held REIT that owns, operates, acquires and develops commercial properties, primarily multi-tenant flex, office, and industrial parks. At December 31, 2016, PSB owns and operates 28.1 million rentable square feet of commercial space.
- (iv) **Investment in Shurgard Europe**: We have a 49% equity interest in Shurgard Self Storage Europe Limited (“Shurgard Europe”) which owns 21.8 self-storage facilities (twelve million net rentable square feet) located in seven countries in Western Europe operated under the “Shurgard” brand name. We believe Shurgard Europe is the largest owner and operator of self-storage facilities in Western Europe.

We also manage approximately 28 self-storage facilities for third parties, own 1.0 million net rentable square feet of commercial space which is managed primarily by PSB, and have equity interests in and manage 12 additional self-storage facilities.

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 if we distribute 100% of our REIT taxable income (generally, net rents and gains from real property, dividends, and interest) each year (for this purpose, certain distributions paid in a subsequent year may be considered), and if we meet certain organizational and operational rules. We believe we met these requirements in all periods presented herein, and we expect to continue to elect and qualify as a REIT.

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

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

### **Competition**

We believe that our customers generally store their goods within a five mile radius of their home or business. Our facilities compete with nearby self-storage facilities owned by other operators using marketing channels similar to ours, including Internet advertising, signage, and banners and offer services similar to ours. As a result, competition is significant and affects the occupancy levels, rental rates, rental income and operating expenses of our facilities.

Ownership and operation of self-storage facilities is highly fragmented. As the largest owner of self-storage facilities, we believe that we own approximately 6% of the self-storage square footage in the U.S. and that collectively the five largest self-storage owners in the U.S. own approximately 13%, with the remaining 87% owned by numerous regional and local operators.

We generally focus our ownership of facilities in major markets. We believe that we have significant market share and concentration in major metropolitan centers, with approximately 72% of our 2016 same-store revenues generated in the 20 Metropolitan Statistical Areas (each, an "MSA", as defined by the U.S. Census Bureau) with the highest population levels. We believe this is a competitive advantage relative to other self-storage operators, which do not have our geographic concentration and market share.

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

### **Business Attributes**

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

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

**Convenient shopping experience:** Customers can conveniently shop for available storage space, reviewing attributes such as facility location, size, amenities such as climate-control, as well as pricing, through the following marketing channels:

- **Our Desktop and Mobile Websites:** The online marketing channel continues to grow in prominence, with approximately 67% of our move-ins in 2016 sourced through our websites, as compared to 36% in 2010. In addition, we believe that many of our customers who directly call

our call center, or who move-in to a facility without making a reservation, have already reviewed our pricing and space availability through our website. We invest extensively in advertising on the Internet to attract potential customers, primarily through the use of search engines, and we regularly update our website to enhance their productivity.

- **Our Call Center:** Our call center is staffed by skilled sales specialists. Customers reach our call center by calling our advertised toll-free telephone referral number, (800) 44-STORE, or telephone numbers provided on the Internet. We believe giving customers the option to interact with a call center agent, despite the higher marginal cost relative to an internet reservation, enhances our ability to close sales with potential customers.
- **Our Properties:** Customers can also shop at any one of our facilities. Property managers access the same information that is available on our website and to our call center agents, and can inform the customer of available space at that site or our other nearby storage facilities. Property managers are extensively trained to maximize the conversion of such “walk in” shoppers into customers.

**Economies of scale:** The size and scope of our operations have enabled us to achieve high operating margins and a low level of administrative costs relative to revenues through the centralization of many functions, such as facility maintenance, employee compensation and benefits programs, revenue management, as well as the development and documentation of standardized operating procedures. We also believe that our major market concentration provides managerial efficiencies stemming from having a large percentage of our facilities in close proximity to each other.

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

**Marketing and advertising efficiencies:** Our major-market concentration relative to the fragmented ownership and operation of the rest of the industry, combined with our well-recognized brand name, improves our prominence in unpaid search results for self-storage on major online search engines and enhances the efficiency of our bidding for paid multiple-keyword advertising. The large number of facilities we have in major metropolitan centers enables us to efficiently use television advertising. Our competitors do not use television advertising because they lack the scale in major metropolitan centers.

### **Growth and Investment Strategies**

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

**Improve the operating performance of existing facilities:** We seek to increase the net cash flow of our existing self-storage facilities by (i) regularly analyzing our call volume, reservation activity, Internet activity, move-in/move-out rates and other market supply and demand factors and responding by adjusting our marketing and promotional activities and rental rates charged to new and existing customers, (ii) attempting to maximize revenues through evaluating the appropriate balance between occupancy, rental rates, and promotional discounting and (iii) controlling operating costs. We believe that our property management personnel, information technology, our

convenient shopping options for the customer, our economies of scale, and our Internet marketing and advertising programs will continue to enhance our ability to meet these goals.

**Acquire properties owned by others in the U.S.:** We seek to capitalize on the fragmentation of the self-storage business through acquiring attractively priced, well-located existing self-storage facilities. We believe our presence in and knowledge of substantially all of the major markets in the U.S. enhances our ability to identify attractive acquisition opportunities. Data on the rental rates and occupancy levels of our existing facilities provides us an advantage in evaluating the potential of acquisition opportunities. Self-storage owners decide whether to market their facilities for sale based upon many factors, including potential reinvestment returns, expectations of future growth, estimated value, the cost of debt financing, as well as personal considerations. Our aggressiveness in bidding for particular marketed facilities depends upon many factors including the potential for future growth, the quality of construction and location, the cash flow we expect from the facility when operated on our platform, how well the facility fits into our current geographic footprint, as well as our yield expectations. During 2016, 2015 and 2014, we acquired 55, 17 and 44 facilities, respectively, from third parties for approximately \$429 million, \$169 million and \$431 million, respectively, primarily through one to five property portfolio acquisitions. We will continue to seek to acquire properties in 2017; however, there is significant competition to acquire existing facilities. As a result, there can be no assurance as to the level of facilities we may acquire.

**Develop new self-storage facilities and expansion of existing facilities :** The development of new self-storage locations and the expansion of existing facilities has been an important source of growth. Since the beginning of 2013, we have expanded our development efforts due in part to the significant increase in prices being paid for existing facilities, in many cases well above the cost of developing new facilities. At December 31, 2016, we had a development pipeline to develop new self-storage facilities and, to a lesser extent, expand existing self-storage facilities, which will add approximately 5.3 million net rentable square feet of self-storage space, at a total cost of \$660.2 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, challenges in obtaining building permits for self-storage activities in certain municipalities, as well as challenges in sourcing quality construction materials, labor, and design elements.

**Participate in the growth of PS Business Parks, Inc.:** Our investment in PSB provides diversification into another asset type. PSB is a stand-alone public company traded on the NYSE. As of December 31, 2016, we have a 42% equity interest in PSB.

PSB seeks to grow its asset base in favorable markets as well as increase the cash flows from its existing portfolio. From 2010 through 2016, PSB has acquired an aggregate total of 11.5 million rentable square feet in key markets for an aggregate purchase price of approximately \$1.1 billion, and has disposed of an aggregate of 2.7 million rentable square feet in markets deemed non-strategic for an aggregate of \$282 million in net proceeds. As of December 31, 2016, PSB owned and operated approximately 28.1 million rentable square feet of commercial space, and had an enterprise value of approximately \$5.1 billion (based upon the trading price of PSB's common stock combined with the liquidation value of its preferred stock as of December 31, 2016).

**Participate in the growth of Shurgard Europe:** We believe Shurgard Europe is the largest self-storage company in Western Europe. It owns and operates 218 self-storage facilities with approximately 12 million net rentable square feet in: France (principally Paris), Sweden (principally Stockholm), the United Kingdom (principally London), the Netherlands, Denmark (principally Copenhagen), Belgium and Germany. We own 49% of Shurgard Europe, with the other 51% owned by a large U.S. institutional investor.

Customer awareness and availability of self-storage is significantly lower in Europe than in the U.S. However, with more awareness and product supply, we believe there is potential for increased demand for storage space in Europe. In the long run, we believe Shurgard Europe could capitalize on potential increased demand through the development of new facilities or, to a lesser extent, acquiring existing facilities. In 2014, 2015 and 2016, Shurgard Europe acquired 27 facilities with 1.3 million net rentable square feet in Germany, the Netherlands, and the United Kingdom for an aggregate purchase price of approximately \$250.5 million. In addition, during 2015

and 201 6 Shurgard Europe opened four development properties in the United Kingdom containing 314,000 net rentable square feet at a cost of \$ 52.3 million .

### **Financing of the Company's Growth Strategies**

**Overview of financing strategy and sources of capital :** 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.

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.

Sources of capital available to us include retained cash flow, the issuance of preferred and common securities, the issuance of medium and long-term debt, joint venture financing, and the sale of properties. We view our line of credit, as well as short-term bank loans, as bridge financing.

Historically, we have financed our cash investment activities primarily with retained operating cash flow and the issuance of preferred securities. While we have issued common shares, such issuances have been minimal, because preferred securities have had a more attractive cost of capital. In 2015 and 2016, we issued euro-denominated medium-term debt primarily as a hedge to our euro-denominated investment in Shurgard Europe. We expect to continue to use these same sources of capital, supplemented potentially by the issuance of long-term debt. While we may increase the level of debt in our capital structure, we expect to continue to remain conservatively capitalized and not subject ourselves to significant refinancing risk.

We do not expect to use joint venture financing or the sale of properties as sources of capital; however, there can be no assurance that we will not.

We select among the sources of capital available to us based upon relative cost, availability, the desire for leverage, as well as intangibles such as covenants in the case of debt.

**Retained operating cash flow :** Although we are required to generally distribute 100% of our taxable income to our shareholders , we are nonetheless able to retain cash flow to the extent that our tax depreciation exceeds our maintenance capital expenditures. In recent years, we have retained approximately \$300 million per year in cash flow , and we expect to retain \$250 million in 2017.

**Preferred equity:** As noted above, we view preferred equity as an important source of capital over the long term. However, rates and market conditions for the issuance of preferred securities can be volatile or inefficient from time to time, particularly so in the last few years. Since 2013, we have issued preferred securities at fixed rates ranging from 4.900% to 6.375%. Most recently, in October 2016, we issued \$350 million of preferred securities at a fixed rate of 4.900%. We believe that the market coupon rate of our preferred securities is influenced by long-term interest rates, as well as demand specifically from retail investors. Institutional investors are generally not buyers of our preferred securities. Currently, we believe that the cost to issue preferred securities would be approximately 5.875%. At December 31, 2016, we have approximately \$4.4 billion in preferred securities outstanding with an average coupon rate of 5.5% and an average market yield of 5.9%.

**Medium or long-term debt:** We have broad powers to issue debt to fund our business. These powers are subject to a limitation on unsecured borrowings in our Bylaws described in "Limitations on Debt" below. Our corporate credit ratings are "A" by Standard & Poor's and "A2" by Moody's. We believe this high rating, combined

with our low level of debt, could allow us to issue a significant amount of unsecured debt at lower interest rates than the coupon rates on preferred securities.

At December 31, 2016, we have approximately €342 million of Euro-denominated senior unsecured notes (collectively, the “Senior Notes”) outstanding, which were issued to institutional investors in 2015 and 2016.

**Common equity:** Except in connection with mergers, most notably a merger in 2006 with Shurgard Storage Centers, we have not raised capital through the issuance of common equity, because lower cost alternatives have been available. However, we believe that the market for our common equity is liquid and, as a result, common equity is a significant potential source of capital.

**Bridge financing :** We have a \$500.0 million revolving line of credit which we occasionally use as temporary “bridge” financing, along with short-term bank loans, until we are able to raise longer-term capital. As of December 31, 2016, there were no borrowings outstanding on our revolving line of credit and no short-term bank loans.

**Unlikely capital alternatives:** We have issued both our common and preferred securities in exchange for real estate and other investments in the past. We do not expect such issuances to be a material source of capital in the future, though there can be no assurance.

We have participated in joint ventures with institutional investors in the past to acquire, develop, and operate self-storage facilities, most notably Shurgard Europe, in which we own a 49% interest and an institutional investor owns the remaining 51%. We do not expect joint venture financing to be a material source of capital in the future because we have other sources of capital that are less expensive and because of potential constraints resulting from joint management. However, there can be no assurance that we will not.

Generally, we have disposed of self-storage facilities only when compelled to do so through condemnation proceedings. Because we believe that we are an optimal operator of self-storage facilities, we have generally found that we cannot obtain sufficient value in selling properties. As a result, we do not expect to raise significant capital selling self-storage facilities; however, though there can be no assurance that we will not.

#### **Investments in Real Estate and Unconsolidated Real Estate Entities**

**Investment Policies and Practices with respect to our investments :** Following are our investment practices and policies which, though we do not anticipate any significant alteration, can be changed by our board of trustees (the “Board”) without a shareholder vote:

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

### **Facilities Owned by Unconsolidated Real Estate Entities**

At December 31, 2016, we had ownership interests in entities that we do not control or consolidate. These entities include PSB, Shurgard Europe (each discussed above), and various limited partnerships that own an aggregate of 12 self-storage facilities. These entities are referred to collectively as the “Unconsolidated Real Estate Entities.”

PSB, which files financial statements with the SEC, and Shurgard Europe, have debt and other obligations that we do not consolidate in our financial statements. Such debt or other obligations have no recourse to us. None of the other Unconsolidated Real Estate Entities have significant amounts of debt or other obligations. See Note 4 to our December 31, 2016 financial statements for further disclosure regarding the assets, liabilities and operating results of PSB and Shurgard Europe.

### **Canadian self-storage facilities owned by Former Chairman and Member of Board of Trustees**

At December 31, 2016, B. Wayne Hughes, our former Chairman and his daughter, Tamara Hughes Gustavson, a member of our Board of Trustees, 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. Our subsidiaries reinsure risks relating to loss of goods stored by customers in these facilities, and have received approximately and \$848,000, \$562,000 and \$480,000 for the years ended December 31, 2016, 2015 and 2014, respectively. Our right to continue receiving these premiums may be qualified.

We have no ownership interest in these facilities and we do not own or operate any facilities in Canada. If we chose to acquire or develop our own facilities in Canada, we would have to share the use of the “Public Storage” name in Canada with the facilities’ owners. We have a right of first refusal, subject to limitations, to acquire the stock or assets of the corporation engaged in the operation of these facilities if their owners agree to sell them.

### **Limitations on Debt**

Without the consent of holders of the various series of Preferred Shares, we may not take any action that would result in our “Debt Ratio” exceeding 50%. “Debt Ratio”, as defined in the related governing documents, represents generally the ratio of debt to total assets before accumulated depreciation and amortization on our balance sheet, in accordance with U.S. generally accepted accounting principles (“GAAP”). As of December 31, 2016, the Debt Ratio was approximately 3%.

Our revolving credit facility and senior unsecured debt agreements contain various customary financial covenants, including limitations on the level of indebtedness and the prohibition of the payment of dividends upon the occurrence of defined events of default. We believe we were in compliance with each of these covenants as of December 31, 2016.

### **Employees**

We had approximately 5,500 employees in the U.S. at December 31, 2016 who are engaged primarily in property operations.

### **Seasonality**

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

## **Insurance**

We have historically carried 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 December 31, 2016, there were approximately 894 ,000 certificates held by our self-storage customers, representing aggregate coverage of approximately \$2.7 billion.

## **ITEM 1A. Risk Factors**

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

### **We have significant exposure to real estate risk.**

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

*Natural disasters or terrorist attacks could cause damage to our facilities, resulting in increased costs and reduced revenues.* Natural disasters, such as earthquakes, hurricanes and floods, or terrorist attacks could cause significant damage and require significant repair costs, and make facilities temporarily uninhabitable, reducing our revenues. Damage and business interruption losses could exceed the aggregate limits of our insurance coverage. In addition, because we self-insure a portion of our risks, losses below a certain level may not be covered by insurance. See Note 12 to our December 31, 2016 financial statements for a description of the risks of losses that are not covered by third-party insurance contracts. We may not have sufficient insurance coverage for losses caused by a terrorist attack, or such insurance may not be maintained, available or cost-effective. In addition, significant natural disasters, terrorist attacks, threats of future terrorist attacks, or resulting wider armed conflicts could have negative impacts on the U.S. economy, reducing storage demand and impairing our operating results.

*Operating costs could increase.* We could be subject to increases in insurance premiums, increased or new property tax assessments or other taxes, repair and maintenance costs, payroll, utility costs, workers compensation, and other operating expenses due to various factors such as inflation, labor shortages, commodity and energy price increases, weather, increases to minimum wage rates, changes to governmental safety and real estate use limitations, as well as other governmental actions.

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

property, as well as the general risks of real estate investment, could jeopardize realization of the anticipated earnings from an acquisition.

*Development of self-storage facilities can subject us to risks.* At December 31, 2016, we have a pipeline of development projects totaling \$ 660 million (subject to contingencies), and we expect to continue to seek additional development projects. There are significant risks involved in developing self-storage facilities, such as delays or cost increases due to changes in or failure to meet government or regulatory requirements, failure of revenue to meet our underwriting estimates, weather issues, unforeseen site conditions, or personnel problems. Self-storage space is generally not pre-leased, and rent-up of newly developed space can be delayed or ongoing cash flow yields can be reduced due to competition, reductions in storage demand, or other factors.

*There is significant competition among self-storage operators and from other storage alternatives.* Our self-storage facilities generate most of our revenue and earnings. Competition in the local market areas in which many of our properties are located is significant and has affected our occupancy levels, rental rates and operating expenses. Development of self-storage facilities has increased in recent years, which has intensified competition and will continue to do so as newly developed facilities are opened. Development of self-storage facilities by other operators could continue to increase, due to increases in availability of funds for investment or other reasons, and further intensify competition.

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

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

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

*We incur liability from tenant and employment-related claims.* From time to time we have to make monetary settlements or defend actions or arbitration (including class actions) to resolve tenant or employment-related claims and disputes. Settling any such liabilities could negatively impact our earnings and cash available for distribution to shareholders, and could also adversely affect our ability to sell, lease, operate, or encumber affected facilities.

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

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

Our ability to raise capital to fund our activities may be adversely affected by challenging market conditions. If we were unable to raise capital at reasonable rates, prospective earnings growth through expanding our asset base could be limited.

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

We own a 49% equity interest in Shurgard Europe, with our investment having a \$ 280 million book value at December 31, 2016, and \$22.3 million in equity in earnings in 2016. As a result, we are exposed to additional risks related to international operations that may adversely impact our business and financial results, including the following:

- *Currency risks:* Currency fluctuations can impact the fair value of our equity investment in Shurgard Europe, as well as future repatriation of cash.
- *Legislative, tax, and regulatory risks:* We are subject to complex foreign laws and regulations related to permitting and land use, the environment, labor, and other areas, as well as income, property, sales, value added and employment tax laws. These laws can be difficult to apply or interpret and can vary in each country or locality, and are subject to unexpected changes in their form and application due to regional, national, or local political uncertainty and other factors. Such changes, or Shurgard's failure to comply with these laws, could subject it to penalties or other sanctions, adverse changes in business processes, as well as potentially adverse income tax, property tax, or other tax burdens.
- *Impediments to capital repatriation could negatively impact the realization of our investment in Shurgard Europe:* Laws in Europe and the U.S. may create, impede or increase our cost to repatriate capital or earnings from Shurgard Europe.
- *Risks of collective bargaining and intellectual property:* Collective bargaining, which is prevalent in certain areas in Europe, could negatively impact Shurgard Europe's labor costs or operations. Many of Shurgard Europe's employees participate in various national unions.
- *Potential operating and individual country risks:* Economic slowdowns or extraordinary political or social change in the countries in which it operates have posed, and could continue to pose, challenges or result in future reductions of Shurgard Europe's operating cash flows.
- *Impediments of Shurgard Europe's joint venture structure:* Shurgard Europe's strategic decisions, involving activities such as borrowing money, capital contributions, raising capital from third parties, as well as selling or acquiring significant assets, require the consent of our joint venture partner. As a result, Shurgard Europe may be precluded from taking advantage of opportunities that we would find attractive and we could be unable to separately pursue such opportunities due to certain market exclusivity provisions, which expire on March 31, 2018, of the Shurgard Europe joint venture agreement. In addition, our 49% equity investment may not be easily sold or readily accepted as collateral by potential lenders to Public Storage due to the joint venture structure.

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

At December 31, 2016, B. Wayne Hughes, our former Chairman and his family, which includes his daughter, Tamara Hughes Gustavson and his son, B. Wayne Hughes, Jr., who are both members of our Board of Trustees (collectively, the "Hughes Family"), owned approximately 14.3% of our aggregate outstanding common shares. Our declaration of trust permits the Hughes Family to own up to 35.66% of our outstanding common shares while it generally restricts the ownership by other persons and entities to 3% of our outstanding common shares. Consequently, the Hughes Family may significantly influence matters submitted to a vote of our shareholders, including electing trustees, amending our organizational documents, dissolving and approving other extraordinary transactions, such as a takeover attempt, resulting in an outcome that may not be favorable to other shareholders.

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

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

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

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

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

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

**Holders of our preferred shares have dividend, liquidation and other rights that are senior to the rights of the holders of shares of our common stock.**

Holders of our preferred shares are entitled to cumulative dividends before any dividends may be declared or set aside on our common stock. Upon liquidation, holders of our preferred shares will receive a liquidation preference of \$25,000 per share (or \$25.00 per depositary share) plus any accrued and unpaid distributions before any payment is made to the common shareholders. These preferences may limit the amount received by our common shareholders either from ongoing distributions or upon liquidation. In addition, our preferred shareholders

have the right to elect two additional directors to our Board whenever dividends are in arrears in an aggregate amount equivalent to six or more quarterly dividends, whether or not consecutive.

**Potential changes in tax laws could negatively impact us.**

The Trump Administration and the Republican-led Congress are exploring potential changes to U.S. tax law, such as reducing income tax rates, reducing the deductibility of interest, changing the allowable recovery periods for acquired assets, and eliminating or limiting many other deductions and credits. These potential changes, and others we may not be aware of, could have negative impacts such as reducing the value of our common stock, reducing our access to capital, or making the acquisition of real estate assets less attractive. In response, we may need to take actions such as changing our sources of capital, revising our capital allocation and asset acquisition strategy, or reconsidering our status as a REIT. Such responses could be costly, reduce cash available for distributions to shareholders, and present certain business and tax risks. We cannot predict whether, when, or to what extent new federal tax laws, regulations, interpretations or rulings will be adopted.

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

Even if we qualify as a REIT for federal income tax purposes, we may be subject to some federal, foreign, state and local taxes on our income and property. Since January 1, 2001, certain consolidated corporate subsidiaries of the Company have elected to be treated as “taxable REIT subsidiaries” for federal income tax purposes, and are taxable as regular corporations and subject to certain limitations on intercompany transactions. If tax authorities determine that amounts paid by our taxable REIT subsidiaries to us are not reasonable compared to similar arrangements among unrelated parties, we could be subject to a 100% penalty tax on the excess payments, and ongoing intercompany arrangements could have to change, resulting in higher ongoing tax payments. To the extent the Company is required to pay federal, foreign, state or local taxes or federal penalty taxes due to existing laws or changes thereto, we will have less cash available for distribution to shareholders. In addition, certain local and state governments have imposed taxes on self-storage rent. While in most cases those taxes are paid by our customers, they increase the cost of self-storage rental to our customers and can negatively impact our revenues. Other local and state governments may impose self-storage rent taxes in the future.

**We are exposed to 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.**

We are subject to the risk of legal claims and proceedings and regulatory enforcement actions in the ordinary course of our business and otherwise, and we could incur significant liabilities and substantial legal fees as a result of these actions. Resolution of these claims and actions may divert time and attention by our management and could involve payment of damages or expenses by us, all of which may be significant. In addition, any such resolution could involve our agreement to terms that restrict the operation of our business. The results of legal proceedings cannot be predicted with certainty. We cannot guarantee losses incurred in connection with any current or future legal or regulatory proceedings or actions will not exceed any provisions we may have set aside in respect of such proceedings or actions or will not exceed any available insurance coverage. The impact of any such legal claims, proceedings, and regulatory enforcement actions could have a material adverse effect on us.

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

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

As a result, our operations could be severely impacted by a natural disaster, terrorist attack or other circumstance that results in a significant outage of our systems or those of our third party providers, despite our use of back up and redundancy measures. Our or our customers' or employees' confidential information could be compromised or misappropriated, due to a breach of our network security. Such cybersecurity and data security breaches as well as system s disruptions and shutdowns could result in additional costs to repair or replace such networks or information systems and possible legal liability, including government enforcement actions and private litigation. In addition, our customers could lose confidence in our ability to protect their personal information, which could cause them to discontinue leasi ng our self-storage facilities. Such events could lead to lost future revenue s and adversely affect our results of operations and could result in remedial and other costs, fines or lawsuits, which could be in excess of any available insurance that we have procured .

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

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

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

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

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

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

**ITEM 1B. Unresolved Staff Comments**

None.

**ITEM 2. Properties**

At December 31, 2016, we had direct and indirect ownership interests in 2,348 (including 12 owned by Unconsolidated real estate entities) self-storage facilities located in 38 states within the U.S. and 219 (including one wholly-owned facility) storage facilities located in seven Western European nations:

	<b>At December 31, 2016</b>	
	Number of Storage Facilities (a)	Net Rentable Square Feet (in thousands)
<b>U.S.:</b>		
California		
Southern	247	17,901
Northern	177	10,962
Texas	281	19,485
Florida	282	19,024
Illinois	126	7,952
Georgia	108	7,129
Washington	94	6,438
North Carolina	86	5,959
Virginia	91	5,593
New York	66	4,622
Colorado	67	4,295
Maryland	62	3,761
New Jersey	57	3,630
Minnesota	47	3,313
South Carolina	56	3,075
Michigan	44	2,869
Ohio	44	2,854
Arizona	44	2,833
Missouri	38	2,236
Oregon	39	2,040
Indiana	32	2,031
Pennsylvania	29	1,993
Tennessee	32	1,952
Nevada	27	1,818
Massachusetts	25	1,691
Oklahoma	21	1,477
Kansas	21	1,268
Other states (12 states)	105	6,247
	<hr/>	<hr/>
Total - U.S.	2,348	154,448
<b>Europe (b):</b>		
Netherlands	61	3,110
France	55	2,879
Sweden	30	1,640
United Kingdom	26	1,417
Belgium	21	1,263
Germany	16	889
Denmark	10	572
	<hr/>	<hr/>
Total - Europe	219	11,770
	<hr/>	<hr/>
Grand Total	2,567	166,218

- (a) See Schedule III: Real Estate and Accumulated Depreciation in the Company's 2016 financials, for a summary of land, building, and accumulated depreciation by market.
- (b) The facilities located in Europe include one facility in the United Kingdom that we wholly own, as well as the facilities owned by Shurgard Europe.

We seek to maximize our facilities' cash flow through the regular review and adjustment of rents charged and promotions granted to our existing and new incoming customers, and controlling expenses. For the year ended December 31, 2016, the weighted average occupancy level and the average realized rent per occupied square foot for our self-storage facilities were approximately 93.6% and \$16.34, respectively, in the U.S. and 86.7% and \$21.68, respectively, in Europe.

At December 31, 2016, 30% of our U.S. facilities with a net book value of \$122 million were encumbered by an aggregate of \$31 million in mortgage notes payable.

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

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

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

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

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

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

Competition from other self-storage facilities is significant and affects the occupancy levels, rental rates, rental income and operating expenses of our facilities.

We believe that self-storage facilities, upon achieving stabilized occupancy levels of approximately 90%, have attractive characteristics consisting of high profit margins, a broad tenant base, low levels of capital expenditures to maintain their condition and appearance, and excellent returns on invested capital. Historically, upon reaching stabilization, our U.S. self-storage facilities have generally shown a high degree of stability in generating cash flows.

**Description of Commercial Properties** : We have an interest in PSB, which, as of December 31, 2016, owns and operates approximately 28.1 million rentable square feet of commercial space in six states. At December 31, 2016, the \$402.8 million book value and \$1.7 billion market value, respectively, of our investment in PSB represents approximately 4% and 1.7%, respectively, of our total assets. We also directly own 1.0 million net rentable square feet of commercial space managed primarily by PSB.

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

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

### **ITEM 3. Legal Proceedings**

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

### **ITEM 4. Mine Safety Disclosures**

Not applicable.

## PART II

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

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

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

Year	Quarter	Range	
		High	Low
201 5	1 <sup>st</sup>	206.92	185.05
	2 <sup>nd</sup>	200.60	182.91
	3 <sup>rd</sup>	217.99	182.08
	4 <sup>th</sup>	253.93	210.87
201 6	1 <sup>st</sup>	276.83	224.71
	2 <sup>nd</sup>	277.60	234.98
	3 <sup>rd</sup>	260.83	212.69
	4 <sup>th</sup>	224.40	200.65

As of February 2 7 , 201 7 , there were approximately 13,532 holders of record of our Common Shares. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

b. Dividends

We have continuously paid quarterly distributions to our shareholders since 1981, our first full year of operations. During 201 6 we paid distributions to our common shareholders of \$1. 70 per common share for the quarter ended March 31 , \$1.80 per common share for each of the quarters ended June 30 and September 30 and \$2.00 per common share for the quarter ended December 31, representing an aggregate of \$1. 263 b illion or \$ 7.30 per share. During 201 5 we paid distributions to our common shareholders of \$1. 40 per common share for the quarter ended March 31 and \$1.70 per common share for each of the quarters ended June 30, September 30 and December 31, representing an aggregate of \$1.122 b illion or \$ 6.50 per share. During 201 4 we paid distributions to our common shareholders of \$1. 4 0 per common share for each of the quarters ended March 31, June 30, September 30 and December 31, representing an aggregate of \$ 964.6 million or \$5.60 per share.

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

For Federal income tax purposes, distributions to shareholders are treated as ordinary income, capital gains, return of capital or a combination thereof. For 2016, the dividends paid on common shares and preferred shares were all classified as 100% ordinary income. For 2015, 1.5117% of the dividends paid in the third quarter were classified as long-term capital gain, with the remainder and all other dividends being classified as 100% ordinary income.

c. Equity Shares

We are authorized to issue 100,000,000 equity shares from time to time in one or more series and our Board has broad authority to fix the dividend and distribution rights, conversion and voting rights, redemption provisions and liquidation rights of each series of equity shares. We had no equity shares outstanding for any period in the years ended December 31, 2016 and 2015.

d. 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 February 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 December 31, 2016. We have no current plans to repurchase shares; however, future levels of common share repurchases will be dependent upon our available capital, investment alternatives, and the trading price of our common shares.

e. Preferred Share Redemptions

We had no preferred redemptions during the three months ended December 31, 2016.

**ITEM 6. Selected Financial Data**

	For the year ended December 31,				
	2016	2015	2014	2013	2012
	(Amounts in thousands, except share and per share data)				
Revenues	\$ 2,560,549	\$ 2,381,696	\$ 2,177,296	\$ 1,964,942	\$ 1,826,186
Expenses:					
Cost of operations	669,083	635,502	613,324	559,759	550,805
Depreciation and amortization	433,314	426,008	437,114	387,402	357,781
General and administrative	83,656	88,177	71,459	66,679	56,837
	<u>1,186,053</u>	<u>1,149,687</u>	<u>1,121,897</u>	<u>1,013,840</u>	<u>965,423</u>
Operating income	1,374,496	1,232,009	1,055,399	951,102	860,763
Interest and other income	15,138	16,544	17,638	33,979	33,293
Interest expense	(4,210)	(610)	(6,781)	(6,444)	(19,813)
Equity in earnings of unconsolidated real estate entities	56,756	50,937	88,267	57,579	45,586
Foreign currency exchange gain (loss)	17,570	306	(7,047)	17,082	8,876
Gain on real estate investment sales	689	18,503	2,479	4,233	1,456
Income from continuing operations	<u>1,460,439</u>	<u>1,317,689</u>	<u>1,149,955</u>	<u>1,057,531</u>	<u>930,161</u>
Discontinued operations	-	-	-	-	12,874
Net income	<u>1,460,439</u>	<u>1,317,689</u>	<u>1,149,955</u>	<u>1,057,531</u>	<u>943,035</u>
Net income allocated to noncontrolling equity interests	<u>(6,863)</u>	<u>(6,445)</u>	<u>(5,751)</u>	<u>(5,078)</u>	<u>(3,777)</u>
Net income allocable to Public Storage shareholders	<u>\$ 1,453,576</u>	<u>\$ 1,311,244</u>	<u>\$ 1,144,204</u>	<u>\$ 1,052,453</u>	<u>\$ 939,258</u>

**Per Common Share:**

Distributions	\$7.30	\$6.50	\$5.60	\$5.15	\$4.40
Net income – Basic	\$6.84	\$6.10	\$5.27	\$4.92	\$3.93
Net income – Diluted	\$6.81	\$6.07	\$5.25	\$4.89	\$3.90
Weighted average common shares – Basic	173,091	172,699	172,251	171,640	170,562
Weighted average common shares – Diluted	173,878	173,510	173,138	172,688	171,664

**Balance Sheet Data:**

Total assets	\$ 10,130,338	\$ 9,778,232	\$ 9,818,676	\$ 9,876,266	\$ 8,793,403
Total debt	\$ 390,749	\$ 319,016	\$ 64,364	\$ 839,053	\$ 468,828
Total preferred equity	\$ 4,367,500	\$ 4,055,000	\$ 4,325,000	\$ 3,562,500	\$ 2,837,500
Public Storage shareholders' equity	\$ 9,411,910	\$ 9,170,461	\$ 9,480,796	\$ 8,791,730	\$ 8,093,756
Permanent noncontrolling interests' equity	\$ 29,744	\$ 26,997	\$ 26,375	\$ 27,125	\$ 29,108

**Net cash flow:**

Provided by operating activities	\$ 1,945,336	\$ 1,748,279	\$ 1,603,542	\$ 1,438,407	\$ 1,293,315
Used in investing activities	\$ (716,726)	\$ (440,105)	\$ (198,331)	\$ (1,412,393)	\$ (290,465)
Used in financing activities	\$ (1,148,826)	\$ (1,391,283)	\$ (1,236,864)	\$ (24,228)	\$ (1,124,961)

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

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

### **Critical Accounting Policies**

Our MD&A discusses our financial statements, which have been prepared in accordance with United States ("U.S.") generally accepted accounting principles ("GAAP"), and are affected by our judgments, assumptions and estimates. The notes to our December 31, 2016 financial statements, primarily Note 2, summarize our significant accounting policies.

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

***Income Tax Expense:*** We have elected to be treated as a REIT, as defined in the Internal Revenue Code of 1986, as amended (the "Code"). As a REIT, we do not incur federal income tax on our REIT taxable income that is fully distributed each year (for this purpose, certain distributions paid in a subsequent year may be considered), and if we meet certain organizational and operational rules. We believe we have met these REIT requirements for all periods presented herein. Accordingly, we have recorded no federal income tax expense related to our REIT taxable income.

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

In addition, 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 2013 through December 31, 2016, we acquired a total of 237 facilities with 16.9 million net rentable square feet from third parties for approximately \$ 2.2 billion , and we opened newly developed and redeveloped self-storage space for a total cost of \$575.8 million, adding approximately 5.3 million net rentable square feet.

Subsequent to December 31, 2016, we acquired or were under contract to acquire five self-storage facilities for \$26.4 million. We will continue to seek to acquire properties; however, there is significant competition to acquire existing facilities and there can be no assurance as to the level of facilities we may acquire.

As of December 31, 2016, we had additional development projects which will add approximately 5.3 million net rentable square feet of storage space at a total cost of approximately \$660.2 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 real estate development activities are beneficial to our business operations over the long run. However, in the short run, development 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 development 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 unstabilized newly developed and redeveloped facilities in our portfolio due to continued development efforts.

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

As of December 31, 2016, our capital resources over the next year are expected to be approximately \$918.5 million which exceeds our current planned capital needs over the next year of approximately \$458.0 million. Our capital resources include: (i) \$183.7 million of cash as of December 31, 2016, (ii) \$484.8 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 real estate facilities.

Our planned capital needs over the next year consist of (i) \$429.9 million of remaining spend on our current development pipeline, (ii) \$26.4 million in property acquisitions currently under contract, and (iii) \$1.7 million in principal repayments on existing debt. Our capital needs may increase significantly over 2017 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**

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### **Operating results for 2016 and 2015**

For the year ended December 31, 2016, net income allocable to our common shareholders was \$1,183.9 million or \$6.81 per diluted common share, compared to \$1,053.1 million or \$6.07 per share in 2015 representing an increase of \$130.8 million or \$0.74 per share. The increase is primarily due to (i) a \$139.1 million increase in self-storage net operating income (defined below) and (ii) a \$17.3 million increase in foreign exchange translation gains associated with our euro denominated debt offset partially by (iii) a \$29.0 million reduction in gains on sales of real estate investments, including our equity share and (iv) a \$20.0 million increase in EITF D - 42 charges, including our equity share, as a result of preferred redemption activities.

The \$139.1 million increase in self-storage net operating income is a result of a \$96.9 million increase in our Same Store Facilities and a \$42.2 million increase in our Non Same Store Facilities. Revenues for the Same Store Facilities increased 5.5% or \$110.0 million in the year ended December 31, 2016 as compared to 2015, due primarily to higher realized annual rent per occupied square foot. Cost of operations for the Same Store Facilities increased by 2.5% or \$13.1 million in the year ended December 31, 2016 as compared to 2015, due primarily to increased property taxes, on-site property manager payroll and repairs and maintenance, offset partially by lower snow removal costs. The increase in net operating income for the Non Same Store Facilities is due primarily to the impact of 337 self-storage facilities acquired, developed or expanded since January 2013.

### **Operating results for 2015 and 2014**

For the year ended December 31, 2015, net income allocable to our common shareholders was \$1,053.1 million or \$6.07 per diluted common share, compared to \$908.2 million or \$5.25 per share in 2014 representing an increase of \$144.9 million or \$0.82 per diluted common share. The increase is primarily due to (i) a \$165.8 million increase in self-storage net operating income and (ii) a \$16.0 million increase in gains on sale of real estate, offset partially by (iii) a \$22.1 million reduction in equity in earnings of PSB due primarily to reduced gains on disposition in 2015 as compared to 2014 and (iv) a \$15.6 million reduction in equity in earnings of Shurgard Europe due primarily to Shurgard Europe's repayment of a loan payable to us.

The \$165.8 million increase in self-storage net operating income is a result of a \$115.3 million increase in our Same Store Facilities and a \$50.5 million increase in our Non Same Store Facilities. Revenues for the Same Store Facilities increased 6.6% or \$122.4 million in the year ended December 31, 2015 as compared to 2014, due primarily to higher realized annual rent per occupied square foot. Cost of operations for the Same Store Facilities increased by 1.4% or \$7.0 million in the year ended December 31, 2015 as compared to 2014, due primarily to increases in snow removal and property taxes, offset partially by lower advertising and selling expenses. The increase in net operating income for the Non Same Store Facilities is due primarily to the impact of the development and acquisition of 186 self-storage facilities in 2013, 2014 and 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 and losses, and impairment charges, which are excluded because they are based upon historical real estate costs and assume that building values diminish ratably over time, while we believe that real estate values fluctuate due to market conditions. FFO and FFO per share are not a substitute for net income or earnings per share. FFO is not a substitute

for GAAP net cash flow in evaluating our liquidity or ability to pay dividends, because it excludes financing activities presented on our statements of cash flows. In addition, other REITs may compute these measures differently, so comparisons among REITs may not be helpful.

For the year ended December 31, 2016, FFO was \$9.70 per diluted common share, as compared to \$8.79 for the same period in 2015, representing an increase of 10.4%, or \$0.91 per diluted common share.

For the year ended December 31, 2015, FFO was \$8.79 per diluted common share, as compared to \$7.98 for the same period in 2014, representing an increase of 10.2%, or \$0.81 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:

	Year Ended December 31,		
	2016	2015	2014
	(Amounts in thousands, except per share data)		
<b><u>Reconciliation of Diluted Earnings per Share to FFO per Share:</u></b>			
Diluted Earnings per Share	\$ 6.81	\$ 6.07	\$ 5.25
Eliminate amounts per share excluded from FFO:			
Depreciation and amortization, including amounts from investments and excluding amounts allocated to noncontrolling interests and restricted share unitholders	2.90	2.89	2.96
Gains on sale of real estate investments, including our equity share from investments, and other	(0.01)	(0.17)	(0.23)
FFO per share	<u>\$ 9.70</u>	<u>\$ 8.79</u>	<u>\$ 7.98</u>
<b><u>Computation of FFO per Share:</u></b>			
Net income allocable to common shareholders	\$ 1,183,879	\$ 1,053,050	\$ 908,176
Eliminate items excluded from FFO:			
Depreciation and amortization	433,314	426,008	437,114
Depreciation from unconsolidated real estate investments	74,407	78,985	79,413
Depreciation allocated to noncontrolling interests and restricted share unitholders	(3,549)	(3,519)	(3,638)
Gains on sale of real estate investments, including our equity share from investments, and other	(768)	(29,721)	(39,083)
FFO allocable to common shares	<u>\$ 1,687,283</u>	<u>\$ 1,524,803</u>	<u>\$ 1,381,982</u>
Diluted weighted average common shares	<u>173,878</u>	<u>173,510</u>	<u>173,138</u>
FFO per share	<u>\$ 9.70</u>	<u>\$ 8.79</u>	<u>\$ 7.98</u>

We also present "Core FFO per share," a non-GAAP measure that represents FFO per share excluding the impact of (i) foreign currency exchange gains and losses, (ii) EITF D-42 charges related to the redemption of preferred securities, (iii) general and administrative expenses associated with the acquisition of self-storage facilities and (iv) certain other noncash and/or nonrecurring income or expense items. We review Core FFO per share to evaluate our ongoing operating performance, and we believe it is useful for investors and REIT analysts in the same 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:

	Year Ended December 31,			Year Ended December 31,		
	2016	2015	Percentage Change	2015	2014	Percentage Change
FFO per share	\$ 9.70	\$ 8.79	10.4%	\$ 8.79	\$ 7.98	10.2%
Eliminate the per share impact of items excluded from Core FFO, including our equity share from investments:						
Foreign currency exchange (gain) loss	(0.11)	-		-	0.04	
Application of EITF D-42	0.17	0.06		0.06	-	
Property acquisition costs	0.01	0.04		0.04	0.03	
Other items	0.02	0.01		0.01	0.04	
Core FFO per share	<u>\$ 9.79</u>	<u>\$ 8.90</u>	10.0%	<u>\$ 8.90</u>	<u>\$ 8.09</u>	10.0%

#### **Analysis of Net Income by Reportable Segment**

The following discussion and analysis is presented and organized in accordance with Note 10 to our December 31, 2016 financial statements, "Segment Information." Accordingly, refer to the tables presented in Note 10 in order to reconcile such amounts to our total net income and for further information on our reportable segments.

#### **Self-Storage Operations**

Our self-storage operations are analyzed in two groups: (i) the 2,000 facilities that we have owned and operated on a stabilized basis since January 1, 2014 (the "Same Store Facilities"), and (ii) all other facilities, which are newly acquired, newly developed, or recently redeveloped (the "Non Same Store Facilities"). See Note 10 to our December 31, 2016 financial statements "Segment Information," for a reconciliation of the amounts in the tables below to our total net income.

**Self-Storage Operations****Summary**

	Year Ended December 31,			Year Ended December 31,		
	2016	2015	Percentage Change	2015	2014	Percentage Change
(Dollar amounts in thousands)						
<b>Revenues:</b>						
Same Store Facilities	\$ 2,097,696	\$ 1,987,725	5.5%	\$ 1,987,725	\$ 1,865,356	6.6%
Non Same Store Facilities	308,132	247,800	24.3%	247,800	184,526	34.3%
	<u>2,405,828</u>	<u>2,235,525</u>	<u>7.6%</u>	<u>2,235,525</u>	<u>2,049,882</u>	<u>9.1%</u>
<b>Cost of operations:</b>						
Same Store Facilities	527,341	514,237	2.5%	514,237	507,200	1.4%
Non Same Store Facilities	90,564	72,459	25.0%	72,459	59,698	21.4%
	<u>617,905</u>	<u>586,696</u>	<u>5.3%</u>	<u>586,696</u>	<u>566,898</u>	<u>3.5%</u>
<b>Net operating income (a):</b>						
Same Store Facilities	1,570,355	1,473,488	6.6%	1,473,488	1,358,156	8.5%
Non Same Store Facilities	217,568	175,341	24.1%	175,341	124,828	40.5%
Total net operating income	<u>1,787,923</u>	<u>1,648,829</u>	<u>8.4%</u>	<u>1,648,829</u>	<u>1,482,984</u>	<u>11.2%</u>
<b>Depreciation and amortization expense:</b>						
Same Store Facilities	(328,736)	(333,695)	(1.5)%	(333,695)	(339,372)	(1.7)%
Non Same Store Facilities	(104,578)	(92,313)	13.3%	(92,313)	(97,742)	(5.6)%
Total depreciation and amortization expense	<u>(433,314)</u>	<u>(426,008)</u>	<u>1.7%</u>	<u>(426,008)</u>	<u>(437,114)</u>	<u>(2.5)%</u>
<b>Net income:</b>						
Same Store Facilities	1,241,619	1,139,793	8.9%	1,139,793	1,018,784	11.9%
Non Same Store Facilities	112,990	83,028	36.1%	83,028	27,086	206.5%
Total net income	<u>\$ 1,354,609</u>	<u>\$ 1,222,821</u>	<u>10.8%</u>	<u>\$ 1,222,821</u>	<u>\$ 1,045,870</u>	<u>16.9%</u>
Number of facilities at period end:						
Same Store Facilities	2,000	2,000	-	2,000	2,000	-
Non Same Store Facilities	337	266	26.7%	266	238	11.8%
Net rentable square footage at period end (in thousands):						
Same Store Facilities	127,222	127,222	-	127,222	127,222	-
Non Same Store Facilities	26,536	20,140	31.8%	20,140	17,652	14.1%

- (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 December 31, 2016 financial statements for a reconciliation of NOI to our total net income for all periods presented.

Net operating income from our self-storage operations has increased 8.4% in 2016 as compared to 2015 and 11.2% in 2015 as compared to the 2014. 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 on a stabilized level of occupancy, revenues and cost of operations since January 1, 2014. We review the operations of our Same Store Facilities, which excludes facilities whose operating trends are significantly affected by factors such as casualty events, as well as recently developed or acquired facilities, to more effectively evaluate the ongoing performance of our self-storage portfolio in 2014, 2015, and 2016. We believe the Same Store information is used by investors and analysts in a similar manner. The following table summarizes the historical operating results of these 2,000 facilities (127.2 million net rentable square feet) that represent approximately 83% of the aggregate net rentable square feet of our U.S. consolidated self-storage portfolio at December 31, 2016.

**Selected Operating Data for the Same Store Facilities (2,000 facilities)**

	Year Ended December 31,			Year Ended December 31,		
	2016	2015	Percentage Change	2015	2014	Percentage Change
(Dollar amounts in thousands, except weighted average amounts)						
Revenues:						
Rental income	\$ 2,001,608	\$ 1,895,352	5.6%	\$ 1,895,352	\$ 1,775,614	6.7%
Late charges and administrative fees	96,088	92,373	4.0%	92,373	89,742	2.9%
Total revenues (a)	<u>2,097,696</u>	<u>1,987,725</u>	<u>5.5%</u>	<u>1,987,725</u>	<u>1,865,356</u>	<u>6.6%</u>
Cost of operations:						
Property taxes	187,351	178,706	4.8%	178,706	171,856	4.0%
On-site property manager payroll	104,120	100,661	3.4%	100,661	100,070	0.6%
Supervisory payroll	36,217	35,092	3.2%	35,092	34,390	2.0%
Repairs and maintenance	42,980	45,671	(5.9)%	45,671	44,071	3.6%
Utilities	37,918	39,287	(3.5)%	39,287	40,319	(2.6)%
Advertising and selling expense	25,320	25,119	0.8%	25,119	27,106	(7.3)%
Other direct property costs	54,322	52,372	3.7%	52,372	51,241	2.2%
Allocated overhead	39,113	37,329	4.8%	37,329	38,147	(2.1)%
Total cost of operations (a)	<u>527,341</u>	<u>514,237</u>	<u>2.5%</u>	<u>514,237</u>	<u>507,200</u>	<u>1.4%</u>
Net operating income	1,570,355	1,473,488	6.6%	1,473,488	1,358,156	8.5%
Depreciation and amortization expense	(328,736)	(333,695)	(1.5)%	(333,695)	(339,372)	(1.7)%
Net income	<u>\$ 1,241,619</u>	<u>\$ 1,139,793</u>	<u>8.9%</u>	<u>\$ 1,139,793</u>	<u>\$ 1,018,784</u>	<u>11.9%</u>
Gross margin (before depreciation and amortization expense)	74.9%	74.1%	1.1%	74.1%	72.8%	1.8%
Weighted average for the period:						
Square foot occupancy	94.5%	94.5%	0.0%	94.5%	93.9%	0.6%
Realized annual rental income per (b):						
Occupied square foot	\$ 16.65	\$ 15.77	5.6%	\$ 15.77	\$ 14.88	6.0%
Available square foot	\$ 15.73	\$ 14.90	5.6%	\$ 14.90	\$ 13.96	6.7%
At December 31:						
Square foot occupancy	92.3%	92.8%	(0.5)%	92.8%	92.5%	0.3%
Annual contract rent per occupied square foot (c)	\$ 17.55	\$ 16.76	4.7%	\$ 16.76	\$ 15.83	5.9%

- (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 5.5% in 2016 as compared to 2015 and by 6.6% in 2015 as compared to 2014. These increases were primarily due to higher rental rates charged to our tenants, as realized annual rental income per occupied square foot increased 5.6% and 6.0% in 2016 and 2015, respectively, as compared to the year prior. From a volume standpoint, average square foot occupancy for 2016 remained relatively flat compared to 2015 at approximately 94.5% and increased 0.6% during 2015 from 93.9% in 2014.

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.

As we began 2015, the aggregate monthly contract rent for those tenants occupying a unit in our Same Store Facilities totaled \$155.2 million as compared to \$146.7 million at the beginning of 2014, representing an increase of 5.8%. This “embedded growth” gave us a great starting point to achieve the 6.6% revenue growth we experienced in fiscal 2015. Also contributing to revenue growth during 2015 were monthly rental rate adjustments, generally annual rate increases to tenants who have been with us longer than one year, which increased 10.6% in 2015 as compared to 2014. The net negative impact of replacing vacating tenants with new tenants with lower contract rates continued from 2014 into 2015. This “rent roll down”, however, was relatively constant at \$4.8 million in 2015 compared to \$4.7 million in 2014 and therefore had little impact on revenue growth in 2015.

We started off 2016 in a better position than 2015. The aggregate monthly contract rent for those tenants occupying a unit in our Same Store Facilities totaled \$165.0 million as compared to \$155.2 million at the beginning of 2015, representing a starting embedded growth of 6.3%. During 2016, monthly rental rate adjustments were also strong; increasing 14.4% compared to 2015. However, the net negative impact of replacing vacating tenants with new tenants at lower contract rates was much more significant in 2016 compared to 2015. The rent roll down was \$9.9 million in 2016 as compared to \$4.8 million in 2015, negatively impacting revenue growth in 2016. The following table summarizes the aforementioned activity for 2016, 2015 and 2014:

	Year Ended December 31,			Year Ended December 31,		
	2016	2015	Percentage Change	2015	2014	Percentage Change
	(Amounts in thousands, except for square foot amounts)					
<b>Aggregate Monthly Contract Rent:</b>						
Beginning in place contracts	\$ 164,966	\$ 155,170	6.3%	\$ 155,170	\$ 146,696	5.8%
For new tenants	129,549	128,744	0.6%	128,744	121,626	5.9%
For vacating tenants	(139,459)	(133,535)	4.4%	(133,535)	(126,336)	5.7%
Rental rate adjustments	16,692	14,587	14.4%	14,587	13,184	10.6%
Ending in place contracts	<u>\$ 171,748</u>	<u>\$ 164,966</u>	<u>4.1%</u>	<u>\$ 164,966</u>	<u>\$ 155,170</u>	<u>6.3%</u>
Ending occupied square feet	117,473	118,124	(0.6)%	118,124	117,625	0.4%
Annual contract rent per occupied square foot	\$ 17.55	\$ 16.76	4.7%	\$ 16.76	\$ 15.83	5.9%

Move-in volumes in both 2015 and 2014 exceeded the number of vacates and, as a result, average occupancy levels improved on a year-over-year basis. The average monthly rent per move-in was approximately 5.7% higher in 2015 compared to 2014; accordingly, the 2015 move-in volume was strong, not only exceeding 2014 volume, but at higher rates, reflecting our pricing power. During 2016, we experienced softness in demand. Move-in volume during 2016 was not only lower than 2015, but also lower than the number of vacates during 2016. Further, pricing power diminished as the growth in average monthly rent per move-in decelerated to approximately 1.3% in 2016 compared to 5.7% experienced in 2015. See table below.

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.

Vacate activity during 2016, 2015 and 2014 was as expected. We generally experience monthly vacate activity ranging from approximately 6% to 8% per month. Vacate activity is somewhat seasonal as we experience higher monthly vacate levels during late summer and lower levels during late spring and early summer. It is not unusual for the average monthly rental rates for vacating tenants to exceed the average monthly rental rates for new move-ins (see table below). This is primarily due to vacating tenants, many of which have been with us for several years, paying higher rates after experiencing several rental rate increases during their tenure, and others who moved out before receiving a rate increase, but moved in during our seasonal busy periods when move-in rates tend to be higher.

	Year Ended December 31,			Year Ended December 31,		
	2016	2015	Percentage Change	2015	2014	Percentage Change
<b>Move-in activity:</b>						
Number of move-ins	993,632	1,000,496	(0.7)%	1,000,496	999,119	0.1%
Square feet rented ( in 000's)	105,885	106,492	(0.6)%	106,492	106,175	0.3%
Total monthly contract rent ( in 000's)	\$ 129,549	\$ 128,744	0.6%	\$ 128,744	\$ 121,626	5.9%
Average monthly rent per unit rented	\$ 130.38	\$ 128.68	1.3%	\$ 128.68	\$ 121.73	5.7%
Average annual contract rent per square foot rented	\$ 14.68	\$ 14.51	1.2%	\$ 14.51	\$ 13.75	5.5%
<b>Vacate activity:</b>						
Number of vacates	999,126	993,861	0.5%	993,861	986,548	0.7%
Square feet vacated ( in 000's)	106,536	105,944	0.6%	105,944	105,191	0.7%
Total monthly contract rent ( in 000's)	\$ 139,459	\$ 133,535	4.4%	\$ 133,535	\$ 126,336	5.7%
Average monthly rent per unit vacated	\$ 139.58	\$ 134.36	3.9%	\$ 134.36	\$ 128.06	4.9%
Average annual contract rent per square foot vacated	\$ 15.71	\$ 15.12	3.9%	\$ 15.12	\$ 14.41	4.9%

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 \$83.6 million, \$ 83.0 million, and \$80 .4 million for 2016, 2015, and 2014, respectively , and are recorded as a reduction to revenue . The year-over-year increase for 2015 over 2014 reflect s increased move-in contractual rates offset partially by a reduced proportion of new tenants receiving promotional discounts .

We believe rental growth in 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 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 expect year-over-year growth in our Same Store revenues will continue to moderate in 2017. As mentioned above, we are experiencing softness in demand in several of our major markets, most notably Houston, Chicago, Washington D.C., Denver, and New York, which has led to a lack of pricing power with respect to new tenants. As indicated above, we attribute some of this softness to local economic conditions and, in some markets, increased supply of newly constructed self-storage facilities, including facilities that we have constructed.

We are taking a number of actions to improve demand into our system, including (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 will have a negative impact on our revenue trends due to decelerating rental rate increases and increased promotional discounts.

### *Analysis of Same Store Cost of Operations*

Cost of operations (excluding depreciation and amortization) increased 2.5% in 2016 as compared to 2015, due primarily to increased property tax expense, on-site property manager payroll and repairs and maintenance expense (excluding snow removal cost), and offset partially by reduced snow removal cost. Cost of operations increased by 1.4% in 2015 as compared to 2014, due primarily to increased property tax expense and snow removal cost, and offset partially by lower advertising and selling expenses.

Property tax expense increased 4.8% in 2016 as compared to 2015 and by 4.0% in 2015 as compared to 2014, due primarily to higher assessed values. We expect property tax expense growth of approximately 4.5% in 2017 due primarily to higher assessed values and changes in tax rates.

On-site property manager payroll expense increased 3.4% in 2016 as compared to 2015 and by 0.6% in 2015 as compared to 2014, due primarily to reductions in prior estimates of workers compensation costs recorded in 2015, higher employee health care expenses experienced in 2016 and higher wage rates. We expect on-site property manager payroll expense to increase on an inflationary basis in 2017.

Supervisory payroll expense, which represents compensation paid to the management personnel who directly and indirectly supervise the on-site property managers, increased 3.2% in 2016 as compared to 2015 and by 2.0% in 2015 as compared to 2014, due primarily to higher wage rates. We expect greater than inflationary increases in wage rates and increased headcount in 2017.

Repairs and maintenance expense decreased 5.9% in 2016 as compared to 2015 and increased by 3.6% in 2015 as compared to 2014. Repair and maintenance costs include snow removal expense totaling \$4.1 million, \$9.7 million and \$7.9 million in 2016, 2015 and 2014, respectively. Excluding snow removal costs, repairs and maintenance increased 7.9% in 2016 as compared to 2015 and 0.4% in 2015 as compared to 2014.

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 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 decreased 3.5% in 2016 as compared to 2015 and by 2.6% in 2015 as compared to 2014. The decrease in 2016 over 2015 is due primarily to lower usage as a result of milder weather. It is difficult to estimate future utility costs, because weather, temperature, and energy prices are volatile and not predictable. However, based upon current trends and expectations regarding commercial electricity rates, we expect inflationary increases in rates.

Advertising and selling expense is comprised principally of Internet advertising, television advertising and the operating costs of our telephone reservation center. Advertising and selling expense varies based upon demand, occupancy levels, and other factors. Television and Internet advertising, in particular, can increase or decrease significantly in the short term. Advertising and selling expenses increased 0.8% in 2016 as compared to 2015 and decreased 7.3% in 2015 as compared to 2014. As mentioned above, we have increased our Internet marketing expenditures and beginning in late August 2016, we increased our television advertising expenditures due to softness in demand in several of our larger markets. As a result, we expect advertising and selling expense to increase in 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 3.7% in 2016 as compared to 2015 and 2.2% in 2015 as compared to 2014. The increases were due primarily to higher credit card fees, offset partially by lower property insurance

costs. Credit card fees increased due to a higher proportion of collections being received from credit cards and higher revenues. We expect moderate increases in other direct property costs in 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 4.8% in 2016 as compared to 2015 and decreased 2.1% in 2015 as compared to 2014. The increase in 2016 over 2015 is due primarily to additional costs of our annual field staff sales meetings and increased compensation costs. We expect moderate growth in allocated overhead in 2017 as compared to 2016 due to inflationary wage increases and increased headcount.

*Analysis of Same Store Depreciation and Amortization*

Depreciation and amortization for Same Store Facilities decreased 1.5% in 2016 as compared to 2015 and 1.7% in 2015 as compared to 2014. We expect depreciation to be flat in 2017 as compared to 2016.

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

	For the Quarter Ended				Entire Year
	March 31	June 30	September 30	December 31	
	(Amounts in thousands, except for per square foot amounts)				
Total revenues:					
2016	\$ 504,952	\$ 520,099	\$ 542,272	\$ 530,373	\$ 2,097,696
2015	\$ 474,337	\$ 490,806	\$ 515,713	\$ 506,869	\$ 1,987,725
2014	\$ 447,077	\$ 459,543	\$ 483,447	\$ 475,289	\$ 1,865,356
Total cost of operations:					
2016	\$ 139,511	\$ 135,843	\$ 141,980	\$ 110,007	\$ 527,341
2015	\$ 143,301	\$ 130,370	\$ 133,486	\$ 107,080	\$ 514,237
2014	\$ 141,801	\$ 129,084	\$ 130,885	\$ 105,430	\$ 507,200
Property taxes:					
2016	\$ 52,720	\$ 52,929	\$ 52,629	\$ 29,073	\$ 187,351
2015	\$ 50,508	\$ 50,407	\$ 49,946	\$ 27,845	\$ 178,706
2014	\$ 48,456	\$ 48,055	\$ 47,064	\$ 28,281	\$ 171,856
Repairs and maintenance:					
2016	\$ 11,111	\$ 10,308	\$ 10,760	\$ 10,801	\$ 42,980
2015	\$ 16,167	\$ 9,025	\$ 10,179	\$ 10,300	\$ 45,671
2014	\$ 14,957	\$ 9,649	\$ 10,025	\$ 9,440	\$ 44,071
Advertising and selling expense:					
2016	\$ 5,080	\$ 5,552	\$ 7,573	\$ 7,115	\$ 25,320
2015	\$ 6,192	\$ 5,541	\$ 6,954	\$ 6,432	\$ 25,119
2014	\$ 6,605	\$ 6,140	\$ 7,893	\$ 6,468	\$ 27,106
REVPAF:					
2016	\$ 15.13	\$ 15.63	\$ 16.25	\$ 15.92	\$ 15.73
2015	\$ 14.22	\$ 14.73	\$ 15.44	\$ 15.19	\$ 14.90
2014	\$ 13.35	\$ 13.76	\$ 14.47	\$ 14.24	\$ 13.96
Weighted average realized annual rent per occupied square foot:					
2016	\$ 16.17	\$ 16.39	\$ 17.06	\$ 16.99	\$ 16.65
2015	\$ 15.23	\$ 15.45	\$ 16.21	\$ 16.19	\$ 15.77
2014	\$ 14.43	\$ 14.55	\$ 15.29	\$ 15.25	\$ 14.88
Weighted average occupancy levels for the period:					
2016	93.6%	95.4%	95.3%	93.7%	94.5%
2015	93.4%	95.4%	95.3%	93.9%	94.5%
2014	92.6%	94.7%	94.7%	93.5%	93.9%

## Analysis of Market Trends

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

### **Same Store Facilities Operating Trends by Market**

	Year Ended December 31,			Year Ended December 31,		
	2016	2015	Change	2015	2014	Change
(Amounts in thousands, except for weighted average data)						
Revenues:						
Los Angeles (204 facilities)	\$ 322,731	\$ 300,645	7.3%	\$ 300,645	\$ 278,136	8.1%
San Francisco (126 facilities)	176,106	165,246	6.6%	165,246	152,506	8.4%
New York (86 facilities)	142,321	137,423	3.6%	137,423	130,538	5.3%
Chicago (129 facilities)	120,344	117,848	2.1%	117,848	113,870	3.5%
Washington DC (78 facilities)	97,409	94,960	2.6%	94,960	92,563	2.6%
Seattle-Tacoma (81 facilities)	95,714	88,069	8.7%	88,069	81,911	7.5%
Miami (65 facilities)	91,855	87,106	5.5%	87,106	82,212	6.0%
Dallas-Ft. Worth (98 facilities)	84,158	78,722	6.9%	78,722	72,869	8.0%
Houston (74 facilities)	69,884	69,084	1.2%	69,084	64,016	7.9%
Atlanta (91 facilities)	73,623	68,444	7.6%	68,444	63,980	7.0%
Philadelphia (55 facilities)	51,141	48,574	5.3%	48,574	46,481	4.5%
Denver (44 facilities)	45,658	44,427	2.8%	44,427	40,376	10.0%
Minneapolis-St Paul (41 facilities)	38,589	37,031	4.2%	37,031	35,947	3.0%
Portland (40 facilities)	37,410	34,559	8.2%	34,559	31,171	10.9%
Orlando-Daytona (49 facilities)	38,421	36,047	6.6%	36,047	33,231	8.5%
All other markets (739 facilities)	612,332	579,540	5.7%	579,540	545,549	6.2%
Total revenues	<u>\$ 2,097,696</u>	<u>\$ 1,987,725</u>	<u>5.5%</u>	<u>\$ 1,987,725</u>	<u>\$ 1,865,356</u>	<u>6.6%</u>
Net operating income:						
Los Angeles	\$ 267,164	\$ 246,463	8.4%	\$ 246,463	\$ 223,457	10.3%
San Francisco	144,226	134,690	7.1%	134,690	121,737	10.6%
New York	102,704	99,358	3.4%	99,358	93,362	6.4%
Chicago	71,264	68,433	4.1%	68,433	65,520	4.4%
Washington DC	74,427	72,605	2.5%	72,605	70,966	2.3%
Seattle-Tacoma	76,242	69,418	9.8%	69,418	63,484	9.3%
Miami	71,205	66,491	7.1%	66,491	62,163	7.0%
Dallas-Ft. Worth	60,628	55,668	8.9%	55,668	50,964	9.2%
Houston	47,604	48,193	(1.2)%	48,193	42,939	12.2%
Atlanta	54,846	49,958	9.8%	49,958	45,780	9.1%
Philadelphia	36,367	33,438	8.8%	33,438	31,539	6.0%
Denver	34,991	33,411	4.7%	33,411	29,674	12.6%
Minneapolis-St. Paul	26,990	25,681	5.1%	25,681	23,933	7.3%
Portland	29,351	26,890	9.2%	26,890	23,315	15.3%
Orlando-Daytona	28,019	25,920	8.1%	25,920	23,297	11.3%
All other markets	444,327	416,871	6.6%	416,871	386,026	8.0%
Total net operating income	<u>\$ 1,570,355</u>	<u>\$ 1,473,488</u>	<u>6.6%</u>	<u>\$ 1,473,488</u>	<u>\$ 1,358,156</u>	<u>8.5%</u>

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

	Year Ended December 31,			Year Ended December 31,		
	2016	2015	Change	2015	2014	Change
Weighted average square foot occupancy:						
Los Angeles	95.9%	95.6%	0.3%	95.6%	94.2%	1.5%
San Francisco	96.0%	96.1%	(0.1)%	96.1%	95.1%	1.1%
New York	94.6%	94.8%	(0.2)%	94.8%	93.9%	1.0%
Chicago	92.3%	92.7%	(0.4)%	92.7%	93.4%	(0.7)%
Washington DC	93.2%	93.0%	0.2%	93.0%	92.4%	0.6%
Seattle-Tacoma	95.8%	95.2%	0.6%	95.2%	94.1%	1.2%
Miami	95.0%	94.9%	0.1%	94.9%	94.6%	0.3%
Dallas-Ft. Worth	94.7%	94.9%	(0.2)%	94.9%	94.2%	0.7%
Houston	92.2%	94.3%	(2.2)%	94.3%	94.4%	(0.1)%
Atlanta	94.8%	94.6%	0.2%	94.6%	93.5%	1.2%
Philadelphia	94.5%	93.8%	0.7%	93.8%	93.5%	0.3%
Denver	94.6%	95.5%	(0.9)%	95.5%	95.2%	0.3%
Minneapolis-St. Paul	93.2%	92.6%	0.6%	92.6%	93.2%	(0.6)%
Portland	96.6%	96.5%	0.1%	96.5%	95.3%	1.3%
Orlando-Daytona	95.1%	95.3%	(0.2)%	95.3%	93.7%	1.7%
All other markets	94.3%	94.1%	0.2%	94.1%	93.6%	0.5%
Total weighted average square foot occupancy	94.5%	94.5%	0.0%	94.5%	93.9%	0.6%
Realized annual rent per occupied square foot:						
Los Angeles	\$ 23.23	\$ 21.69	7.1%	\$ 21.69	\$ 20.33	6.7%
San Francisco	24.37	22.81	6.8%	22.81	21.25	7.3%
New York	24.36	23.46	3.8%	23.46	22.45	4.5%
Chicago	15.33	14.96	2.5%	14.96	14.34	4.3%
Washington DC	21.36	20.89	2.2%	20.89	20.61	1.4%
Seattle-Tacoma	18.37	16.99	8.1%	16.99	15.95	6.5%
Miami	19.79	18.78	5.4%	18.78	17.74	5.9%
Dallas-Ft. Worth	13.53	12.63	7.1%	12.63	11.74	7.6%
Houston	14.15	13.68	3.4%	13.68	12.67	8.0%
Atlanta	12.26	11.43	7.3%	11.43	10.78	6.0%
Philadelphia	15.09	14.44	4.5%	14.44	13.84	4.3%
Denver	16.35	15.72	4.0%	15.72	14.29	10.0%
Minneapolis-St. Paul	14.02	13.54	3.5%	13.54	13.05	3.8%
Portland	17.76	16.41	8.2%	16.41	14.95	9.8%
Orlando-Daytona	12.81	11.99	6.8%	11.99	11.20	7.1%
All other markets	13.36	12.66	5.5%	12.66	11.97	5.8%
Total realized rent per occupied square foot	\$ 16.65	\$ 15.77	5.6%	\$ 15.77	\$ 14.88	6.0%

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

	Year Ended December 31,			Year Ended December 31,		
	2016	2015	Change	2015	2014	Change
REVPAF:						
Los Angeles	\$ 22.29	\$ 20.74	7.5%	\$ 20.74	\$ 19.16	8.2%
San Francisco	23.39	21.91	6.8%	21.91	20.20	8.5%
New York	23.05	22.23	3.7%	22.23	21.07	5.5%
Chicago	14.16	13.88	2.0%	13.88	13.40	3.6%
Washington DC	19.90	19.42	2.5%	19.42	19.04	2.0%
Seattle-Tacoma	17.60	16.17	8.8%	16.17	15.01	7.7%
Miami	18.80	17.82	5.5%	17.82	16.78	6.2%
Dallas-Ft. Worth	12.81	11.98	6.9%	11.98	11.06	8.3%
Houston	13.04	12.91	1.0%	12.91	11.96	7.9%
Atlanta	11.63	10.81	7.6%	10.81	10.08	7.2%
Philadelphia	14.27	13.55	5.3%	13.55	12.94	4.7%
Denver	15.47	15.01	3.1%	15.01	13.60	10.4%
Minneapolis-St. Paul	13.06	12.54	4.1%	12.54	12.16	3.1%
Portland	17.15	15.83	8.3%	15.83	14.24	11.2%
Orlando-Daytona	12.19	11.42	6.7%	11.42	10.49	8.9%
All other markets	12.60	11.92	5.7%	11.92	11.20	6.4%
Total REVPAF	<u>\$ 15.73</u>	<u>\$ 14.90</u>	<u>5.6%</u>	<u>\$ 14.90</u>	<u>\$ 13.96</u>	<u>6.7%</u>

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

**Non Same Store Facilities**

The Non Same Store Facilities at December 31, 2016 represent 337 facilities that were not stabilized with respect to occupancies or rental rates since January 1, 2014, or that we did not own as of January 1, 2014. 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**

	Year Ended December 31,			Year Ended December 31,		
	2016	2015	Change	2015	2014	Change
	(Dollar amounts in thousands, except square foot amounts)					
<b>Revenues:</b>						
2016 acquisitions	\$ 18,174	\$ -	\$ 18,174	\$ -	\$ -	\$ -
2015 acquisitions	15,574	6,255	9,319	6,255	-	6,255
2014 acquisitions	46,428	41,972	4,456	41,972	15,347	26,625
2013 acquisitions	99,390	91,481	7,909	91,481	79,457	12,024
Developed facilities	23,405	9,460	13,945	9,460	1,973	7,487
Other facilities	105,161	98,632	6,529	98,632	87,749	10,883
Total revenues	<u>308,132</u>	<u>247,800</u>	<u>60,332</u>	<u>247,800</u>	<u>184,526</u>	<u>63,274</u>
<b>Cost of operations:</b>						
2016 acquisitions	6,455	-	6,455	-	-	-
2015 acquisitions	5,010	2,067	2,943	2,067	-	2,067
2014 acquisitions	12,845	12,304	541	12,304	4,566	7,738
2013 acquisitions	28,508	28,017	491	28,017	28,120	(103)
Developed facilities	10,932	3,934	6,998	3,934	1,458	2,476
Other facilities	26,814	26,137	677	26,137	25,554	583
Total cost of operations	<u>90,564</u>	<u>72,459</u>	<u>18,105</u>	<u>72,459</u>	<u>59,698</u>	<u>12,761</u>
<b>Net operating income:</b>						
2016 acquisitions	11,719	-	11,719	-	-	-
2015 acquisitions	10,564	4,188	6,376	4,188	-	4,188
2014 acquisitions	33,583	29,668	3,915	29,668	10,781	18,887
2013 acquisitions	70,882	63,464	7,418	63,464	51,337	12,127
Developed facilities	12,473	5,526	6,947	5,526	515	5,011
Other facilities	78,347	72,495	5,852	72,495	62,195	10,300
Net operating income	<u>217,568</u>	<u>175,341</u>	<u>42,227</u>	<u>175,341</u>	<u>124,828</u>	<u>50,513</u>
Depreciation and amortization expense	(104,578)	(92,313)	(12,265)	(92,313)	(97,742)	5,429
Net income	<u>\$ 112,990</u>	<u>\$ 83,028</u>	<u>\$ 29,962</u>	<u>\$ 83,028</u>	<u>\$ 27,086</u>	<u>\$ 55,942</u>
<b>At December 31:</b>						
Square foot occupancy:						
2016 acquisitions	82.9%	-	-	-	-	-
2015 acquisitions	90.8%	85.3%	6.4%	85.3%	-	-
2014 acquisitions	92.0%	91.1%	1.0%	91.1%	89.9%	1.3%
2013 acquisitions	92.4%	92.2%	0.2%	92.2%	89.9%	2.6%
Developed facilities	58.6%	70.0%	(16.3)%	70.0%	53.1%	31.8%
Other facilities	88.2%	88.2%	0.0%	88.2%	87.4%	0.9%
	<u>84.6%</u>	<u>88.2%</u>	<u>(4.1)%</u>	<u>88.2%</u>	<u>87.6%</u>	<u>0.7%</u>
Annual contract rent per occupied square foot:						
2016 acquisitions	\$ 9.99	\$ -	-	\$ -	\$ -	-
2015 acquisitions	13.77	12.87	7.0%	12.87	-	-
2014 acquisitions	14.47	13.51	7.1%	13.51	12.15	11.2%
2013 acquisitions	15.50	14.68	5.6%	14.68	13.51	8.7%
Developed facilities	12.96	12.45	4.1%	12.45	12.64	(1.5)%
Other facilities	18.04	16.82	7.3%	16.82	15.70	7.1%
	<u>\$ 14.80</u>	<u>\$ 14.88</u>	<u>(0.5)%</u>	<u>\$ 14.88</u>	<u>\$ 14.01</u>	<u>6.2%</u>

NON SAME STORE FACILITIES (Continued)	Year Ended December 31,			Year Ended December 31,		
	2016	2015	Change	2015	2014	Change
Number of facilities:						
2016 acquisitions	55	-	55	-	-	-
2015 acquisitions	17	17	-	17	-	17
2014 acquisitions	44	44	-	44	44	-
2013 acquisitions	105	105	-	105	105	-
Developed facilities	36	20	16	20	7	13
Other facilities	80	80	-	80	82	(2)
	<u>337</u>	<u>266</u>	<u>71</u>	<u>266</u>	<u>238</u>	<u>28</u>
Net rentable square feet (in thousands):						
2016 acquisitions	4,121	-	4,121	-	-	-
2015 acquisitions	1,285	1,285	-	1,285	-	1,285
2014 acquisitions	3,457	3,457	-	3,457	3,442	15
2013 acquisitions	6,906	6,906	-	6,906	6,906	-
Developed facilities	4,019	1,878	2,141	1,878	636	1,242
Other facilities	6,748	6,614	134	6,614	6,668	(54)
	<u>26,536</u>	<u>20,140</u>	<u>6,396</u>	<u>20,140</u>	<u>17,652</u>	<u>2,488</u>

The facilities included above under “2016 acquisitions,” “2015 acquisitions,” “2014 acquisitions” and “2013 acquisitions,” were acquired at a cost of \$429.1 million, \$168.8 million, \$430.7 million, and \$938.3 million, respectively.

For the year ended December 31, 2016, the weighted average annualized yield on cost, based upon net operating income, for the facilities acquired in each of 2015, 2014 and 2013 was 6.3%, 7.8% and 7.6%, respectively. The yields for the facilities acquired in the year ended December 31, 2016 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 \$445.8 million and redeveloped existing facilities, expanding their square footage, for a total cost of \$130.0 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 operations 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 2017 and beyond, because of an increased level of unstabilized newly developed and redeveloped facilities in 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 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 over at least the next 24 months through development of new self-storage facilities, redevelopment of existing facilities and acquisitions of facilities.

As of December 31, 2016, we had development and redevelopment projects which will add approximately 5.3 million net rentable square feet of storage space at a total cost of approximately \$660.2 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 December 31, 2016, we acquired or were under contract to acquire five self-storage facilities for \$26.4 million. We will continue to seek to acquire properties; however, there is significant competition to acquire existing facilities and therefor the dollar value of acquisitions is unpredictable.

Depreciation and amortization with respect to the Non Same Store Facilities totaled \$104.6 million, \$92.3 million, and \$97.7 million in 2016, 2015, and 2014, respectively. 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 December 31, 2016, depreciation of buildings and amortization of tenant intangibles is expected to total \$92.9 million and \$10.2 million, respectively, in 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:

	Year Ended December 31,			Year Ended December 31,		
	2016	2015	Change	2015	2014	Change
	(Amounts in thousands)					
Revenues:						
Tenant reinsurance premiums	\$ 118,911	\$ 109,836	\$ 9,075	\$ 109,836	\$ 95,056	\$ 14,780
Merchandise	35,810	36,335	(525)	36,335	32,358	3,977
Total revenues	154,721	146,171	8,550	146,171	127,414	18,757
Cost of Operations:						
Tenant reinsurance	29,145	25,997	3,148	25,997	25,600	397
Merchandise	22,033	22,809	(776)	22,809	20,826	1,983
Total cost of operations	51,178	48,806	2,372	48,806	46,426	2,380
Net income						
Tenant reinsurance	89,766	83,839	5,927	83,839	69,456	14,383
Merchandise	13,777	13,526	251	13,526	11,532	1,994
Total net income	\$ 103,543	\$ 97,365	\$ 6,178	\$ 97,365	\$ 80,988	\$ 16,377

**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.

Tenant reinsurance revenue increased from \$95.1 million in 2014, to \$109.8 million in 2015, and to \$118.9 million in 2016, due to (i) increased average premiums per insured tenant resulting from higher average policy limits, (ii) a higher proportion of tenants having insurance, and (iii) a larger number of potential insurance customers due to newly acquired and developed facilities in 2015 and 2016.

We expect growth in tenant insurance revenues in 2017 to be lower than the growth experienced in 2016, as we approach practical limits to the proportion of tenants having insurance and the premiums per insured tenant. Future growth will come primarily from tenants of newly acquired and developed facilities, as well as additional tenants at our existing unstabilized self-storage 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 increased from \$25.6 million in 2014, to \$26.0 million in 2015, and to \$29.1 million in 2016. These increases are due primarily to an increase in exposure associated with more insured tenants and increased claims experience.

**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 2017.

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

At December 31, 2016, 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:

	Year Ended December 31,			Year Ended December 31,		
	2016	2015	Change	2015	2014	Change
	(Amounts in thousands)					
Equity in earnings:						
PSB	\$ 31,707	\$ 34,155	\$ (2,448)	\$ 34,155	\$ 56,280	\$ (22,125)
Shurgard Europe	22,324	14,272	8,052	14,272	29,900	(15,628)
Other Investments	2,725	2,510	215	2,510	2,087	423
Total equity in earnings	<u>\$ 56,756</u>	<u>\$ 50,937</u>	<u>\$ 5,819</u>	<u>\$ 50,937</u>	<u>\$ 88,267</u>	<u>\$ (37,330)</u>

**Investment in PSB:** At December 31, 2016 and 2015, we had approximately a 42% common equity interest in PSB, comprised of our ownership of 7,158,354 shares of PSB’s common stock and 7,305,355 limited partnership units in an operating partnership controlled by PSB. The limited partnership units are convertible at our option, subject to certain conditions, on a one-for-one basis into PSB common stock.

At December 31, 2016, PSB owned and operated 28.1 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 decreased \$2.4 million in 2016 as compared to 2015, due primarily to our \$11.3 million equity share of gains on dispositions recorded by PSB in 2015, offset partially by our equity share of

improved property operations. Equity in earnings from PSB decreased \$2.1 million in 2015 as compared to 2014, due primarily to a \$25.2 million reduction in our equity share of PSB's gains on dispositions. See Note 4 to our December 31, 2016 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 December 31, 2016, Shurgard Europe's operations are comprised of 218 wholly-owned facilities with 12 million net rentable square feet. See Note 4 to our December 31, 2016 financial statements for selected financial data on Shurgard Europe for the years ended December 31, 2016, 2015 and 2014. As described in more detail in Note 4, we receive trademark license fees from Shurgard Europe.

In 2016, Shurgard Europe opened a newly developed facility in the United Kingdom with a total cost of \$12.9 million and in 2015, Shurgard Europe opened three newly developed facilities in the United Kingdom with a total cost of \$39.4 million.

In June 2015, Shurgard Europe acquired 21 facilities in the Netherlands (0.9 million net rentable square feet), for approximately \$146 million (€132 million). In December 2014, Shurgard Europe acquired five facilities in Germany (0.3 million net rentable square feet) for \$90 million (€72 million) which was paid in March 2015.

In each of July 2014 and June 2015, Shurgard Europe issued €300 million of unsecured senior notes in various tranches due between July 2021 and June 2030, with an average interest rate of approximately 2.9%.

Our equity in earnings from Shurgard Europe increased \$8.1 million in 2016 as compared to 2015, due primarily to (i) improved same-store operating results and increased earnings from newly acquired properties, (ii) lower general and administrative expenses associated with property acquisitions and (iii) a reduction in depreciation expense, offset, by (iv) increased interest expense due to increased outstanding borrowings.

Our equity in earnings from Shurgard Europe decreased \$15.6 million in 2015 as compared to 2014, due primarily to Shurgard's July 2014 repayment of a €311 million shareholder loan, which eliminated \$10.7 million in interest paid to us in 2014 with respect to our 49% ownership of the loan. The interest paid was classified as equity in earnings (see Note 4 to our December 31, 2016 financial statements for further information). The decrease also included a reduction of 16.5% in the average exchange rate between the U.S. Dollar and the Euro in 2015 as compared to 2014.

For purposes of recording our equity in earnings from Shurgard Europe, the Euro was translated into U.S. Dollars based upon average exchange rates of 1.107 for 2016, 1.110 for 2015 and 1.329 for 2014.

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 \$5.2 million, \$5.3 million, and \$2.6 million in 2016, 2015, and 2014, respectively. We expect continued increases in tax expense incurred by Shurgard Europe in 2017 and beyond, as its operations improve and its taxable income increases.

## Analysis of items not allocated to segments

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

	Year Ended December 31,			Year Ended December 31,		
	2016	2015	Change	2015	2014	Change
	(Amounts in thousands)					
Share-based compensation expense	\$ 37,483	\$ 32,570	\$ 4,913	\$ 32,570	\$ 29,541	\$ 3,029
Costs of senior executives	6,052	5,552	500	5,552	5,558	(6)
Development and acquisition costs	9,721	10,006	(285)	10,006	10,614	(608)
Tax compliance costs and taxes paid	3,859	5,372	(1,513)	5,372	4,858	514
Legal costs	7,305	18,366	(11,061)	18,366	5,080	13,286
Public company costs	3,768	3,632	136	3,632	3,465	167
Other costs	15,468	12,679	2,789	12,679	12,343	336
Total	<u>\$ 83,656</u>	<u>\$ 88,177</u>	<u>\$ (4,521)</u>	<u>\$ 88,177</u>	<u>\$ 71,459</u>	<u>\$ 16,718</u>

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 stock price on the date of grant. The increases in share-based compensation costs in 2016 as compared to 2015 and in 2015 as compared to 2014 are due primarily to a higher average grant-date fair value per share. Based upon grants of restricted share units and stock options made during the first two months of 2017, we expect share-based compensation expense to increase approximately \$10 million in 2017 as compared to 2016. See Note 9 to our December 31, 2016 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 \$8.5 million, \$8.1 million and \$5.0 million in development costs that were capitalized in 2016, 2015 and 2014, respectively, to newly developed and redeveloped self-storage facilities. Amounts include \$0.9 million, \$1.3 million, and \$3.4 million in 2016, 2015, and 2014, respectively, of external costs including legal expenses and transfer taxes, associated with the acquisition of real estate facilities. Due to new accounting standards, effective October 1, 2016, external costs associated with the acquisition of real estate facilities are capitalized and no longer reflected in general and administrative expenses. Development and acquisition costs are expected to increase modestly in 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 litigation activity. The decrease of \$11.1 million in 2016 as compared to 2015, and the increase of \$13.3 million in legal costs in 2015 as compared to 2014, is due primarily to legal fees and expenses associated with certain litigated matters in 2015, including \$3.5 million accrued in 2015 in connection with the settlement of a legal matter. 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 \$10.6 million, \$12.0 million and \$12.7 million in 2016, 2015 and 2014, respectively. Interest income on cash balances has been minimal, because rates have been at historic lows, and we expect this trend to continue in the foreseeable future. We do not expect any significant changes in interest and other income in 2017.

**Interest expense:** For 2016, 2015 and 2014, we incurred \$9.4 million, \$3.3 million, and \$8.4 million of interest on our outstanding debt. During 2016, 2015 and 2014, we capitalized interest of \$5.2 million, \$2.7 million and \$1.6 million, respectively, associated with our development activities. The increase in interest expense incurred in 2016 as compared to 2015 is due to increased outstanding debt. At December 31, 2016 and 2015, we had €342.0 million (\$ 359.8 million) and €242.0 million (\$263.9 million), respectively, of Euro-denominated senior unsecured notes payable to institutional investors (collectively, the "Senior Unsecured Notes"). See Note 5 to our December 31, 2016 financial statements for a schedule of our debt balances, principal repayment requirements and average interest rates at December 31, 2016. The increases in capitalized interest are due to increased development activities. Future interest expense will be dependent upon the level of outstanding debt and the amount of in-process development costs.

**Foreign Exchange Gain (Loss):** We recorded foreign currency translation gains of \$17.6 million and \$306,000 for 2016 and 2015, respectively, representing the change in the U.S. Dollar equivalent of our Senior Unsecured Notes due to fluctuations in exchange rates. The Euro was translated at exchange rates of approximately 1.052 U.S. Dollars per Euro at December 31, 2016 and 1.091 at December 31, 2015. We had a foreign currency translation loss of \$7.0 million for 2014 representing primarily the change in the U.S. Dollar equivalent of our Euro-based loan receivable from Shurgard Europe due to fluctuations in exchange rates. This loan receivable was repaid in 2014. 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.

**Gain on Real Estate Sales:** In 2016, we sold our interest in a property recording a gain of \$689,000. In 2015 and 2014, we sold various parcels of real estate primarily in connection with eminent domain proceedings recording gains on real estate sales totaling \$18.5 million and \$2.5 million, respectively.

**Net Income Allocable to Preferred Shareholders:** Net income allocable to preferred shareholders based upon distributions decreased in 2016 as compared to 2015 due primarily to lower average rates. We also allocated \$26.9 million of income from our common shareholders to the holders of our Preferred Shares in 2016, as compared to \$8.9 million in 2015, in connection with the redemption of our Preferred Shares (there were no redemptions of our Preferred Shares in 2014). Based upon our preferred shares outstanding at December 31, 2016, our quarterly distribution to our preferred shareholders is expected to be approximately \$60.1 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 twelve 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 December 31, 2016, there we no borrowings outstanding on the revolving line of credit, however, we do have approximately \$15.2 million of outstanding letters of credit which limits our borrowing capacity to \$484.8 million. 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 December 31, 2016, our capital resources over the next year are expected to be approximately \$918.5 million which exceeds our current planned capital needs over the next year of approximately \$458.0 million. Our capital resources include: (i) \$183.7 million of cash as of December 31, 2016, (ii) \$484.8 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 facilities.

Our planned capital needs over the next year consist of (i) \$ 429.9 million of remaining spend on our current development pipeline, (ii) \$26.4 million in property acquisitions currently under contract, and (iii) \$1.7 million in principal repayments on existing debt. 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 to fund such future commitments including issuing common or preferred securities, issuing debt, or entering into joint venture arrangements to acquire or develop facilities.

**Required Debt Repayments:** As of December 31, 2016, our outstanding debt totaled approximately \$390.7 million, consisting of \$30.9 million of secured debt and \$359.8 million of unsecured debt. Approximate principal maturities are as follows (amounts in thousands):

2017	\$ 1,665
2018	11,241
2019	1,505
2020	1,585
2021	1,503
Thereafter	<u>373,250</u>
	<u>\$390,749</u>

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 \$86.0 million in 2016 and are expected to be approximately \$11.0 million in 2017. For the last four years, capital expenditures have ranged between approximately \$0.45 and \$0.55 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 2016 totaled \$1.5 billion, consisting of \$238.2 million to preferred shareholders and \$1.3 billion 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 December 31, 2016, to be approximately \$240.5 million per year.

On February 22, 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 \$8.0 million per year in distributions to noncontrolling interests outstanding at December 31, 2016.

**Real Estate Investment Activities:** Subsequent to December 31, 2016, we acquired or were under contract to acquire five self-storage facilities (two in Ohio and one each in Minnesota, New York and North Carolina), with 2,750,000 net rentable square feet, for \$26.4 million. We will continue to seek to acquire properties; however, there is significant competition to acquire existing facilities and there can be no assurance as to the level of facilities we may acquire.

As of December 31, 2016 we had development and redevelopment projects which will add approximately 5.3 million net rentable square feet of storage space at a total cost of approximately \$660.2 million. A total of \$230.3 million of these costs were incurred through December 31, 2016, with the remaining cost to complete of

\$429.9 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. During 2016, we redeemed two series of preferred securities totaling \$862.5 million which had a weighted average coupon of 6.42%. During the same period, we issued \$1,175.0 million of preferred securities which have a weighted average coupon of 5.079%. In the future, we may elect to finance the redemption of preferred securities with proceeds from the issuance of debt. We have four series of preferred securities that become redeemable during 2017, at our option, with coupons ranging from 5.90% to 5.375%, with an aggregate \$1.7 billion outstanding (see Note 7 to our December 31, 2016 financial statements). As of February 28, 2017, we have two series of preferred securities that are eligible for redemption, at our option and with 30 days' notice; our 5.90% Series S Preferred Shares, with \$460.0 million outstanding and our 5.75% Series T Preferred Shares, with \$462.5 million outstanding. Redemption of such preferred shares will depend upon many factors including whether we can issue capital at a lower cost of capital than the shares that would be redeemed. Currently, we believe that the cost to issue preferred securities would be approximately 5.875%. 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 2016, we did not repurchase any of our common shares. From the inception of the repurchase program through February 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 December 31, 2016 and their impact on our cash flows and liquidity are summarized below for the years ending December 31 (amounts in thousands):

	Total	2017	2018	2019	2020	2021	Thereafter
Mortgage notes (1)	\$ 36,508	\$ 2,957	\$ 12,601	\$ 2,316	\$ 2,316	\$ 2,147	\$ 14,171
Senior unsecured notes (2)	419,995	7,156	7,156	7,156	7,156	7,156	384,215
Operating leases (3)	88,746	4,452	4,224	4,145	4,138	4,134	67,653
Construction commitments (4)	137,536	110,029	27,507	-	-	-	-
Total	\$ 682,785	\$ 124,594	\$ 51,488	\$ 13,617	\$ 13,610	\$ 13,437	\$ 466,039

- (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 December 31, 2016 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 December 31, 2016 financial statements for further information on our senior unsecured notes.
- (3) Represents future contractual payments on land, equipment and office space under various operating leases.
- (4) Represents future expected development spending that was under contract at December 31, 2016.

We estimate the annual distribution requirements with respect to our Preferred Shares outstanding at December 31, 2016, to be approximately \$240.5 million per year. Dividends are paid when and if declared by our Board and accumulate if not paid.

***Off-Balance Sheet Arrangements*** : At December 31, 2016, we had no material off-balance sheet arrangements as defined under Regulation S-K 303(a)(4) and the instructions thereto.

**ITEM 7A. 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 \$ 390.7 million and represents 4.2 % of the book value of our equity at December 31, 2016.

We have foreign currency exposure at December 31, 2016 related to i) our investment in Shurgard Eur ope, with a book value of \$280. 0 million and ii) €342.0 millio n (\$359.8 million) of Euro-denominated senior unsecured notes payable.

The fair value of our fixed rate debt at December 31, 2016 is approximately \$ 412.7 million. The table below summarizes the annual maturities of our fixed rate debt, which had a weighted average fixed rate of 2.2% at December 31, 2016. See Note 5 to our December 31, 2016 financial statements for further information regarding our fixed rate debt (amounts in thousands).

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>Thereafter</u>	<u>Total</u>
Fixed rate debt	\$ 1,665	\$ 11,241	\$ 1,505	\$ 1,585	\$ 1,503	\$ 373,250	\$ 390,749

## **ITEM 9A. 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.

As of December 31, 2016, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2016, at a reasonable assurance level.

### **Management's Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control-Integrated Framework* issued by the Committee on Sponsoring Organizations of the Treadway Commission (2013 Framework). Based on our evaluation under the framework in *Internal Control-Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2016.

The effectiveness of internal control over financial reporting as of December 31, 2016, has been audited by Ernst & Young LLP, an independent registered public accounting firm. Ernst & Young LLP's report on our internal control over financial reporting appears below.

### **Changes in Internal Control Over Financial Reporting**

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth quarter of 2016 to which this report relates that have materially affected, or are reasonable likely to materially affect, our internal control over financial reporting.

## Report of Independent Registered Public Accounting Firm

The Board of Trustees and Shareholders of  
Public Storage

We have audited Public Storage's internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Public Storage's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and trustees of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Public Storage maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Public Storage as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2016 and our report dated February 28, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California  
February 28, 2017

**ITEM 9B. Other Information**

None.

### PART III

#### **ITEM 10. Trustees, Executive Officers and Corporate Governance**

The following is a biographical summary of the current executive officers of the Company:

**Ronald L. Havner, Jr.** , age 59, has been Chairman and Chief Executive Officer of Public Storage since August 2011 and November 2002 , respectively. Mr. Havner joined Public Storage in 1986 and has held a variety of senior management positions. Mr. Havner has been Chairman of the Board of Public Storage's affiliate, PS Business Parks, Inc. ("PSB ") since March 1998 .

**John Reyes** , age 56, has served as Senior Vice President and Chief Financial Officer of Public Storage since 1996, having joined the Company in 1990.

**Joseph D. Russell, Jr.** , age 57, has been President of Public Storage since July 2016. Prior to joining Public Storage, Mr. Russell was Chief Executive Officer of PS Business Parks, Inc. from August 2003 to July 2016. Mr. Russell was President of PS Business Parks, Inc. from September 2003 until August 2015. Mr. Russell has also served as a director of PS Business Parks, Inc. since August 2003. He currently serves on the Board of Directors of the Self Storage Association ("SSA").

**David F. Doll** , age 58, has served as Senior Vice President and President, Real Estate Group, since February 2005, with responsibility for the real estate activities of Public Storage, including property acquisitions, developments, re-developments, and capital improvements.

**Lily Y. Hughes** , age 53 , became Senior Vice President, Chief Legal Officer and Corporate Secretary in January 2015. Prior to joining Public Storage, Ms. Hughes was Vice President and Associate General Counsel-Corporate, M&A and Finance at Ingram Micro Inc., a Fortune 100 NYSE company with operations in 39 countries, which she joined in 1997.

**Candace N. Krol** , age 55, has served as Senior Vice President and Chief Human Resources Officer of Public Storage since February 2015 and has served as Senior Vice President of Human Resources since September 2005.

Other information required by this item is hereby incorporated by reference to the material appearing in the Notice and Proxy Statement for the 2016 Annual Meeting of Shareholders, to be filed pursuant to Regulation 14A under the Exchange Act.

#### **ITEM 11. Executive Compensation**

The information required by this item is hereby incorporated by reference to the material appearing in the Notice and Proxy Statement for the 2017 Annual Meeting of Shareholders, to be filed pursuant to Regulation 14A under the Exchange Act.

**ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters**

The following table sets forth information as of December 31, 2016 on the Company's equity compensation plans:

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders (a)	2,692,081 (b)	\$150.83 (d)	2,700,390
Equity compensation plans not approved by security holders (c)	-	-	-

- a) The Company's stock option and stock incentive plans are described more fully in Note 9 to the December 31, 2016 financial statements. All plans were approved by the Company's shareholders.
- b) Includes 696,641 restricted share units that, if and when vested, will be settled in common shares of the Company on a one for one basis.
- c) There are no securities available for future issuance or currently outstanding under plans not approved by the Company's shareholders as of December 31, 2016.
- d) Represents the average exercise price of 1,995,440 stock options outstanding at December 31, 2016. We also have 696,641 restricted share units outstanding at December 31, 2016 that vest for no consideration.

Other information required by this item is hereby incorporated by reference to the material appearing in the Notice and Proxy Statement for the 2017 Annual Meeting of Shareholders, to be filed pursuant to Regulation 14A under the Exchange Act.

**ITEM 13. Certain Relationships and Related Transactions and Trustee Independence**

The information required by this item is hereby incorporated by reference to the material appearing in the Notice and Proxy Statement for the 2017 Annual Meeting of Shareholders, to be filed pursuant to Regulation 14A under the Exchange Act.

**ITEM 14. Principal Accountant Fees and Services**

The information required by this item is hereby incorporated by reference to the material appearing in the Notice and Proxy Statement for the 2017 Annual Meeting of Shareholders, to be filed pursuant to Regulation 14A under the Exchange Act of 1934.

**PART IV**

**ITEM 15. Exhibits and Financial Statement Schedules**

a. 1. Financial Statements

The financial statements listed in the accompanying Index to Financial Statements and Schedules hereof are filed as part of this report.

2. Financial Statement Schedules

The financial statements schedules listed in the accompanying Index to Financial Statements and Schedules are filed as part of this report.

3. Exhibits

See Index to Exhibits contained herein.

b. Exhibits:

See Index to Exhibits contained herein.

c. Financial Statement Schedules

Not applicable.

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

- 3.1 Articles of Amendment and Restatement of Declaration of Trust of Public Storage, a Maryland real estate investment trust. Filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009 and incorporated by reference herein.
- 3.2 Bylaws of Public Storage, a Maryland real estate investment trust. Filed with the Registrant's Current Report on Form 8-K dated May 11, 2010 and incorporated by reference herein.
- 3.3 Articles Supplementary for Public Storage 5.900% Cumulative Preferred Shares, Series S. Filed with the Registrant's Current Report on Form 8-K dated January 9, 2012 and incorporated by reference herein.
- 3.4 Articles Supplementary for Public Storage 5.750% Cumulative Preferred Shares, Series T. Filed with the Registrant's Current Report on Form 8-K dated March 7, 2012 and incorporated by reference herein.
- 3.5 Articles Supplementary for Public Storage 5.625% Cumulative Preferred Shares, Series U. Filed with the Registrant's Current Report on Form 8-K dated June 6, 2012 and incorporated by reference herein.
- 3.6 Articles Supplementary for Public Storage 5.375% Cumulative Preferred Shares, Series V. Filed with the Registrant's Current Report on Form 8-K dated September 11, 2012 and incorporated by reference herein.
- 3.7 Articles Supplementary for Public Storage 5.20% Cumulative Preferred Shares, Series W. Filed with the Registrant's Current Report on Form 8-K dated January 8, 2013 and incorporated by reference herein.
- 3.8 Articles Supplementary for Public Storage 5.20% Cumulative Preferred Shares, Series X. Filed with the Registrant's Current Report on Form 8-K dated March 5, 2013 and incorporated by reference herein.
- 3.9 Articles Supplementary for Public Storage 6.375% Cumulative Preferred Shares, Series Y. Filed with the Registrant's Current Report on Form 8-K dated March 11, 2014 and incorporated by reference herein.
- 3.10 Articles Supplementary for Public Storage 6.375% Cumulative Preferred Shares, Series Y. Filed with the Registrant's Current Report on Form 8-K dated April 9, 2014 and incorporated by reference herein.
- 3.11 Articles Supplementary for Public Storage 6.00% Cumulative Preferred Shares, Series Z. Filed with the Registrant's Current Report on Form 8-K dated May 29, 2014 and incorporated by reference herein.
- 3.12 Articles Supplementary for Public Storage 5.875% Cumulative Preferred Shares, Series A. Filed with the Registrant's Current Report on Form 8-K/A dated November 24, 2014 and incorporated by reference herein.
- 3.13 Articles Supplementary for Public Storage 5.400% Cumulative Preferred Shares, Series B. Filed with the Registrant's Current Report on Form 8-K dated January 13, 2016 and incorporated by reference herein.
- 3.14 Articles Supplementary for Public Storage 5.125% Cumulative Preferred Shares, Series C. Filed with the Registrant's Current Report on Form 8-K dated May 10, 2016 and incorporated by reference herein.
- 3.15 Articles Supplementary for Public Storage 4.950% Cumulative Preferred Shares, Series D. Filed with the Registrant's Current Report on Form 8-K dated July 13, 2016 and incorporated by reference herein.

- 3.16 Articles Supplementary for Public Storage 4.900% Cumulative Preferred Shares, Series E. Filed with the Registrant's Current Report on Form 8-K dated October 6, 2016 and incorporated by reference herein.
- 4.1 Master Deposit Agreement, dated as of May 31, 2007. Filed with the Registrant's Current Report on Form 8-K dated June 6, 2007 and incorporated by reference herein.
- 10.1 Amended Management Agreement between Registrant and Public Storage Commercial Properties Group, Inc. dated as of February 21, 1995. Filed with Public Storage Inc.'s ("PSI") Annual Report on Form 10-K for the year ended December 31, 1994 (SEC File No. 001-0839) and incorporated herein by reference.
- 10.2 Second Amended and Restated Management Agreement by and among Registrant and the entities listed therein dated as of November 16, 1995. Filed with PS Partners, Ltd.'s Annual Report on Form 10-K for the year ended December 31, 1996 (SEC File No. 001-11186) and incorporated herein by reference.
- 10.3 Agreement of Limited Partnership of PS Business Parks, L.P. Filed with PS Business Parks, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.4 Amended and Restated Agreement of Limited Partnership of Storage Trust Properties, L.P. (March 12, 1999). Filed with PSI's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999 (SEC File No. 001-0839) and incorporated herein by reference.
- 10.5 Amended and Restated Credit Agreement by and among Registrant, Wells Fargo Securities, LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated as joint lead arrangers, Wells Fargo Bank, National Association, as administrative agent, and the other financial institutions party thereto, dated as of March 21, 2012. Filed with PSI's Current Report on Form 8-K on March 27, 2012 (SEC File No. 001-0839) and incorporated herein by reference.
- 10.5.1 Second Amendment to Amended and Restated Credit Agreement, dated as of July 17, 2013, by and among Public Storage, the Lenders party thereto and Wells Fargo Bank, National Association. Filed with the Registrant's Current Report on Form 8-K on July 18, 2013 and incorporated herein by reference.
- 10.5.2 Third Amendment to the Amended and Restated Credit Agreement, dated as of March 31, 2015, among Public Storage, the lenders party thereto and Wells Fargo Bank, National Association, as agent. Filed as Exhibit 10.1 to the Company's Current Report on Form 8-K on April 2, 2015 ("April 2015 8-K") and incorporated herein by reference.
- 10.5.3 Copy of the Amended and Restated Credit Agreement dated as of March 21, 2012, consolidating all amendments made by the Letter Agreement, dated as of April 12, 2012, the Second Amendment to Amended and Restated Credit Agreement, dated as of July 17, 2013, and the Third Amendment to Amended and Restated Credit Agreement, dated as of March 31, 2015. This conformed copy was filed as Exhibit 10.2 to the April 2015 8-K for ease of reference and was qualified in its entirety by reference to the Third Amendment and incorporated herein by reference.
- 10.5.4 Fourth Amendment to the Amended and Restated Credit Agreement, dated as of December 22, 2015, among Public Storage, the lenders party thereto and Wells Fargo Bank, National Association, as agent. Filed as Exhibit 10.5.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015 and incorporated herein by reference.
- 10.6\* Shurgard Storage Centers, Inc. 2004 Long Term Incentive Compensation Plan. Filed as Appendix A of Definitive Proxy Statement dated June 7, 2004 filed by Shurgard (SEC File No. 001-11455) and incorporated herein by reference.
- 10.7\* Public Storage, Inc. 2001 Stock Option and Incentive Plan (the "2001 Plan"). Filed with PSI's Registration Statement on Form S-8 (SEC File No. 333-59218) and incorporated herein by reference.

- 10.8\* Form of 2001 Plan Non-qualified Stock Option Agreement. Filed with PSI's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004 (SEC File No. 001-0839) and incorporated herein by reference.
- 10.9\* Form of 2001 Plan Restricted Share Unit Agreement. Filed with PSI's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004 (SEC File No. 001-0839) and incorporated herein by reference.
- 10.10\* Form of 2001 Plan Non-Qualified Outside Director Stock Option Agreement. Filed with PSI's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004 (SEC File No. 001-0839) and incorporated herein by reference.
- 10.11\* Form of 2007 Plan Restricted Stock Unit Agreement. Filed as Exhibit 10.11 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015 and incorporated herein by reference .
- 10.12\* Form of 2007 Plan Restricted Stock Unit Agreement – deferral of receipt of shares . Filed as Exhibit 10.12 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015 and incorporated herein by reference .
- 10.13\* Form of 2007 Plan Stock Option Agreement. Filed as Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015 and incorporated herein by reference .
- 10.14\* Form of 2007 Plan Trustee Stock Option Agreement. Filed as Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015 and incorporated herein by reference .
- 10.15\* Form of 2016 Plan Restricted Stock Unit Agreement. Filed herewith .
- 10.16\* Form of 2016 Plan Restricted Stock Unit Agreement – deferral of receipt of shares. Filed herewith .
- 10.17\* Form of 2016 Plan Non-Qualified Stock Option Agreement. Filed herewith .
- 10.18\* Form of 2016 Plan Trustee Non-Qualified Stock Option Agreement. Filed herewith .
- 10.19\* Form of Trustee and Officer Indemnification Agreement. Filed herewith .
- 10.20 Term Loan Agreement, by and among Public Storage, Wells Fargo Securities, LLC as Lead Arranger and Wells Fargo National Bank N.A. as Administrative Agent, dated as of December 2, 2013. Filed with Registrant's Current Report on Form 8-K dated December 2, 2013 and incorporated herein by reference.
- 10.21\* Public Storage 2007 Equity and Performance-Based Incentive Compensation Plan, as Amended. Filed with Registrant's Current Report on Form 8-K dated May 1, 2014 and incorporated herein by reference.
- 10.22\* Public Storage 2016 Equity and Performance-Based Incentive Compensation Plan. Filed as Appendix A to the Company's 2016 Proxy Statement dated March 16, 2016 and incorporated herein by reference.
- 10.23 Note Purchase Agreement, dated as of November 3, 2015, by and among Public Storage and the signatories thereto. Filed with Registrant's Current Report on Form 8-K dated November 3, 2015 and incorporated herein by reference.

10.24	Note Purchase Agreement, dated as of April 12, 2016, by and among Public Storage and the signatories thereto. Filed with Registrant's Current Report on Form 8-K dated April 12, 2016 and incorporated herein by reference.
12	Statement Re: Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends. Filed herewith.
21	Listing of Subsidiaries. Filed herewith.
23	Consent of Ernst & Young LLP. 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.

\* Denotes management compensatory plan agreement or arrangement.



PUBLIC STORAGE  
INDEX TO FINANCIAL STATEMENTS  
AND SCHEDULES

(Item 15 (a))

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All other schedules have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the financial statements or notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Trustees and Shareholders of Public Storage

We have audited the accompanying consolidated balance sheets of Public Storage as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2016. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Public Storage at December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Public Storage's internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated February 28, 2017 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Los Angeles, California  
February 28, 2017

**PUBLIC STORAGE  
BALANCE SHEETS**  
(Amounts in thousands, except share data)

	December 31, 2016	December 31, 2015
<b><u>ASSETS</u></b>		
Cash and cash equivalents	\$ 183,688	\$ 104,285
Real estate facilities, at cost:		
Land	3,781,479	3,564,810
Buildings	10,181,750	9,640,451
	13,963,229	13,205,261
Accumulated depreciation	(5,270,963)	(4,866,738)
	8,692,266	8,338,523
Construction in process	230,310	219,190
	8,922,576	8,557,713
Investments in unconsolidated real estate entities	689,207	809,308
Goodwill and other intangible assets, net	212,719	211,458
Other assets	122,148	95,468
Total assets	\$ 10,130,338	\$ 9,778,232
<b><u>LIABILITIES AND EQUITY</u></b>		
Senior unsecured notes	\$ 359,810	\$ 263,940
Mortgage notes	30,939	55,076
Accrued and other liabilities	297,935	261,578
Total liabilities	688,684	580,594
Commitments and contingencies (Note 12)		
Equity:		
Public Storage shareholders' equity:		
Preferred Shares, \$0.01 par value, 100,000,000 shares authorized, 174,700 shares issued (in series) and outstanding , ( 162,200 at December 31, 2015), at liquidation preference	4,367,500	4,055,000
Common Shares, \$0.10 par value, 650,000,000 shares authorized, 173,288,787 shares issued and outstanding ( 172,921,241 shares at December 31, 2015)	17,329	17,293
Paid-in capital	5,609,768	5,601,506
Accumulated deficit	(487,581)	(434,610)
Accumulated other comprehensive loss	(95,106)	(68,548)
Total Public Storage shareholders' equity	9,411,910	9,170,641
Noncontrolling interests	29,744	26,997
Total equity	9,441,654	9,197,638
Total liabilities and equity	\$ 10,130,338	\$ 9,778,232

See accompanying notes.

**PUBLIC STORAGE**  
**STATEMENTS OF INCOME**  
(Amounts in thousands, except per share amounts)

	For the Years Ended December 31,		
	2016	2015	2014
<b>Revenues:</b>			
Self-storage facilities	\$ 2,405,828	\$ 2,235,525	\$ 2,049,882
Ancillary operations	154,721	146,171	127,414
	<u>2,560,549</u>	<u>2,381,696</u>	<u>2,177,296</u>
<b>Expenses:</b>			
Self-storage cost of operations	617,905	586,696	566,898
Ancillary cost of operations	51,178	48,806	46,426
Depreciation and amortization	433,314	426,008	437,114
General and administrative	83,656	88,177	71,459
	<u>1,186,053</u>	<u>1,149,687</u>	<u>1,121,897</u>
Operating income	1,374,496	1,232,009	1,055,399
Interest and other income	15,138	16,544	17,638
Interest expense	(4,210)	(610)	(6,781)
Equity in earnings of unconsolidated real estate entities	56,756	50,937	88,267
Foreign currency exchange gain (loss)	17,570	306	(7,047)
Gain on real estate investment sales	689	18,503	2,479
Net income	<u>1,460,439</u>	<u>1,317,689</u>	<u>1,149,955</u>
Allocation to noncontrolling interests	(6,863)	(6,445)	(5,751)
Net income allocable to Public Storage shareholders	<u>1,453,576</u>	<u>1,311,244</u>	<u>1,144,204</u>
Allocation of net income to:			
Preferred shareholders	(238,214)	(245,097)	(232,636)
Preferred shareholders - redemptions (Note 7)	(26,873)	(8,897)	-
Restricted share units	(4,610)	(4,200)	(3,392)
Net income allocable to common shareholders	<u>\$ 1,183,879</u>	<u>\$ 1,053,050</u>	<u>\$ 908,176</u>
Net income per common share:			
Basic	<u>\$ 6.84</u>	<u>\$ 6.10</u>	<u>\$ 5.27</u>
Diluted	<u>\$ 6.81</u>	<u>\$ 6.07</u>	<u>\$ 5.25</u>
Basic weighted average common shares outstanding	<u>173,091</u>	<u>172,699</u>	<u>172,251</u>
Diluted weighted average common shares outstanding	<u>173,878</u>	<u>173,510</u>	<u>173,138</u>

See accompanying notes.

**PUBLIC STORAGE**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**(Amounts in thousands)**

	For the Years Ended December 31,		
	2016	2015	2014
Net income	\$ 1,460,439	\$ 1,317,689	\$ 1,149,955
Other comprehensive loss:			
Aggregate foreign currency exchange loss	(8,047)	(20,086)	(54,703)
Adjust for aggregate foreign currency exchange gain in equity in earnings of unconsolidated real estate entities	(941)	-	-
Adjust for aggregate foreign currency exchange (gain) loss included in net income	(17,570)	(306)	7,047
Other comprehensive loss	(26,558)	(20,392)	(47,656)
Total comprehensive income	1,433,881	1,297,297	1,102,299
Allocation to noncontrolling interests	(6,863)	(6,445)	(5,751)
Comprehensive income allocable to Public Storage shareholders	\$ 1,427,018	\$ 1,290,852	\$ 1,096,548

See accompanying notes.

**PUBLIC STORAGE**  
**STATEMENTS OF EQUITY**  
(Amounts in thousands, except share and per share amounts)

	Cumulative Preferred Shares	Common Shares	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Public Storage Shareholders' Equity	Noncontrolling Interests	Total Equity
<b>Balances at December 31, 2013</b>	\$ 3,562,500	\$17,178	\$5,531,034	\$ (318,482)	\$ (500)	\$ 8,791,730	\$ 27,125	\$ 8,818,855
Issuance of 30,500 preferred shares (Note 7)	762,500	-	(23,546)	-	-	738,954	-	738,954
Issuance of common shares in connection with share-based compensation ( 669,263 shares) (Note 9)	-	67	37,805	-	-	37,872	-	37,872
Share-based compensation expense, net of cash paid in lieu of common shares (Note 9)	-	-	16,926	-	-	16,926	-	16,926
Acquisition of noncontrolling interests	-	-	(689)	-	-	(689)	(32)	(721)
Net income	-	-	-	1,149,955	-	1,149,955	-	1,149,955
Net income allocated to noncontrolling interests	-	-	-	(5,751)	-	(5,751)	5,751	-
Distributions to equity holders:								
Preferred shares (Note 7)	-	-	-	(232,636)	-	(232,636)	-	(232,636)
Noncontrolling interests	-	-	-	-	-	-	(6,469)	(6,469)
Common shares and restricted share units (\$5.60 per share)	-	-	-	(967,909)	-	(967,909)	-	(967,909)
Other comprehensive loss (Note 2)	-	-	-	-	(47,656)	(47,656)	-	(47,656)
<b>Balances at December 31, 2014</b>	\$ 4,325,000	\$17,245	\$5,561,530	\$ (374,823)	\$ (48,156)	\$ 9,480,796	\$ 26,375	\$ 9,507,171
Redemption of 10,800 preferred shares (Note 7)	(270,000)	-	-	-	-	(270,000)	-	(270,000)
Issuance of common shares in connection with share-based compensation ( 475,687 shares) (Note 9)	-	48	29,615	-	-	29,663	-	29,663
Share-based compensation expense, net of cash paid in lieu of common shares (Note 9)	-	-	15,793	-	-	15,793	-	15,793
Acquisition of noncontrolling interests	-	-	(5,432)	-	-	(5,432)	(60)	(5,492)
Contributions by noncontrolling interests	-	-	-	-	-	-	1,562	1,562
Net income	-	-	-	1,317,689	-	1,317,689	-	1,317,689
Net income allocated to noncontrolling interests	-	-	-	(6,445)	-	(6,445)	6,445	-
Distributions to equity holders:								
Preferred shares (Note 7)	-	-	-	(245,097)	-	(245,097)	-	(245,097)
Noncontrolling interests	-	-	-	-	-	-	(7,325)	(7,325)
Common shares and restricted share units (\$6.50 per share)	-	-	-	(1,125,934)	-	(1,125,934)	-	(1,125,934)
Other comprehensive loss (Note 2)	-	-	-	-	(20,392)	(20,392)	-	(20,392)
<b>Balances at December 31, 2015</b>	4,055,000	17,293	5,601,506	(434,610)	(68,548)	9,170,641	26,997	9,197,638

See accompanying notes.

**PUBLIC STORAGE**  
**STATEMENTS OF EQUITY**  
(Amounts in thousands, except share and per share amounts)

	Cumulative Preferred Shares	Common Shares	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Public Storage Shareholders' Equity	Noncontrolling Interests	Total Equity
Cumulative effect of a change in accounting principle (Note 9)	-	-	789	(789)	-	-	-	-
<b>Balances at December 31, 2015, as adjusted</b>	\$ 4,055,000	\$ 17,293	\$ 5,602,295	\$ (435,399)	\$ (68,548)	\$ 9,170,641	\$ 26,997	\$ 9,197,638
Issuance of 47,000 preferred shares (Note 7)	1,175,000	-	(38,797)	-	-	1,136,203	-	1,136,203
Redemption of 34,500 preferred shares (Note 7)	(862,500)	-	-	-	-	(862,500)	-	(862,500)
Issuance of common shares in connection with share-based compensation ( 367,546 shares) (Note 9)	-	36	25,505	-	-	25,541	-	25,541
Share-based compensation expense, net of cash paid in lieu of common shares (Note 9)	-	-	20,765	-	-	20,765	-	20,765
Contributions by noncontrolling interests	-	-	-	-	-	-	3,470	3,470
Net income	-	-	-	1,460,439	-	1,460,439	-	1,460,439
Net income allocated to noncontrolling interests	-	-	-	(6,863)	-	(6,863)	6,863	-
Distributions to equity holders:								
Preferred shares (Note 7)	-	-	-	(238,214)	-	(238,214)	-	(238,214)
Noncontrolling interests	-	-	-	-	-	-	(7,586)	(7,586)
Common shares and restricted share units (\$7.30 per share)	-	-	-	(1,267,544)	-	(1,267,544)	-	(1,267,544)
Other comprehensive loss (Note 2)	-	-	-	-	(26,558)	(26,558)	-	(26,558)
<b>Balances at December 31, 2016</b>	<u>\$ 4,367,500</u>	<u>\$ 17,329</u>	<u>\$ 5,609,768</u>	<u>\$ (487,581)</u>	<u>\$ (95,106)</u>	<u>\$ 9,411,910</u>	<u>\$ 29,744</u>	<u>\$ 9,441,654</u>

See accompanying notes.

**PUBLIC STORAGE**  
**STATEMENTS OF CASH FLOWS**  
**(Amounts in thousands)**

	For the Years Ended December 31,		
	2016	2015	2014
Cash flows from operating activities:			
Net income	\$ 1,460,439	\$ 1,317,689	\$ 1,149,955
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on real estate investment sales	(689)	(18,503)	(2,479)
Depreciation and amortization	433,314	426,008	437,114
Equity in earnings of unconsolidated real estate entities	(56,756)	(50,937)	(88,267)
Distributions from retained earnings of unconsolidated real estate entities	84,397	35,695	83,458
Foreign currency exchange (gain) loss	(17,570)	(306)	7,047
Shared-based compensation expense	37,483	32,570	29,541
Other	4,718	6,063	(12,827)
Total adjustments	484,897	430,590	453,587
Net cash provided by operating activities	1,945,336	1,748,279	1,603,542
Cash flows from investing activities:			
Capital expenditures to maintain real estate facilities	(81,435)	(65,594)	(80,962)
Construction in process	(269,916)	(228,478)	(141,569)
Acquisition of real estate facilities and intangible assets	(416,178)	(177,076)	(410,210)
Distributions in excess of retained earnings from unconsolidated real estate entities	67,420	-	-
Proceeds from sale of real estate investments	998	15,013	17,246
Disposition of portion of loan receivable from Shurgard Europe	-	-	216,217
Repayments of loan receivable from Shurgard Europe	-	-	204,947
Other	(17,615)	16,030	(4,000)
Net cash used in investing activities	(716,726)	(440,105)	(198,331)
Cash flows from financing activities:			
Repayments on bank credit facility	-	-	(50,100)
Repayments on term loan	-	-	(700,000)
Repayments on notes payable	(36,459)	(17,237)	(44,406)
Issuance of senior unsecured notes	113,620	264,255	-
Issuance of preferred shares	1,136,203	-	738,954
Issuance of common shares	25,541	29,663	37,872
Redemption of preferred shares	(862,500)	(270,000)	-
Cash paid upon vesting of restricted share units	(15,357)	(15,678)	(11,449)
Acquisition of noncontrolling interests	-	(5,492)	(721)
Contributions by noncontrolling interests	3,470	1,562	-
Distributions paid to Public Storage shareholders	(1,505,758)	(1,371,031)	(1,200,545)
Distributions paid to noncontrolling interests	(7,586)	(7,325)	(6,469)
Net cash used in financing activities	(1,148,826)	(1,391,283)	(1,236,864)
Net increase (decrease) in cash and cash equivalents	79,784	(83,109)	168,347
Net effect of foreign exchange translation on cash and cash equivalents	(381)	(318)	196
Cash and cash equivalents at the beginning of the period	104,285	187,712	19,169
Cash and cash equivalents at the end of the period	\$ 183,688	\$ 104,285	\$ 187,712

See accompanying notes.

**PUBLIC STORAGE**  
**STATEMENTS OF CASH FLOWS**  
**(Amounts in thousands)**

	For the Years Ended December 31,		
	2016	2015	2014
<b>Supplemental schedule of non-cash investing and financing activities:</b>			
Foreign currency translation adjustment:			
Real estate facilities, net of accumulated depreciation	\$ 1,317	\$ 500	\$ 673
Investments in unconsolidated real estate entities	24,099	19,583	47,251
Senior unsecured notes	(17,750)	(315)	-
Loan receivable from Shurgard Europe	-	-	6,975
Accumulated other comprehensive loss	(8,047)	(20,086)	(54,703)
Real estate acquired in exchange for assumption of mortgage notes	(12,945)	(8,311)	(20,460)
Mortgage notes assumed in connection with acquisition of real estate	12,945	8,311	20,460
Accrued construction costs and capital expenditures:			
Capital expenditures to maintain real estate facilities	(4,612)	2,525	1,178
Construction in process	(18,238)	(9,623)	(8,830)
Accrued and other liabilities	22,850	7,098	7,652

See accompanying notes.  
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**PUBLIC STORAGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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 December 31, 2016, we have direct and indirect equity interests in 2,348 self-storage facilities (with approximately 1.54 billion 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 218 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 eight states in the U.S. primarily owned and operated by PS Business Parks, Inc. (“PSB”) under the “PS Business Parks” name. At December 31, 2016, we have an approximate 42% common equity interest in PSB.

Disclosures of the number and square footage of facilities, as well as the number and coverage of tenant reinsurance policies (Note 12) are unaudited and outside the scope of our independent registered public accounting firm’s review of our financial statements in accordance with the standards of the Public Company Accounting Oversight Board (U.S.).

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements are presented on an accrual basis in accordance with U.S. generally accepted accounting principles (“GAAP”) as defined in the Financial Accounting Standards Board Accounting Standards Codification (the “Codification”).

On our statement of cash flows for the years ended December 31, 2015 and 2014, we reclassified the \$15.7 million and \$11.4 million, respectively, we paid for the restricted share units that we withheld upon their vesting for employee tax requirements from a reduction in cash flows from operating activities to a reduction in cash flows from financing activities. This reclassification was in connection with a recently issued accounting pronouncement related to employee share-based payment accounting we early adopted effective January 1, 2016 (see “Recent Accounting Pronouncements and Guidance” below).

Consolidation and Equity Method of Accounting

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

We account for our investments in entities that we do not consolidate but have significant influence over using the equity method of accounting. These entities, for the periods in which the reference applies, are

**PUBLIC STORAGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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 December 31, 2016, the Company and the Subsidiaries own 2,336 self-storage facilities in the U.S., one self-storage facility in London, England and three commercial facilities in the U.S. At December 31, 2016, the Unconsolidated Real Estate Entities are comprised of PSB, Shurgard Europe, as well as limited partnerships that own an aggregate of 12 self-storage facilities in the U.S.

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 December 31, 2016, we had no tax benefits that were not recognized.

Real Estate Facilities

Real estate facilities are recorded at cost. We capitalize all costs incurred to 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 in 2016, 2015, and 2014. 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.

**PUBLIC STORAGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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.

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

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 December 31, 2016, due primarily to our investment in Shurgard Europe (Note 4) and our senior unsecured notes denominated in Euros (Note 5), our operating results and financial position are affected by fluctuations in currency exchange rates between the Euro, and to a lesser extent, other European currencies, against the U.S. Dollar.

**PUBLIC STORAGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

Goodwill and Other Intangible Assets

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

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

Acquired customers in place and leasehold interests in land are finite-lived and are amortized relative to the benefit of the customers in place or the benefit to land lease expense to each period. At December 31, 2016, these intangibles had a net book value of \$19.3 million ( \$ 18.0 million at December 31, 2015). Accumulated amortization totaled \$54.0 million at December 31, 2016 ( \$66.4 million at December 31, 2015), and amortization expense of \$21.7 million, \$26.1 million and \$48.4 million was recorded in 2016, 2015 and 2014, respectively. The estimated future amortization expense for our finite-lived intangible assets at December 31, 2016 is approximately \$ 11.2 million in 2017, \$2.3 million in 2018 and \$ 5.8 million thereafter. During 2016, 2015 and 2014, intangibles were increased \$ 23.0 million, \$ 8.9 million and \$ 30.2 million, respectively, 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.

**PUBLIC STORAGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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 1.052 U.S. Dollars per Euro at December 31, 2016 ( 1.091 at December 31, 2015), and average exchange rates of 1.107, 1.110 and 1.329 for the years ended December 31, 2016, 2015 and 2014, 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.

Net Income per Common Share

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

Basic and diluted 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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**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

	For the Years Ended December 31,		
	2016	2015	2014
	(Amounts in thousands)		
<u>Weighted average common shares and equivalents outstanding:</u>			
Basic weighted average common shares outstanding	173,091	172,699	172,251
Net effect of dilutive stock options - based on treasury stock method	787	811	887
Diluted weighted average common shares outstanding	173,878	173,510	173,138

**3. Real Estate Facilities**

Activity in real estate facilities during 2016, 2015 and 2014 is as follows :

	For the Years Ended December 31,		
	2016	2015	2014
	(Amounts in thousands)		
<b>Operating facilities, at cost:</b>			
Beginning balance	\$ 13,205,261	\$ 12,863,235	\$ 12,286,256
Capital expenditures to maintain real estate facilities	86,047	63,069	79,784
Acquisitions	406,154	176,444	400,514
Dispositions	-	(19,970)	(112)
Newly developed facilities opened for operation	268,905	123,484	98,162
Impact of foreign exchange rate changes	(3,138)	(1,001)	(1,369)
Ending balance	13,963,229	13,205,261	12,863,235
<b>Accumulated depreciation:</b>			
Beginning balance	(4,866,738)	(4,482,520)	(4,098,814)
Depreciation expense	(406,046)	(393,605)	(384,412)
Dispositions	-	8,886	10
Impact of foreign exchange rate changes	1,821	501	696
Ending balance	(5,270,963)	(4,866,738)	(4,482,520)
<b>Construction in process:</b>			
Beginning balance	219,190	104,573	52,336
Current development	288,154	238,101	150,399
Newly developed facilities opened for operation	(268,905)	(123,484)	(98,162)
Transfer to other assets	(8,129)	-	-
Ending balance	230,310	219,190	104,573
Total real estate facilities at December 31,	\$ 8,922,576	\$ 8,557,713	\$ 8,485,288

During 2016, we acquired 55 self-storage facilities ( 4,121,000 net rentable square feet), for a total cost of \$429.1 million, consisting of \$ 416.2 million in cash and the assumption of \$12.9 million in mortgage notes . Approximately \$ 23.0 million of the total cost was allocated to intangible assets. We completed development

**PUBLIC STORAGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

and redevelopment activities during 2016, adding 2,275,000 net rentable square feet of self-storage space, at an aggregate cost of \$ 268.9 million. Construction in process at December 31, 2016 consists of projects to develop new self-storage facilities and redevelop existing self-storage facilities, which would add a total of 5.3 million net rentable square feet of storage space, for an aggregate estimated cost of approximately \$660.2 million. During 2016, we also transferred \$8.1 million of accumulated construction costs to other assets, with respect to a development project that was suspended.

During 2015, we acquired 17 self-storage facilities ( 1,285,000 net rentable square feet) and the leasehold interest in the land of one of our existing self-storage facilities, for a total cost of \$185.4 million, consisting of \$177.1 million in cash and the assumption of \$8.3 million in mortgage notes. Approximately \$8.9 million of the total cost was allocated to intangible assets. We completed expansion and development activities during 2015, adding 1,312,000 net rentable square feet of self-storage space, at an aggregate cost of \$123.5 million. During 2015, we sold one commercial facility and two self-storage facilities in connection with eminent domain proceedings for a total of \$29.7 million in cash proceeds, of which \$14.7 million was collected in 2014, and recorded related gains on real estate sales totaling \$18.5 million.

During 2014, we acquired 44 self-storage facilities ( 3,442,000 net rentable square feet), for a total cost of \$430.7 million, consisting of \$410.2 million in cash and the assumption of \$20.5 million in mortgage notes. Approximately \$30.2 million of the total cost was allocated to intangible assets. We completed expansion and development activities during 2014, adding 1,145,000 net rentable square feet of self-storage space, at an aggregate cost of \$98.2 million. We received approximately \$2.6 million in proceeds for real estate disposed of in 2014.

At December 31, 2016, the adjusted basis of real estate facilities for federal tax purposes was approximately \$9.4 billion (unaudited).

**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 Unconsolidated Real Estate Entities at December 31,		Equity in Earnings of Unconsolidated Real Estate Entities for the Year Ended December 31,		
	2016	2015	2016	2015	2014
PSB	\$ 402,765	\$ 414,450	\$ 31,707	\$ 34,155	\$ 56,280
Shurgard Europe	280,019	388,367	22,324	14,272	29,900
Other Investments	6,423	6,491	2,725	2,510	2,087
Total	<u>\$ 689,207</u>	<u>\$ 809,308</u>	<u>\$ 56,756</u>	<u>\$ 50,937</u>	<u>\$ 88,267</u>

During 2016, 2015 and 2014, we received cash distributions from our investments in the Unconsolidated Real Estate Entities totaling \$151.8 million, \$35.7 million and \$83.5 million, respectively. For 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 December 31, 2016, the cost of our investment in the Unconsolidated Real Estate Entities exceeds our pro rata share of the underlying equity by approximately \$54.0 million (\$62.0 million at December 31, 2015). This differential is being amortized as a reduction in equity in earnings of the Unconsolidated Real Estate Entities based upon allocations to the underlying net assets. Such amortization was approximately \$1.8 million, \$2.4 million and \$4.4 million during 2016, 2015 and 2014, respectively.

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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 December 31, 2016 and 2015, comprised of our ownership of 7,158,354 shares of PSB's common stock and 7,305,355 limited partnership units ("LP Units") in an operating partnership controlled by PSB. The LP Units are convertible at our option, subject to certain conditions, on a one-for-one basis into PSB common stock. Based upon the closing price at December 31, 2016 (\$ 116.52 per share of PSB common stock), the shares and units we owned had a market value of approximately \$1.7 billion. At December 31, 2016, the adjusted tax basis of our investment in PSB was less than its book value.

Included in equity in earnings of unconsolidated real estate entities is our \$11.3 million and \$36.5 million share of gains on sale of facilities recorded by PSB for 2015 and 2014, respectively. PSB did not dispose of any facilities during 2016.

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

	2016	2015	2014
	(Amounts in thousands)		
<u>For the year ended December 31,</u>			
Total revenue	\$ 387,389	\$ 373,675	\$ 376,915
Costs of operations	(123,108)	(121,224)	(127,371)
Depreciation and amortization	(99,486)	(105,394)	(110,357)
General and administrative	(14,862)	(13,582)	(13,639)
Other items	(4,949)	(12,740)	(13,221)
Gain on sale of facilities	-	28,235	92,373
Net income	<u>144,984</u>	<u>148,970</u>	<u>204,700</u>
Allocations to preferred shareholders and restricted share unitholders	<u>(65,157)</u>	<u>(62,184)</u>	<u>(60,817)</u>
Net income allocated to common shareholders and LP Unitholders	<u>\$ 79,827</u>	<u>\$ 86,786</u>	<u>\$ 143,883</u>
<u>As of December 31,</u>			
Total assets (primarily real estate)	\$ 2,119,371	\$ 2,186,658	\$ 2,227,114
Debt	-	250,000	250,000
Preferred stock called for redemption	230,000	-	-
Other liabilities	78,657	76,059	68,905
Equity:			
Preferred stock	879,750	920,000	995,000
Common equity and LP units	930,964	940,599	913,209

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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, as well as certain interest income received in 2014 on a shareholder loan described below. The remaining 51% of the license fees are classified as interest and other income on our income statement.

At December 31, 2013, Shurgard Europe owed us € 311.0 million (\$ 428.1 million). This loan bore interest at a 9.0 % annual rate, which we believed represented the market rate of interest for loans with similar characteristics. In January 2014, our joint venture partner in Shurgard Europe acquired a 51% interest in the loan at face value for €158.6 million (\$ 216.2 million) in cash. In July 2014, Shurgard Europe fully repaid the loan, and we received our 49% share of the loan totaling €152.4 million (\$ 204.9 million) in cash. We collected \$12.2 million in interest on this loan during 2014, of which \$10.7 million was reflected as equity in earnings of Shurgard Europe, and \$1.5 million was reflected as interest and other income. During 2014, we also recorded a \$7.0 million foreign currency exchange loss on the loan due to changes in foreign currency exchange rates.

Changes in foreign currency exchange rates caused our investment in Shurgard Europe to decrease by approximately \$24.1 million, \$19.6 million and \$47.3 million in 2016, 2015 and 2014, respectively. Included in our equity in earnings of Shurgard Europe for 2016 is a \$ 941,000 increase for the recognition of accumulated comprehensive income, representing a decrease to equity rather than an increase to investments in unconsolidated real estate entities.

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

	2016	2015	2014
	(Amounts in thousands)		
<u>For the year ended December 31,</u>			
Self-storage and ancillary revenues	\$ 252,321	\$ 236,990	\$ 254,136
Self-storage and ancillary cost of operations	(97,099)	(93,575)	(100,177)
Depreciation and amortization	(62,829)	(66,665)	(61,796)
General and administrative	(13,199)	(12,619)	(9,565)
Interest expense on third party debt	(20,617)	(16,695)	(9,607)
Trademark license fee payable to Public Storage	(2,531)	(2,376)	(2,544)
Income tax expense	(10,669)	(10,799)	(5,399)
Interest expense on shareholder loan	-	-	(21,761)
Costs of acquiring facilities and other, net (a)	(2,348)	(7,509)	(6,573)
Net income	<u>\$ 43,029</u>	<u>\$ 26,752</u>	<u>\$ 36,714</u>
Average exchange rates of Euro to the U.S. Dollar	1.107	1.110	1.329

(a) Amounts during 2016 include a \$1.9 million foreign exchange gain on a repaid intercompany note between entities consolidated by Shurgard Europe, and amounts during 2016, 2015 and 2014 include \$410,000, \$10.5 million and \$4.3 million, respectively, associated with the acquisition of real estate facilities.

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	2016	2015	2014
	(Amounts in thousands)		
<u>As of December 31</u>			
Total assets (primarily self-storage facilities)	\$ 1,261,912	\$ 1,476,632	\$ 1,404,246
Total debt to third parties	666,926	662,336	500,767
Other liabilities	106,916	110,522	180,546
Equity	488,070	703,774	722,933
Exchange rate of Euro to U.S. Dollar	1.052	1.091	1.216

**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 December 31, 2016). 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 December 31, 2016). At December 31, 2016 and February 28, 2017 , we had no outstanding borrowings under this Credit Facility. We had undrawn standby letters of credit, which reduce our borrowing capacity, totaling \$15.2 million at December 31, 2016 ( \$14.9 million at December 31, 2015). The Credit Facility has various customary restrictive covenants, all of which we were in compliance with at December 31, 2016.

Senior Unsecured Notes and Term Loan

At December 31, 2016 and 2015, we had €342.0 million ( \$ 359.8 million) and €242.0 million ( \$263.9 million), respectively, of Euro-denominated senior unsecured notes payable to institutional investors (collectively, the “Senior Unsecured Notes”). The Senior Unsecured Notes consists of two tranches, (i) €242.0 million ( 2.175% fixed rate of interest) which was issued on November 3, 2015 for \$264.3 million in 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 \$381 .8 million at December 31, 2016 ( \$ 263.9 million at December 31, 2015).

We reflect changes in the U.S. Dollar equivalent of the amount payable, as a result of changes in foreign exchange rates as “foreign currency exchange gain (loss)” on our income statement (gains of \$ 17.6 million and \$306,000 for 2016 and 2015, respectively). The Senior Unsecured Notes have various customary financial covenants, all of which we were in compliance with at December 31, 2016.

On December 2, 2013, we borrowed \$700 million from Wells Fargo under an unsecured term loan. The term loan was repaid in 2014. We incurred origination costs of \$1.9 million, which were amortized using the effective interest method through the date of extinguishment ( \$1.8 million for 2014 ) .

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Mortgage Notes

During 2016, 2015 and 2014, we assumed mortgage notes with aggregate contractual values of \$12.9 million, \$8.3 million and \$19.8 million, respectively, and interest rates of 4.2% , 6.2% and 5.2% , respectively, which approximated market rates, in connection with the acquisition of real estate facilities.

The carrying amounts of our mortgage notes (the "Mortgage Notes") at December 31 , 2016 and 2015, totaled \$30.9 million and \$ 55.1 million, respectively, which approximates contractual note values and estimated fair values. These notes were assumed in connection with acquisitions of real estate facilities and recorded at fair value with any premium or discount to the stated note balance amortized using the effective interest method. At December 31, 2016, the notes are secured by 30 real estate facilities with a net book value of approximately \$ 121.6 million, have contractual interest rates between 2.9% and 7.1% , and mature between November 2018 and September 2028 .

At December 31 , 2016, approximate principal maturities of our Senior Unsecured Notes and Mortgage Notes are (amounts in thousands):

	Senior Unsecured Notes	Mortgage Notes	Total
2017	\$ -	\$ 1,665	\$ 1,665
2018	-	11,241	11,241
2019	-	1,505	1,505
2020	-	1,585	1,585
2021	-	1,503	1,503
Thereafter	359,810	13,440	373,250
	<u>\$ 359,810</u>	<u>\$ 30,939</u>	<u>\$ 390,749</u>
Weighted average effective rate	<u>2.0%</u>	<u>4.0%</u>	<u>2.2%</u>

Cash paid for interest totaled \$ 9.4 million, \$ 3.4 million and \$ 9.0 million for 2016, 2015 and 2014, respectively. Interest capitalized as real estate totaled \$5.1 million, \$ 2.7 million and \$ 1.6 million in 2016, 2015 and 2014, respectively.

6. Noncontrolling Interests

At December 31 , 2016, the noncontrolling interests represent (i) third-party equity interests in subsidiaries owning 14 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 December 31, 2016, the Noncontrolling Interests cannot require us to redeem their interests, other than pursuant to a liquidation of the subsidiary. During 2016, 2015 and 2014, we allocated a total of \$6.9 million, \$ 6.4 million and \$5.8 million, respectively, of income to these interests; and we paid \$7.6 million, \$ 7.3 million and \$6.5 million, respectively, in distributions to these interests.

During 2015 and 2014, we acquired Noncontrolling Interests for \$ 5.5 million and \$721,000 , respectively, in cash, substantially all of which was allocated to Paid-in-capital. During 2016 and 2015 , Noncontrolling Interests contributed \$3.5 million and \$1.6 million, respectively .

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7. Shareholders' Equity

Preferred Shares

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

Series	Earliest Redemption Date	Dividend Rate	At December 31, 2016		At December 31, 2015	
			Shares Outstanding	Liquidation Preference	Shares Outstanding	Liquidation Preference
(Dollar amounts in thousands)						
Series Q	4/14/2016	6.500%	-	\$ -	15,000	\$ 375,000
Series R	7/26/2016	6.350%	-	-	19,500	487,500
Series S	1/12/2017	5.900%	18,400	460,000	18,400	460,000
Series T	3/13/2017	5.750%	18,500	462,500	18,500	462,500
Series U	6/15/2017	5.625%	11,500	287,500	11,500	287,500
Series V	9/20/2017	5.375%	19,800	495,000	19,800	495,000
Series W	1/16/2018	5.200%	20,000	500,000	20,000	500,000
Series X	3/13/2018	5.200%	9,000	225,000	9,000	225,000
Series Y	3/17/2019	6.375%	11,400	285,000	11,400	285,000
Series Z	6/4/2019	6.000%	11,500	287,500	11,500	287,500
Series A	12/2/2019	5.875%	7,600	190,000	7,600	190,000
Series B	1/20/2021	5.400%	12,000	300,000	-	-
Series C	5/17/2021	5.125%	8,000	200,000	-	-
Series D	7/20/2021	4.950%	13,000	325,000	-	-
Series E	10/14/2021	4.900%	14,000	350,000	-	-
Total Preferred Shares			174,700	\$ 4,367,500	162,200	\$ 4,055,000

The holders of our Preferred Shares have general preference rights with respect to liquidation, quarterly distributions and any accumulated unpaid distributions. Except under certain conditions and as noted below, holders of the Preferred Shares will not be entitled to vote on most matters. In the event of a cumulative arrearage equal to six quarterly dividends, holders of all outstanding series of preferred shares (voting as a single class without regard to series) will have the right to elect two additional members to serve on our board of trustees (the "Board") until the arrearage has been cured. At December 31, 2016, there were no dividends in arrears.

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

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

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In 2016, we redeemed our Series Q and Series R Preferred Shares at par, for a total of \$862.5 million in cash, before payment of accrued dividends.

In 2016, we issued an aggregate 47.0 million depository shares, each representing 1/1,000 of a share of our Series B, Series C, Series D and Series E Preferred Shares, at an issuance price of \$25.00 per depository share, for a total of \$1,175.0 million in gross proceeds, and we incurred \$38.8 million in issuance costs.

In 2015, we redeemed our Series O and Series P Preferred Shares at par, for a total of \$270.0 million in cash, before payment of accrued dividends.

In 2014, we issued an aggregate 30.5 million depository shares, each representing 1/1,000 of a share of our Series Y, Series Z, and Series A Preferred Shares, at an issuance price of \$25.00 per depository share, for a total of \$762.5 million in gross proceeds, and we incurred \$23.5 million in issuance costs.

In 2016 and 2015, we recorded \$26.9 million and \$8.9 million, respectively, in EITF D-42 allocations of income from our common shareholders to the holders of our Preferred Shares in connection with redemptions of Preferred Shares.

Common Shares

During 2016, 2015 and 2014, activity with respect to the issuance or repurchase of our common shares was as follows (dollar amounts in thousands):

	2016		2015		2014	
	Shares	Amount	Shares	Amount	Shares	Amount
Employee stock-based compensation and exercise of stock options (Note 9)	367,546	\$ 25,541	475,687	\$ 29,663	669,263	\$ 37,872

Our Board previously authorized the repurchase from time to time of up to 35.0 million of our common shares on the open market or in privately negotiated transactions. Through December 31, 2016, we repurchased approximately 23.7 million shares pursuant to this authorization; none of which were repurchased during the three years ended December 31, 2016.

At December 31, 2016 and 2015, we had 2,692,081 and 2,677,667, respectively, of common shares reserved in connection with our share-based incentive plans (see Note 9), and 231,978 shares reserved for the conversion of partnership units owned by Noncontrolling Interests.

The unaudited characterization of dividends for Federal income tax purposes is made based upon earnings and profits of the Company, as defined by the Internal Revenue Code. Common share dividends including amounts paid to our common shareholders and our restricted share unitholders totaled \$1.268 billion (\$7.30 per share), \$1.126 billion (\$6.50 per share) and \$967.9 million (\$5.60 per share), for the years ended December 31, 2016, 2015 and 2014, respectively. Preferred share dividends totaled \$238.2 million, \$245.1 million and \$232.6 million for the years ended December 31, 2016, 2015 and 2014, respectively.

For the tax year ended December 31, 2016, 100% of the distributions for the common shares and all the various series of preferred shares were classified as ordinary income. Such dividends do not constitute "qualified dividend income".

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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 December 31, 2016.

At December 31, 2016, B. Wayne Hughes and Tamara Hughes Gustavson together owned and controlled 5.7 self-storage facilities in Canada. These facilities operate under the "Public Storage" tradename, which we license to the owners of these facilities for use in Canada on a royalty-free, non-exclusive basis. Our subsidiaries reinsure risks relating to loss of goods stored by customers in these facilities, and have received approximately \$848,000, \$562,000 and \$480,000 for the years ended December 31, 2016, 2015 and 2014, respectively. Our right to continue receiving these premiums may be qualified. We have no ownership interest in these facilities and we do not own or operate any facilities in Canada. If we chose to acquire or develop our own facilities in Canada, we would have to share the use of the "Public Storage" name in Canada with the facilities' owners. We have a right of first refusal, subject to limitations, to acquire the stock or assets of the corporation engaged in the operation of these facilities ("PS Canada") if their owners agree to sell them.

9. Share-Based Compensation

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

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

As noted under "Recent Accounting Pronouncements and Guidance" in Note 11, we have elected to account for forfeitures of share-based payments as they occur, rather than estimating them in advance. Accordingly, we recorded a cumulative-effect adjustment of \$789,000 to increase accumulated deficit and increase paid-in capital as of January 1, 2016, representing the impact of estimated forfeitures on our cumulative share-based compensation expense recorded through December 31, 2015.

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

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

Stock Options

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

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

The stock options outstanding at December 31, 2016 have an aggregate intrinsic value (the excess, if any, of each option's market value over the exercise price) of approximately \$ 150.0 million and remaining average contractual lives of approximately six years. The aggregate intrinsic value of exercisable stock options at December 31, 2016 amounted to approximately \$126.8 million. Approximately 360,000 of the stock options outstanding at December 31, 2016, have an exercise price of more than \$200. We have 429,556 stock options exercisable at December 31, 2016, that expire through June 30, 2018, with an average exercise price per share of \$82.39.

Additional information with respect to stock options during 2016, 2015 and 2014 is as follows:

	2016		2015		2014	
	Number of Options	Weighted Average Exercise Price per Share	Number of Options	Weighted Average Exercise Price per Share	Number of Options	Weighted Average Exercise Price per Share
Options outstanding January 1,	1,940,279	\$ 130.08	2,085,544	\$ 111.96	2,174,211	\$ 85.49
Granted	310,000	239.11	335,000	200.70	485,000	176.74
Exercised	(254,839)	100.23	(365,265)	80.99	(570,417)	66.39
Cancelled	-	-	(115,000)	163.15	(3,250)	63.76
Options outstanding December 31,	1,995,440	\$ 150.83	1,940,279	\$ 130.08	2,085,544	\$ 111.96
Options exercisable at December 31,	1,105,433	\$ 108.84	1,150,272	\$ 94.18	1,321,537	\$ 82.46

	2016	2015	2014
Stock option expense for the year (in 000's)	\$ 5,180	\$ 3,871	\$ 3,216
Aggregate exercise date intrinsic value of options exercised during the year (in 000's)	\$ 33,228	\$ 46,719	\$ 59,322
<b>Average assumptions used in valuing options with the Black-Scholes method:</b>			
Expected life of options in years, based upon historical experience	5	5	5
Risk-free interest rate	1.2%	1.6%	1.6%
Expected volatility, based upon historical volatility	17.9%	15.1%	16.8%
Expected dividend yield	2.9%	2.9%	3.2%
Average estimated value of options granted during the year	\$ 26.18	\$ 18.39	\$ 17.66

**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

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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.

The fair value of our RSUs outstanding at December 31, 2016 was approximately \$136.9 million. Remaining compensation expense related to RSUs outstanding at December 31, 2016 totals approximately \$9.8 million and is expected to be recognized as compensation expense over the next 2.5 years on average. The following tables set forth relevant information with respect to restricted shares (dollar amounts in thousands):

	2016		2015		2014	
	Number of Restricted Share Units	Grant Date Aggregate Fair Value	Number of Restricted Share Units	Grant Date Aggregate Fair Value	Number of Restricted Share Units	Grant Date Aggregate Fair Value
Restricted share units outstanding January 1,	737,388	\$ 129,284	751,048	\$ 110,874	636,329	\$ 77,284
Granted	171,144	40,263	252,376	55,307	339,607	59,009
Vested	(180,050)	(26,689)	(187,342)	(24,752)	(166,905)	(18,456)
Forfeited	(31,841)	(5,953)	(78,694)	(12,145)	(57,983)	(6,963)
Restricted share units outstanding December 31,	<u>696,641</u>	<u>\$ 136,905</u>	<u>737,388</u>	<u>\$ 129,284</u>	<u>751,048</u>	<u>\$ 110,874</u>

	2016	2015	2014
Amounts for the year (in 000's, except number of shares):			
Fair value of vested shares on vesting date	\$ 41,400	\$ 38,182	\$ 27,591
Cash paid upon vesting in lieu of issuing common shares	\$ 15,357	\$ 15,678	\$ 11,449
Common shares issued upon vesting	112,707	110,422	98,846
Restricted share unit expense (a)	\$ 32,303	\$ 28,699	\$ 26,325

(a) Amounts for 2016, 2015 and 2014 include approximately \$1.4 million, \$1.1 million and \$1.2 million, respectively, in employer taxes incurred upon vesting.

**10 . Segment Information**

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

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

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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 rental activities. Our CODM reviews the NOI of these operations in assessing performance and making resource allocation decisions.

Investment in PSB

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

Investment in Shurgard Europe

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

Presentation of Segment Information

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

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**December 31, 2016**

*For the year ended December 31, 2016*

	<b>Self-Storage Operations</b>	<b>Ancillary Operations</b>	<b>Investment in PSB</b>	<b>Investment in Shurgard Europe</b>	<b>Other Items Not Allocated to Segments</b>	<b>Total</b>
	(Amounts in thousands)					
<b>Revenues:</b>						
Self-storage operations	\$ 2,405,828	\$ -	\$ -	\$ -	\$ -	\$ 2,405,828
Ancillary operations	-	154,721	-	-	-	154,721
	<u>2,405,828</u>	<u>154,721</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,560,549</u>
<b>Cost of operations:</b>						
Self-storage operations	617,905	-	-	-	-	617,905
Ancillary operations	-	51,178	-	-	-	51,178
	<u>617,905</u>	<u>51,178</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>669,083</u>
<b>Net operating income:</b>						
Self-storage operations	1,787,923	-	-	-	-	1,787,923
Ancillary operations	-	103,543	-	-	-	103,543
	<u>1,787,923</u>	<u>103,543</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,891,466</u>
<b>Other components of net income (loss):</b>						
Depreciation and amortization	(433,314)	-	-	-	-	(433,314)
General and administrative	-	-	-	-	(83,656)	(83,656)
Interest and other income	-	-	-	-	15,138	15,138
Interest expense	-	-	-	-	(4,210)	(4,210)
Equity in earnings of						
unconsolidated real estate entities	-	-	31,707	22,324	2,725	56,756
Foreign currency exchange gain	-	-	-	-	17,570	17,570
Gain on real estate investment sales	-	-	-	-	689	689
Net income (loss)	<u>\$ 1,354,609</u>	<u>\$ 103,543</u>	<u>\$ 31,707</u>	<u>\$ 22,324</u>	<u>\$ (51,744)</u>	<u>\$ 1,460,439</u>

**PUBLIC STORAGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

*For the year ended December 31, 2015*

	<b>Self-Storage Operations</b>	<b>Ancillary Operations</b>	<b>Investment in PSB</b>	<b>Investment in Shurgard Europe</b>	<b>Other Items Not Allocated to Segments</b>	<b>Total</b>
	(Amounts in thousands)					
<b>Revenues:</b>						
Self-storage operations	\$ 2,235,525	\$ -	\$ -	\$ -	\$ -	\$ 2,235,525
Ancillary operations	-	146,171	-	-	-	146,171
	<u>2,235,525</u>	<u>146,171</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,381,696</u>
<b>Cost of operations:</b>						
Self-storage operations	586,696	-	-	-	-	586,696
Ancillary operations	-	48,806	-	-	-	48,806
	<u>586,696</u>	<u>48,806</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>635,502</u>
<b>Net operating income:</b>						
Self-storage operations	1,648,829	-	-	-	-	1,648,829
Ancillary operations	-	97,365	-	-	-	97,365
	<u>1,648,829</u>	<u>97,365</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,746,194</u>
<b>Other components of net income (loss):</b>						
Depreciation and amortization	(426,008)	-	-	-	-	(426,008)
General and administrative	-	-	-	-	(88,177)	(88,177)
Interest and other income	-	-	-	-	16,544	16,544
Interest expense	-	-	-	-	(610)	(610)
Equity in earnings of						
unconsolidated real estate entities	-	-	34,155	14,272	2,510	50,937
Foreign currency exchange gain	-	-	-	-	306	306
Gain on real estate investment sales	-	-	-	-	18,503	18,503
Net income (loss)	<u>\$ 1,222,821</u>	<u>\$ 97,365</u>	<u>\$ 34,155</u>	<u>\$ 14,272</u>	<u>\$ (50,924)</u>	<u>\$ 1,317,689</u>

**PUBLIC STORAGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

*Year ended December 31, 2014*

	<u>Self-Storage Operations</u>	<u>Ancillary Operations</u>	<u>Investment in PSB</u>	<u>Investment in Shurgard Europe</u>	<u>Other Items Not Allocated to Segments</u>	<u>Total</u>
	(Amounts in thousands)					
<b>Revenues:</b>						
Self-storage operations	\$ 2,049,882	\$ -	\$ -	\$ -	\$ -	\$ 2,049,882
Ancillary operations	-	127,414	-	-	-	127,414
	<u>2,049,882</u>	<u>127,414</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,177,296</u>
<b>Cost of operations:</b>						
Self-storage operations	566,898	-	-	-	-	566,898
Ancillary operations	-	46,426	-	-	-	46,426
	<u>566,898</u>	<u>46,426</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>613,324</u>
<b>Net operating income:</b>						
Self-storage operations	1,482,984	-	-	-	-	1,482,984
Ancillary operations	-	80,988	-	-	-	80,988
	<u>1,482,984</u>	<u>80,988</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,563,972</u>
<b>Other components of net income (loss):</b>						
Depreciation and amortization	(437,114)	-	-	-	-	(437,114)
General and administrative	-	-	-	-	(71,459)	(71,459)
Interest and other income	-	-	-	-	17,638	17,638
Interest expense	-	-	-	-	(6,781)	(6,781)
Equity in earnings of						
unconsolidated real estate entities	-	-	56,280	29,900	2,087	88,267
Foreign currency exchange loss	-	-	-	-	(7,047)	(7,047)
Gain on real estate investment sales	-	-	-	-	2,479	2,479
Net income (loss)	<u>\$ 1,045,870</u>	<u>\$ 80,988</u>	<u>\$ 56,280</u>	<u>\$ 29,900</u>	<u>\$ (63,083)</u>	<u>\$ 1,149,955</u>

**11 . Recent Accounting Pronouncements and Guidance**

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

**PUBLIC STORAGE**  
**NOTES TO FINANCIAL STATEMENTS**  
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In August, 2014, the FASB issued new accounting guidance, which defines management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern. This guidance is effective for annual periods ending after December 15, 2016 and interim periods within annual periods beginning after December 15, 2016. The Company adopted the new guidance during the fourth quarter of 2016 and the adoption did not require any disclosures about the Company's ability to continue as a going concern.

In February 2015, the FASB issued ASU 2015-02, *Consolidation – Amendments to the Consolidation Analysis*, which modifies the criteria surrounding the consolidation of VIEs and partnerships. We adopted this standard effective January 1, 2016, which did not change the consolidation status of any entities in which we have an interest or significant involvement in ; however, certain entities began to be considered VIE's as a result of the change.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The new standard, effective on January 1, 2019, requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief and allows for early adoption on January 1, 2016. We do not believe this standard will have a material impact on our results of operations or financial condition, 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 March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*. We early adopted this standard effective January 1, 2016. Under this standard, a share-based compensation-related tax liability paid on behalf of employees in lieu of shares received is classified as a financing activity on the statement of cash flows, rather than as an operating activity as we had previously presented such amounts. We applied this provision retrospectively. The standard also allows a company to choose, with respect to recording share-based expense, between (i) recognizing forfeitures only as they occur or (ii) estimating future forfeitures in advance. We chose to recognize forfeitures only as they occur, rather than estimating in advance, accordingly, effective January 1, 2016, under the modified retrospective transition method as required by the standard, we recorded a cumulative-effect adjustment of \$ 789,000 to increase accumulated deficit and increase paid-in capital for the impact of estimated future forfeitures after December 31, 2015 (Note 9).

**12. 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

**PUBLIC STORAGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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 December 31, 2016, there were approximately 894,000 certificates held by our self-storage customers, representing aggregate coverage of approximately \$2.7 billion.

13. Supplementary Quarterly Financial Data (unaudited)

	Three Months Ended			
	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016
	(Amounts in thousands, except per share data)			
Self-storage and ancillary revenues	\$ 611,786	\$ 634,188	\$ 663,148	\$ 651,427
Self-storage and ancillary cost of operations	\$ 173,286	\$ 172,004	\$ 178,627	\$ 145,166
Depreciation and amortization	\$ 105,128	\$ 107,013	\$ 109,432	\$ 111,741
Net Income	\$ 317,349	\$ 358,359	\$ 369,050	\$ 415,681
Per Common Share				
Net income - Basic	\$ 1.40	\$ 1.62	\$ 1.78	\$ 2.04
Net income - Diluted	\$ 1.39	\$ 1.61	\$ 1.78	\$ 2.03

	Three Months Ended			
	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015
	(Amounts in thousands, except per share data)			
Self-storage and ancillary revenues	\$ 564,879	\$ 588,615	\$ 618,872	\$ 609,330
Self-storage and ancillary cost of operations	\$ 172,010	\$ 161,097	\$ 164,686	\$ 137,709
Depreciation and amortization	\$ 107,146	\$ 106,473	\$ 106,082	\$ 106,307
Net Income	\$ 283,254	\$ 328,040	\$ 341,136	\$ 365,259
Per Common Share				
Net income - Basic	\$ 1.23	\$ 1.53	\$ 1.58	\$ 1.75
Net income - Diluted	\$ 1.23	\$ 1.52	\$ 1.58	\$ 1.74

**PUBLIC STORAGE**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

14 . Subsequent Events

Subsequent to December 31 , 201 6 , we acquired or were under contract to acquire five self-storage facilities ( two in Ohio and one each in Minnesota, New Yo rk and North Carolina ), with 275,000 net rentable square feet, for \$ 26.4 million.

PUBLIC STORAGE  
SCHEDULE III - REAL ESTATE  
AND ACCUMULATED DEPRECIATION

Description	No. of Facilities	2016 Encumbrances	Initial Cost		Costs Subsequent to Acquisition	Gross Carrying Amount At December 31, 2016			Accumulated Depreciation
			Land	Buildings & Improvements		Land	Buildings	Total	
Self-storage facilities by market:									
Los Angeles	216	611	463,462	870,049	259,362	472,090	1,120,783	1,592,873	585,457
San Francisco	137	-	227,468	500,407	157,104	240,218	644,761	884,979	365,824
New York	90	-	216,305	488,667	144,862	222,615	627,219	849,834	329,626
Washington DC	90	-	226,934	402,488	103,971	232,128	501,265	733,393	245,447
Miami	88	-	210,096	435,932	80,465	211,980	514,513	726,493	234,906
Seattle/Tacoma	90	-	177,451	443,495	87,630	178,106	530,470	708,576	257,515
Chicago	130	-	137,165	352,595	103,618	140,047	453,331	593,378	300,655
Houston	112	-	152,174	341,413	104,841	151,949	446,479	598,428	221,091
Atlanta	101	-	122,880	327,975	58,946	123,242	386,559	509,801	208,790
Dallas/Ft. Worth	110	-	133,401	331,636	87,129	134,272	417,894	552,166	220,409
Orlando/Daytona	72	12,714	140,411	253,375	50,872	145,892	298,766	444,658	118,792
West Palm Beach	44	-	151,323	207,388	23,264	150,327	231,648	381,975	89,845
Charlotte	53	-	75,968	186,599	48,875	84,195	227,247	311,442	87,541
Minneapolis/St. Paul	45	5,438	81,895	177,533	19,740	82,060	197,108	279,168	85,704
Denver	55	10,354	82,240	154,622	43,445	82,803	197,504	280,307	112,437
Tampa	51	-	80,486	165,639	40,545	83,258	203,412	286,670	95,802
Philadelphia	57	-	51,682	152,406	50,486	50,703	203,871	254,574	138,918
Boston	25	-	61,583	158,870	19,294	62,217	177,530	239,747	70,011
Phoenix	39	-	59,267	162,505	16,411	59,259	178,924	238,183	77,396
Detroit	41	-	62,990	159,461	20,347	63,840	178,958	242,798	86,716
Portland	43	-	51,182	126,464	23,813	51,840	149,619	201,459	82,757
Austin	31	-	51,150	115,641	35,129	53,173	148,747	201,920	66,173
San Diego	20	-	47,884	108,911	26,871	49,395	134,271	183,666	68,794
Honolulu	11	-	54,184	106,299	9,736	55,101	115,118	170,219	51,054
Raleigh	25	-	41,377	81,821	16,598	42,502	97,294	139,796	44,190
Norfolk	28	-	33,316	81,267	15,461	32,755	97,289	130,044	49,461
San Antonio	28	-	27,566	76,028	23,876	27,524	99,946	127,470	55,516
Baltimore	23	-	25,176	79,734	15,689	25,300	95,299	120,599	58,842
Sacramento	34	-	25,141	69,409	25,667	25,646	94,571	120,217	64,386
St. Louis	26	-	20,037	56,237	19,785	20,680	75,379	96,059	55,021
Indianapolis	22	-	21,064	57,655	11,495	22,064	68,150	90,214	37,899

PUBLIC STORAGE  
SCHEDULE III - REAL ESTATE  
AND ACCUMULATED DEPRECIATION

Description	No. of Facilities	2016 Encumbrances	Initial Cost		Costs Subsequent to Acquisition	Gross Carrying Amount At December 31, 2016			Accumulated Depreciation
			Land	Buildings & Improvements		Land	Buildings	Total	
Kansas City	24	-	14,225	43,732	23,593	14,425	67,125	81,550	52,021
Las Vegas	18	-	17,879	44,357	8,926	17,128	54,034	71,162	41,216
Columbia	20	-	16,167	44,429	10,243	16,915	53,924	70,839	25,408
Savannah	12	-	33,094	42,465	2,521	32,738	45,342	78,080	9,720
Greensboro	13	-	12,737	29,811	12,384	14,826	40,106	54,932	21,399
Fort Myers/Naples	9	-	15,373	35,353	4,062	15,608	39,180	54,788	11,757
Milwaukee	15	1,822	13,189	32,071	8,904	13,158	41,006	54,164	26,342
Charleston	10	-	10,849	31,144	6,490	11,825	36,658	48,483	15,725
Jacksonville	14	-	11,252	27,714	9,451	11,301	37,116	48,417	27,288
Hartford/New Haven	11	-	6,778	19,959	20,244	8,443	38,538	46,981	26,879
Columbus	22	-	25,341	64,746	21,209	25,447	85,849	111,296	35,674
New Orleans	9	-	9,205	30,832	4,823	9,373	35,487	44,860	21,009
Richmond	10	-	13,248	23,253	3,717	13,053	27,165	40,218	14,260
Tucson	7	-	9,403	25,491	5,178	9,884	30,188	40,072	15,679
Colorado Springs	12	-	8,229	19,659	11,634	8,225	31,297	39,522	24,953
Nashville/Bowling Green	14	-	10,405	24,175	8,952	10,402	33,130	43,532	22,890
Memphis	9	-	7,962	21,981	8,183	9,315	28,811	38,126	16,253
Greenville/Spartanburg/Asheville	11	-	9,036	20,767	8,390	9,965	28,228	38,193	16,379
Monterey/Salinas	7	-	8,465	24,151	3,567	8,455	27,728	36,183	17,306
Birmingham	14	-	5,229	17,835	12,645	5,117	30,592	35,709	25,718
Cincinnati	14	-	13,178	25,988	15,201	13,096	41,271	54,367	24,507
Reno	7	-	5,487	18,704	3,486	5,487	22,190	27,677	9,674
Palm Springs	3	-	8,309	18,065	877	8,309	18,942	27,251	7,861
Buffalo/Rochester	8	-	6,159	14,850	2,594	6,157	17,446	23,603	11,147
Mobile	8	-	4,148	14,152	3,760	3,975	18,085	22,060	10,381
London, UK	1	-	5,730	14,278	(3,579)	3,172	13,257	16,429	10,348
Salt Lake City	8	-	7,846	15,947	3,554	7,495	19,852	27,347	11,524
Oklahoma City	21	-	32,708	65,664	9,246	32,708	74,910	107,618	13,736
Santa Barbara	2	-	5,733	9,106	292	5,733	9,398	15,131	4,338
Cleveland/Akron	6	-	3,778	13,928	4,009	4,171	17,544	21,715	8,983
Chattanooga	10	-	6,569	26,045	6,016	6,371	32,259	38,630	10,720
Wichita	7	-	2,017	6,691	6,186	2,130	12,764	14,894	10,500

PUBLIC STORAGE  
SCHEDULE III - REAL ESTATE  
AND ACCUMULATED DEPRECIATION

Description	No. of Facilities	2016 Encum- brances	Initial Cost		Costs Subsequent to Acquisition	Gross Carrying Amount At December 31, 2016			Accumulated Depreciation	
			Land	Buildings & Improvements		Land	Buildings	Total		
Providence	3	-	995	11,206	2,399	995	13,605	14,600	4,730	
Louisville	10	-	15,578	28,069	3,442	15,577	31,512	47,089	7,247	
Augusta	4	-	1,793	5,990	2,116	1,793	8,106	9,899	4,928	
Dayton	3	-	394	3,014	4,241	393	7,256	7,649	5,825	
Huntsville/Decatur	3	-	1,024	3,321	2,914	971	6,288	7,259	5,659	
Fort Wayne	3	-	349	3,594	2,999	349	6,593	6,942	5,644	
Springfield/Holyoke	2	-	1,428	3,380	1,251	1,427	4,632	6,059	3,925	
Shreveport	2	-	817	3,030	2,054	741	5,160	5,901	4,035	
Rochester	2	-	1,047	2,246	1,456	980	3,769	4,749	3,408	
Lansing	2	-	556	2,882	615	556	3,497	4,053	1,702	
Flint	1	-	543	3,068	169	542	3,238	3,780	1,440	
Evansville	2	-	899	2,096	798	871	2,922	3,793	2,372	
Topeka	2	-	225	1,419	1,669	225	3,088	3,313	2,686	
Roanoke	1	-	819	1,776	560	819	2,336	3,155	1,960	
Syracuse	1	-	545	1,279	690	545	1,969	2,514	1,724	
Omaha	1	-	109	806	1,386	109	2,192	2,301	1,730	
Joplin	1	-	264	904	841	264	1,745	2,009	1,432	
Modesto/Fresno/Stockton	1	-	44	206	746	193	803	996	583	
Commercial and non-operating real estate		-	11,517	26,939	23,777	12,541	49,692	62,233	41,363	
			<u>\$30,939</u>	<u>\$3,711,932</u>	<u>\$8,205,089</u>	<u>\$2,046,208</u>	<u>\$3,781,479</u>	<u>\$10,181,750</u>	<u>\$13,963,229</u>	<u>\$5,270,963</u>

Note: Buildings and improvements are depreciated on a straight-line basis over estimated useful lives ranging generally between 5 to 25 years.

**PUBLIC STORAGE  
2016 EQUITY AND PERFORMANCE-BASED INCENTIVE COMPENSATION PLAN  
STOCK UNIT AGREEMENT**

**THIS STOCK UNIT AGREEMENT** (the "Agreement") is made as of the \_\_\_\_ day of \_\_\_\_\_, 201\_\_, (the "Grant Date"), by and between Public Storage (the "Trust"), and \_\_\_\_\_ (the "Grantee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Trust's 2016 Equity and Performance-Based Incentive Compensation Plan (as amended from time to time, the "Plan").

**WHEREAS**, the Board of Trustees of the Trust has duly adopted, and the shareholders of the Trust have duly approved, the Plan, which provides for the grant to Service Providers of Stock Units relating to common shares of beneficial ownership of the Trust, par value \$.10 per share (the "Stock"), which may be granted from time to time as the Committee so determines; and

**WHEREAS**, the Trust has determined that it is desirable and in its best interests to grant to the Grantee, pursuant to the Plan, Stock Units relating to a certain number of shares of Stock as compensation for services rendered to the Trust, and/or in order to provide the Grantee with an incentive to advance the interests of the Trust, all according to the terms and conditions set forth herein.

**NOW**, **THEREFORE**, in consideration of the mutual benefits hereinafter provided, and each intending to be legally bound, the Trust and the Grantee hereby agree as follows:

**1. GRANT OF STOCK UNITS.**

Subject to the terms of the Plan (the terms of which are incorporated by reference herein), the Trust hereby grants to the Grantee \_\_\_\_\_ Stock Units, on the terms and subject to the conditions hereinafter set forth.

**2. VESTING OF STOCK UNITS.**

**2.1. Service Requirement.**

Rights in respect of [ ]% of the number of Stock Units specified in Section 1 above shall vest on each of the first [ ] anniversary[ies] of the Grant Date [or insert vesting schedule], provided that the Grantee is in Service on the applicable vesting date. The period during which the Stock Units have not vested and therefore are subject to a substantial risk of forfeiture is referred to below as the "Restricted Period."

**2.2. Restrictions on Transfer.**

The Grantee may not sell, transfer, assign, pledge or otherwise encumber or dispose of the Stock Units.

**2.3. Delivery of Shares.**

When a portion of the Stock Units shall vest pursuant to Section 2.1, the Trust shall deliver to the Grantee a certificate or electronic confirmation of ownership, as applicable, for the number of shares of Stock represented by the Stock Units which have vested. Upon the issuance of the shares, Grantee's payment of the aggregate par value of the shares delivered to Grantee will be deemed paid by Grantee's past services to the Trust or its Affiliates.

**3. TERMINATION OF SERVICE.**

Upon the termination of the Grantee's Service other than by reason of death or Disability, any Stock Units held by the Grantee that have not vested shall terminate immediately, and the Grantee shall forfeit any rights with respect to such Stock Units. If the Grantee's Service is terminated because of his or her death or Disability, all

Stock Units granted to the Grantee pursuant to this Agreement that have not previously vested shall immediately be vested.

**4. DIVIDEND AND VOTING RIGHTS.**

The Grantee shall have none of the rights of a shareholder with respect to the Stock Units. Notwithstanding the foregoing, the Grantee shall be entitled to receive, upon the Trust's payment of a cash dividend on its outstanding shares of Stock, a cash payment for each Stock Unit held as of the record date for such dividend equal to the per-share dividend paid on the shares of Stock, which cash payment shall be made at the same time as the Trust's payment of a cash dividend on its outstanding shares of Stock.

**5. WITHHOLDING OF TAXES.**

The Trust and any Affiliates shall have the right to deduct from payments of any kind otherwise due to the Grantee any federal, state, or local taxes of any kind required by law to be withheld with respect to the termination of the Restricted Period with respect to the Stock Units. At the termination of the Restricted Period, the Grantee shall pay to the Trust any amount that the Trust may reasonably determine to be necessary to satisfy such withholding obligation. Subject to the prior approval of the Trust, which may be withheld by the Trust in its sole discretion, the Grantee may elect to satisfy such obligations, in whole or in part, (i) by causing the Trust to withhold shares of Stock otherwise deliverable or (ii) by delivering to the Trust shares of Stock already owned by the Grantee. The shares of Stock so delivered or withheld shall have a Fair Market Value equal to such withholding obligations. The Fair Market Value of the shares of Stock used to satisfy such withholding obligation shall be determined by the Trust as of the date that the amount of tax to be withheld is to be determined. A Grantee who has made an election pursuant to this Section 5 may satisfy his or her withholding obligation only with shares of Stock that are not subject to any repurchase, forfeiture, unfulfilled vesting, or other similar requirements.

**6. DISCLAIMER OF RIGHTS.**

No provision of this Agreement shall be construed to confer upon the Grantee the right to continue in Service, or to interfere in any way with the right and authority of the Trust or any Affiliate either to increase or decrease the compensation of the Grantee at any time, or to terminate the Grantee's Service.

**7. DATA PRIVACY.**

To administer the Plan, the Trust may process personal data about the Grantee. Such data includes, but is not limited to, the information provided in this Agreement and any changes thereto, other appropriate personal and financial data about the Grantee such as home address and business addresses and other contact information, and any other information that might be deemed appropriate by the Trust to facilitate the administration of the Plan. By accepting this grant, the Grantee hereby gives express consent to the Trust to process any such personal data. Grantee also gives express consent to the Trust to transfer any such personal data outside the country in which Grantee works, including, with respect to non-U.S. resident Grantees, to the United States, to transferees who will include the Trust and other persons who are designated by the Trust to administer the Plan.

**8. CONSENT TO ELECTRONIC DELIVERY OF MATERIALS.**

The Trust may choose to deliver certain statutory materials relating to the Plan in electronic form. By accepting this grant, Grantee agrees that the Trust may deliver the Plan prospectus and any annual reports to Grantee in an electronic format. If at any time Grantee would prefer to receive paper copies of these documents, as Grantee is entitled to, the Trust would be pleased to provide copies. Grantee will contact the Trust's Legal Department to request paper copies of these documents.

**9. INTERPRETATION OF THE AGREEMENT.**

All decisions and interpretations made by the Committee with regard to any question arising under the Plan or this Agreement shall be binding and conclusive on the Trust and the Grantee and any other person. In the event

that there is any inconsistency between the provisions of this Agreement and of the Plan, the provisions of the Plan shall govern.

The grant of Stock Units under this Agreement is intended to comply with Section 409A of the Code to the extent subject thereto, and, accordingly, to the maximum extent permitted, this Agreement will be interpreted and administered to be in compliance with Section 409A of the Code. The Trust, however, will have no liability to the Grantee if Section 409A is determined to apply and adversely affects Grantee.

**10. GOVERNING LAW.**

This Agreement shall be governed by the laws of the State of Maryland (but not including the choice of law rules thereof).

**11. BINDING EFFECT.**

Subject to all restrictions provided for in this Agreement and by applicable law, this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, executors, administrators, successors, transferees and assigns.

**12. CLAWBACK.**

The Stock Units shall be subject to mandatory repayment by the Grantee to the Trust to the extent the Grantee is, or in the future becomes, subject to (i) any Trust "clawback" or recoupment policy that is adopted to comply with the requirements of any applicable laws, or (ii) any applicable laws which impose mandatory recoupment, under circumstances set forth in such applicable laws.

**13. ENTIRE AGREEMENT.**

This Agreement and the Plan constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. Neither this Agreement nor any term hereof may be amended, waived, discharged or terminated except by a written instrument signed by the Trust and the Grantee; provided, however, that the Trust unilaterally may waive any provision hereof in writing to the extent that such waiver does not adversely affect the interests of the Grantee hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

**GRANTEE:**

**PUBLIC STORAGE**

\_\_\_\_\_  
Name:

\_\_\_\_\_  
Name:

Title:

*Signature Page to the Stock Unit Agreement*

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**PUBLIC STORAGE  
2016 EQUITY AND PERFORMANCE-BASED INCENTIVE COMPENSATION PLAN  
STOCK UNIT AGREEMENT**

**THIS STOCK UNIT AGREEMENT** (the "Agreement") is made as of the \_\_\_\_ day of \_\_\_\_\_, 201\_\_, (the "Grant Date"), by and between Public Storage (the "Trust"), and \_\_\_\_\_ (the "Grantee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Trust's 2016 Equity and Performance-Based Incentive Compensation Plan (as amended from time to time, the "Plan").

**WHEREAS**, the Board of Trustees of the Trust has duly adopted, and the shareholders of the Trust have duly approved, the Plan, which provides for the grant to Service Providers of Stock Units relating to common shares of beneficial ownership of the Trust, par value \$.10 per share (the "Stock"), which may be granted from time to time as the Committee so determines; and

**WHEREAS**, the Trust has determined that it is desirable and in its best interests to grant to the Grantee, pursuant to the Plan, Stock Units relating to a certain number of shares of Stock as compensation for services rendered to the Trust, and/or in order to provide the Grantee with an incentive to advance the interests of the Trust, all according to the terms and conditions set forth herein.

**NOW**, **THEREFORE**, in consideration of the mutual benefits hereinafter provided, and each intending to be legally bound, the Trust and the Grantee hereby agree as follows:

**1. GRANT OF STOCK UNITS.**

**1.1 Units Granted.**

Subject to the terms of the Plan (the terms of which are incorporated by reference herein), the Trust hereby grants to the Grantee \_\_\_\_\_ Stock Units, on the terms and subject to the conditions hereinafter set forth.

**1.2 Separate Grants.**

For purposes of vesting and the right to defer provided for in this Agreement, the portion of the Stock Units that vest on each separate vesting date pursuant to Section 2 shall be treated as a separate grant (a "Separate Grant"), and the Grantee may make a separate deferral election with respect to each Separate Grant.

**2. VESTING OF STOCK UNITS.**

**2.1. Service Requirement.**

Rights in respect of [ ]% of the number of Stock Units specified in Section 1 above shall vest on each of the first [ ] anniversary[ies] of the Grant Date [or insert vesting schedule], provided that the Grantee is in Service on the applicable vesting date. The period during which the Stock Units have not vested and therefore are subject to a substantial risk of forfeiture is referred to below as the "Restricted Period."

**2.2. Restrictions on Transfer.**

The Grantee may not sell, transfer, assign, pledge or otherwise encumber or dispose of the Stock Units.

**2.3. Delivery of Shares.**

When any shares are paid to Grantee (either upon vesting pursuant to Section 2.1 or later delivery if Grantee defers payment pursuant to Section 3), the Trust shall deliver to the Grantee a certificate or electronic

confirmation of ownership, as applicable, for the number of shares of Stock represented by the Stock Units which have been delivered to Grantee. Upon the issuance of the shares, Grantee's payment of the aggregate par value of the shares delivered to Grantee will be deemed paid by Grantee's past services to the Trust or its Affiliates.

### **3. RIGHT TO DEFER PAYMENT.**

The Grantee may elect to defer the payment of the shares of Stock that would otherwise be paid upon the vesting of Stock Units granted hereunder on the following terms and conditions:

#### **3.1 Election Form.**

An election to defer shall be made on a form provided to the Grantee by the Trust.

#### **3.2 Election Requirements .**

The Grantee may elect to defer the payment of the shares of Stock with respect to each Separate Grant of Stock Units that has not vested on the following conditions:

- (a) The election to defer is made not less than 12 months prior to the vesting date of the Separate Grant to which it relates;
- (b) The deferral is for a period of not less than five (5) years from the original vesting date of such Separate Grant; and
- (c) Such election does not go into effect for at least 12 months from the date of the election.

To the extent the foregoing conditions are satisfied, the issuance of the shares of Stock relating to vested Stock Units for a Separate Grant shall be made in accordance with Section 2.3 at the time and in accordance with the Grantee's deferral election.

#### **3.3 Specified Employee and Separation from Service .**

If the Grantee is a "specified employee" (as defined in Section 409A of the Code and the related Treasury Regulations ("Section 409A")) and the Grantee's deferral election calls for the payment to be made on a "separation from service" (as defined in Section 409A), payment to the specified employee may not be made before the date that is six months after the date of the Grantee's separation from service from the Trust or its Affiliates (or, if earlier, the date of the Grantee's death).

#### **3.4 Acceleration.**

The issuance of the shares of Stock for deferred Separate Grants shall be accelerated upon the Grantee's death and upon the Grantee's "disability" or a "change in control" of the Trust (as such terms are defined in Section 409A) and may be accelerated by the Grantee in the event of an "unforeseeable emergency" (as defined in Section 409A) experienced by the Grantee to the extent payment of the shares of Stock is needed to satisfy the emergency.

### **4. TERMINATION OF SERVICE.**

Upon the termination of the Grantee's Service other than by reason of death or Disability, any Stock Units held by the Grantee that have not vested shall terminate immediately, and the Grantee shall forfeit any rights with respect to such Stock Units. (Stock Units that have vested and for which a deferral election has been made will continue to be outstanding in accordance with the terms of this Agreement.) If the Grantee's Service is terminated because of his or her death or Disability, all Stock Units granted to Grantee pursuant to this Agreement that have not previously vested shall immediately be vested.

### **5. DIVIDEND AND VOTING RIGHTS.**

The Grantee shall have none of the rights of a shareholder with respect to the Stock Units. Notwithstanding the foregoing, the Grantee shall be entitled to receive, upon the Trust's payment of a cash dividend on its outstanding shares of Stock, a cash payment for each Stock Unit held as of the record date for such dividend equal to the per-share dividend paid on the shares of Stock, which cash payment shall be made at the same time as the Trust's payment of a cash dividend on its outstanding shares of Stock.

**6. WITHHOLDING OF TAXES.**

The Trust and any Affiliates shall have the right to deduct from payments of any kind otherwise due to the Grantee any federal, state, or local taxes of any kind required by law to be withheld with respect to the termination of the Restricted Period or the issuance of shares with respect to the Stock Units. At the termination of the Restricted Period and/or the issuance of shares, the Grantee shall pay to the Trust any amount that the Trust may reasonably determine to be necessary to satisfy such withholding obligation. Grantee acknowledges that at the termination of the Restricted Period with respect to Stock Units for which a deferral election has been made pursuant to Section 3, Grantee will be obligated to pay at that time applicable FICA and Medicare taxes, even though federal and state income taxes may be postponed until the deferral period ends. Subject to the prior approval of the Trust, which may be withheld by the Trust in its sole discretion, the Grantee may elect to satisfy such obligations, in whole or in part, (i) by causing the Trust to withhold shares of Stock otherwise deliverable or (ii) by delivering to the Trust shares of Stock already owned by the Grantee. The shares of Stock so delivered or withheld shall have a Fair Market Value equal to such withholding obligations. The Fair Market Value of the shares of Stock used to satisfy such withholding obligation shall be determined by the Trust as of the date that the amount of tax to be withheld is to be determined. A Grantee who has made an election pursuant to this Section 6 may satisfy his or her withholding obligation only with shares of Stock that are not subject to any repurchase, forfeiture, unfulfilled vesting, or other similar requirements.

**7. DISCLAIMER OF RIGHTS.**

No provision of this Agreement shall be construed to confer upon the Grantee the right to continue in Service, or to interfere in any way with the right and authority of the Trust or any Affiliate either to increase or decrease the compensation of the Grantee at any time, or to terminate the Grantee's Service.

**8. DATA PRIVACY.**

To administer the Plan, the Trust may process personal data about the Grantee. Such data includes, but is not limited to, the information provided in this Agreement and any changes thereto, other appropriate personal and financial data about the Grantee such as home address and business addresses and other contact information, and any other information that might be deemed appropriate by the Trust to facilitate the administration of the Plan. By accepting this grant, the Grantee hereby gives express consent to the Trust to process any such personal data. Grantee also gives express consent to the Trust to transfer any such personal data outside the country in which Grantee works, including, with respect to non-U.S. resident Grantees, to the United States, to transferees who will include the Trust and other persons who are designated by the Trust to administer the Plan.

**9. CONSENT TO ELECTRONIC DELIVERY OF MATERIALS.**

The Trust may choose to deliver certain statutory materials relating to the Plan in electronic form. By accepting this grant, Grantee agrees that the Trust may deliver the Plan prospectus and any annual reports to Grantee in an electronic format. If at any time Grantee would prefer to receive paper copies of these documents, as Grantee is entitled to, the Trust would be pleased to provide copies. Grantee will contact the Trust's Legal Department to request paper copies of these documents.

**10. INTERPRETATION OF THE AGREEMENT.**

All decisions and interpretations made by the Committee with regard to any question arising under the Plan or this Agreement shall be binding and conclusive on the Trust and the Grantee and any other person. In the event that there is any inconsistency between the provisions of this Agreement and of the Plan, the provisions of the Plan shall govern.

The grant of Stock Units under this Agreement is intended to comply with Section 409A to the extent subject thereto, and, accordingly, to the maximum extent permitted, this Agreement will be interpreted and administered to be in compliance with Section 409A. The Trust, however, will have no liability to the Grantee if Section 409A is determined to apply and adversely affects Grantee.

**11. GOVERNING LAW.**

Except to the extent governed by provisions of the Code, this Agreement shall be governed by the laws of the State of Maryland (but not including the choice of law rules thereof).

**12. BINDING EFFECT.**

Subject to all restrictions provided for in this Agreement and by applicable law, this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, executors, administrators, successors, transferees and assigns.

**13. CLAWBACK.**

The Stock Units shall be subject to mandatory repayment by the Grantee to the Trust to the extent the Grantee is, or in the future becomes, subject to (i) any Trust "clawback" or recoupment policy that is adopted to comply with the requirements of any applicable laws, or (ii) any applicable laws which impose mandatory recoupment, under circumstances set forth in such applicable laws.

**14. ENTIRE AGREEMENT.**

This Agreement, the deferral elections made under Section 3 (if any), and the Plan constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. Neither this Agreement nor any term hereof may be amended, waived, discharged or terminated except by a written instrument signed by the Trust and the Grantee; provided, however, that the Trust unilaterally may waive any provision hereof in writing to the extent that such waiver does not adversely affect the interests of the Grantee hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

**IN WITNESS WHEREOF** , the parties hereto have caused this Agreement to be duly executed as of the date first above written.

**GRANTEE:**

**PUBLIC STORAGE**

\_\_\_\_\_  
Name:

\_\_\_\_\_  
Name:

Title:

*Signature Page to the Stock Unit Agreement*

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**PUBLIC STORAGE  
2016 EQUITY AND PERFORMANCE-BASED INCENTIVE COMPENSATION PLAN  
NON-QUALIFIED STOCK OPTION AGREEMENT**

**THIS NON-QUALIFIED STOCK OPTION AGREEMENT** (the “Option Agreement”) is made as of the \_\_\_\_ day of \_\_\_\_\_, 201\_\_, (the “Grant Date”), by and between Public Storage (the “Trust”) and \_\_\_\_\_, (the “Optionee”). Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Trust’s 2016 Equity and Performance-Based Incentive Compensation Plan (as amended from time to time, the “Plan”).

**WHEREAS**, the Board of Trustees of the Trust has duly adopted, and the shareholders of the Trust have duly approved, the Plan, which provides for the grant to Service Providers of options for the purchase of shares of the Trust’s common shares of beneficial interest, par value \$.10 per share (the “Stock”), which may be granted from time to time as the Committee so determines; and

**WHEREAS**, the Trust has determined that it is desirable and in its best interests to grant to the Optionee, pursuant to the Plan, options to purchase a certain number of shares of Stock as compensation for services rendered to the Trust, and/or in order to provide the Optionee with an incentive to advance the interests of the Trust, all according to the terms and conditions set forth herein.

**NOW**, **THEREFORE**, in consideration of the mutual promises and covenants contained herein, the parties hereto do hereby agree as follows:

**1. GRANT OF OPTION.**

Subject to the terms of the Plan (the terms of which are incorporated by reference herein), the Trust hereby grants to the Optionee the right and option (the “Option”) to purchase from the Trust, on the terms and subject to the conditions hereinafter set forth, \_\_\_\_\_ shares of Stock. This Option shall not constitute an incentive stock option within the meaning of Section 422 of the Code.

**2. PRICE.**

The purchase price (the “Option Price”) of the shares of Stock subject to the Option evidenced by this Option Agreement is \$ \_\_\_\_\_ per share (the Fair Market Value on the Grant Date).

**3. VESTING AND EXERCISE OF OPTION.**

Except as otherwise provided herein, the Option granted pursuant to this Option Agreement shall be subject to exercise as follows:

**3.1 Vesting and Time of Exercise of Option.**

Except as otherwise provided in this Option Agreement, the Option vests and becomes exercisable only during the Optionee’s period of Service. Subject to the foregoing Service requirement, the Option vests and the Optionee may exercise the Option (subject to the limitations on exercise set forth in the Plan or in this Option Agreement), in installments as determined by the Committee as follows: [ ]. The foregoing installments, to the extent not exercised, shall accumulate and be exercisable, in whole or in part, at any time and from time to time, after becoming exercisable and prior to the termination of the Option; provided, that no single exercise of the Option shall be for less than 100 shares, unless the number of shares purchased is the total number at the time available for purchase under this Option.

### **3.2 Exercise by Optionee and Compliance with Trading Blackout Periods and Company Securities Trading Policy.**

During the lifetime of the Optionee, only the Optionee (or, in the event of the Optionee's legal incapacity or incompetency, the Optionee's guardian or legal representative) or a person or entity to whom the Optionee has transferred the Option in accordance with Section 5 hereof may exercise the Option. The Optionee agrees to comply with any trading blackout periods and securities trading policies implemented by the Trust.

### **3.3 Term of Option.**

The Option shall have a term of ten years, subject to earlier termination in accordance with this Option Agreement or the terms of the Plan as determined by the Committee.

### **3.4 Limitations on Exercise of Option.**

In no event may the Option be exercised, in whole or in part, after ten years following the Grant Date, or after the occurrence of an event which results in termination of the Option. In no event may the Option be exercised for a fractional share of Stock.

### **3.5 Termination of Service.**

Subject to Sections 3.6 and 3.7 hereof, upon the termination of the Optionee's Service other than on account of death or Disability, the Optionee shall have the right at any time within 30 days after such termination (but before the Option terminates pursuant to Sections 3.3 and 3.4 above), to exercise, in whole or in part, any vested Option held by such Optionee at the date of such termination, to the extent such Option was exercisable immediately prior to such termination. Any Option not vested on the date of such termination of Service shall immediately terminate.

### **3.6 Rights in the Event of Death.**

If the Optionee dies while in Service, then the executors or administrators or legatees or distributees of the Optionee's estate shall have the right, at any time within one year after the date of the Optionee's death (but before the Option terminates pursuant to Sections 3.3 and 3.4 above), to exercise the Option in full, regardless of whether the Option was exercisable immediately prior to the Optionee's death.

### **3.7 Rights in the Event of Disability.**

If the Optionee terminates his or her Service by reason of the Optionee's Disability (as defined under the Plan), then the Optionee shall have the right, at any time within one year after the date of the Optionee's Disability (but before the Option terminates pursuant to Sections 3.3 and 3.4 above), to exercise the Option in full, regardless of whether the Option was exercisable immediately prior to the Optionee's Disability.

### **3.8 Reduction in Number of Shares Subject to Option.**

The number of shares of Stock which may be purchased upon exercise of the Option pursuant to this Section 3 shall be reduced by the number of shares previously purchased upon exercise of the Option pursuant to this Section 3 .

## **4. METHOD OF EXERCISE OF OPTION.**

The Option may be exercised to the extent that it has become exercisable hereunder by delivery to the Trust on any business day, at its principal office addressed to the attention of the Committee, of written notice of exercise, which notice shall specify the number of shares for which the Option is being exercised and shall be accompanied by payment in full of the Option Price of the shares for which the Option is being exercised. Payment of the Option Price for the shares of Stock purchased pursuant to the exercise of the Option shall be made (a) in cash or by check

payable to the order of the Trust; (b) through the tender to the Trust of shares of Stock, which shares shall be valued, for purposes of determining the extent to which the Option Price has been paid thereby, at their Fair Market Value on the date of exercise; (c) by a combination of the methods described in (a) and (b); or (d) with the consent of the Trust, by withholding the number of shares of Stock that would otherwise vest or be issuable in an amount equal in value to the Option Price. Payment in full of the Option Price need not accompany the written notice of exercise provided the notice directs that the Stock certificate or certificates for the shares for which the Option is exercised be delivered to a specified licensed broker applicable to the Trust as the agent for the Optionee and, at the time such shares of Stock certificate or certificates are delivered, the broker tenders to the Trust cash (or cash equivalents acceptable to the Trust) equal to the Option Price plus the amount, if any, of federal and/or other taxes which the Trust may, in its judgment, be required to withhold with respect to the exercise of the Option. An attempt to exercise the Option granted other than as set forth above shall be invalid and of no force or effect. Promptly after the exercise of the Option and the payment in full of the Option Price of the shares of Stock covered thereby, the Optionee shall be entitled to the issuance of a Stock certificate or certificates evidencing the Optionee's ownership of such shares.

#### **5. LIMITATIONS ON TRANSFER.**

The Option is not transferable by the Optionee, other than by will or the laws of descent and distribution in the event of death of the Optionee, and except that the Optionee may transfer, not for value, the Option in whole or in part to Family Members of the Optionee, provided that the transferee, in connection with the transfer, agrees in writing to be bound by all of the terms of this Option Agreement and the Plan and further agrees not to transfer the Option other than by will or the laws of descent and distribution in the event of the death of the transferee. Following any transfer permitted by this Section 5, the transferee shall have all of the rights of the Optionee hereunder, and the Option shall be exercisable by the transferee only to the extent that the Option would have been exercisable by the Optionee had the Option not been transferred. The Option shall not be pledged or hypothecated (by operation of law or otherwise) or subject to execution, attachment or similar processes.

#### **6. RIGHTS AS SHAREHOLDER.**

Neither the Optionee, nor any executor, administrator, distributee or legatee of the Optionee's estate, nor any transferee hereof shall be, or have any of the rights or privileges of, a shareholder of the Trust in respect of any shares of Stock issuable hereunder unless and until such shares have been fully paid and certificates representing such shares have been endorsed, transferred and delivered, and the name of the Optionee (or of such personal representative, administrator, distributee or legatee of the Optionee's estate, or of such transferee) has been entered as the shareholder of record on the books of the Trust.

#### **7. DISCLAIMER OF RIGHTS.**

No provision in this Option Agreement shall be construed to confer upon the Optionee the right to continue in Service, or to interfere in any way with the right and authority of the Trust or any Affiliate either to increase or decrease the compensation of the Optionee at any time or to terminate the Optionee's Service.

#### **8. DATA PRIVACY.**

To administer the Plan, the Trust may process personal data about the Optionee. Such data includes, but is not limited to, the information provided in this Agreement and any changes thereto, other appropriate personal and financial data about the Optionee such as home address and business addresses and other contact information, and any other information that might be deemed appropriate by the Trust to facilitate the administration of the Plan. By accepting this grant, the Optionee hereby gives express consent to the Trust to process any such personal data. Optionee also gives express consent to the Trust to transfer any such personal data outside the country in which Optionee works, including, with respect to non-U.S. resident Optionees, to the United States, to transferees who will include the Trust and other persons who are designated by the Trust to administer the Plan.

**9. CONSENT TO ELECTRONIC DELIVERY OF MATERIALS.**

The Trust may choose to deliver certain statutory materials relating to the Plan in electronic form. By accepting this grant, Optionee agrees that the Trust may deliver the Plan prospectus and any annual reports to Optionee in an electronic format. If at any time Optionee would prefer to receive paper copies of these documents, as Optionee is entitled to, the Trust would be pleased to provide copies. Optionee will contact the Trust's Legal Department to request paper copies of these documents.

**10. WITHHOLDING TAXES.**

Upon the request of the Trust, the Optionee shall promptly pay to the Trust, or make arrangements satisfactory to the Trust regarding payment of, any federal, state or local taxes of any kind required by law to be withheld as a result of the Optionee's exercise of the Option. The Trust and its Affiliates shall have the right to deduct from payments of any kind otherwise due to the Optionee any such taxes. The Optionee shall make any such payments in cash or cash equivalents or, subject to the prior approval of the Committee, which may be withheld in the Committee's sole discretion, the Optionee may elect to satisfy the withholding obligation, in whole or in part, (i) by causing the Trust to withhold shares of Stock otherwise issuable to the Optionee pursuant to the Option or (ii) by delivering to the Trust shares of Stock already owned by the Optionee. The shares of Stock so delivered or withheld shall have an aggregate Fair Market Value equal to the applicable withholding obligations. The Optionee may deliver or have withheld only shares of Stock that are not subject to any repurchase, forfeiture, unfulfilled vesting, or other similar requirements.

**11. INTERPRETATION OF THIS OPTION AGREEMENT.**

All decisions and interpretations made by the Committee with regard to any question arising under the Plan or this Option Agreement shall be binding and conclusive on the Trust and the Optionee and any other person entitled to exercise the Option as provided for herein. In the event that there is any inconsistency between the provisions of this Option Agreement and of the Plan, the provisions of the Plan shall govern.

**12. GOVERNING LAW.**

This Option Agreement is executed pursuant to and shall be governed by the laws of the State of Maryland (but not including the choice of law rules thereof).

**13. BINDING EFFECT.**

Subject to all restrictions provided for in this Option Agreement and by applicable law relating to assignment and transfer of this Option Agreement and the Option provided for herein, this Option Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, executors, administrators, successors, transferees and assigns.

**14. NOTICE.**

Any notice hereunder by the Optionee to the Trust shall be in writing and shall be deemed duly given if mailed or delivered to the Trust at its principal office, addressed to the attention of the Corporate Secretary, or if so mailed or delivered to such other address as the Trust may hereafter designate by notice to the Optionee. Any notice hereunder by the Trust to the Optionee shall be in writing and shall be deemed duly given if mailed or delivered to the Optionee at the address specified below by the Optionee for such purpose, or if so mailed or delivered to such other address as the Optionee may hereafter designate by written notice given to the Trust.

**15. CLAWBACK.**

The Option shall be subject to mandatory repayment by the Optionee to the Trust to the extent the Optionee is, or in the future becomes, subject to (i) any Trust "clawback" or recoupment policy that is adopted to comply with the requirements of any applicable laws, or (ii) any applicable laws which impose mandatory recoupment, under circumstances set forth in such applicable laws.

**16. ENTIRE AGREEMENT.**

This Option Agreement and the Plan constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. Neither this Option Agreement nor any term hereof may be amended, waived, discharged or terminated except by a written instrument signed by the Trust and the Optionee; provided, however, that the Trust unilaterally may waive any provision hereof in writing to the extent that such waiver does not adversely affect the interests of the Optionee hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

**IN WITNESS WHEREOF** , the parties hereto have duly executed this Option Agreement, or caused this Option Agreement to be duly executed on their behalf, as of the day and year first above written.

**OPTIONEE:**

**PUBLIC STORAGE**

\_\_\_\_\_  
Name:

\_\_\_\_\_  
Name:  
Title:

**ADDRESS FOR NOTICE TO OPTIONEE:**

\_\_\_\_\_  
Number Street

\_\_\_\_\_  
City State Zip Code

*Signature Page to the Non-qualified Stock Option Agreement*

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**PUBLIC STORAGE  
2016 EQUITY AND PERFORMANCE-BASED INCENTIVE COMPENSATION PLAN  
NON-QUALIFIED STOCK OPTION AGREEMENT**

**THIS NON-QUALIFIED STOCK OPTION AGREEMENT** (the "Option Agreement") is made as of the \_\_\_\_ day of \_\_\_\_\_, 201\_\_, (the "Grant Date"), by and between Public Storage (the "Trust") and \_\_\_\_\_, a Trustee of the Trust or one of its Affiliates (the "Optionee"). Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Trust's 2016 Equity and Performance-Based Incentive Compensation Plan (as amended from time to time, the "Plan").

**WHEREAS**, the Board of Trustees of the Trust has duly adopted, and the shareholders of the Trust have duly approved, the Plan, which provides for the grant to Trustees of options for the purchase of shares of the Trust's common shares of beneficial interest, par value \$.10 per share (the "Stock"), which may be granted from time to time as the Committee so determines; and

**WHEREAS**, the Trust has determined that it is desirable and in its best interests to grant to the Optionee, pursuant to the Plan, options to purchase a certain number of shares of Stock in order to provide the Optionee with further incentive to advance the interests of the Trust, all according to the terms and conditions set forth herein.

**NOW**, **THEREFORE**, in consideration of the mutual promises and covenants contained herein, the parties hereto do hereby agree as follows:

**1. GRANT OF OPTION.**

Subject to the terms of the Plan (the terms of which are incorporated by reference herein), the Trust hereby grants to the Optionee the right and option (the "Option") to purchase from the Trust, on the terms and subject to the conditions hereinafter set forth, \_\_\_\_\_ shares of Stock. This Option shall not constitute an incentive stock option within the meaning of Section 422 of the Code.

**2. PRICE.**

The purchase price (the "Option Price") of the shares of Stock subject to the Option evidenced by this Option Agreement is \$ \_\_\_\_\_ per share (the Fair Market Value on the Grant Date).

**3. VESTING AND EXERCISE OF OPTION.**

Except as otherwise provided herein, the Option granted pursuant to this Option Agreement shall be subject to exercise as follows:

**3.1 Vesting and Time of Exercise of Option.**

Except as otherwise provided in this Option Agreement, the Option vests and becomes exercisable only during the Optionee's period of Service. Subject to the foregoing Service requirement, the Option vests and Optionee may exercise the Option (subject to the limitations on exercise set forth in the Plan or in this Option Agreement), in installments as determined by the Committee as follows: [ ]. The foregoing installments, to the extent not exercised, shall accumulate and be exercisable, in whole or in part, at any time and from time to time, after becoming exercisable and prior to the termination of the Option; provided, that no single exercise of the Option shall be for less than 100 shares, unless the number of shares purchased is the total number at the time available for purchase under this Option.

**3.2 Exercise by Optionee and Compliance with Trading Blackout Periods and Company Securities Trading Policy.**

During the lifetime of the Optionee, only the Optionee (or, in the event of the Optionee's legal incapacity or incompetency, the Optionee's guardian or legal representative) or a person or entity to whom the Optionee has transferred the Option in accordance with Section 5 hereof may exercise the Option. The Optionee agrees to comply with any trading blackout periods and securities trading policies implemented by the Trust.

**3.3 Term of Option.**

The Option shall have a term of ten years, subject to earlier termination in accordance with this Option Agreement or the terms of the Plan as determined by the Committee.

**3.4 Limitations on Exercise of Option.**

In no event may the Option be exercised, in whole or in part, after ten years following the Grant Date, or after the occurrence of an event which results in termination of the Option. In no event may the Option be exercised for a fractional share of Stock.

**3.5 Termination of Service.**

Subject to Sections 3.6 and 3.7 hereof, upon the termination of the Optionee's Service other than on account of death or Disability, the Optionee shall have the right at any time within 30 days after such termination (but before the Option terminates pursuant to Sections 3.3 and 3.4 above), to exercise, in whole or in part, any Option held by such Optionee at the date of such termination, to the extent such Option was exercisable immediately prior to such termination. Any Option not vested on the date of such termination of Service shall immediately terminate.

**3.6 Rights in the Event of Death.**

If the Optionee dies while in Service, then the executors or administrators or legatees or distributees of the Optionee's estate shall have the right, at any time within one year after the date of the Optionee's death (but before the Option terminates pursuant to Sections 3.3 and 3.4 above), to exercise the Option in full, regardless of whether the Option was exercisable immediately prior to the Optionee's death.

**3.7 Rights in the Event of Disability.**

If the Optionee terminates his or her Service by reason of the Optionee's Disability (as defined under the Plan), then the Optionee shall have the right, at any time within one year after the date of the Optionee's Disability (but before the Option terminates pursuant to Sections 3.3 and 3.4 above), to exercise the Option in full, regardless of whether the Option was exercisable immediately prior to the Optionee's Disability.

**3.8 Reduction in Number of Shares Subject to Option.**

The number of shares of Stock which may be purchased upon exercise of the Option pursuant to this Section 3 shall be reduced by the number of shares previously purchased upon exercise of the Option pursuant to this Section 3 .

**4. METHOD OF EXERCISE OF OPTION.**

The Option may be exercised to the extent that it has become exercisable hereunder by delivery to the Trust on any business day, at its principal office addressed to the attention of the Committee, of written notice of exercise, which notice shall specify the number of shares for which the Option is being exercised and shall be accompanied by payment in full of the Option Price of the shares for which the Option is being exercised. Payment of the Option Price for the shares of Stock purchased pursuant to the exercise of the Option shall be made (a) in cash or by check

payable to the order of the Trust; (b) through the tender to the Trust of shares of Stock, which shares shall be valued, for purposes of determining the extent to which the Option Price has been paid thereby, at their Fair Market Value on the date of exercise; (c) by a combination of the methods described in (a) and (b); or (d) with the consent of the Trust, by withholding the number of shares of Stock that would otherwise vest or be issuable in an amount equal in value to the Option Price. Payment in full of the Option Price need not accompany the written notice of exercise provided the notice directs that the shares of Stock for which the Option is exercised be delivered to a specified licensed broker applicable to the Trust as the agent for the Optionee and, at the time such shares of Stock are delivered, the broker tenders to the Trust cash (or cash equivalents acceptable to the Trust) equal to the Option Price plus the amount, if any, of federal and/or other taxes which the Trust may, in its judgment, be required to withhold with respect to the exercise of the Option. An attempt to exercise the Option granted other than as set forth above shall be invalid and of no force or effect. Promptly after the exercise of the Option and the payment in full of the Option Price of the shares of Stock covered thereby, the Optionee shall be entitled to the issuance of a Stock certificate or certificates evidencing the Optionee's ownership of such shares.

#### **5. LIMITATIONS ON TRANSFER.**

The Option is not transferable by the Optionee, other than by will or the laws of descent and distribution in the event of death of the Optionee, and except that the Optionee may transfer, not for value, the Option in whole or in part to Family Members of the Optionee, provided that the transferee, in connection with the transfer, agrees in writing to be bound by all of the terms of this Option Agreement and the Plan and further agrees not to transfer the Option other than by will or the laws of descent and distribution in the event of the death of the transferee. Following any transfer permitted by this Section 5, the transferee shall have all of the rights of the Optionee hereunder, and the Option shall be exercisable by the transferee only to the extent that the Option would have been exercisable by the Optionee had the Option not been transferred. The Option shall not be pledged or hypothecated (by operation of law or otherwise) or subject to execution, attachment or similar processes.

#### **6. RIGHTS AS SHAREHOLDER.**

Neither the Optionee, nor any executor, administrator, distributee or legatee of the Optionee's estate, nor any transferee hereof shall be, or have any of the rights or privileges of, a shareholder of the Trust in respect of any shares of Stock issuable hereunder unless and until such shares have been fully paid and certificates representing such shares have been endorsed, transferred and delivered, and the name of the Optionee (or of such personal representative, administrator, distributee or legatee of the Optionee's estate, or of such transferee) has been entered as the shareholder of record on the books of the Trust.

#### **7. DISCLAIMER OF RIGHTS.**

No provision in this Option Agreement shall be construed to confer upon the Optionee the right to continue in Service, or to interfere in any way with the right and authority of the Trust or any Affiliate either to increase or decrease the compensation of the Optionee at any time, or to terminate the Optionee's Service.

#### **8. DATA PRIVACY.**

To administer the Plan, the Trust may process personal data about the Optionee. Such data includes, but is not limited to, the information provided in this Agreement and any changes thereto, other appropriate personal and financial data about the Optionee such as home address and business addresses and other contact information, and any other information that might be deemed appropriate by the Trust to facilitate the administration of the Plan. By accepting this grant, the Optionee hereby gives express consent to the Trust to process any such personal data. Optionee also gives express consent to the Trust to transfer any such personal data outside the country in which Optionee works, including, with respect to non-U.S. resident Optionees, to the United States, to transferees who will include the Trust and other persons who are designated by the Trust to administer the Plan.

**9. CONSENT TO ELECTRONIC DELIVERY OF MATERIALS.**

The Trust may choose to deliver certain statutory materials relating to the Plan in electronic form. By accepting this grant, Optionee agrees that the Trust may deliver the Plan prospectus and any annual reports to Optionee in an electronic format. If at any time Optionee would prefer to receive paper copies of these documents, as Optionee is entitled to, the Trust would be pleased to provide copies. Optionee will contact the Trust's Legal Department to request paper copies of these documents.

**10. WITHHOLDING TAXES.**

Upon the request of the Trust, the Optionee shall promptly pay to the Trust, or make arrangements satisfactory to the Trust regarding payment of, any federal, state or local taxes of any kind required by law to be withheld as a result of the Optionee's exercise of the Option. The Trust and its Affiliates shall have the right to deduct from payments of any kind otherwise due to the Optionee any such taxes. The Optionee shall make any such payments in cash or cash equivalents or, subject to the prior approval of the Committee, which may be withheld in the Committee's sole discretion, the Optionee may elect to satisfy the withholding obligation, in whole or in part, (i) by causing the Trust to withhold shares of Stock otherwise issuable to the Optionee pursuant to the Option or (ii) by delivering to the Trust shares of Stock already owned by the Optionee. The shares of Stock so delivered or withheld shall have an aggregate Fair Market Value equal to the applicable withholding obligations. The Optionee may deliver or have withheld only shares of Stock that are not subject to any repurchase, forfeiture, unfulfilled vesting, or other similar requirements.

**11. INTERPRETATION OF THIS OPTION AGREEMENT.**

All decisions and interpretations made by the Committee with regard to any question arising under the Plan or this Option Agreement shall be binding and conclusive on the Trust and the Optionee and any other person entitled to exercise the Option as provided for herein. In the event that there is any inconsistency between the provisions of this Option Agreement and of the Plan, the provisions of the Plan shall govern.

**12. GOVERNING LAW.**

This Option Agreement is executed pursuant to and shall be governed by the laws of the State of Maryland (but not including the choice of law rules thereof).

**13. BINDING EFFECT.**

Subject to all restrictions provided for in this Option Agreement and by applicable law relating to assignment and transfer of this Option Agreement and the Option provided for herein, this Option Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, executors, administrators, successors, transferees and assigns.

**14. NOTICE.**

Any notice hereunder by the Optionee to the Trust shall be in writing and shall be deemed duly given if mailed or delivered to the Trust at its principal office, addressed to the attention of the Corporate Secretary, or if so mailed or delivered to such other address as the Trust may hereafter designate by notice to the Optionee. Any notice hereunder by the Trust to the Optionee shall be in writing and shall be deemed duly given if mailed or delivered to the Optionee at the address specified below by the Optionee for such purpose, or if so mailed or delivered to such other address as the Optionee may hereafter designate by written notice given to the Trust.

**15. CLAWBACK.**

The Option shall be subject to mandatory repayment by the Optionee to the Trust to the extent the Optionee is, or in the future becomes, subject to (i) any Trust "clawback" or recoupment policy that is adopted to comply with the requirements of any applicable laws, or (ii) any applicable laws which impose mandatory recoupment, under circumstances set forth in such applicable laws.

**16. ENTIRE AGREEMENT.**

This Option Agreement and the Plan constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. Neither this Option Agreement nor any term hereof may be amended, waived, discharged or terminated except by a written instrument signed by the Trust and the Optionee; provided, however, that the Trust unilaterally may waive any provision hereof in writing to the extent that such waiver does not adversely affect the interests of the Optionee hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof.

**IN WITNESS WHEREOF** , the parties hereto have duly executed this Option Agreement, or caused this Option Agreement to be duly executed on their behalf, as of the day and year first above written.

**OPTIONEE:**

**PUBLIC STORAGE**

\_\_\_\_\_  
Name:

\_\_\_\_\_  
Name:  
Title:

**ADDRESS AND NOTICE TO OPTIONEE:**

\_\_\_\_\_  
Number Street

\_\_\_\_\_  
City State Zip Code

*Signature Page to the Non-qualified Stock Option Agreement*

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## INDEMNIFICATION AGREEMENT

THIS INDEMNIFICATION AGREEMENT (this “Agreement”) is entered into as of December \_\_\_\_\_, 2016, by and between Public Storage, a Maryland real estate investment trust (the “Company” or “Indemnitor”), and \_\_\_\_\_ (the “Indemnitee”).

### RECITALS

- A. Indemnitee is an officer and/or a member of the Board of Trustees and/or a director of the Company or its subsidiaries and in such capacity is performing a valuable service for the Company;
- B. Maryland law permits the Company to enter into contracts with officers or members of the Board of Trustees or directors of the Company or its subsidiaries with respect to indemnification of, and advancement of expenses to, such persons;
- C. The Declaration of Trust of the Company (the “Declaration of Trust”) authorizes the Company to indemnify and advance expenses to its officers and trustees to the maximum extent permitted by Maryland law in effect from time to time;
- D. The Bylaws of the Company (the “Bylaws”) provide that each officer and trustee of the Company shall be indemnified by the Company and shall be entitled to advancement of expenses to the maximum extent permitted by Maryland law in effect from time to time; and
- E. To induce the Indemnitee to provide services to the Company and its S subsidiaries, Affiliates, or any other Person, as an officer, director, member of the Board of Trustees, employee and/or agent, and to provide the Indemnitee with specific contractual assurance that indemnification will be available to the Indemnitee regardless of, among other things, any amendment to or revocation of the Declaration of Trust or the Bylaws, or any acquisition transaction relating to the Company, the Company desires to provide the Indemnitee with protection against personal liability as set forth in this Agreement, and to the extent insurance is maintained, for the coverage of Indemnitee under the Company’s trustees’ and officers’ liability insurance policies.

### AGREEMENT

In consideration of the foregoing recitals and of Indemnitee’s service as a member of the Board of Trustees or officer of the Company and intending to be legally bound hereby, the Company and the Indemnitee agree as follows:

#### **1. Certain Definitions .**

For purposes of this Agreement:

(a) “*Affiliate*” shall mean, with respect to any Person, a Person either: (1) in which the Company or a Subsidiary directly or indirectly owns more than 5% of (i) any class of equity securities or (ii) any equity or partnership interest or (i ii) of any similar ownership interest; or (2) that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, the first mentioned Person;

(b) “*Change in Control*” shall mean :

- i. the dissolution or liquidation of the Company;
- ii. the merger, consolidation, or reorganization of the Company with one or more other entities in which the Company is not the surviving entity or immediately following which the persons or entities who were beneficial owners (as determined pursuant to Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) of voting

securities of the Company immediately prior thereto cease to beneficially own more than fifty percent (50%) of the voting securities of the surviving entity immediately thereafter;

- iii. a sale of all or substantially all of the assets of the Company to another person or entity other than an A affiliate of the Company;
- iv. any transaction (including without limitation a merger or reorganization in which the Company is the surviving entity) that results in any person or entity or “group” (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (other than persons who are shareholders or affiliates immediately prior to the transaction) owning thirty percent (30%) or more of the combined voting power of all classes of shares of the Company; or
- v. individuals who, as of the date hereof, constitute the Board of Trustees (the “ Incumbent Board ”) cease for any reason to constitute at least a majority of the Board of Trustees; provided, however, that any individual becoming a trustee subsequent to the date hereof whose election, or nomination for election by the Company’s shareholders, was approved by a vote of at least a majority of the trustees then comprising the Incumbent Board (either by a specific vote or by approval of the proxy statement of the Company in which such person is named as a nominee for trustee, without written objection to such nomination) shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of trustees or other actual or threatened solicitation of proxies or contests by or on behalf of a person other than the Board of Trustees.

( c ) “ *Corporate Status* ” describes the status of a person who is or was a trustee , officer or director of the Company (or of any domestic or foreign predecessor entity of the Company in a merger, consolidation or other transaction in which the predecessor’s interest ceased upon consummation of the transaction) , or any of its Affiliates or Subsidiaries, or is or was serving at the request of the Company (or any such predecessor entity) as a director, officer, partner (limited or general), member, trustee, employee or agent of any other foreign or domestic corporation, partnership, joint venture, limited liability company, trust, other enterprise (whether conducted for profit or not for profit) or employee benefit plan. The Company (and any domestic or foreign predecessor entity of the Company in a merger, consolidation or other transaction in which the predecessor’s existence ceased upon consummation of the transaction) shall be deemed to have requested the Indemnitee to serve an employee benefit plan where the performance of the Indemnitee’s duties to the Company (or any such predecessor entity) also imposes or imposed duties on, or otherwise involves or involved services by, the Indemnitee to the plan or participants or beneficiaries of the plan.

( d ) “ *Expenses* ” shall have the meaning attached thereto in paragraph 2 below .

( e ) “ *Person* ” means an individual, corporation, partnership, limited liability company, association, trust, unincorporated organization, entity or group or other enterprise, including any entities , organizations, groups or associations established in accordance with the laws of any jurisdiction outside the United States .

( f ) “ *Proceeding* ” includes any threatened, pending or completed action, suit, arbitration, alternate dispute resolution mechanism, hearing, inquiry, investigation, administrative hearing, or any other proceeding, including appeals therefrom, whether civil, criminal, administrative, investigative or other .

( g ) “ *Special Legal Counsel* ” means counsel duly selected by the Board of Trustees or a committee thereof, in accordance with applicable law that is independent and experienced in matters of corporation law and is not presently retained to represent any party to the Proceeding giving rise to a claim for indemnification hereunder.

(h) “ *Subsidiary* ” means, with respect to any Person, any corporation, limited liability company, partnership, association, or other business entity of which (i) if a corporation, a majority of the total voting power of shares of stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers, or trustees thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person or a combination thereof or (ii) if a limited liability company, partnership, association, or other business entity (other than a corporation), a majority of the partnership or other similar ownership interests thereof is at the time owned or controlled, directly or indirectly, by that Person or one or more Subsidiaries of that Person or a combination thereof and for this purpose, a Person or Persons own a majority ownership interest in such a business entity (other than a corporation) if such Person or Persons shall be allocated a majority of such business entity ’ s gains or losses or shall be or control any managing director or general partner of such business entity (other than a corporation). The term “ *Subsidiary* ” shall include all Subsidiaries of such Subsidiary.

**2. Indemnification of Expenses .** The Company shall indemnify Indemnitee to the fullest extent permitted by law if Indemnitee was or is or becomes a party to or witness or other participant in, or is threatened to be made a party to or witness or other participant in, any Proceeding or any action that Indemnitee in good faith believes might lead to the institution of any Proceeding (hereinafter a “*Claim*”), by reason of (or arising in part out of) any event or occurrence related to the fact that Indemnitee is or was a member of the Board of Trustees, director, officer, employee, agent or fiduciary of Indemnitor , or of any Affiliate or S ubsubsidiary of Indemnitor, or is or was serving at the request of Indemnitor as a member of the Board of Trustees, director, officer, employee, agent or fiduciary of another corporation, partnership, joint venture, trust or other enterprise, or by reason of any action or inaction on the part of Indemnitee while serving in such capacity (hereinafter an “*Indemnifiable Event*”) against any and all reasonable expenses (including attorneys’ fees , paralegals’ fees , retainers, court costs, transcript costs, exp ert fees, witness fees, travel expenses, duplicating and printing costs, telecommunications charges, delivery and service fees, and all other costs, expenses and obligations ) incurred in connection with investigating, defending, being a witness in or participating in (including on appeal), or preparing to defend, be a witness in or participate in, any such action, suit, proceeding, alternative dispute resolution mechanism, hearing, inquiry or investigation, judgments, fines, penalties and amounts paid in settlement (if such settlement is approved in advance by Indemnitor, which approval shall not be unreasonable withheld) of such Claim and any federal, state, local or foreign taxes imposed on Indemnitee as a result of the actual or deemed receipt of any payments under this Agreement (collectively, hereinafter “*Expenses*”), including all interest, assessments and other charges paid or payable in connection with or in respect of such Expenses. Such payment of Expenses shall be made by Indemnitor as soon as practicable but in any event no later than thirty days after written demand by Indemnitee (setting forth in reasonable detail the E xpense incurred) therefor is presented to Indemnitor. The parties hereto intend that this Agreement shall provide for indemnification in excess of that expressly permitted by statute, including, without limitation, any indemnification provided by the Company’s Declaration of Trust, its By-Laws, or corporate action .

**3. Mandatory Indemnification .** Notwithstanding any other provision of this Agreement and without regard to the provisions of paragraph 5 hereof, unless limited by the Company’s charter documents, to the extent that the Indemnitee is, by reason of such Indemnitee’s Corporate Status, a party to and is successful, on the merits or otherwise, in any Proceeding , or in defense of any claim, issue or matter in the Proceeding, such Indemnitee shall be indemnified against all reasonable Expenses actually incurred by such Indemnitee in connection therewith. For purposes of this paragraph and without limitation, the termination of any claim, issue or matter in such Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

**4. Advancement of Expenses .** The Company shall advance all reasonable Expenses incurred by the Indemnitee in connection with any Proceeding within 20 days after the receipt by the Company of a statement from the Indemnitee requesting such advance from time to time, whether prior to or after final disposition of such Proceeding. Such statement shall include or be preceded or accompanied by (i) a written affirmation by the Indemnitee of the Indemnitee’s good faith belief that the standard of conduct (if any) necessary for indemnification by the Company as authorized by this Agreement and applicable law has been met and (ii) a written undertaking by or on behalf of the Indemnitee to repay the amounts advanced if it should ultimately be determined that such standard of conduct (if any) has not been met. The undertaking required by clause (ii) of the immediately preceding sentence shall be an unlimited general obligation of the Indemnitee but need not be secured and may be accepted without reference to financial ability to make the repayment. To the extent permissible under third party policies,

the Company agrees that invoices for Expenses to be advanced may be billed in the name of and be payable directly by the Company.

**5. Exceptions .** Any other provision herein to the contrary notwithstanding, Indemnitor shall not be obligated pursuant to the terms of this Agreement :

- (a) *Excluded Action or Omission .* To indemnify Indemnitee for Indemnitee's acts, omissions or transactions from which Indemnitee may not be relieved of liability under applicable law;
- (b) *Liability to Co mpany .* To indemnify Indemnitee for Expenses in a Proceeding brought by or in the right of the Company in which Indemnitee is finally adjudicated to be liable to the Company;
- (c) *Claims Initiated by Indemnitee .* To indemnify Indemnitee or to advance Indemnitee's Expenses in connection with a Proceeding brought by Indemnitee against the Company except (i) for proceedings brought to enforce an Indemnitee's right to indemnification under this Agreement or applicable law; or (ii) if the Company's charter documents or corporate action expressly approve otherwise;
- (d) *Improper Personal Benefit .* To indemnify Indemnitee in respect of any Proceeding in which Indemnitee is finally adjudicated to have received an improper personal benefit, whether or not the Proceeding involves action by the Ind emnitee in its Corporate S tat us ; and
- (e) *Standard of Conduct .* To indemnify Indemnitee in respect of any proceeding where (i) t he act or omission of the Indemnitee was material to the matter giving rise to the Proceeding and (x) was committed in bad faith or (y) was the result of active and deliberate dishonesty; ( ii ) the Indemnitee actually received an improper personal benefit in money, property or services; or ( iii ) in the case of any criminal proceeding, the Indemnitee had reasonable cause to believe that the act or omission was unlawful .

**6. Determination of Entitlement to and Authorization of Indemnification .**

- (a ) *Request for Indemnification.* To obtain indemnification under this Agreement, the Indemnitee shall submit to the Company a request for indemnification , which shall be written if requested by the Company , including therewith such documentation and information reasonably necessary to determine whether and to what extent the Indemnitee is entitled to indemnification.
- (b) *Determination of Entitlement.* T he Company shall indemnify the Indemnitee in accordance with the provisions of paragraph s 2 or 3 hereof, unless , as applicable it is established that , for indemnification other than under paragraph 3, one or more of the exceptions under paragraph 5 are applicable. Indemnification under this Agreement may not be made unless authorized for a specific Proceeding after a determination has been made that indemnification of the Indemnitee is permissible in the circumstances because the Indemnitee has met the applicable standard of conduct (if any) . Upon receipt by the Company of the Indemnitee's request for indemnification pursuant to subparagraph 6( a ), a determination as to whether the applicable standard of conduct has been met shall be made within the period specified in paragraph 6( e ): (i) if a Change in Control shall have occurred, by Special Legal Counsel in a written opinion to the Board of Trustees, a copy of which shall be delivered to the Indemnitee; or (ii) if a Change in Control shall not have occurred, by one of the following methods: (A) by the Board of Trustees by a majority vote of a quorum consisting of trustees not, at the time, parties to the Proceeding, or, if such quorum cannot be obtained, then by a majority vote of a committee of the Board of Trustees consisting solely of one or more trustees not, at the time, parties to such Proceeding and who were duly designated to act in the matter by a majority vote of the full Board of Trustees in which the designated trustees who are parties may participate, (B) by Special Legal Counsel in a written opinion to the Board of Trustees, a copy of which shall be delivered to the Indemnitee, or (C) by the shareholders of the Company. If it is so determined that the Indemnitee is entitled to indemnification, payment to the Indemnitee shall be made within 10 days after such determination.

- ( c ) *Expenses of Determination.* The Indemnitee shall cooperate with the person or entity making such determination with respect to the Indemnitee's entitlement to indemnification, including providing upon reasonable advance request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to the Indemnitee and reasonably necessary to such determination. Any reasonable costs or expenses (including reasonable attorneys' fees and disbursements) incurred by the Indemnitee in so cooperating shall be borne by the Company (irrespective of the determination as to the Indemnitee's entitlement to indemnification) and the Company hereby indemnifies and agrees to hold the Indemnitee's harmless therefrom.
- ( d ) *Objection to Special Legal Counsel; Expenses; Discharge of Special Legal Counsel.* In the event the determination of entitlement to indemnification is to be made by Special Legal Counsel pursuant to paragraph 6( b ) hereof, the Indemnitee may, within seven days after such written notice of selection shall have been given, deliver to the Company a written objection to such selection. Such objection may be asserted only on the grounds that the Special Legal Counsel so selected does not meet the requirements of "Special Legal Counsel" as defined in paragraph 1 of this Agreement. If such written objection is made, the Special Legal Counsel so selected may not serve as Special Legal Counsel until a court has determined that such objection is without merit. If, within 20 days after submission by the Indemnitee of a request for indemnification pursuant to paragraph 6( a ) hereof, no Special Legal Counsel shall have been selected or, if selected, shall have been objected to, either the Company or the Indemnitee may petition a court for resolution of any objection which shall have been made to the selection of Special Legal Counsel and/or for the appointment as Special Legal Counsel of a person selected by the court or by such other person as the court shall designate, and the person with respect to whom an objection is so resolved or the person so appointed shall act as Special Legal Counsel under paragraph 6( b ) hereof. The Company shall pay all reasonable fees and expenses of Special Legal Counsel incurred in connection with acting pursuant to paragraph 6( b ) hereof, and all reasonable fees and expenses incident to the selection of such Special Legal Counsel pursuant to this paragraph 6( d ). In the event that a determination of entitlement to indemnification is to be made by Special Legal Counsel and such determination shall not have been made and delivered in a written opinion within ninety (90) days after the receipt by the Company of the Indemnitee's request in accordance with paragraph 6( a ), upon the due commencement of any judicial proceeding in accordance with paragraph 8( a ) of this Agreement, Special Legal Counsel shall be discharged and relieved of any further responsibility in such capacity.
- ( e ) *Timing of Determination.* If the person or entity making the determination whether the Indemnitee is entitled to indemnification shall not have made a determination within 60 days after receipt by the Company of the request therefor, the requisite determination of entitlement to indemnification shall be deemed to have been made and the Indemnitee shall be entitled to such indemnification, absent: (i) a misstatement by the Indemnitee of a material fact, or an omission of a material fact necessary to make the Indemnitee's statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law. Such 60-day period may be extended for a reasonable time, not to exceed an additional 30 days, if the person or entity making said determination in good faith requires additional time for the obtaining or evaluating of documentation and/or information relating thereto. The foregoing provisions of this paragraph 6( e ) shall not apply: (i) if the determination of entitlement to indemnification is to be made by the shareholders and if within 15 days after receipt by the Company of the request for such determination the Board of Trustees resolves to submit such determination to the shareholders for consideration at an annual or special meeting thereof to be held within 75 days after such receipt and such determination is made at such meeting, or (ii) if the determination of entitlement to indemnification is to be made by Special Legal Counsel pursuant to paragraph 6( b ) of this Agreement.

## 7. Presumptions .

- (a ) *Indemnification.* In making a determination with respect to entitlement or authorization of indemnification hereunder, the person or entity making such determination shall presume that the Indemnitee is entitled to indemnification under this Agreement and the Company shall have the burden of proof to overcome such presumption.
- (b) *Certain terminations of Proceedings.* The termination of any Proceeding by conviction, or upon a plea of nolo contendere or its equivalent, or an entry of an order of probation prior to judgment, creates a rebuttable presumption that the Indemnitee did not meet the requisite standard of conduct for permissive indemnification under Section 2-418 (b) of the Maryland Corporation s Code .

## 8. Remedies .

- ( a ) *Indemnitee's right to adjudication.* In the event that: (i) a determination is made in accordance with the provisions of paragraph 6 that the Indemnitee is not entitled to indemnification under this Agreement, or (ii) advancement of reasonable Expenses is not timely made pursuant to this Agreement, or (iii) payment of indemnification due the Indemnitee under this Agreement is not timely made, the Indemnitee shall be entitled to an adjudication in an appropriate court of competent jurisdiction of such Indemnitee's entitlement to such indemnification or advancement of Expenses.
- ( b ) *De novo trial.* In the event that a determination shall have been made pursuant to paragraph 6 of this Agreement that the Indemnitee is not entitled to indemnification, any judicial proceeding commenced pursuant to this paragraph 8 shall be conducted in all respects as a de novo trial on the merits. The fact that a determination had been made earlier pursuant to paragraph 6 of this Agreement that the Indemnitee was not entitled to indemnification shall not be taken into account in any judicial proceeding commenced pursuant to this paragraph 8 and the Indemnitee shall not be prejudiced in any way by reason of that adverse determination. In any judicial proceeding commenced pursuant to this paragraph 8, the Company shall have the burden of proving that the Indemnitee is not entitled to indemnification or advancement of Expenses, as the case may be.
- ( c ) *Company right to adjudication.* If a determination shall have been made or deemed to have been made pursuant to this Agreement that the Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding commenced pursuant to this paragraph 8, absent: (i) a misstatement by the Indemnitee of a material fact, or an omission of a material fact necessary to make the Indemnitee's statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law.
- ( d ) *Terms of Agreement.* The Company shall be precluded from asserting in any judicial proceeding commenced pursuant to this paragraph 8 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court that the Company is bound by all the provisions of this Agreement.
- ( e ) *Expenses.* In the event that the Indemnitee, pursuant to this paragraph 8, seeks to enforce such Indemnitee's rights for indemnification, advance payment or reimbursement of expenses under, or to recover damages for breach of, or for claims brought under: (1) the Company's charter documents; (2) Directors' and officers' liability insurance policies maintained by the Company; (3) this Agreement and/or (4) applicable law , the Indemnitee shall be entitled to recover from the Company, and shall be indemnified by the Company against, any and all reasonable Expenses actually incurred by such Indemnitee in connection with each such enforcement action, subject at all times to the exceptions set forth in paragraph 5. In addition, the Company shall, if requested by Indemnitee, advance E xpenses related to such enforcement actions by Indemnitee ( subject to the exceptions of paragraph 5 ) . To the extent permissible under third party policies, the Company

agrees that invoices for Expenses to be advanced may be billed in the name of and be payable directly by the Company.

**9. Notification and Defense of Claims .** The Indemnitee agrees promptly to notify the Company upon being served with any summons, citation, subpoena, complaint, indictment, information, or other document relating to any Proceeding or matter which may be subject to indemnification or advancement of Expenses covered hereunder, but the failure so to notify the Company will not relieve the Company from any liability that the Company may have to Indemnitee under this Agreement unless the Company is materially prejudiced thereby. With respect to any such Proceeding as to which Indemnitee notifies the Company of the commencement thereof:

- (a) Company participation. The Company will be entitled to participate therein at its own expense.
- (b ) *Defense.* Except as otherwise provided below, the Company will be entitled to assume the defense thereof, with counsel reasonably satisfactory to Indemnitee. After notice from the Company to Indemnitee of the Company's election so to assume the defense thereof, the Company will not be liable to Indemnitee under this Agreement for any legal or other expenses subsequently incurred by Indemnitee in connection with the defense thereof other than reasonable costs of investigation or as otherwise provided below. Indemnitee shall have the right to employ Indemnitee's own counsel in such Proceeding, but the fees and disbursements of such counsel incurred after notice from the Company of the Company's assumption of the defense thereof shall be at the expense of Indemnitee unless ( i ) the employment by counsel by Indemnitee has been authorized by the Company, ( ii ) the Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and the Indemnitee in the conduct of the defense of such action, ( iii ) such Proceeding seeks penalties or other relief against the Indemnitee with respect to which the Company could not provide monetary indemnification to the Indemnitee (such as injunctive relief or incarceration) or ( iv ) the Company shall not in fact have employed counsel to assume the defense of such action, in each of which cases the fees and disbursements of counsel shall be at the expense of the Company. The Company shall not be entitled to assume the defense of any Proceeding brought by or on behalf of the Company, or as to which Indemnitee shall have reached the conclusion specified in clause (ii ) above, or which involves penalties or other relief against Indemnitee of the type referred to in clause ( iii ) above.
- (c) Settlement of Claims. The Company shall not be liable to indemnify Indemnitee under this Agreement for any amounts paid in settlement of any action or claim effected without the Company's prior written consent. The Company shall not settle any action or claim in any manner that would impose any penalty or limitation on Indemnitee without Indemnitee's written consent. Neither the Company nor Indemnitee will unreasonably withhold or delay consent to any proposed settlement.

**10. Non-Exclusivity; Survival of Rights; Insurance Subrogation .**

- ( a ) *Non-exclusive remedy.* The rights of indemnification and to receive advancement of reasonable Expenses as provided by this Agreement shall not be deemed exclusive of any other rights to which the Indemnitee may at any time be entitled under applicable law, the Declaration of Trust, the Bylaws, any other agreement, a vote of shareholders, a resolution of the Board of Trustees or otherwise, except that any payments otherwise required to be made by the Company hereunder shall be offset by any and all amounts received by the Indemnitee from any other indemnitor or under one or more liability insurance policies maintained by an indemnitor or otherwise and shall not be duplicative of any other payments received by an Indemnitee from the Company in respect of the matter giving rise to the indemnity hereunder. No amendment, alteration or repeal of this Agreement or any provision hereof shall be effective as to the Indemnitee with respect to any action taken or omitted by the Indemnitee as a member of the Board of Trustees prior to such amendment, alteration or repeal.
- ( b ) *Insurance coverage.* To the extent that the Company maintains an insurance policy or policies providing liability insurance for trustees , directors, officers , employees or agents of the Company

or its subsidiaries, the Indemnitee shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage available and upon any "Change in Control" the Company shall use commercially reasonable efforts to obtain or arrange for continuation and/or "tail" coverage for the Indemnitee to the maximum extent obtainable at such time.

- ( c ) *Subrogation.* In the event of any payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of the Indemnitee, who shall execute all papers required and take all actions necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.
- ( d ) *Other Reimbursements.* The Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable hereunder if and to the extent that the Indemnitee has otherwise actually received such payment under any insurance policy, contract, agreement, or otherwise.

#### **11. Continuation of Indemnity .**

- ( a ) *Indemnity Period.* All agreements and obligations of the Company contained herein shall continue during the period the Indemnitee is an officer, director or a member of the Board of Trustees of the Company or its subsidiaries and shall continue thereafter so long as the Indemnitee shall be subject to any threatened, pending or completed Proceeding by reason of such Indemnitee's Corporate Status and during the period of statute of limitations for any act or omission occurring during the Indemnitee's term of Corporate Status. This Agreement shall be binding upon the Company and its successors and assigns and shall inure to the benefit of the Indemnitee and such Indemnitee's heirs, executors and administrators.
- ( b ) *Successor Obligation.* The Company shall require and cause any successor (whether direct or indirect by purchase, merger, consolidation or otherwise) to all, substantially all or a substantial part, of the business and/or assets of the Company, by written agreement in form and substance reasonably satisfactory to the Indemnitee, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

**12. Severability .** If any provision or provisions of this Agreement shall be held to be invalid, illegal, or unenforceable for any reason whatsoever, (i) the validity, legality, and enforceability of the remaining provisions of this Agreement (including, without limitation, each portion of any paragraph of this Agreement containing any such provision held to be invalid, illegal, or unenforceable, that is not itself invalid, illegal, or unenforceable) shall not in any way be affected or impaired thereby, and (ii) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any paragraph of this Agreement containing any such provision held to be invalid, illegal, or unenforceable, that is not itself invalid, illegal, or unenforceable) shall be construed so as to give effect to the intent manifested by the provisions held invalid, illegal, or unenforceable.

**13. Exception to Right of Indemnification or Advancement of Expenses .** Notwithstanding any other provisions of this Agreement, the Indemnitee shall not be entitled to indemnification or advancement of reasonable Expenses under this Agreement with respect to any Proceeding either as described in paragraph 5 or if the charter or bylaws of the Trust, a resolution of the Board of Trustees, or an agreement approved by the Board of Trustees expressly provide otherwise .

**14. Notice to Company Shareholders .** Any indemnification of, or advancement of reasonable Expenses, to an Indemnitee in accordance with this Agreement, if arising out of a Proceeding by or in the right of the Company, shall be reported in writing to the shareholders of the Company.

**15. Headings .** The headings of the paragraph of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

**16. Modification and Waiver** . No supplement, modification, or amendment of this Agreement shall be binding unless executed in writing by each of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

**17. Notices** . All notices, requests, demands, and other communications hereunder shall be in writing and shall be deemed to have been duly given if (i) delivered by hand and receipted for by the party to whom said notice or other communication shall have been directed, or (ii) mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed, if so delivered or mailed, as the case may be, to the following addresses:

If to the Indemnitee, to the address set forth in the records of the Company.

If to the Company, to:

Public Storage  
701 Western Avenue  
Glendale, CA 91201  
Attention: Chief Legal Officer  
Fax No.: (818) 548-9288

or to such other address as may have been furnished to the Indemnitee by the Company or to the Company by the Indemnitee, as the case may be.

**18. Governing Law** . The parties agree that this Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Maryland, without application of the conflict of laws principles thereof.

**19. No Assignments** . The Indemnitee may not assign its rights or delegate obligations under this Agreement without the prior written consent of the Company. Any assignment or delegation in violation of this Section 19 shall be null and void.

**20. No Third Party Rights** . Nothing expressed or referred to in this Agreement will be construed to give any person other than the parties to this Agreement any legal or equitable right, remedy or claim under or with respect to this Agreement or any provision of this Agreement. This Agreement and all of its provisions are for the sole and exclusive benefit of the parties to this Agreement and their successors and permitted assigns.

**21. Counterparts** . This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together constitute an agreement binding on all of the parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written.

PUBLIC STORAGE

By: \_\_\_\_\_  
Name: Lily Y an Hughes  
Title: Senior Vice President, Chief Legal Officer and  
C orporate Secretary

INDEMNITEE:  
\_\_\_\_\_

**PUBLIC STORAGE**  
**EXHIBIT 12 – STATEMENT RE: COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES**

	Year Ended December 31,				
	2016	2015	2014	2013	2012
Income from continuing operations	\$ 1,460,439	\$ 1,317,689	\$ 1,149,955	\$ 1,057,531	\$ 930,161
Less: Income allocated to noncontrolling interests which do not have fixed charges	(6,475)	(6,088)	(5,432)	(4,883)	(3,505)
Equity in earnings of unconsolidated real estate entities	(56,756)	(50,937)	(88,267)	(57,579)	(45,586)
Add back: Distributions from retained earnings of unconsolidated real estate entities	84,397	35,695	83,458	45,870	44,682
Interest expense	4,210	610	6,781	6,444	19,813
Total earnings available to cover fixed charges	<u>\$ 1,485,815</u>	<u>\$ 1,296,969</u>	<u>\$ 1,146,495</u>	<u>\$ 1,047,383</u>	<u>\$ 945,565</u>
Total fixed charges - interest expense (including capitalized interest)	<u>\$ 9,359</u>	<u>\$ 3,299</u>	<u>\$ 8,340</u>	<u>\$ 9,339</u>	<u>\$ 20,210</u>
Cumulative preferred share cash dividends	\$ 238,214	\$ 245,097	\$ 232,636	\$ 204,312	\$ 205,241
Allocations pursuant to EITF Topic D-42	26,873	8,897	-	-	61,696
Total preferred distributions	<u>\$ 265,087</u>	<u>\$ 253,994</u>	<u>\$ 232,636</u>	<u>\$ 204,312</u>	<u>\$ 266,937</u>
Total combined fixed charges and preferred share income allocations	<u>\$ 274,446</u>	<u>\$ 257,293</u>	<u>\$ 240,976</u>	<u>\$ 213,651</u>	<u>\$ 287,147</u>
Ratio of earnings to fixed charges	<u>158.76 x</u>	<u>393.14 x</u>	<u>137.47 x</u>	<u>112.15 x</u>	<u>46.79 x</u>
Ratio of earnings to fixed charges and preferred share income allocations	<u>5.41 x</u>	<u>5.04 x</u>	<u>4.76 x</u>	<u>4.90 x</u>	<u>3.29 x</u>

Exhibit 12

SUBSIDIARIES OF THE REGISTRANT

The Registrant's principal subsidiaries are listed below. In addition, the Registrant has approximately 262 subsidiaries that are not required to be listed pursuant to SEC rules.

<u>Name</u>	<u>Location of Formation</u>
PS LPT Properties Investors .....	Maryland
Shurgard Storage Centers LLC .....	Delaware

The Registrant directly or indirectly owns 100% of the subsidiaries listed above .

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**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement on Form S-3ASR (No. 333- 211758 ) and related prospectus ,
- (2) Registration Statement on Form S-3ASR (No. 333-1891 00) and related prospectus ,
- (3) Registration Statement on Form S-8 (No. 333-210937) and related prospectus of Public Storage for the registration of common shares of beneficial interest pertaining to the Public Storage 2016 Equity and Performance-Based Incentive Compensation Plan,
- (4) Registration Statement on Form S-8 (No. 333-195646) and related prospectus of Public Storage for the registration of common shares of beneficial interest pertaining to the Public Storage 2007 Equity and Performance-Based Incentive Compensation Plan as Amended,
- (5) Registration Statement on Form S-8 (No.333-144907) and related prospectus of Public Storage for the registration of common shares of beneficial interest pertaining to the Public Storage 2007 Equity and Performance-Based Incentive Compensation Plan , and
- (6) Post-effective Amendment No. 1 on Form S-8 to Form S-4 Registration Statement (No. 333-141448) for the registration of common shares of beneficial interest pertaining to the Public Storage, Inc. 2001 Stock Option and Incentive Plan, Public Storage, Inc. 2001 Non-Executive/Non-Director Stock Option and Incentive Plan, Public Storage, Inc. 2000 Non-Executive/Non-Director Stock Option and Incentive Plan, Public Storage, Inc. 1996 Stock Option and Incentive Plan, PS 401(k) Profit Sharing Plan, Shurgard Storage Centers, Inc. 2004 Long Term Incentive Plan, Shurgard Storage Centers, Inc. 2000 Long Term Incentive Plan, Shurgard Storage Centers, Inc. 1995 Long Term Incentive Compensation Plan ;

of our reports dated February 28 , 2017 , with respect to the consolidated financial statements and schedule of Public Storage and the effectiveness of internal control over financial reporting of Public Storage included in this Annual Report (Form 10-K) of Public Storage for the year ended December 31, 2016 .

/s/ ERNST & YOUNG LLP

February 28 , 2017  
Los Angeles, California

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## RULE 13A – 14(a) CERTIFICATION

I, Ronald L. Havner, Jr., certify that:

1. I have reviewed this Annual Report on Form 10-K of Public Storage;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Ronald L. Havner, Jr.

Name: Ronald L. Havner, Jr.  
Title: Chairman and Chief Executive Officer  
Date: February 28, 2017

## RULE 13A – 14(a) CERTIFICATION

I, John Reyes, certify that:

1. I have reviewed this Annual Report on Form 10-K of Public Storage;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ John Reyes

Name: John Reyes  
Title: Chief Financial Officer  
Date: February 28, 2017

Exhibit 31.2

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## SECTION 1350 CERTIFICATION

In connection with the Annual Report on Form 10-K of Public Storage (the "Company") for the year ended December 31, 2016, as filed with the Securities and Exchange Commission (the "SEC") on the date hereof (the "Report"), Ronald L. Havner, Jr., as Chairman and Chief Executive Officer of the Company and John Reyes, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley"), that:

- (1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Ronald L. Havner, Jr.

Name: Ronald L. Havner, Jr.  
Title: Chairman and Chief Executive Officer  
Date: February 28, 2017

/s/ John Reyes

Name: John Reyes  
Title: Chief Financial Officer  
Date: February 28, 2017

This certification accompanies the Report pursuant to §906 of Sarbanes-Oxley and shall not, except to the extent required by Sarbanes-Oxley, be deemed filed by the Company for purposes of §18 of the Exchange Act.

A signed original of this written statement required by §906 of Sarbanes-Oxley has been provided to the Company, and will be retained and furnished to the SEC or its staff upon request.