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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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 of 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 ☐  
(Do not check if a smaller reporting company)

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 common stock held by non-affiliates of the registrant was \$1,144,097,818 based upon the closing price on the New York Stock Exchange on June 30, 2008, the last business day of the registrant's most recently completed second fiscal quarter. This calculation does not reflect a determination that persons whose shares are excluded from the computation are affiliates for any other purpose.

**The number of shares outstanding of the registrant's common stock, \$0.01 par value per share, as of February 13, 2009 was 85,790,511.**

#### **Documents Incorporated by Reference**

Portions of the registrant's definitive proxy statement to be issued in connection with the registrant's annual stockholders' meeting to be held in 2009 are incorporated by reference into Part III of this Annual Report on Form 10-K.

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**EXTRA SPACE STORAGE INC.**  
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## Statements Regarding Forward-Looking Information

Certain information set forth in this report contains "forward-looking statements" within the meaning of the federal securities laws. Forward-looking statements include statements concerning our plans, objectives, goals, strategies, future events, future revenues or performance, capital expenditures, financing needs, plans or intentions relating to acquisitions and other information that is not historical information. In some cases, forward-looking statements can be identified by terminology such as "believes," "expects," "estimates," "may," "will," "should," "anticipates," or "intends" or the negative of such terms or other comparable terminology, or by discussions of strategy. We may also make additional forward-looking statements from time to time. All such subsequent forward-looking statements, whether written or oral, by us or on our behalf, are also expressly qualified by these cautionary statements.

All forward-looking statements, including without limitation, management's examination of historical operating trends and estimates of future earnings, are based upon our current expectations and various assumptions. Our expectations, beliefs and projections are expressed in good faith and we believe there is a reasonable basis for them, but there can be no assurance that management's expectations, beliefs and projections will result or be achieved. All forward-looking statements apply only as of the date made. We undertake no obligation to publicly update or revise forward-looking statements which may be made to reflect events or circumstances after the date made or to reflect the occurrence of unanticipated events.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in or contemplated by this report. Any forward-looking statements should be considered in light of the risks referenced in "Part I. Item 1A. Risk Factors" below. Such factors include, but are not limited to:

- changes in general economic conditions and in the markets in which we operate;
- the effect of competition from new self-storage facilities or other storage alternatives, which would cause rents and occupancy rates to decline;
- potential liability for uninsured losses and environmental contamination;
- difficulties in our ability to evaluate, finance and integrate acquired and developed properties into our existing operations and to lease up those properties, which could adversely affect our profitability;
- the impact of the regulatory environment as well as national, state, and local laws and regulations including, without limitation, those governing Real Estate Investment Trusts, which could increase our expenses and reduce our cash available for distribution;
- recent disruptions in credit and financial markets and resulting difficulties in raising capital or obtaining credit at reasonable rates or at all, which could impede our ability to grow;
- delays in the development and construction process, which could adversely affect our profitability;
- economic uncertainty due to the impact of war or terrorism, which could adversely affect our business plan;
- the successful realignment of our executive management team; and
- our ability to attract and retain qualified personnel and management members.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations are subject to risks and uncertainties and can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. You should carefully consider these risks before you make an investment decision with respect to our securities.

We disclaim any duty or obligation to update or revise any forward-looking statements set forth in this Annual Report on Form 10-K to reflect new information, future events or otherwise.

## PART I

### Item 1. Business

#### General

Extra Space Storage Inc. ("we," "our," "us" or the "Company") is a self-administered and self-managed real estate investment trust ("REIT") formed as a Maryland corporation on April 30, 2004 to own, operate, manage, acquire, develop and redevelop professionally managed self-storage facilities. We closed our initial public offering ("IPO") on August 17, 2004. Our common stock is traded on the New York Stock Exchange under the symbol "EXR."

We were formed to continue the business of Extra Space Storage LLC and its subsidiaries (the "Predecessor"), which had engaged in the self-storage business since 1977. These companies were reorganized after the consummation of our IPO and various formation transactions. As of December 31, 2008, we held ownership interests in 627 operating properties. Of these 627 operating properties, 279 are wholly-owned, and 348 are owned in joint-venture partnerships. An additional 67 operating properties are owned by franchisees or third parties and operated by us in exchange for a management fee, bringing the total number of operating properties which we own and/or manage to 694. These operating properties are located in 33 states and Washington, D.C. and contain approximately 50 million square feet of net rentable space in approximately 475,000 units and currently serve a customer base of over 300,000 tenants.

We operate in two distinct segments: (1) property management, acquisition and development and (2) rental operations. Our property management, acquisition and development activities include managing, acquiring developing, redeveloping and selling self-storage facilities. The rental operations activities include rental operations of self-storage facilities.

Substantially all of our business is conducted through Extra Space Storage LP (the "Operating Partnership"), and through our wholly-owned Massachusetts business trust subsidiaries. Our primary assets are general partner and limited partner interests in the Operating Partnership. This structure is commonly referred to as an umbrella partnership REIT, or UPREIT. We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). To the extent we continue to qualify as a REIT we will not be subject to tax, with certain exceptions, on our net taxable income that is distributed to our stockholders.

We file our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports with the Securities and Exchange Commission (the "SEC"). You may obtain copies of these documents by visiting the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549, by calling the SEC at 1-800-SEC-0330 or by accessing the SEC's website at <http://www.sec.gov>. In addition, as soon as reasonably practicable after such materials are furnished to the SEC, we make copies of these documents available to the public free of charge through our website at [www.extraspace.com](http://www.extraspace.com), or by contacting our Secretary at our principal offices, which are located at 2795 East Cottonwood Parkway, Suite 400, Salt Lake City, Utah 84121, telephone number (801) 562-5556.

#### Management

Members of our executive management team have significant experience in all aspects of the self-storage industry, and have an average of more than sixteen years of industry experience. The senior management team has collectively acquired and/or developed more than 725 properties during the past 30 years for the Company, the Predecessor and other entities. Kenneth M. Woolley, Chairman and Chief Executive Officer, and Richard S. Tanner, Senior Vice President Development, have worked in the self-storage industry since 1977 and led some of the earliest self-storage facility development projects in the United States.

The remainder of our executive management team and their years of industry experience are as follows: Spencer F. Kirk, President, 8 years; Kent W. Christensen, Executive Vice President and Chief Financial Officer, 11 years; Charles L. Allen, Executive Vice President and Chief Legal Officer, 11 years; and Karl Haas, Executive Vice President and Chief Operating Officer, 21 years.

On February 2, 2009, we announced that Mr. Woolley had accepted an invitation to serve a mission for The Church of Jesus Christ of Latter-day Saints and will step down from his position as Chief Executive Officer beginning April 1, 2009. Our Board of Directors has selected Mr. Kirk to succeed him as Chairman and Chief Executive Officer. The composition of the Board of Directors will remain the same with the exception of the Chairman position which will be assumed by Mr. Kirk.

Members of the executive management team have guided the Company through substantial growth, developing and acquiring over \$3.3 billion in assets since 1996. This growth has been funded through equity offerings and more than \$2.0 billion in private equity capital since 1998. This private equity capital has come primarily from sophisticated, high net-worth individuals and institutional investors such as affiliates of Prudential Financial, Inc. and Fidelity Investments.

Our executive management and board of directors have a significant ownership position in the Company with executive officers and directors owning approximately 7,243,647 shares or 8.44% of our outstanding common stock as of February 13, 2009.

## **Industry & Competition**

Self-storage facilities refers to properties that offer do-it-yourself, month-to-month storage space rental for personal or business use. Self-storage offers a cost-effective and flexible storage alternative. Tenants rent fully enclosed spaces that can vary in size according to their specific needs and to which they have unlimited, exclusive access. Tenants have responsibility for moving their items into and out of their units. Self-storage unit sizes typically range from five feet by five feet to 20 feet by 20 feet, with an interior height of eight to 12 feet. Properties generally have on-site managers who supervise and run the day-to-day operations, providing tenants with assistance as needed.

Self-storage provides a convenient way for individuals and businesses to store their possessions due to life changes, or simply because of a need for storage space. The mix of residential tenants using a self-storage property is determined by a property's local demographics and often includes people who are looking to downsize their living space or others who are not yet settled into a permanent residence.

Items that residential tenants place in self-storage properties range from cars, boats and recreational vehicles, to furniture, household items and appliances. Commercial tenants tend to include small business owners who require easy and frequent access to their goods, records, inventory or storage for seasonal goods.

Our research has shown that tenants choose a self-storage property based primarily on the convenience of the site to their home or business, making high-density, high-traffic population centers ideal locations for self-storage properties. A property's perceived security and the general professionalism of the site managers and staff are also contributing factors to a site's ability to successfully secure rentals. Although most self-storage properties are leased to tenants on a month-to-month basis, tenants tend to continue their leases for extended periods of time.

There are seasonal fluctuations in occupancy rates for self-storage properties. Based on our experience, generally, there is increased leasing activity at self-storage properties during the summer months due to the higher number of people who relocate during this period. The highest level of occupancy is typically at the end of July, while the lowest level of occupancy is seen in late February and early March.

Since inception in the early 1970's, the self-storage industry has experienced significant growth. In the past ten years, there has been even greater growth. According to the 2009 Self-Storage Almanac (the "Almanac"), in 1998 there were only 27,535 self-storage properties in the United States, with an average occupancy rate of 82.9% of net rentable square feet, compared to 47,514 self-storage properties in 2008 with an average occupancy rate of 80.3% of net rentable square feet. As population densities have increased in the United States, there has been an increase in self-storage awareness and corresponding development, which we expect will continue in the future.

Increased competition has affected our business and has led to both pricing and discount pressure. This has limited our ability to increase revenues in many markets in which we operate. Many markets have been able to absorb the increase in self-storage development due to superior demographics and density. However, select markets have not been able to absorb the new facilities and have not performed as well.

We have encountered competition when we have sought to acquire properties, especially for brokered portfolios. Aggressive bidding practices have been commonplace between both public and private entities, and this competition will likely continue to be a challenge for the Company's growth strategy.

Increased development within the self-storage industry has also led to an increased emphasis on site location, property design, innovation and functionality. We strive to have a creative and flexible approach to our development projects and we are open to a broad array of opportunities because of this flexibility. This is especially true for new sites slated for high-density population centers. We can offer unique and attractive architecture to accommodate the requirements and tastes of local planning and zoning boards, and to distinguish a facility from other offerings in the market. Due to the attractive architecture of many of our development properties, we have been able to eliminate a typical barrier of entry for most self-storage developers in areas usually reserved for more traditional retail and commercial users.

The industry is also characterized by fragmented ownership. According to the 2009 Almanac, the top ten self-storage companies in the United States owned approximately 10.3% of total U.S. self-storage properties, and the top 50 self-storage companies owned approximately 14.3% of the total U.S. properties. We believe this fragmentation will contribute to continued consolidation at some level in the future. We also believe that we are well positioned to be able to compete for acquisitions given our historical reputation for closing deals.

We are the second largest self-storage operator in the United States. We are one of four public self-storage REITs along with Public Storage Inc. (NYSE: PSA), Sovran Self-Storage, Inc. (NYSE: SSS), and U-Store-It Inc. (NYSE: YSI).

### Long-Term Growth and Investment Strategies

Our primary business objectives are to maximize cash flow available for distribution to our stockholders and to achieve sustainable long-term growth in cash flow per share in order to maximize long-term stockholder value. We continue to evaluate a range of growth initiatives and opportunities, including the following:

- ***Maximize the performance of properties through strategic, efficient and proactive management.*** We plan to pursue revenue generating and expense minimizing opportunities in our operations. Our revenue management team will seek to maximize revenue by responding to changing market conditions through our technology system's ability to provide real-time, interactive rental rate and discount management. Our size allows us greater ability than the majority of our competitors to implement national, regional and local marketing programs, which we believe will attract more customers to our stores at a lower net cost.

- **Expand our management business.** Our management business enables us to generate increased revenues through management fees and expand our geographic footprint. This expanded footprint enables us to reduce our operating costs through economies of scale. In addition, we see our management business as a future acquisition pipeline. We expect to pursue strategic relationships with owners that should strengthen our acquisition pipeline through agreements which give us first right of refusal to purchase the managed property in the event of a potential sale. Twenty-one of the 50 acquisitions we completed in 2008 and 2007 came from this channel.
- **Acquire self-storage properties from strategic partners and third parties.** Our acquisitions team will continue to selectively pursue the acquisition of single properties and multi-property portfolios that we believe can provide stockholder value. We have sought to establish a reputation as a reliable, ethical buyer, which we believe enhances our ability to negotiate and close acquisitions. In addition, our status as an UPREIT enables flexibility when structuring deals.
- **Develop new self-storage properties.** We currently have joint venture and wholly-owned development properties and may continue selectively to develop new self-storage properties in our core markets. Our development pipeline through 2010 includes 26 projects.

## Financing of Our Long-Term Growth Strategies

- **Acquisition and Development Financing**

We currently have a \$100.0 million revolving line of credit (the "Credit Line") that is collateralized by certain of our self-storage properties. As of December 31, 2008, the Credit Line had asset collateralizing capacity of \$100.0 million of which \$27.0 million was drawn. We expect to maintain a flexible approach in financing new property acquisitions. We plan to finance future acquisitions and development through a combination of borrowings under the Credit Line, traditional secured mortgage financing and additional equity offerings. We drew an additional \$50.0 million from the Credit Line on January 30, 2009.

- **Joint Venture Financing**

We own 334 of our stabilized properties and 14 of our lease-up properties through joint ventures with third parties, including affiliates of Prudential Financial, Inc. In each joint venture, we generally manage the day-to-day operations of the underlying properties and have the right to participate in major decisions relating to sales of properties or financings by the applicable joint venture. Our joint venture partners typically provide most of the equity capital required for the operation of the respective business. Under the operating agreements for the joint ventures, we typically maintain the right to receive between 17.0% and 50.0% of the available cash flow from operations after our joint venture partners have received a predetermined return, and between 17.0% and 50.0% of the available cash flow from capital transactions after our joint venture partners have received a return of their capital plus such predetermined return. Most joint venture agreements include buy-sell rights, as well as rights of first refusal in connection with the sale of properties by the joint venture.

- **Disposition of Properties**

We will continue to review our portfolio for properties or groups of properties that are not strategically located and determine whether to sell these properties to fund other growth.

## Regulation

Generally, self-storage properties are subject to various laws, ordinances and regulations, including regulations relating to lien sale rights and procedures. Changes in any of these laws or regulations, as

well as changes in laws, such as the Comprehensive Environmental Response and Compensation Liability Act ("CERCLA"), which increase the potential liability for environmental conditions or circumstances existing or created by tenants or others on properties, or laws affecting development, construction, operation, upkeep, safety and taxation may result in significant unanticipated expenditures, loss of self-storage sites or other impairments to operations, which would adversely affect our financial position, results of operations or cash flows.

Under the Americans with Disabilities Act of 1990 (the "ADA"), all places of public accommodation are required to meet certain federal requirements related to access and use by disabled persons. These requirements became effective in 1992. A number of additional U.S. federal, state and local laws also exist that may require modifications to the properties, or restrict further renovations thereof, with respect to access thereto by disabled persons. Noncompliance with the ADA could result in the imposition of fines or an award of damages to private litigants and also could result in an order to correct any non-complying feature, thereby requiring substantial capital expenditures. To the extent our properties are not in compliance, we are likely to incur additional costs to comply with the ADA.

Insurance activities are subject to state insurance laws and regulations as determined by the particular insurance commissioner for each state in accordance with the McCarran-Ferguson Act, and are subject to the Gramm-Leach-Bliley Act and the privacy regulations promulgated by the Federal Trade Commission pursuant thereto.

Property management activities are often subject to state real estate brokerage laws and regulations as determined by the particular real estate commission for each state.

Changes in any of the laws governing our conduct could have an adverse impact on our ability to conduct our business or could materially affect our financial position, results of operations or cash flows.

## **Employees**

As of February 13, 2009, we had 1,947 employees and believe our relationship with our employees to be good. Our employees are not represented by a collective bargaining agreement.

## **Item 1A. Risk Factors**

An investment in our securities involves various risks. All investors should carefully consider the following risk factors in conjunction with the other information contained in this Annual Report before trading in our securities. If any of the events set forth in the following risks actually occur, our business, operating results, prospects and financial condition could be harmed.

Our performance is subject to risks associated with real estate investments. We are a real estate company that derives our income from operation of our properties. There are a number of factors that may adversely affect the income that our properties generate, including the following:

### **Risks Related to Our Properties and Operations**

***Adverse economic or other conditions in the markets in which we do business could negatively affect our occupancy levels and rental rates and therefore our operating results.***

Our operating results are dependent upon our ability to maximize occupancy levels and rental rates in our self-storage properties. Adverse economic or other conditions in the markets in which we operate may lower our occupancy levels and limit our ability to increase rents or require us to offer rental discounts. If our properties fail to generate revenues sufficient to meet our cash requirements, including operating and other expenses, debt service and capital expenditures, our net income, funds from operations ("FFO"), cash flow, financial condition, ability to make cash distributions to

stockholders and the trading price of our securities could be adversely affected. The following factors, among others, may adversely affect the operating performance of our properties:

- the national economic climate and the local or regional economic climate in the markets in which we operate, which may be adversely impacted by, among other factors, industry slowdowns, relocation of businesses and changing demographics;
- periods of economic slowdown or recession, rising interest rates, or declining demand for self-storage or the public perception that any of these events may occur could result in a general decline in rental rates or an increase in tenant defaults;
- the continuation or worsening of the current economic environment;
- local or regional real estate market conditions such as the oversupply of self-storage or a reduction in demand for self-storage in a particular area;
- perceptions by prospective users of our self-storage properties of the safety, convenience and attractiveness of our properties and the neighborhoods in which they are located;
- increased operating costs, including the need for capital improvements, insurance premiums, real estate taxes and utilities;
- changes in the supply of or demand for similar or competing properties in an area;
- the impact of environmental protection laws;
- earthquakes, hurricanes and other natural disasters, terrorist acts, civil disturbances or acts of war which may result in uninsured or underinsured losses; and
- changes in tax, real estate and zoning laws.

Recent U.S. and international market and economic conditions have been unprecedented and challenging, with tighter credit conditions and slower growth through the third and fourth quarters of 2008. For the year ended December 31, 2008, continued concerns about the systemic impact of inflation, energy costs, geopolitical issues, the availability and cost of credit and other macro-economic factors have contributed to increased market volatility and diminished expectations for the global economy and increased market uncertainty and instability. Continued turbulence in U.S. and international markets may adversely affect our liquidity and financial condition, and the financial condition of our customers. If these market conditions continue, they may result in an adverse effect on our financial condition and results of operations.

***If we are unable to promptly re-let our units or if the rates upon such re-letting are significantly lower than expected, then our business and results of operations would be adversely affected.***

Virtually all of our leases are on a month-to-month basis. Any delay in re-letting units as vacancies arise would reduce our revenues and harm our operating results. In addition, lower than expected rental rates upon re-letting could adversely affect our revenues and impede our growth.

***We depend upon our on-site personnel to maximize tenant satisfaction at each of our properties, and any difficulties we encounter in hiring, training and maintaining skilled field personnel may harm our operating performance.***

We had 1,615 field personnel as of February 13, 2009 in the management and operation of our properties. The general professionalism of our site managers and staff are contributing factors to a site's ability to successfully secure rentals and retain tenants. We also rely upon our field personnel to maintain clean and secure self-storage properties. If we are unable to successfully recruit, train and

retain qualified field personnel, the quality of service we strive to provide at our properties could be adversely affected which could lead to decreased occupancy levels and reduced operating performance.

***Other self-storage operators may employ STORE or a technology similar to STORE, which could enhance their ability to compete with us.***

We rely on STORE, a state-of-the-art, proprietary, web-based tracking and yield management technology, to support all aspects of our business operations and to help us implement new development and acquisition opportunities and strategies. If other self-storage companies obtain a license to use STORE, or employ or develop a technology similar to STORE, their ability to compete with us could be enhanced.

***Uninsured losses or losses in excess of our insurance coverage could adversely affect our financial condition and our cash flow.***

We maintain comprehensive liability, fire, flood, earthquake, wind (as deemed necessary or as required by our lenders), extended coverage and rental loss insurance with respect to our properties with policy specifications, limits and deductibles customarily carried for similar properties. Certain types of losses, however, may be either uninsurable or not economically insurable, such as losses due to earthquakes, hurricanes, tornadoes, riots, acts of war or terrorism. Should an uninsured loss occur, we could lose both our investment in and anticipated profits and cash flow from a property. In addition, if any such loss is insured, we may be required to pay a significant deductible on any claim for recovery of such a loss prior to our insurer being obligated to reimburse us for the loss, or the amount of the loss may exceed our coverage for the loss. As a result, our operating results may be adversely affected.

***Increases in taxes and regulatory compliance costs may reduce our income.***

Costs resulting from changes in real estate tax laws generally are not passed through to tenants directly and will affect us. Increases in income, property or other taxes generally are not passed through to tenants under leases and may reduce our net income, FFO, cash flow, financial condition, ability to pay or refinance our debt obligations, ability to make cash distributions to stockholders, and the trading price of our securities. Similarly, changes in laws increasing the potential liability for environmental conditions existing on properties or increasing the restrictions on discharges or other conditions may result in significant unanticipated expenditures, which could similarly adversely affect our business and results of operations.

***Environmental compliance costs and liabilities associated with operating our properties may affect our results of operations.***

Under various U.S. federal, state and local laws, ordinances and regulations, owners and operators of real estate may be liable for the costs of investigating and remediating certain hazardous substances or other regulated materials on or in such property. Such laws often impose such liability without regard to whether the owner or operator knew of, or was responsible for, the presence of such substances or materials. The presence of such substances or materials, or the failure to properly remediate such substances, may adversely affect the owner's or operator's ability to lease, sell or rent such property or to borrow using such property as collateral. Persons who arrange for the disposal or treatment of hazardous substances or other regulated materials may be liable for the costs of removal or remediation of such substances at a disposal or treatment facility, whether or not such facility is owned or operated by such person. Certain environmental laws impose liability for release of asbestos-containing materials into the air and third parties may seek recovery from owners or operators of real properties for personal injury associated with asbestos-containing materials.

Certain environmental laws also impose liability, without regard to knowledge or fault, for removal or remediation of hazardous substances or other regulated materials upon owners and operators of contaminated property even after they no longer own or operate the property. Moreover, the past or present owner or operator from which a release emanates could be liable for any personal injuries or property damages that may result from such releases, as well as any damages to natural resources that may arise from such releases.

Certain environmental laws impose compliance obligations on owners and operators of real property with respect to the management of hazardous materials and other regulated substances. For example, environmental laws govern the management of asbestos-containing materials and lead-based paint. Failure to comply with these laws can result in penalties or other sanctions.

No assurances can be given that existing environmental studies with respect to any of our properties reveal all environmental liabilities, that any prior owner or operator of our properties did not create any material environmental condition not known to us, or that a material environmental condition does not otherwise exist as to any one or more of our properties. There also exists the risk that material environmental conditions, liabilities or compliance concerns may have arisen after the review was completed or may arise in the future. Finally, future laws, ordinances or regulations and future interpretations of existing laws, ordinances or regulations may impose additional material environmental liability.

***Costs associated with complying with the Americans with Disabilities Act of 1990 may result in unanticipated expenses.***

Under the ADA, all places of public accommodation are required to meet certain federal requirements related to access and use by disabled persons. These requirements became effective in 1992. A number of additional U.S. federal, state and local laws may also require modifications to our properties, or restrict certain further renovations of the properties, with respect to access thereto by disabled persons. Noncompliance with the ADA could result in the imposition of fines or an award of damages to private litigants and also could result in an order to correct any non-complying feature, which could result in substantial capital expenditures. We have not conducted an audit or investigation of all of our properties to determine our compliance and we cannot predict the ultimate cost of compliance with the ADA or other legislation. If one or more of our properties is not in compliance with the ADA or other legislation, then we would be required to incur additional costs to bring the facility into compliance. If we incur substantial costs to comply with the ADA or other legislation, our financial condition, results of operations, cash flow, per share trading price of our securities and our ability to satisfy our debt service obligations and to make cash distributions to our stockholders could be adversely affected.

***Our investments in development and redevelopment projects may not yield anticipated returns, which would harm our operating results and reduce the amount of funds available for distributions.***

A component of our growth strategy is exploring new asset development and redevelopment opportunities through strategic joint ventures and on a wholly-owned basis. To the extent that we engage in these development and redevelopment activities, they will be subject to the following risks normally associated with these projects:

- we may be unable to obtain financing for these projects on favorable terms or at all;
- we may not complete development projects on schedule or within budgeted amounts;
- we may encounter delays or refusals in obtaining all necessary zoning, land use, building, occupancy and other required governmental permits and authorizations; and

- occupancy rates and rents at newly developed or redeveloped properties may fluctuate depending on a number of factors, including market and economic conditions, and may result in our investment not being profitable.

In deciding whether to develop or redevelop a particular property, we make certain assumptions regarding the expected future performance of that property. We may underestimate the costs necessary to bring the property up to the standards established for its intended market position or may be unable to increase occupancy at a newly acquired property as quickly as expected or at all. Any substantial unanticipated delays or expenses could adversely affect the investment returns from these development or redevelopment projects and harm our operating results, liquidity and financial condition, which could result in a decline in the value of our securities.

We may in the future develop self-storage properties in geographic regions where we do not currently have a significant presence and where we do not possess the same level of familiarity with development, which could adversely affect our ability to develop such properties successfully or at all or to achieve expected performance.

We rely on the investments of our joint venture partners for funding certain of our development and redevelopment projects. If our reputation in the self-storage industry changes or the number of investors considering us an attractive strategic partner is otherwise reduced, our ability to develop or redevelop properties could be affected, which would limit our growth.

***We face competition for the acquisition of self-storage properties and other assets, which may impede our ability to make future acquisitions or may increase the cost of these acquisitions.***

We compete with many other entities engaged in real estate investment activities for acquisitions of self-storage properties and other assets, including national, regional and local operators and developers of self-storage properties. These competitors may drive up the price we must pay for self-storage properties or other assets we seek to acquire or may succeed in acquiring those properties or assets themselves. In addition, our potential acquisition targets may find our competitors to be more attractive suitors because they may have greater resources, may be willing to pay more or may have a more compatible operating philosophy. In addition, the number of entities and the amount of funds competing for suitable investment properties may increase. This competition would result in increased demand for these assets and therefore increased prices paid for them. Because of an increased interest in single-property acquisitions among tax-motivated individual purchasers, we may pay higher prices if we purchase single properties in comparison with portfolio acquisitions. If we pay higher prices for self-storage properties or other assets, our profitability will be reduced.

***We may not be successful in identifying and consummating suitable acquisitions that meet our criteria, which may impede our growth.***

Our ability to expand through acquisitions is integral to our business strategy and requires us to identify suitable acquisition candidates or investment opportunities that meet our criteria and are compatible with our growth strategy. We may not be successful in identifying suitable properties or other assets that meet our acquisition criteria or in consummating acquisitions or investments on satisfactory terms or at all. Failure to identify or consummate acquisitions may slow our growth, which could in turn adversely affect our stock price.

Our ability to acquire properties on favorable terms and successfully integrate and operate them may be constrained by the following significant risks:

- competition from local investors and other real estate investors with significant capital, including other publicly-traded REITs and institutional investment funds;

- competition from other potential acquirers may significantly increase the purchase price which could reduce our profitability;
- the inability to achieve satisfactory completion of due diligence investigations and other customary closing conditions;
- failure to finance an acquisition on favorable terms or at all;
- we may spend more than the time and amounts budgeted to make necessary improvements or renovations to acquired properties; and
- we may acquire properties subject to liabilities without any recourse, or with only limited recourse, with respect to unknown liabilities such as liabilities for clean-up of undisclosed environmental contamination, claims by persons dealing with the former owners of the properties and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

In addition, strategic decisions by us, such as acquisitions, may adversely affect the price of our securities.

***We may not be successful in integrating and operating acquired properties.***

We expect to make future acquisitions of self-storage properties. If we acquire any self-storage properties, we will be required to integrate them into our existing portfolio. The acquired properties may turn out to be less compatible with our growth strategy than originally anticipated, may cause disruptions in our operations or may divert management's attention away from day-to-day operations, which could impair our results of operations as a whole.

***We do not always obtain independent appraisals of our properties, and thus the consideration paid for these properties may exceed the value that may be indicated by third-party appraisals.***

We do not always obtain third-party appraisals in connection with our acquisition of properties and the consideration being paid by us in exchange for those properties may exceed the value as determined by third-party appraisals. In such cases, the terms of any agreements and the valuation methods used to determine the value of the properties were determined by our senior management team.

**Risks Related to Our Organization and Structure**

***Our business could be harmed if key personnel with long-standing business relationships in the self-storage industry terminate their employment with us.***

Our success depends, to a significant extent, on the continued services of members of our executive management team. Our executive management team has substantial experience in the self-storage industry. In addition, our ability to continue to develop properties depends on the significant relationships our executive management team has developed with our institutional joint venture partners such as affiliates of Prudential Financial, Inc. There is no guarantee that any of them will remain employed by us. We do not maintain key person life insurance on any of our officers. The loss of services of one or more members of our executive management team could harm our business and our prospects.

***We may change our investment and financing strategies and enter into new lines of business without stockholder consent, which may subject us to different risks.***

We may change our investment and financing strategies and enter into new lines of business at any time without the consent of our stockholders, which could result in our making investments and

engaging in business activities that are different from, and possibly riskier than, the investments and businesses described in this document. A change in our investment strategy or our entry into new lines of business may increase our exposure to other risks or real estate market fluctuations.

***If other self-storage companies convert to an UPREIT structure or if tax laws change, we may no longer have an advantage in competing for potential acquisitions.***

Because we are structured as an UPREIT, we are a more attractive acquirer of properties to tax-motivated sellers than our competitors that are not structured as UPREITs. However, if other self-storage companies restructure their holdings to become UPREITs, this competitive advantage will disappear. In addition, new legislation may be enacted or new interpretations of existing legislation may be issued by the Internal Revenue Service ("IRS"), or the U.S. Treasury Department that could affect the attractiveness of our UPREIT structure so that it may no longer assist us in competing for acquisitions.

***Tax indemnification obligations may require the Operating Partnership to maintain certain debt levels.***

In connection with the formation transactions entered into prior to our IPO in 2004, we agreed to make available to each of Kenneth M. Woolley, our Chairman and Chief Executive Officer, Richard S. Tanner, our Senior Vice President, Development, and other third parties, the following tax protections: for nine years, with a three-year extension if the applicable party continues to own at least 50% of the units in our Operating Partnership ("OP units") received by it in the formation transactions at the expiration of the initial nine-year period, the opportunity to (1) guarantee debt or (2) enter into a special loss allocation and deficit restoration obligation, in an aggregate amount, with respect to the foregoing contributors, of at least \$60.0 million. Similar tax protections were provided to third party contributors in connection with property contributions to the Operating Partnership subsequent to the IPO. We agreed to these provisions in order to assist these contributors in preserving their tax position after their contributions. These obligations may require us to maintain certain indebtedness levels that we would not otherwise require for our business.

***Our joint venture investments could be adversely affected by our lack of sole decision-making authority.***

As of December 31, 2008, we held interests in 348 operating properties through joint ventures. Some of these arrangements could be adversely affected by our lack of sole decision-making authority, our reliance on co-venturers financial conditions and disputes between us and our co-venturers. We expect to continue our joint venture strategy by entering into more joint ventures for the purpose of developing new self-storage properties and acquiring existing properties. In such event, we would not be in a position to exercise sole decision-making authority regarding the property, partnership, joint venture or other entity. The decision-making authority regarding the properties we currently hold through joint ventures is either vested exclusively with our joint venture partners, is subject to a majority vote of the joint venture partners or equally shared by us and the joint venture partners. In addition, investments in partnerships, joint ventures or other entities may, under certain circumstances, involve risks not present were a third party not involved, including the possibility that partners or co-venturers might become bankrupt or fail to fund their share of required capital contributions. Partners or co-venturers may have economic or other business interests or goals which are inconsistent with our business interests or goals, and may be in a position to take actions contrary to our policies or objectives. Such investments may also have the potential risk of impasses on decisions, such as a sale, because neither we nor the partner or co-venturer would have full control over the partnership or joint venture. Disputes between us and partners or co-venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and/or directors from focusing their time and efforts on our business. Consequently, actions by or disputes with partners or co-venturers might result in subjecting properties owned by the partnership or joint venture to additional risk. In addition, we

may in certain circumstances be liable for the actions of our third-party partners or co-venturers, which could harm our financial condition.

***Kenneth M. Woolley, our Chairman and Chief Executive Officer, Spencer F. Kirk, President, Richard S. Tanner, Senior Vice President, Development, Kent W. Christensen, Executive Vice President and Chief Financial Officer, and Charles L. Allen, Executive Vice President and Chief Legal Officer and other members of our senior management team, have outside business interests which could divert their time and attention away from us, which could harm our business.***

Kenneth M. Woolley, our Chairman and Chief Executive Officer, as well as certain other members of our senior management team, have outside business interests. These business interests include the ownership of a self-storage property located in Pico Rivera, California. Other than this property, the members of our senior management are not currently engaged in any other self-storage activities outside the Company. Mr. Woolley's employment agreement requires that he devote substantially his full business time and attention to us, however, this agreement also permits him to devote time to his outside business interests. These outside business interests could interfere with his ability to devote time to our business and affairs and as a result, our business could be harmed.

***Conflicts of interest could arise as a result of our relationship with our Operating Partnership.***

Conflicts of interest could arise in the future as a result of the relationships between us and our affiliates, and our Operating Partnership or any partner thereof. Our directors and officers have duties to our Company under applicable Maryland law in connection with their management of our Company. At the same time, we, through our wholly-owned subsidiary, have fiduciary duties, as a general partner, to our Operating Partnership and to the limited partners under Delaware law in connection with the management of our Operating Partnership. Our duties, through our wholly-owned subsidiary, as a general partner to our Operating Partnership and its partners may come into conflict with the duties of our directors and officers to our Company. The partnership agreement of our Operating Partnership does not require us to resolve such conflicts in favor of either our Company or the limited partners in our Operating Partnership. Unless otherwise provided for in the relevant partnership agreement, Delaware law generally requires a general partner of a Delaware limited partnership to adhere to fiduciary duty standards under which it owes its limited partners the highest duties of good faith, fairness, and loyalty and which generally prohibit such general partner from taking any action or engaging in any transaction as to which it has a conflict of interest.

Additionally, the partnership agreement expressly limits our liability by providing that neither we, our direct wholly-owned Massachusetts business trust subsidiary, as the general partner of the Operating Partnership, nor any of our or their trustees, directors or officers, will be liable or accountable in damages to our Operating Partnership, the limited partners or assignees for errors in judgment, mistakes of fact or law or for any act or omission if we, or such trustee, director or officer, acted in good faith. In addition, our Operating Partnership is required to indemnify us, our affiliates and each of our respective trustees, officers, directors, employees and agents to the fullest extent permitted by applicable law against any and all losses, claims, damages, liabilities (whether joint or several), expenses (including, without limitation, attorneys' fees and other legal fees and expenses), judgments, fines, settlements and other amounts arising from any and all claims, demands, actions, suits or proceedings, civil, criminal, administrative or investigative, that relate to the operations of the Operating Partnership, provided that our Operating Partnership will not indemnify for (1) willful misconduct or a knowing violation of the law, (2) any transaction for which such person received an improper personal benefit in violation or breach of any provision of the partnership agreement, or (3) in the case of a criminal proceeding, the person had reasonable cause to believe the act or omission was unlawful.

The provisions of Delaware law that allow the common law fiduciary duties of a general partner to be modified by a partnership agreement have not been resolved in a court of law, and we have not obtained an opinion of counsel covering the provisions set forth in the partnership agreement that purport to waive or restrict our fiduciary duties that would be in effect under common law were it not for the partnership agreement.

***We may pursue less vigorous enforcement of terms of contribution and other agreements because of conflicts of interest with certain of our officers.***

Kenneth M. Woolley, our Chairman and Chief Executive Officer, Spencer F. Kirk, President, Kent W. Christensen, Executive Vice President and Chief Financial Officer, Charles L. Allen, Executive Vice President and Chief Legal Officer, and Richard S. Tanner, Senior Vice President, Development had direct or indirect ownership interests in certain properties that were contributed to our Operating Partnership in the formation transactions. Following the completion of the formation transactions, we, under the agreements relating to the contribution of such interests, became entitled to indemnification and damages in the event of breaches of representations or warranties made by the contributors. In addition, Kenneth M. Woolley's employment agreement includes an exception to his non-competition covenant pursuant to which he is permitted to devote time to the management of other business interests. None of these contribution and non-competition agreements was negotiated at an arm's-length basis. We may choose not to enforce, or to enforce less vigorously, our rights under these contribution and non-competition agreements because of our desire to maintain our ongoing relationships with the individuals party to these agreements.

***Certain provisions of Maryland law and our organizational documents, including the stock ownership limit imposed by our charter, may inhibit market activity in our stock and could prevent or delay a change in control transaction.***

Our charter, subject to certain exceptions, authorizes our directors to take such actions as are necessary and desirable to preserve our qualification as a REIT and to limit any person to actual or constructive ownership of no more than 7.0% (by value or by number of shares, whichever is more restrictive) of our outstanding common stock or 7.0% (by value or by number of shares, whichever is more restrictive) of our outstanding capital stock. Our board of directors, in its sole discretion, may exempt a proposed transferee from the ownership limit. However, our board of directors may not grant an exemption from the ownership limit to any proposed transferee whose ownership could jeopardize our qualification as a REIT. These restrictions on ownership will not apply if our board of directors determines that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT. The ownership limit may delay or impede a transaction or a change of control that might involve a premium price for our securities or otherwise be in the best interests of our stockholders. Different ownership limits apply to the family of Kenneth M. Woolley, certain of his affiliates, family members and estates and trusts formed for the benefit of the foregoing and Spencer F. Kirk, certain of his affiliates, family members and estates and trusts formed for the benefit of the foregoing and certain designated investment entities (as defined in our charter).

***Our board of directors has the power to issue additional shares of our stock in a manner that may not be in the best interest of our stockholders.***

Our charter authorizes our board of directors to issue additional authorized but unissued shares of common stock or preferred stock and to increase the aggregate number of authorized shares or the number of shares of any class or series without stockholder approval. In addition, our board of directors may classify or reclassify any unissued shares of common stock or preferred stock and set the preferences, rights and other terms of the classified or reclassified shares. Our board of directors could issue additional shares of our common stock or establish a series of preferred stock that could have the

effect of delaying, deferring or preventing a change in control or other transaction that might involve a premium price for our securities or otherwise not be in the best interests of our stockholders.

***Our rights and the rights of our stockholders to take action against our directors and officers are limited.***

Maryland law provides that a director or officer has no liability in that capacity if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in our best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. In addition, our charter eliminates our directors' and officers' liability to us and our stockholders for money damages except for liability resulting from actual receipt of an improper benefit in money, property or services or active and deliberate dishonesty established by a final judgment and which is material to the cause of action. Our bylaws require us to indemnify our directors and officers for liability resulting from actions taken by them in those capacities to the maximum extent permitted by Maryland law. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist under common law. In addition, we may be obligated to fund the defense costs incurred by our directors and officers.

***To the extent our distributions represent a return of capital for U.S. federal income tax purposes, our stockholders could recognize an increased capital gain upon a subsequent sale of common stock.***

Distributions in excess of our current and accumulated earnings and profits and not treated by us as a dividend will not be taxable to a U.S. stockholder under current U.S. federal income tax law to the extent those distributions do not exceed the stockholder's adjusted tax basis in his, her, or its common stock, but instead will constitute a return of capital and will reduce such adjusted basis. If distributions result in a reduction of a stockholder's adjusted basis in such holder's common stock, subsequent sales of such holder's common stock will result in recognition of an increased capital gain or decreased capital loss due to the reduction in such adjusted basis.

**Risks Related to the Real Estate Industry**

***Our primary business involves the ownership, operation and development of self-storage properties.***

Our current strategy is to own, operate, manage, acquire, develop and redevelop only self-storage properties. Consequently, we are subject to risks inherent in investments in a single industry. Because investments in real estate are inherently illiquid, this strategy makes it difficult for us to diversify our investment portfolio and to limit our risk when economic conditions change. Decreases in market rents, negative tax, real estate and zoning law changes and changes in environmental protection laws may also increase our costs, lower the value of our investments and decrease our income, which would adversely affect our business, financial condition and operating results.

***Illiquidity of real estate investments could significantly impede our ability to respond to adverse changes in the performance of our properties.***

Because real estate investments are relatively illiquid, our ability to promptly sell one or more properties in our portfolio in response to changing economic, financial and investment conditions is limited. The real estate market is affected by many factors, such as general economic conditions, availability of financing, interest rates and other factors, including supply and demand, that are beyond our control. We cannot predict whether we will be able to sell any property for the price or on the terms set by us or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We also cannot predict the length of time needed to find a willing purchaser and to close the sale of a property.

We may be required to expend funds to correct defects or to make improvements before a property can be sold. We cannot assure you that we will have funds available to correct those defects or

to make those improvements. In acquiring a property, we may agree to transfer restrictions that materially restrict us from selling that property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed or repaid on that property. These transfer restrictions would impede our ability to sell a property even if we deem it necessary or appropriate.

***Any investments in unimproved real property may take significantly longer to yield income-producing returns, if at all, and may result in additional costs to us to comply with re-zoning restrictions or environmental regulations.***

We have invested in the past, and may invest in the future, in unimproved real property. Unimproved properties generally take longer to yield income-producing returns based on the typical time required for development. Any development of unimproved property may also expose us to the risks and uncertainties associated with re-zoning the land for a higher use or development and environmental concerns of governmental entities and/or community groups. Any unsuccessful investments or delays in realizing an income-producing return or increased costs to develop unimproved real estate could restrict our ability to earn our targeted rate of return on an investment or adversely affect our ability to pay operating expenses which would harm our financial condition and operating results.

***Any negative perceptions of the self-storage industry generally may result in a decline in our stock price.***

To the extent that the investing public has a negative perception of the self-storage industry, the value of our securities may be negatively impacted, which could result in our securities trading below the inherent value of our assets.

### **Risks Related to Our Debt Financings**

***Disruptions in the financial markets could affect our ability to obtain debt financing on reasonable terms and have other adverse effects on us.***

The United States credit markets are experiencing significant dislocations and liquidity disruptions which have caused the spreads on prospective debt financings to widen considerably. These circumstances have materially impacted liquidity in the debt markets, making financing terms for borrowers less attractive, and in certain cases have resulted in the unavailability of certain types of debt financing. Continued uncertainty in the credit markets may negatively impact our ability to access additional debt financing or to refinance existing debt maturities on favorable terms (or at all), which may negatively affect our ability to make acquisitions and fund current and future development projects. A prolonged downturn in the credit markets may cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our business plan accordingly. In addition, these factors may make it more difficult for us to sell properties or may adversely affect the price we receive for properties that we do sell, as prospective buyers may experience increased costs of debt financing or difficulties in obtaining debt financing. These events in the credit markets have also had an adverse effect on other financial markets in the United States, which may make it more difficult or costly for us to raise capital through the issuance of common stock, preferred stock or other equity securities. These disruptions in the financial markets may have other adverse effects on us or the economy generally, which could cause our stock price to decline.

***Required payments of principal and interest on borrowings may leave us with insufficient cash to operate our properties or to pay the distributions currently contemplated or necessary to maintain our qualification as a REIT and may expose us to the risk of default under our debt obligations.***

As of December 31, 2008, we had approximately \$1.3 billion of outstanding indebtedness. We may incur additional debt in connection with future acquisitions and development. We may borrow under

our Credit Line or borrow new funds to finance these future properties. Additionally, we do not anticipate that our internally generated cash flow will be adequate to repay our existing indebtedness upon maturity and, therefore, we expect to repay our indebtedness through refinancings and equity and/or debt offerings. Further, we may need to borrow funds in order to make cash distributions to maintain our qualification as a REIT or to make our expected distributions.

If we are required to utilize our Credit Line for purposes other than acquisition activity, this will reduce the amount available for acquisitions and could slow our growth. Therefore, our level of debt and the limitations imposed on us by our debt agreements could have significant adverse consequences, including the following:

- our cash flow may be insufficient to meet our required principal and interest payments;
- we may be unable to borrow additional funds as needed or on favorable terms, including to make acquisitions or to continue to make distributions required to maintain our qualification as a REIT;
- we may be unable to refinance our indebtedness at maturity or the refinancing terms may be less favorable than the terms of our original indebtedness;
- because a portion of our debt bears interest at variable rates, an increase in interest rates could materially increase our interest expense;
- we may be forced to dispose of one or more of our properties, possibly on disadvantageous terms;
- after debt service, the amount available for cash distributions to our stockholders is reduced;
- our debt level could place us at a competitive disadvantage compared to our competitors with less debt;
- we may experience increased vulnerability to economic and industry downturns, reducing our ability to respond to changing business and economic conditions;
- we may default on our obligations and the lenders or mortgagees may foreclose on our properties that secure their loans and receive an assignment of rents and leases;
- we may violate restrictive covenants in our loan documents, which would entitle the lenders to accelerate our debt obligations; and
- our default under any one of our mortgage loans with cross-default or cross-collateralization provisions could result in a default on other indebtedness or result in the foreclosures of other properties.

***We could become highly leveraged in the future because our organizational documents contain no limitation on the amount of debt we may incur.***

Our organizational documents contain no limitations on the amount of indebtedness that we or our Operating Partnership may incur. We could alter the balance between our total outstanding indebtedness and the value of our portfolio at any time. If we become more highly leveraged, then the resulting increase in debt service could adversely affect our ability to make payments on our outstanding indebtedness and to pay our anticipated cash distributions and/or to continue to make cash distributions to maintain our REIT qualification, and could harm our financial condition.

***Increases in interest rates may increase our interest expense and adversely affect our cash flow and our ability to service our indebtedness and make cash distributions to our stockholders.***

As of December 31, 2008 we had approximately \$1.3 billion of debt outstanding, of which approximately \$152.4 million or 11.7% was subject to variable interest rates (including \$61.8 million on which we had a reverse interest rate swap). This variable rate debt had a weighted average interest rate of approximately 1.6% per annum. Increases in interest rates on this variable rate debt would increase our interest expense, which could harm our cash flow and our ability to pay cash distributions. For example, if market rates of interest on this variable rate debt increased by 100 basis points, the increase in interest expense would decrease future earnings and cash flows by approximately \$1.5 million annually.

***Failure to hedge effectively against interest rate changes may adversely affect our results of operations.***

In certain cases we may seek to manage our exposure to interest rate volatility by using interest rate hedging arrangements. Hedging involves risks, such as the risk that the counterparty may fail to honor its obligations under an arrangement. Failure to hedge effectively against interest rate changes may adversely affect our financial condition, results of operations and ability to make cash distributions to our stockholders.

### **Risks Related to Qualification and Operation as a REIT**

***To maintain our qualification as a REIT, we may be forced to borrow funds on a short-term basis during unfavorable market conditions.***

To qualify as a REIT, we generally must distribute to our stockholders at least 90% of our net taxable income each year, excluding net capital gains, and we are subject to regular corporate income taxes to the extent that we distribute less than 100% of our net taxable income each year. In addition, we are subject to a 4% nondeductible excise tax on the amount, if any, by which distributions made by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years. While historically we have satisfied these distribution requirements by making cash distributions to our shareholders, a REIT is permitted to satisfy these requirements by making distributions of cash or other property, including, in limited circumstances, its own stock. For distributions with respect to taxable years ending on or before December 31, 2009, recent Internal Revenue Service guidance allows us to satisfy up to 90% of the distribution requirements discussed above through the distribution of shares of our stock, if certain conditions are met. Assuming we continue to satisfy these distributions requirements with cash, we may need to borrow funds on a short-term basis, or possibly long-term, to meet the REIT distribution requirements even if the then prevailing market conditions are not favorable for these borrowings. These borrowing needs could result from a difference in timing between the actual receipt of cash and inclusion of income for U.S. federal income tax purposes, or the effect of non-deductible capital expenditures, the creation of reserves or required debt amortization payments.

***Dividends payable by REITs generally do not qualify for reduced tax rates.***

The maximum U.S. federal income tax rate for dividends paid by domestic corporations to individual U.S. stockholders is 15% (through 2010). Dividends paid by REITs, however, are generally not eligible for the reduced rates. The more favorable rates applicable to regular corporate dividends could cause stockholders who are individuals to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our securities.

In addition, the relative attractiveness of real estate in general may be adversely affected by the favorable tax treatment given to corporate dividends, which could negatively affect the value of our properties.

***Possible legislative or other actions affecting REITs could adversely affect our stockholders.***

The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department. Changes to tax laws (which changes may have retroactive application) could adversely affect our stockholders. It cannot be predicted whether, when, in what forms, or with what effective dates, the tax laws applicable to us or our stockholders will be changed.

***The power of our board of directors to revoke our REIT election without stockholder approval may cause adverse consequences to our stockholders.***

Our charter provides that our board of directors may revoke or otherwise terminate our REIT election, without the approval of our stockholders, if it determines that it is no longer in our best interests to continue to qualify as a REIT. If we cease to qualify as a REIT, we would become subject to U.S. federal income tax on our taxable income and would no longer be required to distribute most of our net taxable income to our stockholders, which may have adverse consequences on the total return to our stockholders.

***Our failure to qualify as a REIT would have significant adverse consequences to us and the value of our stock.***

We believe we operate in a manner that allows us to qualify as a REIT for U.S. federal income tax purposes under the Internal Revenue Code. If we fail to qualify as a REIT or lose our qualification as a REIT at any time, we will face serious tax consequences that would substantially reduce the funds available for distribution for each of the years involved because:

- we would not be allowed a deduction for distributions to stockholders in computing our taxable income and would be subject to U.S. federal income tax at regular corporate rates;
- we also could be subject to the U.S. federal alternative minimum tax and possibly increased state and local taxes; and
- unless we are entitled to relief under applicable statutory provisions, we could not elect to be taxed as a REIT for four taxable years following a year during which we were disqualified.

In addition, if we fail to qualify as a REIT, we will not be required to make distributions to stockholders, and all distributions to stockholders will be subject to tax as regular corporate dividends to the extent of our current and accumulated earnings and profits. This means that our U.S. individual stockholders would be taxed on our dividends at capital gains rates, and our U.S. corporate stockholders would be entitled to the dividends received deduction with respect to such dividends, subject, in each case, to applicable limitations under the Internal Revenue Code. If we fail to qualify as a REIT for federal income tax purposes and are able to avail ourselves of one or more of the relief provisions under the Internal Revenue Code in order to maintain our REIT status, we may nevertheless be required to pay penalty taxes of \$50,000 or more for each such failure. As a result of all these factors, our failure to qualify as a REIT also could impair our ability to expand our business and raise capital, and could adversely affect the value of our securities.

Qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which there are only limited judicial and administrative interpretations. The complexity of these provisions and of the applicable Treasury regulations that have been promulgated under the Internal Revenue Code is greater in the case of a REIT that, like us, holds its assets through a partnership. The determination of various factual matters and circumstances not entirely within our control may affect our ability to qualify as a REIT. In order to qualify as a REIT, we must satisfy a number of requirements, including requirements regarding the composition of our assets, the sources of our gross income and the owners of our stock. Our ability to satisfy the asset tests depends upon our analysis of the fair market value of our assets, some of which are not susceptible to precise determination, and for which we will not obtain independent appraisals. Also, we must make distributions to stockholders aggregating annually at least 90% of our net taxable income, excluding capital gains, and we will be subject to income tax at regular corporate rates to the extent we distribute less than 100% of our net taxable income including capital gains. In addition, legislation, new regulations, administrative interpretations or court decisions may adversely affect our investors, our ability to qualify as a REIT for U.S. federal income tax purposes or the desirability of an investment in a REIT relative to other investments. Although we believe that we have been organized and have operated in a manner that is intended to allow us to qualify for taxation as a REIT, we can give no assurance that we have qualified or will continue to qualify as a REIT for tax purposes. We have not requested and do not plan to request a ruling from the Internal Revenue Service regarding our qualification as a REIT.

***We will pay some taxes.***

Even though we qualify as a REIT for U.S. federal income tax purposes, we will be required to pay some U.S. federal, state and local taxes on our income and property. Extra Space Management, Inc. manages self-storage properties for our joint venture properties and properties owned by third parties. We, jointly with Extra Space Management, Inc., elected to treat Extra Space Management, Inc. as a "taxable REIT subsidiary" of our Company for U.S. federal income tax purposes. A taxable REIT subsidiary is a fully taxable corporation, and may be limited in its ability to deduct interest payments made to us. In addition, we will be subject to a 100% penalty tax on certain amounts if the economic arrangements among our tenants, our taxable REIT subsidiary and us are not comparable to similar arrangements among unrelated parties or if we receive payments for inventory or property held for sale to customers in the ordinary course of business. Also, if we sell property as a dealer (i.e., to customers in the ordinary course of our trade or business), we will be subject to a 100% penalty tax on any gain arising from such sales. While we don't intend to sell properties as a dealer, the IRS could take a contrary position. To the extent that we are or our taxable REIT subsidiary is required to pay U.S. federal, state or local taxes, we will have less cash available for distribution to stockholders.

***Complying with REIT requirements may cause us to forego otherwise attractive opportunities.***

To qualify as a REIT for U.S. federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our stock. In order to meet these tests, we may be required to forego attractive business or investment opportunities. Thus, compliance with the REIT requirements may adversely affect our ability to operate solely to maximize profits.

**Item 1B. Unresolved Staff Comments**

None.

## **Item 2. Properties**

As of December 31, 2008, we owned or had ownership interests in 627 operating self-storage properties. Of these properties, 279 are wholly-owned and 348 are held in joint ventures. In addition, we managed an additional 67 properties for franchisees or third parties bringing the total number of properties which we own and/or manage to 694. These properties are located in 33 states and Washington, D.C. We receive a management fee equal to approximately 6% of gross revenues to manage the joint venture, third party and franchise sites. As of December 31, 2008, we own and or manage approximately 50 million square feet of rentable space configured in approximately 475,000 separate storage units. Approximately 70% of our properties are clustered around large population centers, such as Atlanta, Baltimore/Washington, D.C., Boston, Chicago, Dallas, Houston, Las Vegas, Los Angeles, Miami, New York City, Orlando, Philadelphia, Phoenix, St. Petersburg/Tampa and San Francisco/Oakland. These markets contain above-average population and income demographics for new self-storage properties. The clustering of assets around these population centers enables us to reduce our operating costs through economies of scale. Our acquisitions have given us an increased scale in many core markets as well as a foothold in many markets where we had no previous presence.

We consider a property to be in the lease-up stage after it has been issued a certificate of occupancy, but before it has achieved stabilization. We consider a property to be stabilized once it has achieved either an 80% occupancy rate for a full year measured as of January 1, or has been open for three years.

As of December 31, 2008, over 300,000 tenants were leasing storage units at the 694 operating properties that we own and/or manage, primarily on a month-to-month basis, providing the flexibility to increase rental rates over time as market conditions permit. Although leases are short-term in duration, the typical tenant tends to remain at our properties for an extended period of time. For properties that were stabilized as of December 31, 2008, the median length of stay was approximately eleven months.

Our property portfolio is made up of different types of construction and building configurations depending on the site and the municipality where it is located. Most often sites are what we consider "hybrid" facilities, a mix of both drive-up buildings and multi-floor buildings. We have a number of multi-floor buildings with elevator access only, and a number of facilities featuring ground-floor access only.

The following table sets forth additional information regarding the occupancy of our stabilized properties on a state-by-state basis as of December 31, 2008 and 2007. The information as of December 31, 2007 is on a pro forma basis as though all the properties owned at December 31, 2008 were under our control as of December 31, 2007.

### Stabilized Property Data Based on Location

| Location                             | Company    |                      | Pro forma         |                      | Company           |                   | Pro forma         |                   | Company           |                   | Pro forma         |                   |
|--------------------------------------|------------|----------------------|-------------------|----------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|                                      | Number of  |                      | Number of         |                      | Net Rentable      |                   | Net Rentable      |                   | Square Foot       |                   | Square Foot       |                   |
|                                      | Properties | December 31, 2008(1) | December 31, 2007 | December 31, 2008(2) | December 31, 2007 | December 31, 2008 | December 31, 2007 | December 31, 2008 | December 31, 2007 | December 31, 2008 | December 31, 2007 | December 31, 2007 |
| <b>Wholly-owned properties</b>       |            |                      |                   |                      |                   |                   |                   |                   |                   |                   |                   |                   |
| Alabama                              | 1          | 582                  | 585               | 76,260               | 76,685            | 78.6%             | 75.7%             |                   |                   |                   |                   |                   |
| Arizona                              | 4          | 2,261                | 2,264             | 279,863              | 279,868           | 81.9%             | 89.1%             |                   |                   |                   |                   |                   |
| California                           | 44         | 35,632               | 36,307            | 3,452,076            | 3,476,154         | 82.5%             | 82.9%             |                   |                   |                   |                   |                   |
| Colorado                             | 8          | 3,803                | 3,812             | 476,409              | 476,109           | 82.7%             | 85.1%             |                   |                   |                   |                   |                   |
| Connecticut                          | 2          | 1,344                | 1,357             | 123,265              | 123,265           | 77.0%             | 78.5%             |                   |                   |                   |                   |                   |
| Florida                              | 29         | 19,317               | 19,384            | 2,028,022            | 2,028,457         | 80.7%             | 83.4%             |                   |                   |                   |                   |                   |
| Georgia                              | 12         | 6,433                | 6,447             | 837,292              | 835,386           | 82.5%             | 85.0%             |                   |                   |                   |                   |                   |
| Hawaii                               | 2          | 2,862                | 2,876             | 151,445              | 150,088           | 78.8%             | 79.3%             |                   |                   |                   |                   |                   |
| Illinois                             | 5          | 3,263                | 3,268             | 339,844              | 339,389           | 79.9%             | 82.4%             |                   |                   |                   |                   |                   |
| Indiana                              | 6          | 3,525                | 3,526             | 415,156              | 415,107           | 84.4%             | 88.0%             |                   |                   |                   |                   |                   |
| Kansas                               | 1          | 506                  | 506               | 49,940               | 49,940            | 87.1%             | 90.4%             |                   |                   |                   |                   |                   |
| Kentucky                             | 3          | 1,583                | 1,591             | 194,220              | 194,470           | 84.2%             | 82.9%             |                   |                   |                   |                   |                   |
| Louisiana                            | 2          | 1,408                | 1,411             | 148,915              | 148,155           | 87.0%             | 87.2%             |                   |                   |                   |                   |                   |
| Maryland                             | 10         | 7,948                | 7,936             | 846,979              | 843,501           | 81.1%             | 83.6%             |                   |                   |                   |                   |                   |
| Massachusetts                        | 25         | 14,349               | 14,373            | 1,502,038            | 1,503,715         | 81.9%             | 81.3%             |                   |                   |                   |                   |                   |
| Michigan                             | 2          | 1,021                | 1,040             | 132,410              | 135,474           | 86.3%             | 84.5%             |                   |                   |                   |                   |                   |
| Missouri                             | 6          | 3,159                | 3,177             | 374,587              | 375,557           | 80.0%             | 83.0%             |                   |                   |                   |                   |                   |
| Nevada                               | 2          | 1,250                | 1,253             | 132,215              | 132,065           | 87.0%             | 83.9%             |                   |                   |                   |                   |                   |
| New Hampshire                        | 2          | 1,006                | 1,007             | 125,909              | 125,909           | 84.7%             | 82.9%             |                   |                   |                   |                   |                   |
| New Jersey                           | 23         | 18,860               | 18,851            | 1,838,021            | 1,833,118         | 82.6%             | 83.2%             |                   |                   |                   |                   |                   |
| New Mexico                           | 1          | 541                  | 503               | 69,030               | 61,690            | 83.9%             | 87.1%             |                   |                   |                   |                   |                   |
| New York                             | 10         | 8,690                | 8,754             | 610,707              | 610,543           | 79.4%             | 81.7%             |                   |                   |                   |                   |                   |
| Ohio                                 | 4          | 2,032                | 2,027             | 274,132              | 273,236           | 85.8%             | 82.5%             |                   |                   |                   |                   |                   |
| Oregon                               | 1          | 766                  | 764               | 103,530              | 103,450           | 79.4%             | 88.5%             |                   |                   |                   |                   |                   |
| Pennsylvania                         | 8          | 6,148                | 6,145             | 638,325              | 639,377           | 81.9%             | 83.0%             |                   |                   |                   |                   |                   |
| Rhode Island                         | 1          | 730                  | 726               | 75,521               | 75,201            | 89.0%             | 87.6%             |                   |                   |                   |                   |                   |
| South Carolina                       | 3          | 1,554                | 1,554             | 178,719              | 178,689           | 83.1%             | 90.9%             |                   |                   |                   |                   |                   |
| Tennessee                            | 6          | 3,492                | 3,527             | 474,047              | 476,612           | 82.8%             | 81.7%             |                   |                   |                   |                   |                   |
| Texas                                | 19         | 11,817               | 11,858            | 1,337,843            | 1,337,182         | 84.9%             | 87.2%             |                   |                   |                   |                   |                   |
| Utah                                 | 3          | 1,540                | 1,533             | 210,876              | 210,640           | 84.4%             | 91.1%             |                   |                   |                   |                   |                   |
| Virginia                             | 4          | 2,891                | 2,889             | 272,047              | 272,699           | 85.1%             | 82.3%             |                   |                   |                   |                   |                   |
| Washington                           | 4          | 2,548                | 2,537             | 307,025              | 306,115           | 84.4%             | 89.4%             |                   |                   |                   |                   |                   |
| <b>Total Wholly-Owned Stabilized</b> | <b>253</b> | <b>172,861</b>       | <b>173,788</b>    | <b>18,076,668</b>    | <b>18,087,846</b> | <b>82.4%</b>      | <b>83.8%</b>      |                   |                   |                   |                   |                   |

|                                            |            | Company        | Pro forma      | Company           | Pro forma         | Company      | Pro forma    |
|--------------------------------------------|------------|----------------|----------------|-------------------|-------------------|--------------|--------------|
|                                            |            | Number of      | Number of      | Net Rentable      | Net Rentable      | Square Foot  | Square Foot  |
|                                            | Number of  | Units as of    | Units as of    | Square Feet as of | Square Feet as of | Occupancy %  | Occupancy %  |
|                                            | Properties | December 31,   | December 31,   | December 31,      | December 31,      | December 31, | December 31, |
| Location                                   |            | 2008(1)        | 2007           | 2008(2)           | 2007              | 2008         | 2007         |
| <b>Joint-venture properties</b>            |            |                |                |                   |                   |              |              |
| Alabama                                    | 3          | 1,709          | 1,708          | 205,883           | 205,638           | 84.9%        | 85.2%        |
| Arizona                                    | 11         | 6,861          | 6,900          | 751,364           | 751,526           | 84.2%        | 87.0%        |
| California                                 | 76         | 54,473         | 54,548         | 5,585,700         | 5,591,712         | 85.0%        | 87.5%        |
| Colorado                                   | 2          | 1,334          | 1,333          | 158,413           | 158,063           | 80.6%        | 81.3%        |
| Connecticut                                | 8          | 5,988          | 5,979          | 692,320           | 690,424           | 78.8%        | 77.3%        |
| Delaware                                   | 1          | 588            | 589            | 71,655            | 71,655            | 82.9%        | 91.8%        |
| Florida                                    | 23         | 19,238         | 19,314         | 1,938,511         | 1,951,316         | 80.2%        | 83.9%        |
| Georgia                                    | 3          | 1,885          | 1,889          | 246,926           | 246,926           | 77.1%        | 81.0%        |
| Illinois                                   | 6          | 3,989          | 4,005          | 429,292           | 431,547           | 83.7%        | 80.7%        |
| Indiana                                    | 8          | 3,149          | 3,153          | 405,109           | 406,503           | 80.8%        | 85.8%        |
| Kansas                                     | 3          | 1,214          | 1,217          | 161,240           | 163,705           | 79.7%        | 82.2%        |
| Kentucky                                   | 4          | 2,285          | 2,286          | 268,434           | 268,547           | 83.7%        | 86.9%        |
| Maryland                                   | 13         | 10,213         | 10,223         | 1,013,588         | 1,013,293         | 82.5%        | 84.2%        |
| Massachusetts                              | 17         | 9,243          | 9,266          | 1,046,534         | 1,047,395         | 80.0%        | 81.5%        |
| Michigan                                   | 10         | 5,930          | 5,955          | 784,263           | 784,303           | 82.5%        | 86.2%        |
| Missouri                                   | 2          | 956            | 954            | 117,795           | 118,195           | 82.9%        | 84.6%        |
| Nevada                                     | 7          | 4,614          | 4,638          | 618,998           | 620,179           | 81.8%        | 88.8%        |
| New Hampshire                              | 3          | 1,317          | 1,321          | 137,754           | 137,554           | 84.1%        | 85.1%        |
| New Jersey                                 | 21         | 15,680         | 15,699         | 1,648,331         | 1,655,143         | 80.4%        | 80.9%        |
| New Mexico                                 | 9          | 4,691          | 4,691          | 538,144           | 538,264           | 81.9%        | 81.6%        |
| New York                                   | 21         | 22,117         | 22,158         | 1,716,372         | 1,720,225         | 84.4%        | 86.7%        |
| Ohio                                       | 11         | 5,019          | 5,017          | 754,187           | 749,427           | 78.0%        | 81.4%        |
| Oregon                                     | 2          | 1,294          | 1,289          | 136,980           | 136,660           | 79.1%        | 88.6%        |
| Pennsylvania                               | 10         | 7,228          | 7,225          | 764,300           | 763,544           | 83.9%        | 84.3%        |
| Rhode Island                               | 1          | 607            | 610            | 73,880            | 73,880            | 73.3%        | 71.5%        |
| Tennessee                                  | 22         | 11,784         | 11,802         | 1,547,846         | 1,549,313         | 81.7%        | 85.3%        |
| Texas                                      | 18         | 11,738         | 11,836         | 1,549,071         | 1,521,306         | 80.4%        | 78.9%        |
| Utah                                       | 1          | 519            | 520            | 59,050            | 59,500            | 83.7%        | 88.9%        |
| Virginia                                   | 16         | 11,282         | 11,292         | 1,191,543         | 1,192,163         | 83.6%        | 84.0%        |
| Washington                                 | 1          | 551            | 551            | 62,730            | 62,730            | 83.4%        | 88.3%        |
| Washington, DC                             | 1          | 1,536          | 1,536          | 102,003           | 102,003           | 88.5%        | 89.5%        |
| <b>Total Stabilized Joint-Ventures</b>     | <b>334</b> | <b>229,032</b> | <b>229,504</b> | <b>24,778,216</b> | <b>24,782,639</b> | <b>82.4%</b> | <b>84.4%</b> |
| <b>Managed properties</b>                  |            |                |                |                   |                   |              |              |
| Alabama                                    | 2          | 825            | 826            | 95,175            | 95,207            | 80.6%        | 89.6%        |
| California                                 | 6          | 3,907          | 3,922          | 488,110           | 488,835           | 74.7%        | 77.1%        |
| Florida                                    | 1          | 650            | 653            | 51,966            | 52,096            | 84.4%        | 91.9%        |
| Georgia                                    | 5          | 2,726          | 2,755          | 406,476           | 416,408           | 72.3%        | 79.1%        |
| Illinois                                   | 4          | 2,328          | 2,331          | 263,120           | 248,780           | 69.8%        | 71.2%        |
| Maryland                                   | 6          | 4,175          | 4,152          | 429,305           | 427,814           | 83.4%        | 85.0%        |
| Nevada                                     | 2          | 1,576          | 1,576          | 171,555           | 171,555           | 80.3%        | 84.4%        |
| New Jersey                                 | 4          | 3,906          | 3,918          | 362,500           | 362,787           | 78.8%        | 77.3%        |
| New Mexico                                 | 2          | 1,106          | 1,101          | 131,767           | 131,707           | 81.2%        | 86.8%        |
| New York                                   | 1          | 703            | 706            | 77,955            | 78,075            | 81.2%        | 84.2%        |
| Pennsylvania                               | 3          | 1,378          | 1,387          | 176,211           | 176,211           | 69.9%        | 72.6%        |
| Tennessee                                  | 2          | 883            | 886            | 130,385           | 130,750           | 83.6%        | 91.4%        |
| Texas                                      | 3          | 1,650          | 1,660          | 194,935           | 195,095           | 90.1%        | 88.5%        |
| Utah                                       | 1          | 371            | 371            | 46,905            | 46,955            | 98.1%        | 99.3%        |
| Virginia                                   | 5          | 3,472          | 3,475          | 345,062           | 344,817           | 79.7%        | 82.3%        |
| Washington, DC                             | 2          | 1,255          | 1,255          | 111,759           | 111,759           | 82.8%        | 80.8%        |
| <b>Total Stabilized Managed Properties</b> | <b>49</b>  | <b>30,911</b>  | <b>30,974</b>  | <b>3,483,186</b>  | <b>3,478,851</b>  | <b>78.5%</b> | <b>81.2%</b> |
| <b>Total Stabilized Properties</b>         | <b>636</b> | <b>432,804</b> | <b>434,266</b> | <b>46,338,070</b> | <b>46,349,336</b> | <b>82.1%</b> | <b>83.9%</b> |

(1) Represents unit count as of December 31, 2008, which may differ from December 31, 2007 unit count due to unit conversions or expansions.

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(2) Represents net rentable square feet as of December 31, 2008, which may differ from December 31, 2007 net rentable square feet due to unit conversions or expansions.

The following table sets forth additional information regarding the occupancy of our lease-up properties on a state-by-state basis as of December 31, 2008 and 2007. The information as of December 31, 2007 is on a pro forma basis as though all the properties owned at December 31, 2008 were under our control as of December 31, 2007.

### Lease-up Property Data Based on Location

| Location                      | Number of Properties | Company               | Pro forma             | Company           | Pro forma         | Company      | Pro forma    |
|-------------------------------|----------------------|-----------------------|-----------------------|-------------------|-------------------|--------------|--------------|
|                               |                      | Number of Units as of | Number of Units as of | Net Rentable      | Net Rentable      | Square Foot  | Square Foot  |
|                               |                      | December 31,          | December 31,          | Square Feet as of | Square Feet as of | Occupancy %  | Occupancy %  |
|                               |                      | December 31,          | December 31,          | December 31,      | December 31,      | December 31, | December 31, |
|                               |                      | 2008(1)               | 2007                  | 2008(2)           | 2007              | 2008         | 2007         |
| Wholly-owned properties       |                      |                       |                       |                   |                   |              |              |
| Arizona                       | 1                    | 583                   | 586                   | 67,375            | 67,375            | 74.0%        | 77.5%        |
| California                    | 8                    | 5,652                 | 2,738                 | 642,154           | 331,491           | 42.6%        | 57.4%        |
| Connecticut                   | 1                    | 684                   | 683                   | 54,850            | 54,840            | 72.0%        | 72.8%        |
| Florida                       | 3                    | 2,070                 | 1,258                 | 230,379           | 157,305           | 59.4%        | 73.3%        |
| Illinois                      | 4                    | 2,745                 | 718                   | 276,315           | 79,250            | 23.9%        | 9.6%         |
| Maryland                      | 2                    | 1,408                 | 622                   | 149,758           | 76,070            | 27.0%        | 0.0%         |
| Massachusetts                 | 4                    | 2,994                 | 2,951                 | 287,174           | 287,965           | 61.5%        | 63.9%        |
| Pennsylvania                  | 1                    | 422                   | 422                   | 46,930            | 46,930            | 75.5%        | 78.6%        |
| South Carolina                | 1                    | 488                   | 513                   | 59,367            | 67,045            | 82.2%        | 86.7%        |
| Texas                         | 1                    | 606                   | 617                   | 64,650            | 64,650            | 81.0%        | 77.4%        |
| Total Wholly-Owned Lease-up   | 26                   | 17,652                | 11,108                | 1,878,952         | 1,232,921         | 48.9%        | 59.6%        |
| Joint-venture properties      |                      |                       |                       |                   |                   |              |              |
| California                    | 5                    | 3,537                 | 3,593                 | 380,423           | 380,681           | 60.6%        | 44.8%        |
| Florida                       | 1                    | 906                   | 772                   | 108,085           | 114,825           | 38.4%        | 48.4%        |
| Illinois                      | 3                    | 2,490                 | 2,495                 | 264,757           | 264,527           | 78.6%        | 66.9%        |
| Maryland                      | 1                    | 855                   | 944                   | 71,349            | 73,672            | 74.4%        | 58.7%        |
| New Jersey                    | 2                    | 1,345                 | 635                   | 117,238           | 57,335            | 17.4%        | 23.5%        |
| New York                      | 1                    | 1,574                 | 1,578                 | 115,885           | 116,190           | 78.4%        | 77.5%        |
| Rhode Island                  | 1                    | 494                   | 499                   | 55,805            | 55,570            | 56.1%        | 35.0%        |
| Total Lease-up Joint-Ventures | 14                   | 11,201                | 10,516                | 1,113,542         | 1,062,800         | 60.7%        | 53.6%        |
| Managed properties            |                      |                       |                       |                   |                   |              |              |
| California                    | 1                    | 1,053                 | —                     | 100,040           | —                 | 17.6%        | 0.0%         |
| Colorado                      | 1                    | 536                   | —                     | 60,870            | —                 | 45.3%        | 0.0%         |
| Florida                       | 2                    | 1,396                 | —                     | 134,751           | —                 | 23.5%        | 0.0%         |
| Georgia                       | 7                    | 4,399                 | 836                   | 571,579           | 147,469           | 26.5%        | 48.0%        |
| Massachusetts                 | 3                    | 2,788                 | 2,146                 | 260,409           | 189,944           | 51.4%        | 65.0%        |
| New Jersey                    | 1                    | 860                   | 862                   | 77,905            | 78,030            | 45.8%        | 28.0%        |
| Pennsylvania                  | 1                    | 1,129                 | 1,128                 | 104,875           | 104,850           | 20.4%        | 10.9%        |
| Tennessee                     | 1                    | 510                   | 510                   | 68,960            | 66,960            | 45.4%        | 52.0%        |
| Virginia                      | 1                    | 480                   | —                     | 63,809            | —                 | 22.1%        | 0.0%         |
| Total Lease-up Managed        | 18                   | 13,151                | 5,482                 | 1,443,198         | 587,253           | 32.2%        | 44.7%        |
| Total Lease-up Properties     | 58                   | 42,004                | 27,106                | 4,435,692         | 2,882,974         | 46.4%        | 54.3%        |

(1) Represents unit count as of December 31, 2008, which may differ from December 31, 2007 unit count due to unit conversions or expansions.

(2) Represents net rentable square feet as of December 31, 2008, which may differ from December 31, 2007 net rentable square feet due to unit conversions or expansions.

**Item 3. Legal Proceedings**

We are involved in various litigation and legal proceedings in the ordinary course of business. We are not a party to any material litigation or legal proceedings, or to the best of our knowledge, any threatened litigation or legal proceedings which, in the opinion of management, will have a material adverse effect on our financial condition or results of operations either individually or in the aggregate.

**Item 4. Submission of Matters to a Vote of Security Holders**

There were no matters submitted to a vote of our security holders during the quarter ended December 31, 2008.

## PART II

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

#### Market Information

Our common stock has been traded on the New York Stock Exchange ("NYSE") under the symbol "EXR" since our IPO on August 17, 2004. Prior to that time there was no public market for our common stock.

The following table sets forth, for the periods indicated, the high and low bid price for our common stock as reported by the NYSE and the per share dividends declared:

| Year | Quarter | Range |       | Dividends |
|------|---------|-------|-------|-----------|
|      |         | High  | Low   | Declared  |
| 2007 | 1st     | 20.55 | 17.85 | 0.2275    |
|      | 2nd     | 19.99 | 16.26 | 0.2275    |
|      | 3rd     | 16.84 | 13.60 | 0.2275    |
|      | 4th     | 16.63 | 13.10 | 0.2500    |
| 2008 | 1st     | 17.41 | 12.33 | 0.2500    |
|      | 2nd     | 17.90 | 15.08 | 0.2500    |
|      | 3rd     | 17.74 | 13.67 | 0.2500    |
|      | 4th     | 15.53 | 5.98  | 0.2500    |

On February 13, 2009, the closing price of our common stock as reported by the NYSE was \$6.72. At February 13, 2009, we had 296 holders of record of our common stock.

Holders of shares of common stock are entitled to receive distributions when declared by our board of directors out of any assets legally available for that purpose. As a REIT, we are required to distribute at least 90% of our "REIT taxable income," which is generally equivalent to our net taxable ordinary income, determined without regard to the deduction for dividends paid to our stockholders annually in order to maintain our REIT qualification for U.S. federal income tax purposes.

Information about our equity compensation plans is incorporated by reference in Item 12 of Part III of this annual Report on Form 10-K.

#### Unregistered Sales of Equity Securities

On October 10 and October 31, 2008, we acquired four properties in Indiana from an unrelated third party for cash of approximately \$16.0 million and 270,406 OP units valued at approximately \$3.6 million. The OP units were issued in a private placement in reliance on Section 4(2) of the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder. Subject to certain lock-up periods and adjustments, the units are generally exchangeable into our common stock on a one-for-one basis or an equivalent amount of cash, at our option.

### Item 6. Selected Financial Data

The following table sets forth the selected financial data and should be read in conjunction with the Financial Statements and notes thereto included in Item 8, "Financial Statements and Supplementary Data" and Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-K. The financial data covered in this section for the period from January 1, 2004 to August 16, 2004 contain the results of operations and financial condition of Extra Space Storage LLC and its subsidiaries, the predecessor to Extra Space Storage Inc. and its subsidiaries, prior to the consummation of Extra Space Storage Inc.'s initial public offering on

August 17, 2004, and various formation transactions. (Dollars in thousands, except share and per share data.)

|                                                                                                                                                                                                                                                                                           | For the Year Ended December 31, |                  |                  |                   |                    |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|------------------|------------------|-------------------|--------------------|
|                                                                                                                                                                                                                                                                                           | 2008                            | 2007             | 2006             | 2005              | 2004               |
| <b>Revenues:</b>                                                                                                                                                                                                                                                                          |                                 |                  |                  |                   |                    |
| Property rental                                                                                                                                                                                                                                                                           | \$ 235,695                      | \$ 206,315       | \$ 170,993       | \$ 120,640        | \$ 62,656          |
| Fees and other income                                                                                                                                                                                                                                                                     | 37,556                          | 32,551           | 26,271           | 14,088            | 3,064              |
| Total revenues                                                                                                                                                                                                                                                                            | 273,251                         | 238,866          | 197,264          | 134,728           | 65,720             |
| <b>Expenses:</b>                                                                                                                                                                                                                                                                          |                                 |                  |                  |                   |                    |
| Property operations                                                                                                                                                                                                                                                                       | 84,522                          | 73,070           | 62,243           | 45,963            | 26,066             |
| Tenant reinsurance                                                                                                                                                                                                                                                                        | 5,066                           | 4,710            | 2,328            | 1,023             | —                  |
| Unrecovered development and acquisition costs                                                                                                                                                                                                                                             | 1,727                           | 765              | 269              | 302               | 739                |
| General and administrative                                                                                                                                                                                                                                                                | 40,427                          | 36,722           | 35,600           | 24,081            | 12,465             |
| Depreciation and amortization                                                                                                                                                                                                                                                             | 49,566                          | 39,801           | 37,172           | 31,005            | 15,552             |
| Total expenses                                                                                                                                                                                                                                                                            | 181,308                         | 155,068          | 137,612          | 102,374           | 54,822             |
| Income before interest, equity in earnings of real estate ventures, gain on repurchase of exchangeable of senior notes, loss on debt extinguishments, loss on investments available for sale, Preferred Operating Partnership, minority interests, and gain on sale of real estate assets | 91,943                          | 83,798           | 59,652           | 32,354            | 10,898             |
| Interest expense                                                                                                                                                                                                                                                                          | (64,611)                        | (61,015)         | (50,953)         | (42,549)          | (28,491)           |
| Interest income                                                                                                                                                                                                                                                                           | 8,249                           | 10,417           | 2,469            | 1,625             | 251                |
| Equity in earnings of real estate ventures                                                                                                                                                                                                                                                | 6,932                           | 5,300            | 4,693            | 3,170             | 1,387              |
| Gain on repurchase of exchangeable senior notes                                                                                                                                                                                                                                           | 7,970                           | —                | —                | —                 | —                  |
| Loss on debt extinguishments                                                                                                                                                                                                                                                              | —                               | —                | —                | —                 | (3,523)            |
| Loss on investments available for sale                                                                                                                                                                                                                                                    | (1,415)                         | (1,233)          | —                | —                 | —                  |
| Fair value adjustment of obligation associated with Preferred Operating Partnership units                                                                                                                                                                                                 | —                               | 1,054            | —                | —                 | —                  |
| Minority interest in operating partnership and other minority interests                                                                                                                                                                                                                   | (2,180)                         | (2,227)          | (985)            | 434               | (733)              |
| Income (loss) before gain on sale of real estate assets                                                                                                                                                                                                                                   | 46,888                          | 36,094           | 14,876           | (4,966)           | (20,211)           |
| Gain on sale of real estate assets                                                                                                                                                                                                                                                        | —                               | —                | —                | —                 | 1,749              |
| <b>Net income (loss)</b>                                                                                                                                                                                                                                                                  | 46,888                          | 36,094           | 14,876           | (4,966)           | (18,462)           |
| Fixed distribution paid to Preferred Operating Partnership unit holder                                                                                                                                                                                                                    | —                               | (1,510)          | —                | —                 | —                  |
| Preferred return on Class B, C, and E units                                                                                                                                                                                                                                               | —                               | —                | —                | —                 | (5,758)            |
| Loss on early redemption of Fidelity minority interest                                                                                                                                                                                                                                    | —                               | —                | —                | —                 | (1,478)            |
| <b>Net income (loss) attributable to common stockholders</b>                                                                                                                                                                                                                              | <u>\$ 46,888</u>                | <u>\$ 34,584</u> | <u>\$ 14,876</u> | <u>\$ (4,966)</u> | <u>\$ (25,698)</u> |
| Net income (loss) per common share                                                                                                                                                                                                                                                        |                                 |                  |                  |                   |                    |
| Basic                                                                                                                                                                                                                                                                                     | \$ 0.61                         | \$ 0.53          | \$ 0.27          | \$ (0.14)         | \$ (1.68)          |
| Diluted                                                                                                                                                                                                                                                                                   | \$ 0.61                         | \$ 0.53          | \$ 0.27          | \$ (0.14)         | \$ (1.68)          |
| Weighted average number of shares                                                                                                                                                                                                                                                         |                                 |                  |                  |                   |                    |
| Basic                                                                                                                                                                                                                                                                                     | 76,557,550                      | 64,688,741       | 54,998,935       | 35,481,538        | 15,282,725         |
| Diluted                                                                                                                                                                                                                                                                                   | 81,913,784                      | 70,503,668       | 59,291,749       | 35,481,538        | 15,282,725         |
| <b>Cash dividends paid per common share(1)</b>                                                                                                                                                                                                                                            | <u>\$ 1.00</u>                  | <u>\$ 0.93</u>   | <u>\$ 0.91</u>   | <u>\$ 0.91</u>    | <u>\$ 0.34</u>     |
| <b>Balance Sheet Data</b>                                                                                                                                                                                                                                                                 |                                 |                  |                  |                   |                    |
| Total assets                                                                                                                                                                                                                                                                              | \$ 2,291,008                    | \$ 2,054,075     | \$ 1,669,825     | \$ 1,420,192      | \$ 748,484         |
| Total notes payable, notes payable to trusts and lines of credit                                                                                                                                                                                                                          | \$ 1,299,851                    | \$ 1,319,771     | \$ 948,174       | \$ 866,783        | \$ 472,977         |
| Minority interests                                                                                                                                                                                                                                                                        | \$ 61,299                       | \$ 64,982        | \$ 35,158        | \$ 36,235         | \$ 21,453          |
| Total stockholders' equity                                                                                                                                                                                                                                                                | \$ 872,463                      | \$ 619,921       | \$ 643,555       | \$ 480,128        | \$ 243,607         |
| <b>Other Data</b>                                                                                                                                                                                                                                                                         |                                 |                  |                  |                   |                    |
| Net cash provided by (used in) operating activities                                                                                                                                                                                                                                       | \$ 96,664                       | \$ 101,332       | \$ 76,885        | \$ 17,463         | \$ (6,158)         |
| Net cash used in investing activities                                                                                                                                                                                                                                                     | \$ (222,754)                    | \$ (253,579)     | \$ (239,778)     | \$ (614,834)      | \$ (261,298)       |
| Net cash provided by financing activities                                                                                                                                                                                                                                                 | \$ 172,685                      | \$ 98,823        | \$ 205,041       | \$ 601,695        | \$ 280,039         |

- (1) 2004 dividend based on an annual dividend of \$0.91 per common share. 2007 dividend based on an annual dividend of \$0.91 per common share for the first three quarters and \$1.00 per common share for the fourth quarter.

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

*The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. We make statements in this section that are forward-looking statements within the meaning of the federal securities laws. For a complete discussion of forward-looking statements, see the section in this Form 10-K entitled "Statements Regarding Forward-Looking Information." Certain risk factors may cause actual results, performance or achievements to differ materially from those expressed or implied by the following discussion. For a discussion of such risk factors, see the section in this Form 10-K entitled "Risk Factors." (Dollars in thousands, except share and per share data.)*

### **Overview**

We are a fully integrated, self-administered and self-managed real estate investment trust, or REIT, formed to continue the business commenced in 1977 by our predecessor companies to own, operate, manage, acquire, develop and redevelop professionally managed self-storage properties. Since 1996, our fully integrated development and acquisition teams have completed the development or acquisition of more than 640 self-storage properties.

At December 31, 2008, we owned, had an ownership interest in, or managed 694 operating properties in 33 states and Washington, D.C. As of December 31, 2008, 279 of our operating properties were wholly-owned, we held joint venture interests in 348 operating properties, and our taxable REIT subsidiary, Extra Space Management, Inc., operated an additional 67 properties that are owned by franchisees or third parties in exchange for a management fee. These operating properties contain approximately 50 million square feet of rentable space contained in approximately 475,000 units and currently serve a customer base of over 300,000 tenants.

Our properties are generally situated in convenient, highly visible locations clustered around large population centers such as Atlanta, Baltimore/Washington, D.C., Boston, Chicago, Dallas, Houston, Las Vegas, Los Angeles, Miami, New York City, Orlando, Philadelphia, Phoenix, St. Petersburg/Tampa and San Francisco/Oakland. These areas all enjoy above average population growth and income levels. The clustering of our assets around these population centers enables us to reduce our operating costs through economies of scale. We consider a property to be in the lease-up stage after it has been issued a certificate of occupancy, but before it has achieved stabilization. A property is considered to be stabilized once it has achieved an 80% occupancy rate for a full year measured as of January 1, or has been open for three years.

To maximize the performance of our properties, we employ a state-of-the-art, proprietary, web-based tracking and yield management technology called STORE. Developed by our management team, STORE enables us to analyze, set and adjust rental rates in real time across our portfolio in order to respond to changing market conditions. In addition, we also have an industry leading revenue management system (called "RevMan"). We believe that the combination of STORE's yield management capabilities and the systematic processes developed by our team using RevMan allows us to more proactively manage revenues.

We derive substantially all of our revenues from rents received from tenants under existing leases at each of our self-storage properties, from management fees on the properties we manage for joint-venture partners, franchisees and unaffiliated third parties and from our tenant reinsurance program. Our management fee is equal to approximately 6% of total revenues generated by the managed properties.

We operate in competitive markets, often where consumers have multiple self-storage properties from which to choose. Competition has impacted, and will continue to impact our property results. We experience seasonal fluctuations in occupancy levels, with occupancy levels generally higher in the summer months due to increased moving activity. Our operating results depend materially on our

ability to lease available self-storage units, to actively manage unit rental rates, and on the ability of our tenants to make required rental payments. We believe that we are able to respond quickly and effectively to changes in local, regional and national economic conditions by adjusting rental rates through the use of STORE, and through the use of RevMan.

We continue to evaluate and implement a range of new initiatives and opportunities in order to enable us to maximize stockholder value. Our strategies to maximize stockholder value include the following:

- **Maximize the performance of properties through strategic, efficient and proactive management.** We plan to pursue revenue generating and expense minimizing opportunities in our operations. Our revenue management team will seek to maximize revenue by responding to changing market conditions through our technology system's ability to provide real-time, interactive rental rate and discount management. Our size allows us greater ability than the majority of our competitors to implement national, regional and local marketing programs, which we believe will attract more customers to our stores at a lower net cost.
- **Expand our management business.** Our management business enables us to generate increased revenues through management fees and expand our geographic footprint. This expanded footprint enables us to reduce our operating costs through economies of scale. In addition, we see our management business as a future acquisition pipeline. We expect to pursue strategic relationships with owners that should strengthen our acquisition pipeline through agreements which give us first right of refusal to purchase the managed property in the event of a potential sale. Twenty-one of the 50 acquisitions we completed in 2008 and 2007 came from this channel.
- **Acquire self-storage properties from strategic partners and third parties.** Our acquisitions team will continue to selectively pursue the acquisition of single properties and multi-property portfolios that we believe can provide stockholder value. We have sought to establish a reputation as a reliable, ethical buyer, which we believe enhances our ability to negotiate and close acquisitions. In addition, our status as an UPREIT enables flexibility when structuring deals.
- **Develop new self-storage properties.** We currently have joint venture and wholly-owned development properties and may continue selectively to develop new self-storage properties in our core markets. Our development pipeline through 2010 includes 26 projects.

During 2008, we acquired 11 wholly-owned properties and we completed the development of nine properties in our core markets. Of the completed development properties, eight are wholly-owned, and one is owned by us in a joint venture. Joint venture properties provide us with a potential acquisition pipeline in the future. Fourteen development properties are scheduled for completion in 2009, 11 of which are wholly-owned and three of which will be owned by us in joint ventures.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our financial statements have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates and assumptions, including those that impact our most critical accounting policies. We base our estimates and assumptions on historical experience and on various other factors that we believe are reasonable under the circumstances. Actual results may differ from these estimates. We believe the following are our most critical accounting policies:

**CONSOLIDATION:** We follow FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities" ("FIN 46R"), which addresses the consolidation of variable interest entities ("VIEs"). Under

FIN 46R, arrangements that are not controlled through voting or similar rights are accounted for as VIEs. An enterprise is required to consolidate a VIE if it is the primary beneficiary of the VIE.

Under FIN 46R, a VIE is created when (i) the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or (ii) the entity's equity holders as a group either: (a) lack direct or indirect ability to make decisions about the entity through voting or similar rights, (b) are not obligated to absorb expected losses of the entity if they occur, or (c) do not have the right to receive expected residual returns of the entity if they occur. If an entity is deemed to be a VIE pursuant to FIN 46R, the enterprise that is deemed to absorb a majority of the expected losses or receive a majority of expected residual returns of the VIE is considered the primary beneficiary and must consolidate the VIE.

Based on the provisions of FIN 46R, we have concluded that under certain circumstances when we (1) enter into option agreements for the purchase of land or facilities from an entity and pay a non-refundable deposit, or (2) enter into arrangements for the formation of joint ventures, a VIE may be created under condition (i), (ii) (b) or (c) of the previous paragraph. For each VIE created, we have considered expected losses and residual returns based on the probability of future cash flows as outlined in FIN 46R. If we are determined to be the primary beneficiary of the VIE, the assets, liabilities and operations of the VIE are consolidated with our financial statements. Additionally, our Operating Partnership has notes payable to three trusts that are VIEs under condition (ii)(a) above. Since the Operating Partnership is not the primary beneficiary of the trusts, these VIEs are not consolidated.

**REAL ESTATE ASSETS:** Real estate assets are stated at cost, less accumulated depreciation. Direct and allowable internal costs associated with the development, construction, renovation, and improvement of real estate assets are capitalized. Interest, property taxes, and other costs associated with development incurred during the construction period are capitalized.

Expenditures for maintenance and repairs are charged to expense as incurred. Major replacements and betterments that improve or extend the life of the asset are capitalized and depreciated over their estimated useful lives. Depreciation is computed using the straight-line method over the estimated useful lives of the buildings and improvements, which are generally between five and 39 years.

In connection with our acquisition of properties, the purchase price is allocated to the tangible and intangible assets and liabilities acquired based on their fair values. The value of the tangible assets, consisting of land and buildings, are determined as if vacant, that is, at replacement cost. Intangible assets, which represent the value of existing tenant relationships, are recorded at their fair values. We measure the value of tenant relationships based on our historical experience with turnover in our facilities. We amortize to expense the tenant relationships on a straight-line basis over the average period that a tenant is expected to utilize the facility (currently estimated to be 18 months).

Intangible lease rights include: (1) purchase price amounts allocated to leases on two properties that cannot be classified as ground or building leases; these rights are amortized to expense over the term of the leases and (2) intangibles related to ground leases on four properties that were acquired in 2007. These ground leases were assumed by the Company at rates that were lower than the current market rates for similar leases. The value associated with these assumed leases were recorded as intangibles, which will be amortized over the lease terms.

**EVALUATION OF ASSET IMPAIRMENT:** We evaluate long-lived assets which are held for use for impairment when events or circumstances indicate that there may be an impairment. If such events occur, we compare the carrying value of these long-lived assets to the undiscounted future net operating cash flows attributable to the assets. An impairment loss is recorded if the net carrying value of the asset exceeds the undiscounted future net operating cash flows attributable to the asset. The

impairment loss recognized equals the excess of net carrying value over the related fair value of the asset.

When real estate assets are identified by management as held for sale, we discontinue depreciating the assets and estimate the fair value, net of selling costs. If the estimated fair value, net of selling costs, of the assets that have been identified for sale are less than the net carrying value of the assets, then a valuation allowance is established. The operations of assets held for sale or sold during the period are presented as discontinued operations for all periods presented.

**INVESTMENTS AVAILABLE FOR SALE:** We account for our investments in debt and equity securities according to the provisions of Statement of Financial Accounting Standards ("SFAS") No. 115, "*Accounting for Certain Investments in Debt and Equity Securities*," which requires securities classified as "available for sale" to be stated at fair value. Adjustments to the fair value of available for sale securities are recorded as a component of other comprehensive income. A decline in the fair value of investment securities below cost, that is deemed to be other than temporary, results in a reduction in the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. We classified our investments in auction rate securities as investments available for sale in the accompanying balance sheet. These investments were carried at fair value with unrealized gains and losses included in accumulated other comprehensive deficit. Unrealized losses that were other-than-temporary were recognized in earnings. We had no investments available for sale as of December 31, 2008.

**FAIR VALUE OF FINANCIAL INSTRUMENTS:** The carrying values of cash and cash equivalents, receivables, other financial instruments included in other assets, accounts payable and accrued expenses, variable rate notes payable, line of credit and other liabilities reflected in the consolidated balance sheets at December 31, 2008 and 2007 approximate fair value. The fair value of the note receivable to the Preferred OP unit holder at December 31, 2008 and 2007 was \$124,024 and \$108,915, respectively. The carrying value of the note receivable to the Preferred OP unit holder at December 31, 2008 and 2007 was \$100,000 and \$100,000 respectively. The aggregate fair value of fixed rate notes payable and notes payable to trusts at December 31, 2008 and 2007 was \$1,062,949 and \$968,519, respectively. The carrying value of these fixed rate notes payable and notes payable to trusts at December 31, 2008 and 2007 was \$937,756 and \$944,916, respectively. The fair value of our exchangeable senior notes at December 31, 2008 and 2007 was \$131,039 and \$286,947, respectively. The carrying value of the exchangeable senior notes at December 31, 2008 and 2007 was \$209,663 and \$250,000, respectively.

**INVESTMENTS IN REAL ESTATE VENTURES:** Our investments in real estate joint ventures where we have significant influence but not control, and joint ventures which are VIEs in which we are not the primary beneficiary, are recorded under the equity method of accounting on the accompanying consolidated financial statements.

Under the equity method, our investment in real estate ventures is stated at cost and adjusted for our share of net earnings or losses and reduced by distributions. Equity in earnings of real estate ventures is generally recognized based on our ownership interest in the earnings of each of the unconsolidated real estate ventures. For the purposes of presentation in the statement of cash flows, we follow the "look through" approach for classification of distributions from joint ventures. Under this approach, distributions are reported under operating cash flow unless the facts and circumstances of a specific distribution clearly indicate that it is a return of capital (e.g., a liquidating dividend or distribution of the proceeds from the joint venture's sale of assets) in which case it is reported as an investing activity.

Our management assesses whether there are any indicators that the value of our investments in unconsolidated real estate ventures may be impaired when events or circumstances indicate that there

may be an impairment. An investment is impaired if management's estimate of the fair value of the investment is less than its carrying value. To the extent impairment has occurred, and it is considered to be other than temporary, the loss is measured as the excess of the carrying amount of the investment over the fair value of the investment.

**DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES:** Statement of Financial Accounting Standards ("SFAS") No. 133, "*Accounting for Derivative Instruments and Hedging Activities*," as amended and interpreted, establishes accounting and reporting standards for derivative instruments and hedging activities. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability or firm commitment attributable to a particular risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

For derivatives designated as fair value hedges, changes in the fair value of the derivative and the hedged item related to the hedged risk are recognized in earnings. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income, outside of earnings and subsequently reclassified to earnings when the hedged transaction affects earnings.

**CONVERSION OF OPERATING PARTNERSHIP UNITS:** Conversions of Operating Partnership units to common stock, when converted under the original provisions of the agreement, are accounted for by reclassifying the underlying net book value of the units from minority interest to equity in accordance with EITF No. 95-7, "*Implementation Issues Related to the Treatment of Minority Interest in Certain Real Estate Investment Trusts*."

**REVENUE AND EXPENSE RECOGNITION:** Rental revenues are recognized as earned based upon amounts that are currently due from tenants. Leases are generally on month-to-month terms. Prepaid rents are recognized on a straight-line basis over the term of the leases. Promotional discounts are recognized as a reduction to rental income over the promotional period. Late charges, administrative fees, merchandise sales and truck rentals are recognized in income when earned. Management and franchise fee revenues are recognized monthly as services are performed and in accordance with the terms of the management agreements. Tenant reinsurance premiums are recognized as revenues over the period of insurance coverage. Equity in earnings of real estate entities is recognized based on our ownership interest in the earnings of each of the unconsolidated real estate entities. Interest income is recognized as earned.

Property expenses, including utilities, property taxes, repairs and maintenance and other costs to manage the facilities are recognized as incurred. We accrue for property tax expense based upon estimates and historical trends. If these estimates are incorrect, the timing of expense recognition could be affected.

**REAL ESTATE SALES:** We evaluate real estate sales for both sale recognition and profit recognition in accordance with the provisions of SFAS No. 66, "*Accounting for Sales of Real Estate*." In general, sales of real estate and related profits/losses are recognized when all consideration has changed hands and risks and rewards of ownership have been transferred. Certain types of continuing involvement preclude sale treatment and related profit recognition; other forms of continuing involvement allow for sale recognition but require deferral of profit recognition.

**INCOME TAXES:** We have elected to be treated as a REIT under Sections 856 through 860 of the Internal Revenue Code. In order to maintain our qualification as a REIT, among other things, we are required to distribute at least 90% of our REIT taxable income to our stockholders and meet certain tests regarding the nature of our income and assets. As a REIT, we are not subject to federal income tax with respect to that portion of our income which meets certain criteria and is distributed

annually to our stockholders. We plan to continue to operate so that we meet the requirements for taxation as a REIT. Many of these requirements, however, are highly technical and complex. If we were to fail to meet these requirements, we would be subject to federal income tax. We are subject to certain state and local taxes. Provision for such taxes has been included in property operating and general and administrative expenses in our consolidated statements of operations.

We have elected to treat one of our corporate subsidiaries, Extra Space Management, Inc., as a taxable REIT subsidiary ("TRS"). In general, our TRS may perform additional services for tenants and generally may engage in any real estate or non-real estate related business (except for the operation or management of health care facilities or lodging facilities or the provision to any person, under a franchise, license or otherwise, of rights to any brand name under which any lodging facility or health care facility is operated). A TRS is subject to corporate federal income tax. The Company accounts for income taxes in accordance with the provisions of FASB Statement No. 109, " *Accounting for Income Taxes*" ("FAS 109"). Under FAS 109, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities.

We adopted the provisions of FASB Interpretation No. 48, " *Accounting for Uncertainty in Income Taxes*" ("FIN 48"), an interpretation of FAS 109, on January 1, 2007. As a result of the implementation of FIN 48, we recognized no material adjustment in the liability for unrecognized income tax benefits. At the adoption date of January 1, 2007, there were no material unrecognized tax benefits. At December 31, 2008 and 2007, there were also no material unrecognized tax benefits.

Interest and penalties relating to uncertain tax positions will be recognized in income tax expense when incurred. As of December 31, 2008 and 2007, the Company had no interest or penalties related to uncertain tax provisions.

**STOCK-BASED COMPENSATION:** Effective January 1, 2006, we adopted SFAS No. 123 (revised 2004), " *Share-Based Payment* ," ("SFAS 123R"), which requires the measurement and recognition of compensation expense for all share-based payment awards to employees and directors based on estimated fair values. SFAS 123R supersedes SFAS No. 123, " *Accounting for Stock-Based Compensation* " and Accounting Principles Board Opinion No. 25, " *Accounting for Stock Issued to Employees* " ("APB 25"). We adopted SFAS 123R using the modified prospective application method of adoption which requires us to record compensation cost related to non-vested stock awards as of December 31, 2005 by recognizing the unamortized grant date fair value of these awards over their remaining service period with no change in historical reported earnings. Awards granted after December 31, 2005 are valued at fair value in accordance with provisions of SFAS 123R and recognized on a straight line basis over the service periods of each award.

## RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement No. 157, " *Fair Value Measurements*" ("FAS 157"). FAS 157 defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. FAS 157 applies under other accounting pronouncements that require or permit fair value measurements, and does not require any new fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. In February 2008, the FASB issued FASB Statement of Position No. 157-2, " *Effective Date of FASB Statement No. 157*" (the "FSP"). The FSP amends FAS 157 to delay the effective date for FAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. For items within that scope, the FSP defers the effective date of FAS 157 to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. We adopted FAS 157 effective January 1, 2008, except as it relates to nonfinancial assets and liabilities

that are not recognized or disclosed at fair value in the financial statements on a recurring basis as allowed under the FSP.

In February 2007, the FASB issued Statement No. 159, *"The Fair Value Option for Financial Assets and Financial Liabilities"* ("FAS 159"). Under FAS 159, a company may elect to measure eligible financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. This statement is effective for fiscal years beginning after November 15, 2007. We adopted FAS 159 effective January 1, 2008, but did not elect to measure any additional financial assets or liabilities at fair value.

In December 2007, the FASB issued revised Statement No. 141, *"Business Combinations"* ("FAS 141(R)"). FAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the assets acquired and liabilities assumed. Generally, assets acquired and liabilities assumed in a transaction will be recorded at the acquisition-date fair value with limited exceptions. FAS 141(R) will also change the accounting treatment and disclosure for certain specific items in a business combination. Transaction costs associated with the acquisition will be expensed upon close of the acquisition. FAS 141(R) applies proactively to business combinations for which the acquisition date is on or after the beginning of the first fiscal year beginning on or after December 15, 2008. FAS 141(R) will be applied to all acquisitions with closing dates after December 31, 2008.

In December 2007, the FASB issued Statement No. 160, *"Noncontrolling Interests in Consolidated Financial Statements—An Amendment of ARB No. 51"* ("FAS 160"). FAS 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. FAS 160 requires a company to clearly identify and present ownership interests in subsidiaries held by parties other than the company in the consolidated financial statements within the equity section but separate from the company's equity. FAS 160 also requires the amount of consolidated net income attributable to the parent and to the noncontrolling interest to be clearly identified and presented on the face of the consolidated statement of operations and requires changes in ownership interest to be accounted for similarly as equity transactions. FAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests, with all other requirements applied prospectively. As of December 31, 2008 and 2007, minority interests in the accompanying consolidated balance sheets were \$61,299 and \$64,982, respectively. These amounts will be recharacterized as non-controlling interests as a component of equity when FAS 160 is adopted. FAS 160 is effective for fiscal years beginning on or after December 15, 2008.

In March 2008, the FASB issued Statement No. 161, *"Disclosures about Derivative Instruments and Hedging Activities"*, an amendment of FASB Statement No. 133, *"Accounting for Derivative Instruments and Hedging Activities"* ("FAS 161"). FAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures stating how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. FAS 161 requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. FAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. FAS 161 also encourages but does not require comparative disclosures for earlier periods at initial adoption. We are currently evaluating the extent of the footnote disclosures required by FAS 161 and the impact, if any, that it will have on our financial statements.

In December 2007, the SEC staff issued Staff Accounting Bulletin ("SAB") No. 110, which was effective January 1, 2008, and amends and replaces SAB No. 107, *"Share-Based Payment"*. SAB No. 110 expresses the views of the SEC staff regarding the use of a "simplified" method in developing an

estimate of expected term of "plain vanilla" share options in accordance with SFAS No. 123(R), "*Share-Based Payment*." Under the "simplified" method, the expected term is calculated as the midpoint between the vesting date and the end of the contractual term of the option. The use of the "simplified" method, which was first described in SAB No. 107, was scheduled to expire on December 31, 2007. SAB No. 110 extends the use of the "simplified" method for "plain vanilla" awards in certain situations. The SEC staff does not expect the "simplified" method to be used when sufficient information regarding exercise behavior, such as historical exercise data or exercise information from external sources, becomes available. The adoption of SAB No. 110 did not have a significant effect on our financial statements.

In May 2008, the FASB issued FASB Statement of Position No. APB 14-1, "*Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*" ("FSP APB 14-1"). Under FSP APB 14-1, entities with convertible debt instruments that may be settled entirely or partially in cash upon conversion should separately account for the liability and equity components of the instrument in a manner that reflects the issuer's economic interest cost. The effect of the adoption FSP APB 14-1 on the Company's exchangeable senior notes is that the equity component will be included in the paid-in-capital section of stockholders' equity on the consolidated balance sheet and the value of the equity component will be treated as original issue discount for purposes of accounting for the debt component. The original issue discount will be amortized over the period of the debt as additional interest expense. FSP APB 14-1 will be effective for fiscal years beginning after December 15, 2008, and for interim periods within those fiscal years, with retrospective application required. We expect an annual increase of approximately \$4,500 of non-cash interest expense as a result of the adoption of FSP APB 14-1.

In April 2008, the FASB issued FASB Staff Position SFAS No. 142-3, "*Determination of the Useful Life of Intangible Assets*" ("FSP SFAS No. 142-3"). FSP SFAS No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used in determining the useful life of a recognized intangible asset under Statement of Financial Accounting Standard No. 142, "*Goodwill and Other Intangible Assets*." This new guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. FSP SFAS No. 142-3 is effective for fiscal years beginning after December 15, 2008, and early adoption is prohibited. The impact of FSP SFAS No. 142-3 will depend upon the nature, terms, and size of the acquisitions that we consummate after the effective date.

In June 2008, the FASB issued FASB Staff Position EITF 03-6-1, "*Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*," ("FSP EITF 03-6-1"). FSP EITF 03-6-1 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method as described in FASB Statement of Financial Accounting Standards No. 128, "*Earnings per Share*." FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning on or after December 15, 2008 and earlier adoption is prohibited. We are required to adopt FSP EITF 03-6-1 in the first quarter of 2009 and do not believe that it will have a material affect on our financial statements.

## RESULTS OF OPERATIONS

### Comparison of the Year Ended December 31, 2008 to the Year Ended December 31, 2007

#### Overview

Results for the year ended December 31, 2008 included the operations of 627 properties (283 of which were consolidated and 344 of which were in joint ventures accounted for using the equity method) compared to the results for the year ended December 31, 2007, which included operations of 606 properties (262 of which were consolidated and 344 of which were in joint ventures accounted for

using the equity method). Results for both periods also included equity in earnings of real estate ventures, third-party management and franchise fees, tenant reinsurance, and other income.

## Revenues

The following table sets forth information on revenues earned for the years indicated:

|                               | <u>Year Ended December 31,</u> |                  |                  |                 |
|-------------------------------|--------------------------------|------------------|------------------|-----------------|
|                               | <u>2008</u>                    | <u>2007</u>      | <u>\$ Change</u> | <u>% Change</u> |
| <b>Revenues:</b>              |                                |                  |                  |                 |
| Property rental               | \$235,695                      | \$206,315        | \$29,380         | 14.2%           |
| Management and franchise fees | 20,945                         | 20,598           | 347              | 1.7%            |
| Tenant reinsurance            | 16,091                         | 11,049           | 5,042            | 45.6%           |
| Other income                  | 520                            | 904              | (384)            | (42.5)%         |
| Total revenues                | <u>\$273,251</u>               | <u>\$238,866</u> | <u>\$34,385</u>  | <u>14.4%</u>    |

**Property Rental**— The increase in property rental revenues consists of \$24,437 associated with acquisitions completed in 2008 and 2007, \$2,782 associated with rental rate increases at stabilized properties and \$2,161 from increases in occupancy and rental rates at lease-up properties.

**Management and Franchise Fees**— Our taxable REIT subsidiary, Extra Space Management, Inc., manages properties owned by our joint ventures, franchisees and third parties. Management fees generally represent 6.0% of cash collected from properties owned by third party, franchisees and unconsolidated joint ventures. Revenues from management and franchise fees have remained fairly stable compared to the previous year. Increased revenues at our joint venture, franchise, and third-party managed sites related to rental rate and occupancy increases have been partially offset by lost management fees due to the termination of certain management agreements mainly due to the acquisition of the managed properties.

**Tenant Reinsurance**— The increase in tenant reinsurance revenues is due to the fact that during the year ended December 31, 2008, we promoted the tenant reinsurance program and successfully increased overall customer participation to approximately 47% at December 31, 2008 compared to approximately 34% at December 31, 2007.

**Other Income**— The decrease in other income is primarily due a decrease in development fee revenues earned because of a decrease in the volume of development relating to joint ventures in 2008 compared to 2007.

## Expenses

The following table sets forth information on expenses for the years indicated:

|                                               | <u>Year Ended December 31,</u> |                  |                  |                 |
|-----------------------------------------------|--------------------------------|------------------|------------------|-----------------|
|                                               | <u>2008</u>                    | <u>2007</u>      | <u>\$ Change</u> | <u>% Change</u> |
| <b>Expenses:</b>                              |                                |                  |                  |                 |
| Property operations                           | \$ 84,522                      | \$ 73,070        | \$11,452         | 15.7%           |
| Tenant reinsurance                            | 5,066                          | 4,710            | 356              | 7.6%            |
| Unrecovered development and acquisition costs | 1,727                          | 765              | 962              | 125.8%          |
| General and administrative                    | 40,427                         | 36,722           | 3,705            | 10.1%           |
| Depreciation and amortization                 | 49,566                         | 39,801           | 9,765            | 24.5%           |
| Total expenses                                | <u>\$181,308</u>               | <u>\$155,068</u> | <u>\$26,240</u>  | <u>16.9%</u>    |

**Property Operations**— The increase in property operations expense in 2008 was primarily due to increases of \$9,146 associated with acquisitions completed in 2008 and 2007. There were also increases in expenses of \$2,306 at existing properties primarily due to increases in repairs and maintenance, utilities and property taxes.

**Tenant Reinsurance**— The increase in tenant reinsurance expense is due to the increase in tenant reinsurance revenues during 2008. A large portion of tenant reinsurance expense is variable and increases as tenant reinsurance revenues increase. During the year ended December 31, 2008, we continued to promote the tenant reinsurance program and successfully increased overall customer participation to approximately 47% at December 31, 2008 compared to approximately 34% at December 31, 2007.

**General and Administrative**— The increase in general and administrative expenses was due to the increased costs associated with the management of the additional properties that have been added through acquisitions and development in 2008 and 2007.

**Depreciation and Amortization**— The increase in depreciation and amortization expense is a result of additional properties that have been added through acquisition and development throughout 2008 and 2007.

## Other Income and Expenses

The following table sets forth information on other income and expenses for the years indicated:

|                                                                                           | <u>Year Ended December 31,</u> |                   | <u>\$ Change</u> | <u>% Change</u> |
|-------------------------------------------------------------------------------------------|--------------------------------|-------------------|------------------|-----------------|
|                                                                                           | <u>2008</u>                    | <u>2007</u>       |                  |                 |
| <b>Other revenue and expenses:</b>                                                        |                                |                   |                  |                 |
| Interest expense                                                                          | \$(64,611)                     | \$(61,015)        | \$(3,596)        | 5.9%            |
| Interest income                                                                           | 3,399                          | 7,925             | (4,526)          | (57.1)%         |
| Interest income on note receivable from Preferred Operating Partnership unit holder       | 4,850                          | 2,492             | 2,358            | 94.6%           |
| Equity in earnings of real estate ventures                                                | 6,932                          | 5,300             | 1,632            | 30.8%           |
| Gain on repurchase of exchangeable senior notes                                           | 7,970                          | —                 | 7,970            | 100.0%          |
| Loss on sale of investments available for sale                                            | (1,415)                        | —                 | (1,415)          | (100.0)%        |
| Impairment of investments available for sale                                              | —                              | (1,233)           | 1,233            | (100.0)%        |
| Fair value adjustment of obligation associated with Preferred Operating Partnership units | —                              | 1,054             | (1,054)          | 100.0%          |
| Minority interest—Preferred Operating Partnership                                         | (5,227)                        | (1,465)           | (3,762)          | 256.8%          |
| Minority interests—Operating Partnership and other                                        | 3,047                          | (762)             | 3,809            | (499.9)%        |
| Total other expense                                                                       | <u>\$(45,055)</u>              | <u>\$(47,704)</u> | <u>\$ 2,649</u>  | <u>(5.6)%</u>   |

**Interest Expense**— The increase in interest expense for the year ended December 31, 2008 was due primarily to \$3,191 associated with mortgage loans on acquisitions completed in 2007. The increase was partially offset by lower interest costs on existing property debt. Capitalized interest during the years ended December 31, 2008 and 2007 was \$5,506 and \$4,555, respectively.

**Interest Income**— Interest income earned in 2008 was primarily due to interest on the net proceeds from the sales of common stock in May and October 2008. Interest income earned in 2007 was mainly the result of the interest earned on the net proceeds received from the \$250,000 exchangeable senior notes issued in March 2007 and on the remaining net proceeds from the sale of common stock in September 2006. Invested cash decreased steadily throughout 2007 as the funds were used for operations, acquisitions and development.

**Interest Income on note receivable from Preferred Operating Partnership unit holder**— Represents interest on a \$100,000 loan to the holder of the Series A Participating Redeemable Preferred units of our Operating Partnership (the "Preferred OP units"). The funds were loaned on June 25, 2007 and bear interest at an annual rate of 4.85%, payable quarterly.

**Equity in Earnings of Real Estate Ventures**— The change in equity in earnings of real estate ventures for the year ended December 31, 2008 primarily relates to an increase of \$1,098 from our purchase of an additional 40% interest in the VRS Self Storage LLC joint venture on July 1, 2008. The remainder of the change is a result of an increase in income at the properties owned by the real estate ventures. The increases were partially offset by the losses on certain lease-up properties held in joint ventures.

**Gain on Repurchase of Exchangeable Senior Notes**— Represents the gain on the repurchase of \$40,337 principal amount of the Operating Partnership's exchangeable senior notes. The Company paid cash of \$31,721 and wrote off unamortized debt issuance costs of \$646, resulting in a gain of \$7,970.

**Loss on Sale of Investments Available for Sale**— Represents the amount of loss recorded on February 29, 2008 related to the liquidation of auction rate securities held in investments for sale.

**Impairment of Investments Available for Sale**— As of December 31, 2007, the Company had a \$24,460 par value investment in ARS. Due to the uncertainty in the credit markets, the auctions related to the ARS held by the Company failed causing the liquidity and the fair value of these investments to be impaired. As a result, the Company recorded a \$1,233 other-than-temporary impairment charge and a \$1,415 temporary impairment charge to reduce the carrying value of the ARS to an estimated fair value of \$21,812.

**Fair Value Adjustment of Obligation Associated with Preferred Operating Partnership Units**— This amount is a one-time adjustment that represents the change in fair value of the embedded derivative associated with the Preferred OP units issued in connection with the AAAAA Rent-a-Space acquisition between the original issuance of the Preferred OP units (June and August, 2007) and the completion of the amendment to the agreement that was signed on September 28, 2007.

**Minority Interest—Preferred Operating Partnership**— Income allocated to the Preferred Operating Partnership equals the fixed distribution paid to the Preferred OP unit holder plus 1.09% of the remaining net income allocated after the adjustment for the fixed distribution paid for the year ended December 31, 2008. The amount allocated to minority interest was higher in 2008 than in 2007 as the Preferred OP units were issued in June and August 2007.

**Minority Interest—Operating Partnership and Other**— Income allocated to the Operating Partnership represents 4.69% of net income after the allocation of the fixed distribution paid to the Preferred OP unit holder. The decrease in the amount allocated to the minority interest—Operating Partnership was due to a full year of fixed distribution being paid to the Preferred Operating Partnership in 2008. Income allocated to other minority interests represents the losses allocated to partners in consolidated joint ventures on four properties that were in lease-up during 2008. The amount allocated to the minority interest—other was higher than the prior year as there were only two consolidated joint venture properties in lease-up for the year ended December 31, 2007.

#### **Comparison of the Year Ended December 31, 2007 to the Year Ended December 31, 2006**

Results for the year ended December 31, 2007 included the operations of 606 properties (262 of which were consolidated and 344 of which were in joint ventures accounted for using the equity method) compared to the results for the year ended December 31, 2006, which included operations of 567 properties (219 of which were consolidated and 348 of which were in joint ventures accounted for using the equity method). Results for both periods also included equity in earnings of real estate ventures, third-party management and franchise fees, and other income.

## Revenues

The following table sets forth information on revenues earned for the years indicated:

|                               | <u>Year ended December 31,</u> |                  |                  |                 |
|-------------------------------|--------------------------------|------------------|------------------|-----------------|
|                               | <u>2007</u>                    | <u>2006</u>      | <u>\$ Change</u> | <u>% Change</u> |
| <b>Revenues:</b>              |                                |                  |                  |                 |
| Property rental               | \$206,315                      | \$170,993        | \$35,322         | 20.7%           |
| Management and franchise fees | 20,598                         | 20,883           | (285)            | (1.4)%          |
| Tenant reinsurance            | 11,049                         | 4,318            | 6,731            | 155.9%          |
| Other income                  | 904                            | 1,070            | (166)            | (15.5)%         |
| Total revenues                | <u>\$238,866</u>               | <u>\$197,264</u> | <u>\$41,602</u>  | <u>21.1%</u>    |

**Property Rental**— The increase in property rental revenues consists of \$28,335 associated with acquisitions completed in 2007 and 2006, \$5,298 associated with rental rate increases at stabilized properties, and \$1,689 from increases in occupancy at lease-up properties.

**Management and Franchise Fees**— Our taxable REIT subsidiary, Extra Space Management, Inc., manages properties owned by our joint ventures, franchisees and third parties. Management fees generally represent 6.0% of cash collected from properties owned by third parties, franchisees and unconsolidated joint ventures. Revenues from management and franchise fees have remained fairly stable compared to the previous year. Increased revenues at our joint venture, franchise, and third-party managed sites related to rental rate and occupancy increases have been offset by lost management fees due to the termination of certain management agreements mainly due to the acquisition of the managed properties.

**Tenant Reinsurance**— The increase in tenant reinsurance revenues was due to the introduction of our captive insurance program at all wholly-owned properties in October 2006. In addition, during the year ended December 31, 2007, we promoted the tenant reinsurance program and successfully increased overall customer participation to approximately 34% at December 31, 2007 compared to approximately 18% at December 31, 2006.

## Expenses

The following table sets forth information on expenses for the years indicated:

|                                               | <u>Year ended December 31,</u> |                  |                  |                 |
|-----------------------------------------------|--------------------------------|------------------|------------------|-----------------|
|                                               | <u>2007</u>                    | <u>2006</u>      | <u>\$ Change</u> | <u>% Change</u> |
| <b>Expenses:</b>                              |                                |                  |                  |                 |
| Property operations                           | \$ 73,070                      | \$ 62,243        | \$10,827         | 17.4%           |
| Tenant reinsurance                            | 4,710                          | 2,328            | 2,382            | 102.3%          |
| Unrecovered development and acquisition costs | 765                            | 269              | 496              | 184.4%          |
| General and administrative                    | 36,722                         | 35,600           | 1,122            | 3.2%            |
| Depreciation and amortization                 | 39,801                         | 37,172           | 2,629            | 7.1%            |
| Total expenses                                | <u>\$155,068</u>               | <u>\$137,612</u> | <u>\$17,456</u>  | <u>12.7%</u>    |

**Property Operations**— The increase in property operations expense in 2007 was primarily due to increases of \$9,202 associated with acquisitions completed in 2007 and 2006. There were also increases in expenses of \$1,625 at existing properties primarily due to increases in repairs and maintenance, insurance and property taxes.

**Tenant Reinsurance**— The increase in tenant reinsurance expense was due to the increase in tenant reinsurance revenues during 2007. A large portion of tenant reinsurance expense is variable and increases as tenant reinsurance revenues increase. In October 2006, we introduced our captive insurance program at all wholly-owned properties. During the year ended December 31, 2007, we promoted the tenant reinsurance program and successfully increased overall customer participation to approximately 34% at December 31, 2007 compared to approximately 18% at December 31, 2006.

**General and Administrative**— The increase in general and administrative expenses was due to the increased costs associated with the management of the additional properties that have been added through acquisitions and development in 2007 and 2006.

**Depreciation and Amortization**— The increase in depreciation and amortization expense is a result of additional properties that have been added through acquisition and development throughout 2007 and 2006.

## Other Income and Expenses

The following table sets forth information on other income and expenses for the years indicated:

|                                                                                           | <u>Year ended December 31,</u> |                   | <u>\$ Change</u>  | <u>% Change</u> |
|-------------------------------------------------------------------------------------------|--------------------------------|-------------------|-------------------|-----------------|
|                                                                                           | <u>2007</u>                    | <u>2006</u>       |                   |                 |
| <b>Other revenue and expenses:</b>                                                        |                                |                   |                   |                 |
| Interest expense                                                                          | \$(61,015)                     | \$(50,953)        | \$(10,062)        | 19.7%           |
| Interest income                                                                           | 7,925                          | 2,469             | 5,456             | 221.0%          |
| Interest income on note receivable from Preferred Operating Partnership unit holder       | 2,492                          | —                 | 2,492             | 100.0%          |
| Equity in earnings of real estate ventures                                                | 5,300                          | 4,693             | 607               | 12.9%           |
| Impairment of short-term investments                                                      | (1,233)                        | —                 | (1,233)           | 100.0%          |
| Fair value adjustment of obligation associated with Preferred Operating Partnership units | 1,054                          | —                 | 1,054             | 100.0%          |
| Minority interest—Preferred Operating Partnership                                         | (1,465)                        | (985)             | (480)             | 48.7%           |
| Minority interests—Operating Partnership and other                                        | (762)                          | —                 | (762)             | 100.0%          |
| Total other expense                                                                       | <u>\$(47,704)</u>              | <u>\$(44,776)</u> | <u>\$ (2,928)</u> | <u>6.5%</u>     |

**Interest Expense**— The increase in interest expense for the year ended December 31, 2007 was due primarily to \$6,897 associated with the exchangeable notes issued in March 2007 and \$5,267 of interest expense on the mortgage loans associated with acquisitions completed in 2007 and 2006. The increase was offset by lower interest costs on corporate borrowings and existing property debt. Capitalized interest during the years ended December 31, 2007 and 2006 was \$4,555 and \$3,232, respectively.

**Interest Income**— Interest income earned in 2007 was mainly the result of the interest earned on the net proceeds received from the \$250,000 exchangeable senior notes issued in March 2007 and on the remaining net proceeds from the sale of stock in September 2006. Invested cash decreased steadily throughout 2007 as the funds were used for acquisitions and development.

**Interest Income on note receivable from Preferred Operating Partnership unit holder**— Represents interest on a \$100,000 loan to the holder of the Preferred OP units. The funds were loaned on June 25, 2007 and bear interest at an annual rate of 4.85%, payable quarterly.

**Equity in Earnings of Real Estate Ventures**— The change in equity in earnings of real estate ventures for the year ended December 31, 2007 relates to increases in income at the properties owned by the real estate ventures. The increases were partially offset by the losses on certain lease-up properties held in joint ventures.

**Fair Value Adjustment of Obligation Associated with Preferred Operating Partnership units—** This amount is a one-time adjustment that represents the change in fair value of the embedded derivative associated with the Preferred OP units issued in connection with the AAAAA Rent-a-Space acquisition between the original issuance of the Preferred OP units (June and August, 2007) and the completion of the amendment to the agreement that was signed on September 28, 2007.

**Impairment of Investments Available for Sale—** As of December 31, 2007, we had a \$24,460 par value investment in ARS. Due to the uncertainty in the credit markets, the auctions related to the ARS held by us have failed causing the liquidity and the fair value of these investments to be impaired. As a result, we recorded a \$1,233 other-than-temporary impairment charge and a \$1,415 temporary impairment charge to reduce the carrying value of the ARS to an estimated fair value of \$21,812.

**Minority Interest—Preferred Operating Partnership—** Income allocated to the Preferred Operating Partnership equals the fixed distribution paid to the Preferred OP unit holder plus 1.42% of the remaining net income allocated after the adjustment for the fixed distribution paid for the year ended December 31, 2007. The amount allocated to minority interest was higher than in the prior year as the Preferred Operating Partnership units were issued in June and August 2007.

**Minority Interest—Operating Partnership and Other—** Income allocated to the Operating Partnership represents 5.73% of net income after the allocation of the fixed distribution paid to the Preferred OP unit holder. The decrease in the amount allocated to the minority interest—Operating Partnership was due to the creation of the Preferred Operating Partnership units in 2007. Income allocated to other minority interests represents the losses allocated to partners in consolidated joint ventures on two properties that were in lease-up during 2007.

## FUNDS FROM OPERATIONS

FFO provides relevant and meaningful information about our operating performance that is necessary, along with net income and cash flows, for an understanding of our operating results. We believe FFO is a meaningful disclosure as a supplement to net earnings because net earnings assumes that the values of real estate assets diminish predictably over time as reflected through depreciation and amortization expenses. We believe that the values of real estate assets fluctuate due to market conditions and FFO more accurately reflects the value of our real estate assets. FFO is defined by the National Association of Real Estate Investment Trusts, Inc. ("NAREIT") as net income computed in accordance with U.S. generally accepted accounting principles ("GAAP"), excluding gains or losses on sales of operating properties, plus depreciation and amortization and after adjustments to record unconsolidated partnerships and joint ventures on the same basis. We believe that to further understand our performance, FFO should be considered along with the reported net income and cash flows in accordance with GAAP, as presented in the consolidated financial statements.

The computation of FFO may not be comparable to FFO reported by other REITs or real estate companies that do not define the term in accordance with the current NAREIT definition or that interpret the current NAREIT definition differently. FFO does not represent cash generated from operating activities determined in accordance with GAAP, and should not be considered as an alternative to net income as an indication of our performance, as an alternative to net cash flow from operating activities as a measure of our liquidity, or as an indicator of our ability to make cash

distributions. The following table sets forth the calculation of FFO (dollars are in thousands, except for share data):

|                                                                                           | <b>For the Year Ended December 31,</b> |                 |                 |
|-------------------------------------------------------------------------------------------|----------------------------------------|-----------------|-----------------|
|                                                                                           | <b>2008</b>                            | <b>2007</b>     | <b>2006</b>     |
| <b>Net income attributable to common stockholders</b>                                     | <b>\$46,888</b>                        | <b>\$34,584</b> | <b>\$14,876</b> |
| Adjustments:                                                                              |                                        |                 |                 |
| Real estate depreciation                                                                  | 42,834                                 | 33,779          | 27,331          |
| Amortization of intangibles                                                               | 4,494                                  | 4,159           | 8,371           |
| Joint venture real estate depreciation and amortization                                   | 5,072                                  | 4,039           | 4,773           |
| Joint venture loss on sale of properties                                                  | —                                      | 43              | —               |
| Fair value adjustment of obligation associated with Preferred Operating Partnership units | —                                      | (1,054)         | —               |
| Distributions paid on Preferred Operating Partnership units                               | (5,750)                                | (1,438)         | —               |
| Income allocated to Operating Partnership minority interest                               | 3,056                                  | 2,508           | 985             |
| Funds from operations                                                                     | <u>\$96,594</u>                        | <u>\$76,620</u> | <u>\$56,336</u> |

### SAME-STORE STABILIZED PROPERTY RESULTS

We consider our same-store stabilized portfolio to consist of only those properties which were wholly-owned at the beginning and at the end of the applicable periods presented and that have achieved stabilization as of the first day of such period. The following table sets forth operating data for our same-store portfolio. We consider the following same-store presentation to be meaningful in regards to the properties shown below. These results provide information relating to property-level operating changes without the effects of acquisitions, completed developments and tenant reinsurance revenues.

|                                                    | <b>Three months ended</b> |             |               |                                |             |               |                                |             |               |
|----------------------------------------------------|---------------------------|-------------|---------------|--------------------------------|-------------|---------------|--------------------------------|-------------|---------------|
|                                                    | <b>December 31,</b>       |             |               | <b>Year ended December 31,</b> |             |               | <b>Year ended December 31,</b> |             |               |
|                                                    | <b>2008</b>               | <b>2007</b> | <b>Change</b> | <b>2008</b>                    | <b>2007</b> | <b>Change</b> | <b>2007</b>                    | <b>2006</b> | <b>Change</b> |
| Same-store rental revenues                         | \$ 46,255                 | \$ 45,933   | 0.7%          | \$ 184,643                     | \$ 181,752  | 1.6%          | \$ 159,070                     | \$ 153,076  | 3.9%          |
| Same-store operating expenses                      | 15,261                    | 15,362      | (0.7)%        | 63,606                         | 63,428      | 0.3%          | 54,726                         | 54,014      | 1.3%          |
| Same-store net operating income                    | 30,994                    | 30,571      | 1.4%          | 121,037                        | 118,324     | 2.3%          | 104,344                        | 99,062      | 5.3%          |
| Non same-store rental revenues                     | 14,534                    | 10,550      | 37.8%         | 51,052                         | 24,563      | 107.8%        | 47,245                         | 17,917      | 163.7%        |
| Non same-store operating expenses                  | 6,390                     | 3,853       | 65.8%         | 20,916                         | 9,642       | 116.9%        | 18,344                         | 8,229       | 122.9%        |
| Total rental revenues                              | 60,789                    | 56,483      | 7.6%          | 235,695                        | 206,315     | 14.2%         | 206,315                        | 170,993     | 20.7%         |
| Total operating expenses                           | 21,651                    | 19,215      | 12.7%         | 84,522                         | 73,070      | 15.7%         | 73,070                         | 62,243      | 17.4%         |
| Same-store square foot occupancy as of quarter end | 82.5%                     | 84.2%       |               | 82.5%                          | 84.2%       |               | 84.1%                          | 85.1%       |               |
| Properties included in same-store                  | 210                       | 210         |               | 210                            | 210         |               | 181                            | 181         |               |

### Comparison of the Year Ended December 31, 2008 to the Year Ended December 31, 2007

The increase in same-store rental revenues was primarily due to increased rental rates to existing tenants which offset lower rental rates to new tenants and a slight reduction in occupancy due to increased move-out activity.

### Comparison of the Year Ended December 31, 2007 to the Year Ended December 31, 2006

The increase in same-store rental revenues was primarily due to increased rental rates to new and existing tenants and our ability to maintain occupancy. The increase in same-store operating expenses was due to an increase in repairs and maintenance, insurance and property taxes.

## CONTINGENT CONVERSION SHARES ("CCS") AND CONTINGENT CONVERSION UNITS ("CCU") PROPERTY PERFORMANCE

Upon the achievement of certain levels of net operating income with respect to 14 of our properties, our CCSs and our Operating Partnership's CCUs converted into additional shares of common stock and OP units, respectively.

As of December 31, 2008, an aggregate of 2,801,053 CCSs and 144,089 CCUs had converted to common stock and OP units, respectively. Based on the performance of the properties as of December 31, 2008, no additional CCSs and CCUs became eligible for conversion during the fourth quarter. The remaining unconverted 1,087,790 CCSs and 55,957 CCUs were cancelled as of February 4, 2009.

The table below outlines the performance of the properties for the three months and years ended December 31, 2008 and 2007, respectively and for the years ended December 31, 2007 and 2006.

|                                                 | Three Months Ended |           |         |                         |            |         |                         |            |         |
|-------------------------------------------------|--------------------|-----------|---------|-------------------------|------------|---------|-------------------------|------------|---------|
|                                                 | December 31,       |           | Percent | Year Ended December 31, |            | Percent | Year Ended December 31, |            | Percent |
|                                                 | 2008               | 2007      | Change  | 2008                    | 2007       | Change  | 2007                    | 2006       | Change  |
| CCS/CCU rental revenues                         | \$ 3,349           | \$ 3,143  | 6.6%    | \$ 13,300               | \$ 12,089  | 10.0%   | \$ 12,089               | \$ 10,433  | 15.9%   |
| CCS/CCU operating expenses                      | 1,311              | 1,066     | 23.0%   | 5,189                   | 5,039      | 3.0%    | 5,039                   | 5,439      | (7.4)%  |
| CCS/CCU net operating income                    | 2,038              | 2,077     | (1.9)%  | 8,111                   | 7,050      | 15.0%   | 7,050                   | 4,994      | 41.2%   |
| Non CCS/CCU rental revenues                     | 57,440             | 53,340    | 7.7%    | 222,395                 | 194,226    | 14.5%   | 194,226                 | 160,560    | 21.0%   |
| Non CCS/CCU operating expenses                  | 20,340             | 18,149    | 12.1%   | 79,333                  | 68,031     | 16.6%   | 68,031                  | 56,804     | 19.8%   |
| Total rental revenues                           | \$ 60,789          | \$ 56,483 | 7.6%    | \$ 235,695              | \$ 206,315 | 14.2%   | \$ 206,315              | \$ 170,993 | 20.7%   |
| Total operating expenses                        | 21,651             | 19,215    | 12.7%   | 84,522                  | 73,070     | 15.7%   | 73,070                  | 62,243     | 17.4%   |
| CCS/CCU square foot occupancy as of quarter end | 76.4%              | 77.6%     |         | 76.4%                   | 77.6%      |         | 77.6%                   | 74.1%      |         |
| Properties included in CCS/CCU                  | 14                 | 14        |         | 14                      | 14         |         | 14                      | 14         |         |

### Comparison of the Year Ended December 31, 2008 to the Year Ended December 31, 2007

The increase in rental revenues was primarily due to increased rental rates to new and existing tenants and our ability to maintain occupancy. The increase in operating expenses was primarily due to increases in property tax expense from the prior year.

### Comparison of the Year Ended December 31, 2007 to the Year Ended December 31, 2006

The increase in revenues was primarily due to increased rental rates to new and existing tenants and increases in occupancy. The decrease in same-store operating expenses was due to a property tax adjustment from prior years.

## CASH FLOWS

### Comparison of the Year Ended December 31, 2008 to the Year Ended December 31, 2007

Cash flows provided by operating activities were \$96,664 and \$101,332 for the years ended December 31, 2008 and 2007, respectively. This decrease was due mainly to an increase in the cash paid on behalf of affiliated joint ventures and related parties during 2008 compared to 2007, which resulted in an increase in receivables from related parties. Additionally, more cash was spent to acquire other assets in 2008 when compared to 2007. These decreases were partially offset by the increase in cash due to the acquisition of new stabilized properties in 2008 and 2007.

Cash used in investing activities was \$222,754 and \$253,579 for the years ended December 31, 2008 and 2007, respectively. The decrease in 2008 was primarily the result of \$56,397 less cash being used to

fund acquisition activities and the collection of \$21,812 of cash from the sale of the Company's investments available for sale, compared to a payment of \$24,460 to purchase investments available for sale in 2007. These decreases were partially offset by an increase of \$18,708 in development activities and an increase of \$39,223 invested in real estate ventures when compared to the prior year.

Cash provided by financing activities was \$172,685 and \$98,823 for the years ended December 31, 2008 and 2007, respectively. The increase in cash provided in 2008 was due primarily to proceeds from issuance of common stock of \$276,601 in 2008 compared to \$0 in 2007, and no cash was loaned to the Preferred OP unit holder in 2008 when compared to the prior year. These increases were offset primarily by the decrease of \$250,000 of proceeds from exchangeable senior notes, as no new notes were issued in 2008.

#### **Comparison of the Year Ended December 31, 2007 to the Year Ended December 31, 2006**

Cash flows provided by operating activities were \$101,332 and \$76,885 for the years ended December 31, 2007 and 2006, respectively. The increase in cash provided by operating activities was due to the addition through acquisition of new stabilized properties. In addition, the increase was also a result of the collection of receivables from affiliated joint ventures and related parties and the timing of payments of accounts payable and accrued expenses as a result of normal operations.

Cash used in investing activities was \$253,579 and \$239,778 for the years ended December 31, 2007 and 2006, respectively. The increase in 2007 is primarily the result of the additional cash being used to fund acquisition and development activities.

Cash provided by financing activities was \$98,823 and \$205,041 for the years ended December 31, 2007 and 2006, respectively. The decrease in 2007 was due to an increase in net borrowings and notes payable (net of principal payments) of \$207,795 that was offset by a loan to a Preferred OP unit holder of \$100,000 in 2007. Net proceeds from share issuances of \$194,474 were received in 2006 compared to \$0 in 2007.

#### **2008 OPERATIONAL SUMMARY**

Our 2008 operating results were positive with increases in both revenues and net operating income. On a same-store basis (excluding tenant reinsurance revenues), revenue increased 1.6% and NOI increased 2.3%. Same-store expense control was excellent, with a year-on-year increase of a modest 0.3%. Revenue increases were driven mostly by rate growth to existing tenants, as year-end same-store occupancy decreased to 82.5% as compared to 84.2% the previous year.

The markets of Chicago, Dallas, Denver, Houston and San Francisco/Oakland were top performers with year-on-year revenue growth at stabilized properties. Markets performing below the portfolio average in year-on-year revenue growth included Indianapolis, Memphis, Miami, Phoenix and West Palm Beach. Properties in markets throughout Florida continue to perform below the portfolio average.

#### **LIQUIDITY AND CAPITAL RESOURCES**

As of December 31, 2008, we had approximately \$63,972 available in cash and cash equivalents. We intend to use this cash to repay debt scheduled to mature in 2009 and for general corporate purposes. We are required to distribute at least 90% of our net taxable income, excluding net capital gains, to our stockholders on an annual basis to maintain our qualification as a REIT. Recently issued guidance from the IRS allows for up to 90% of a REIT's dividends to be paid with its common stock in 2009 if certain conditions are met. We will continue to review our dividend payment policy on a quarterly basis and may consider a reduction in our dividend distribution and/or payment of our dividend distribution using a combination of cash and our common stock. It is unlikely that we will

have any substantial cash balances that could be used to meet our liquidity needs. Instead, these needs must be met from cash generated from operations and external sources of capital.

Our cash and cash equivalents are held in accounts managed by third party financial institutions and consist of invested cash and cash in our operating accounts. During 2008 we experienced no loss or lack of access to our cash or cash equivalents; however, there can be no assurance that access to our cash and cash equivalents will not be impacted by adverse conditions in the financial markets.

On October 19, 2007, we entered into a \$100,000 Credit Line. We intend to use the proceeds of the Credit Line to repay debt scheduled to mature in 2009 and for general corporate purposes. The Credit Line has an interest rate of between 100 and 205 basis points over LIBOR, depending on certain of our financial ratios. The Credit Line is collateralized by mortgages on certain real estate assets. The Credit Line matures on October 31, 2010 with two one-year extensions available. Outstanding balances on the Credit Line at December 31, 2008 and 2007 were \$27,000 and \$0, respectively.

On October 4, 2004, we entered into a reverse interest rate swap (the "Swap Agreement") with U.S. Bank National Association, relating to our existing \$61.8 million fixed rate mortgage with Wachovia Bank, which is due in 2009. Pursuant to the Swap Agreement, we will receive fixed interest payments of 4.3% and pay variable interest payments based on the one-month LIBOR plus 0.7% on a notional amount of \$61.8 million. There were no origination fees or other up front costs incurred by us in connection with the Swap Agreement.

As of December 31, 2008, we had approximately \$1,299,851 of debt, resulting in a debt to total capitalization ratio of 58.0%. As of December 31, 2008, the ratio of total fixed rate debt and other instruments to total debt was 88.3% (\$61,770 on which we have a reverse interest rate swap has been included as variable rate debt). The weighted average interest rate of the total of fixed and variable rate debt at December 31, 2008 was 4.7%.

Certain of our real estate assets are pledged as collateral for our debt. We are subject to certain restrictive covenants relating to our outstanding debt. We were in compliance with all covenants at December 31, 2008.

We expect to fund our short-term liquidity requirements, including operating expenses, recurring capital expenditures, dividends to stockholders, distributions to holders of OP units and interest on our outstanding indebtedness out of our operating cash flow, cash on hand and borrowings under our Credit Line. In addition, the Company is actively pursuing additional term loans secured by unencumbered properties.

Our liquidity needs consist primarily of cash distributions to stockholders, new facility development, property acquisitions, principal payments under our borrowings and non-recurring capital expenditures. In addition, we evaluate, on an ongoing basis, the merits of strategic acquisitions and other relationships, which may require us to raise additional funds. We do not expect that our operating cash flow will be sufficient to fund our liquidity needs and instead expect to fund such needs out of additional borrowings of secured or unsecured indebtedness, joint ventures with third parties, and from the proceeds of public and private offerings of equity and debt. In addition, we will continue to review our dividend payment policy on a quarterly basis and may consider a reduction in our dividend distribution and/or payment of our dividend distribution using our common stock. Additional capital may not be available on terms favorable to us or at all. Any additional issuance of equity or equity-linked securities may result in dilution to our stockholders. In addition, any new securities we issue could have rights, preferences and privileges senior to holders of our common stock. We may also use OP units as currency to fund acquisitions from self-storage owners who desire tax-deferral in their exiting transactions.

The U.S. credit markets are experiencing significant dislocations and liquidity disruptions which have caused the spreads on prospective debt financings to widen considerably. These circumstances have materially impacted liquidity in the debt markets, making financing terms for borrowers less attractive, and in certain cases have resulted in the unavailability of certain types of debt financing. Continued uncertainty in the credit markets may negatively impact our ability to make acquisitions and fund current and future development projects. In addition, the financial condition of the lenders of our credit facilities may worsen to the point that they default on their obligations to make available to us the funds under those facilities. A prolonged downturn in the credit markets may cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our business plan accordingly. In addition, these factors may make it more difficult for us to sell properties or may adversely affect the price we receive for properties that we do sell, as prospective buyers may experience increased costs of debt financing or difficulties in obtaining debt financing. These events in the credit markets have also had an adverse affect on other financial markets in the United States, which may make it more difficult or costly for us to raise capital through the issuance of common stock, preferred stock or other equity securities. These disruptions in the financial market may have other adverse effects on us or the economy generally, which could cause our stock price to decline.

## OFF-BALANCE SHEET ARRANGEMENTS

Except as disclosed in the notes to our financial statements, we do not currently have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purposes entities, which typically are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Further, except as disclosed in the notes to our financial statements, we have not guaranteed any obligations of unconsolidated entities nor do we have any commitments or intent to provide funding to any such entities. Accordingly, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in these relationships.

Our exchangeable senior notes provide for excess exchange value to be paid in shares of our common stock if our stock price exceeds a certain amount. See the notes to our financial statements for a further description of our exchangeable senior notes.

## CONTRACTUAL OBLIGATIONS

The following table sets forth information on payments due by period at December 31, 2008:

|                                                                                      | Payments due by Period: |                               |                                 |                                 |                                  |
|--------------------------------------------------------------------------------------|-------------------------|-------------------------------|---------------------------------|---------------------------------|----------------------------------|
|                                                                                      | Total                   | Less Than<br>1 Year<br>(2009) | 1 - 3 Years<br>(2010 -<br>2011) | 3 - 5 Years<br>(2012 -<br>2013) | After<br>5 Years<br>(after 2013) |
| Operating leases                                                                     | \$ 59,447               | \$ 5,604                      | \$ 10,547                       | \$ 8,416                        | \$ 34,880                        |
| Notes payable, notes payable to trusts, exchangeable senior notes and line of credit |                         |                               |                                 |                                 |                                  |
| Interest                                                                             | 498,833                 | 52,026                        | 87,282                          | 77,994                          | 281,531                          |
| Principal                                                                            | 1,299,851               | 220,406                       | 267,581                         | 34,367                          | 777,497                          |
| Total contractual obligations                                                        | <u>\$1,858,131</u>      | <u>\$278,036</u>              | <u>\$ 365,410</u>               | <u>\$ 120,777</u>               | <u>\$1,093,908</u>               |

As of December 31, 2008, the weighted average interest rate for all fixed rate loans was 5.1%, and the weighted average interest rate on all variable rate loans was 1.6%.

## **FINANCING STRATEGY**

We will continue to employ leverage in our capital structure in amounts reviewed from time to time by our board of directors. Although our board of directors has not adopted a policy which limits the total amount of indebtedness that we may incur, we will consider a number of factors in evaluating our level of indebtedness from time to time, as well as the amount of such indebtedness that will be either fixed or variable rate. In making financing decisions, we will consider factors including but not limited to:

- the interest rate of the proposed financing;
- the extent to which the financing impacts flexibility in managing our properties;
- prepayment penalties and restrictions on refinancing;
- the purchase price of properties acquired with debt financing;
- long-term objectives with respect to the financing;
- target investment returns;
- the ability of particular properties, and our Company as a whole, to generate cash flow sufficient to cover expected debt service payments;
- overall level of consolidated indebtedness;
- timing of debt and lease maturities;
- provisions that require recourse and cross-collateralization;
- corporate credit ratios including debt service coverage, debt to total capitalization and debt to undepreciated assets; and
- the overall ratio of fixed and variable rate debt.

Our indebtedness may be recourse, non-recourse or cross-collateralized. If the indebtedness is non-recourse, the collateral will be limited to the particular properties to which the indebtedness relates. In addition, we may invest in properties subject to existing loans collateralized by mortgages or similar liens on our properties, or may refinance properties acquired on a leveraged basis. We may use the proceeds from any borrowings to refinance existing indebtedness, to refinance investments, including the redevelopment of existing properties, for general working capital or to purchase additional interests in partnerships or joint ventures or for other purposes when we believe it is advisable.

During October 2008, we repurchased \$40,337 million in aggregate principal amount of our exchangeable senior notes on the open market for \$31,721 in cash. We may from time to time seek to retire, repurchase or redeem our additional outstanding debt including our exchangeable senior notes as well as shares of common stock or other securities in open market purchases, privately negotiated transactions or otherwise. Such repurchases or redemptions, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material.

## **SEASONALITY**

The self-storage business is subject to seasonal fluctuations. A greater portion of revenues and profits are realized from May through September. Historically, our highest level of occupancy has been at the end of July, while our lowest level of occupancy has been in late February and early March. Results for any quarter may not be indicative of the results that may be achieved for the full fiscal year.

## **Item 7a. Quantitative and Qualitative Disclosures About Market Risk**

### **Market Risk**

Market risk refers to the risk of loss from adverse changes in market prices and interest rates. Our future income, cash flows and fair values of financial instruments are dependent upon prevailing market interest rates.

### **Interest Rate Risk**

Interest rate risk is highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control.

As of December 31, 2008, we had approximately \$1.3 billion in total debt of which approximately \$152.4 million was subject to variable interest rates (including the approximately \$61.8 million on which we have the reverse interest rate swap). If LIBOR were to increase or decrease by 100 basis points, the increase or decrease in interest expense on the variable rate debt would increase or decrease future earnings and cash flows by approximately \$1.5 million annually.

Interest rate risk amounts were determined by considering the impact of hypothetical interest rates on our financial instruments. These analyses do not consider the effect of any change in overall economic activity that could occur. Further, in the event of a change of that magnitude, we may take actions to further mitigate our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, these analyses assume no changes in our financial structure.

The aggregate fair value of fixed rate notes payable and notes payable to trusts at December 31, 2008 was \$1.1 billion. The carrying value of these fixed rate notes payable and notes payable to trusts at December 31, 2008 was \$937.8 million. The fair value of the exchangeable senior notes at December 31, 2008 was \$131.0 million. The carrying value of the exchangeable senior notes at December 31, 2008 was \$209.7 million.

**Item 8. Financial Statements and Supplementary Data**

**EXTRA SPACE STORAGE INC.  
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS  
AND SCHEDULES**

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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 consolidated financial statements or notes thereto.

## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of Extra Space Storage Inc.

We have audited the accompanying consolidated balance sheets of Extra Space Storage Inc. and subsidiaries ("the Company") as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the financial statement schedule listed in the index at Item 8. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and 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 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2008 and 2007 and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, 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 consolidated 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), the Company's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Salt Lake City, Utah  
February 24, 2009

See accompanying notes.

**Extra Space Storage Inc.**  
**Consolidated Balance Sheets**  
(Dollars in thousands, except share data)

|                                                                                                                                                                    | December 31,<br>2008 | December 31,<br>2007 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| <b>Assets:</b>                                                                                                                                                     |                      |                      |
| Real estate assets:                                                                                                                                                |                      |                      |
| Net operating real estate assets                                                                                                                                   | \$1,938,922          | \$1,791,377          |
| Real estate under development                                                                                                                                      | 58,734               | 49,945               |
| Net real estate assets                                                                                                                                             | 1,997,656            | 1,841,322            |
| Investments in real estate ventures                                                                                                                                | 136,791              | 95,169               |
| Cash and cash equivalents                                                                                                                                          | 63,972               | 17,377               |
| Investments available for sale                                                                                                                                     | —                    | 21,812               |
| Restricted cash                                                                                                                                                    | 38,678               | 34,449               |
| Receivables from related parties and affiliated real estate joint ventures                                                                                         | 11,335               | 7,386                |
| Other assets, net                                                                                                                                                  | 42,576               | 36,560               |
| Total assets                                                                                                                                                       | <u>\$2,291,008</u>   | <u>\$2,054,075</u>   |
| <b>Liabilities, Minority Interests and Stockholders' Equity:</b>                                                                                                   |                      |                      |
| Notes payable                                                                                                                                                      | \$ 943,598           | \$ 950,181           |
| Notes payable to trusts                                                                                                                                            | 119,590              | 119,590              |
| Exchangeable senior notes                                                                                                                                          | 209,663              | 250,000              |
| Line of credit                                                                                                                                                     | 27,000               | —                    |
| Accounts payable and accrued expenses                                                                                                                              | 35,128               | 31,346               |
| Other liabilities                                                                                                                                                  | 22,267               | 18,055               |
| Total liabilities                                                                                                                                                  | <u>1,357,246</u>     | <u>1,369,172</u>     |
| Minority interest represented by Preferred Operating Partnership units, net of \$100,000 note receivable                                                           | 28,529               | 30,041               |
| Minority interest in Operating Partnership and other minority interests                                                                                            | 32,770               | 34,941               |
| Commitments and contingencies                                                                                                                                      |                      |                      |
| Stockholders' equity:                                                                                                                                              |                      |                      |
| Preferred stock, \$0.01 par value, 50,000,000 shares authorized, no shares issued or outstanding                                                                   | —                    | —                    |
| Common stock, \$0.01 par value, 300,000,000 shares authorized, 85,790,331 and 65,784,274 shares issued and outstanding at December 31, 2008 and 2007, respectively | 858                  | 658                  |
| Paid-in capital                                                                                                                                                    | 1,109,185            | 826,026              |
| Other comprehensive deficit                                                                                                                                        | —                    | (1,415)              |
| Accumulated deficit                                                                                                                                                | (237,580)            | (205,348)            |
| Total stockholders' equity                                                                                                                                         | <u>872,463</u>       | <u>619,921</u>       |
| Total liabilities, minority interests, and stockholders' equity                                                                                                    | <u>\$2,291,008</u>   | <u>\$2,054,075</u>   |

See accompanying notes.

**Extra Space Storage Inc.**  
**Consolidated Statements of Operations**  
(Dollars in thousands, except share data)

|                                                                                                                                                                                                                           | For the Year Ended December 31, |                  |                  |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|------------------|------------------|
|                                                                                                                                                                                                                           | 2008                            | 2007             | 2006             |
| <b>Revenues:</b>                                                                                                                                                                                                          |                                 |                  |                  |
| Property rental                                                                                                                                                                                                           | \$ 235,695                      | \$ 206,315       | \$ 170,993       |
| Management and franchise fees                                                                                                                                                                                             | 20,945                          | 20,598           | 20,883           |
| Tenant reinsurance                                                                                                                                                                                                        | 16,091                          | 11,049           | 4,318            |
| Other income                                                                                                                                                                                                              | 520                             | 904              | 1,070            |
| Total revenues                                                                                                                                                                                                            | 273,251                         | 238,866          | 197,264          |
| <b>Expenses:</b>                                                                                                                                                                                                          |                                 |                  |                  |
| Property operations                                                                                                                                                                                                       | 84,522                          | 73,070           | 62,243           |
| Tenant reinsurance                                                                                                                                                                                                        | 5,066                           | 4,710            | 2,328            |
| Unrecovered development and acquisition costs                                                                                                                                                                             | 1,727                           | 765              | 269              |
| General and administrative                                                                                                                                                                                                | 40,427                          | 36,722           | 35,600           |
| Depreciation and amortization                                                                                                                                                                                             | 49,566                          | 39,801           | 37,172           |
| Total expenses                                                                                                                                                                                                            | 181,308                         | 155,068          | 137,612          |
| Income before interest, equity in earnings of real estate ventures, gain on repurchase of exchangeable senior notes, loss on investments available for sale, Preferred Operating Partnership units and minority interests | 91,943                          | 83,798           | 59,652           |
| Interest expense                                                                                                                                                                                                          | (64,611)                        | (61,015)         | (50,953)         |
| Interest income                                                                                                                                                                                                           | 3,399                           | 7,925            | 2,469            |
| Interest income on note receivable from Preferred Operating Partnership unit holder                                                                                                                                       | 4,850                           | 2,492            | —                |
| Equity in earnings of real estate ventures                                                                                                                                                                                | 6,932                           | 5,300            | 4,693            |
| Gain on repurchase of exchangeable senior notes                                                                                                                                                                           | 7,970                           | —                | —                |
| Loss on sale of investments available for sale                                                                                                                                                                            | (1,415)                         | —                | —                |
| Impairment of investments available for sale                                                                                                                                                                              | —                               | (1,233)          | —                |
| Fair value adjustment of obligation associated with Preferred Operating Partnership units                                                                                                                                 | —                               | 1,054            | —                |
| Minority interest—Preferred Operating Partnership                                                                                                                                                                         | (5,227)                         | (1,465)          | —                |
| Minority interests—Operating Partnership and other                                                                                                                                                                        | 3,047                           | (762)            | (985)            |
| <b>Net income</b>                                                                                                                                                                                                         | 46,888                          | 36,094           | 14,876           |
| Fixed distribution paid to Preferred Operating Partnership unit holder                                                                                                                                                    | —                               | (1,510)          | —                |
| <b>Net income attributable to common stockholders</b>                                                                                                                                                                     | <u>\$ 46,888</u>                | <u>\$ 34,584</u> | <u>\$ 14,876</u> |
| Net income per common share                                                                                                                                                                                               |                                 |                  |                  |
| Basic                                                                                                                                                                                                                     | \$ 0.61                         | \$ 0.53          | \$ 0.27          |
| Diluted                                                                                                                                                                                                                   | \$ 0.61                         | \$ 0.53          | \$ 0.27          |
| Weighted average number of shares                                                                                                                                                                                         |                                 |                  |                  |
| Basic                                                                                                                                                                                                                     | 76,557,550                      | 64,688,741       | 54,998,935       |
| Diluted                                                                                                                                                                                                                   | 81,913,784                      | 70,503,668       | 59,291,749       |
| <b>Cash dividends paid per common share</b>                                                                                                                                                                               | \$ 1.00                         | \$ 0.93          | \$ 0.91          |

See accompanying notes.

**Extra Space Storage Inc.**  
**Consolidated Statements of Stockholders' Equity**  
(Dollars in thousands, except share data)

|                                                                        | Common Stock |           | Paid-in<br>Capital | Deferred<br>Compensation | Accumulated<br>Other<br>Comprehensive Deficit | Accumulated<br>Deficit | Total<br>Stockholders'<br>Equity |
|------------------------------------------------------------------------|--------------|-----------|--------------------|--------------------------|-----------------------------------------------|------------------------|----------------------------------|
|                                                                        | Shares       | Par Value |                    |                          |                                               |                        |                                  |
| <b>Balances at December 31, 2005</b>                                   | 51,765,795   | \$ 518    | \$ 626,123         | \$ (2,374)               | \$ —                                          | \$ (144,139)           | 480,128                          |
| Reclassification of deferred compensation upon adoption of SFAS 123R   | —            | —         | (2,374)            | 2,374                    | —                                             | —                      | —                                |
| Issuance of common stock, net of offering costs                        | 12,075,000   | 121       | 194,780            | —                        | —                                             | —                      | 194,901                          |
| Issuance of common stock upon the exercise of options                  | 98,003       | 1         | 545                | —                        | —                                             | —                      | 546                              |
| Issuance of common stock to board members                              | 12,000       | —         | —                  | —                        | —                                             | —                      | —                                |
| Restricted stock grants issued                                         | 49,800       | —         | —                  | —                        | —                                             | —                      | —                                |
| Restricted stock grants cancelled                                      | (33,500)     | —         | —                  | —                        | —                                             | —                      | —                                |
| Compensation expense related to stock-based awards                     | —            | —         | 1,725              | —                        | —                                             | —                      | 1,725                            |
| Conversion of Operating Partnership units to common stock              | 200,000      | 2         | 1,809              | —                        | —                                             | —                      | 1,811                            |
| Other adjustments                                                      | —            | —         | (427)              | —                        | —                                             | —                      | (427)                            |
| Net income                                                             | —            | —         | —                  | —                        | —                                             | 14,876                 | 14,876                           |
| Dividends paid on common stock at \$0.91 per share                     | —            | —         | —                  | —                        | —                                             | (50,005)               | (50,005)                         |
| <b>Balances at December 31, 2006</b>                                   | 64,167,098   | 642       | 822,181            | —                        | —                                             | (179,268)              | 643,555                          |
| Issuance of common stock upon the exercise of options                  | 126,801      | 1         | 1,720              | —                        | —                                             | —                      | 1,721                            |
| Restricted stock grants issued                                         | 120,729      | 1         | —                  | —                        | —                                             | —                      | 1                                |
| Restricted stock grants cancelled                                      | (3,082)      | —         | —                  | —                        | —                                             | —                      | —                                |
| Conversion of Contingent Conversion Shares to common stock             | 1,372,728    | 14        | —                  | —                        | —                                             | —                      | 14                               |
| Compensation expense related to stock-based awards                     | —            | —         | 2,125              | —                        | —                                             | —                      | 2,125                            |
| Fixed distribution paid to Preferred Operating Partnership unit holder | —            | —         | —                  | —                        | —                                             | (1,510)                | (1,510)                          |
| Comprehensive loss:                                                    |              |           |                    |                          |                                               |                        |                                  |
| Net income                                                             | —            | —         | —                  | —                        | —                                             | 36,094                 | 36,094                           |
| Loss on sale of investments available for sale                         | —            | —         | —                  | —                        | (1,415)                                       | —                      | (1,415)                          |
| Total comprehensive income                                             | —            | —         | —                  | —                        | —                                             | —                      | 34,679                           |
| Dividends paid on common stock at \$0.93 per share                     | —            | —         | —                  | —                        | —                                             | (60,664)               | (60,664)                         |
| <b>Balances at December 31, 2007</b>                                   | 65,784,274   | 658       | 826,026            | —                        | (1,415)                                       | (205,348)              | 619,921                          |
| Issuance of common stock upon the exercise of options                  | 146,795      | 1         | 1,903              | —                        | —                                             | —                      | 1,904                            |
| Restricted stock grants issued                                         | 361,624      | 4         | —                  | —                        | —                                             | —                      | 4                                |
| Restricted stock grants cancelled                                      | (10,186)     | —         | —                  | —                        | —                                             | —                      | —                                |
| Compensation expense related to stock-based awards                     | —            | —         | 3,500              | —                        | —                                             | —                      | 3,500                            |
| Conversion of Contingent Conversion Shares to common stock             | 1,428,325    | 14        | —                  | —                        | —                                             | —                      | 14                               |
| Issuance of common stock, net of offering costs                        | 17,950,000   | 180       | 276,421            | —                        | —                                             | —                      | 276,601                          |
| Conversion of Operating Partnership units to common stock              | 129,499      | 1         | 1,238              | —                        | —                                             | —                      | 1,239                            |
| Comprehensive income:                                                  |              |           |                    |                          |                                               |                        |                                  |
| Net income                                                             | —            | —         | —                  | —                        | —                                             | 46,888                 | 46,888                           |
| Loss on sale of investments available for sale                         | —            | —         | —                  | —                        | 1,415                                         | —                      | 1,415                            |
| Total comprehensive income                                             | —            | —         | —                  | —                        | —                                             | —                      | 48,303                           |
| Tax benefit from exercise of common stock options                      | —            | —         | 97                 | —                        | —                                             | —                      | 97                               |
| Dividends paid on common stock at \$1.00 per share                     | —            | —         | —                  | —                        | —                                             | (79,120)               | (79,120)                         |
| <b>Balances at December 31, 2008</b>                                   | 85,790,331   | \$ 858    | \$1,109,185        | \$ —                     | \$ —                                          | \$ (237,580)           | \$ 872,463                       |

See accompanying notes.

**Extra Space Storage Inc.**  
**Consolidated Statements of Cash Flows**  
**(Dollars in thousands)**

|                                                                                           | <b>For the Year Ended December 31,</b> |                  |                  |
|-------------------------------------------------------------------------------------------|----------------------------------------|------------------|------------------|
|                                                                                           | <b>2008</b>                            | <b>2007</b>      | <b>2006</b>      |
| <b>Cash flows from operating activities:</b>                                              |                                        |                  |                  |
| Net income                                                                                | \$ 46,888                              | \$ 36,094        | \$ 14,876        |
| Adjustments to reconcile net income to net cash provided by operating activities:         |                                        |                  |                  |
| Depreciation and amortization                                                             | 49,566                                 | 39,801           | 37,172           |
| Amortization of deferred financing costs                                                  | 3,596                                  | 3,309            | 2,365            |
| Stock compensation expense                                                                | 3,500                                  | 2,125            | 1,725            |
| Gain on repurchase of exchangeable senior notes                                           | (7,970)                                | —                | —                |
| Loss on investments available for sale                                                    | 1,415                                  | 1,233            | —                |
| Fair value adjustment of obligation associated with Preferred Operating Partnership units | —                                      | (1,054)          | —                |
| Income allocated to minority interests                                                    | 2,180                                  | 2,227            | 985              |
| Distributions from real estate ventures in excess of earnings                             | 5,176                                  | 3,946            | 5,559            |
| Changes in operating assets and liabilities:                                              |                                        |                  |                  |
| Receivables from related parties                                                          | (5,976)                                | 5,905            | 7,803            |
| Other assets                                                                              | (9,164)                                | 4,589            | 3,029            |
| Accounts payable and accrued expenses                                                     | 3,435                                  | 5,642            | (2,421)          |
| Other liabilities                                                                         | 4,018                                  | (2,485)          | 5,792            |
| Net cash provided by operating activities                                                 | <u>96,664</u>                          | <u>101,332</u>   | <u>76,885</u>    |
| <b>Cash flows from investing activities:</b>                                              |                                        |                  |                  |
| Acquisition of real estate assets                                                         | (127,293)                              | (183,690)        | (174,305)        |
| Development and construction of real estate assets                                        | (64,344)                               | (45,636)         | (34,782)         |
| Proceeds from sale of real estate assets                                                  | 340                                    | 1,999            | 728              |
| Investments in real estate ventures                                                       | (50,061)                               | (10,838)         | (5,660)          |
| Return of investment in real estate ventures                                              | 2,915                                  | 284              | —                |
| Net proceeds from sale of (purchases of) investments available for sale                   | 21,812                                 | (24,460)         | —                |
| Change in restricted cash                                                                 | (3,781)                                | 9,833            | (25,876)         |
| Principal payments received on notes receivable                                           | —                                      | —                | 1,811            |
| Purchase of equipment and fixtures                                                        | (2,342)                                | (1,071)          | (1,694)          |
| Net cash used in investing activities                                                     | <u>(222,754)</u>                       | <u>(253,579)</u> | <u>(239,778)</u> |
| <b>Cash flows from financing activities:</b>                                              |                                        |                  |                  |
| Proceeds from exchangeable senior notes                                                   | —                                      | 250,000          | —                |
| Repurchase of exchangeable senior notes                                                   | (31,721)                               | —                | —                |
| Proceeds from notes payable, notes payable to trusts and line of credit                   | 42,302                                 | 56,759           | 165,666          |
| Principal payments on notes payable and line of credit                                    | (26,575)                               | (32,164)         | (98,866)         |
| Deferred financing costs                                                                  | (1,007)                                | (8,867)          | (3,393)          |
| Loan to Preferred Operating Partnership unit holder                                       | —                                      | (100,000)        | —                |
| Investments from minority interests                                                       | 1,174                                  | —                | 92               |
| Redemption of Operating Partnership units held by minority interest                       | —                                      | (874)            | —                |
| Proceeds from issuance of common shares, net                                              | 276,601                                | —                | 194,474          |
| Net proceeds from exercise of stock options                                               | 1,904                                  | 1,721            | 546              |
| Dividends paid on common stock                                                            | (79,120)                               | (60,664)         | (50,005)         |
| Distributions to Operating Partnership units held by minority interest                    | (10,873)                               | (7,088)          | (3,473)          |
| Net cash provided by financing activities                                                 | <u>172,685</u>                         | <u>98,823</u>    | <u>205,041</u>   |
| Net increase (decrease) in cash and cash equivalents                                      | <u>46,595</u>                          | <u>(53,424)</u>  | <u>42,148</u>    |
| Cash and cash equivalents, beginning of the period                                        | <u>17,377</u>                          | <u>70,801</u>    | <u>28,653</u>    |
| Cash and cash equivalents, end of the period                                              | <u>\$ 63,972</u>                       | <u>\$ 17,377</u> | <u>\$ 70,801</u> |

See accompanying notes.

Extra Space Storage Inc.

Consolidated Statements of Cash Flows (Continued)

(Dollars in thousands)

|                                                                                       | <b>For the Year Ended December 31,</b> |             |             |
|---------------------------------------------------------------------------------------|----------------------------------------|-------------|-------------|
|                                                                                       | <b>2008</b>                            | <b>2007</b> | <b>2006</b> |
| <b>Supplemental schedule of cash flow information</b>                                 |                                        |             |             |
| Interest paid, net of amounts capitalized                                             | \$ 62,831                              | \$ 55,132   | \$ 47,683   |
| <b>Supplemental schedule of noncash investing and financing activities:</b>           |                                        |             |             |
| Acquisitions:                                                                         |                                        |             |             |
| Real estate assets                                                                    | \$ 3,623                               | \$ 231,037  | \$ 27,091   |
| Notes payable acquired                                                                | —                                      | (95,202)    | (10,878)    |
| Notes receivable                                                                      | —                                      | —           | (10,298)    |
| Preferred Operating Partnership units issued as consideration                         | —                                      | (131,499)   | —           |
| Investment in real estate ventures                                                    | —                                      | (502)       | (2,785)     |
| Operating Partnership units issued as consideration                                   | (3,623)                                | (3,834)     | (3,130)     |
| Conversion of Operating Partnership Units held by minority interests for common stock | 1,239                                  | —           | 1,811       |
| Temporary impairment of short-term investments                                        | —                                      | (1,415)     | —           |

See accompanying notes.

**Extra Space Storage Inc.**  
**Notes to Consolidated Financial Statements**  
**December 31, 2008**  
**(Dollars in thousands, except share data)**

**1. DESCRIPTION OF BUSINESS**

**Business**

Extra Space Storage Inc. (the "Company") is a self-administered and self-managed real estate investment trust ("REIT"), formed as a Maryland Corporation on April 30, 2004 to own, operate, manage, acquire, develop and redevelop self-storage facilities located throughout the United States. The Company continues the business of Extra Space Storage LLC and its subsidiaries (the "Predecessor"), which had engaged in the self-storage business since 1977. The Company's interest in its properties is held through its operating partnership, Extra Space Storage LP (the "Operating Partnership"), which was formed on May 5, 2004. The Company's primary assets are general partner and limited partner interests in the Operating Partnership. This structure is commonly referred to as an umbrella partnership REIT, or UPREIT. The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). To the extent the Company continues to qualify as a REIT, it will not be subject to tax, with certain exceptions, on the taxable income that is distributed to its stockholders.

The Company invests in self-storage facilities by acquiring or developing wholly-owned facilities or by acquiring an equity interest in real estate entities. At December 31, 2008, the Company had direct and indirect equity interests in 627 storage facilities located in 33 states, and Washington, D.C. In addition, the Company managed 67 properties for franchisees or third parties bringing the total number of properties which it owns and/or manages to 694.

The Company operates in two distinct segments: (1) property management, acquisition and development; and (2) rental operations. The Company's property management, acquisition and development activities include managing, acquiring, developing and selling self-storage facilities. The rental operations activities include rental operations of self-storage facilities. No single tenant accounts for more than 5% of rental income.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The consolidated financial statements are presented on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles and include the accounts of the Company and its wholly or majority owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

The Company follows FASB Interpretation No. 46R, " *Consolidation of Variable Interest Entities* " ("FIN 46R"), which addresses the consolidation of variable interest entities ("VIEs"). Under FIN 46R, arrangements that are not controlled through voting or similar rights are accounted for as VIEs. An enterprise is required to consolidate a VIE if it is the primary beneficiary of the VIE.

Under FIN 46R, a VIE is created when (i) the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or (ii) the entity's equity holders as a group either: (a) lack direct or indirect ability to make decisions about the entity through voting or similar rights, (b) are not obligated to absorb expected losses of the entity if they occur, or (c) do not have the right to receive expected residual returns of the entity if

**Extra Space Storage Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2008**

**(Dollars in thousands, except share data)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

they occur. If an entity is deemed to be a VIE pursuant to FIN 46R, the enterprise that is deemed to absorb a majority of the expected losses or receive a majority of expected residual returns of the VIE is considered the primary beneficiary and must consolidate the VIE.

Based on the provisions of FIN 46R, the Company has concluded that under certain circumstances when the Company (1) enters into option agreements for the purchase of land or facilities from an entity and pays a non-refundable deposit, or (2) enters into arrangements for the formation of joint ventures, a VIE may be created under condition (i), (ii) (b) or (c) of the previous paragraph. For each VIE created, the Company has considered expected losses and residual returns based on the probability of future cash flows as outlined in FIN 46R. If the Company is determined to be the primary beneficiary of the VIE, the assets, liabilities and operations of the VIE are consolidated with the Company's financial statements. Additionally, the Company's Operating Partnership has notes payable to three trusts that are VIEs under condition (ii) (a) above. Since the Operating Partnership is not the primary beneficiary of the trusts, these VIEs are not consolidated.

The Company's investments in real estate joint ventures, where the Company has significant influence, but not control and joint ventures which are VIEs in which the Company is not the primary beneficiary, are recorded under the equity method of accounting on the accompanying consolidated financial statements.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Fair Value Disclosures**

*Assets and Liabilities Measured at Fair Value on a Recurring Basis*

The following table provides information for each major category of assets and liabilities that are measured at fair value on a recurring basis:

| <u>Description</u>                           | <u>December 31,</u><br><u>2008</u> | <u>Fair Value Measurements at Reporting Date Using</u> |                                                      |                                                  |
|----------------------------------------------|------------------------------------|--------------------------------------------------------|------------------------------------------------------|--------------------------------------------------|
|                                              |                                    | <u>Quoted Prices in</u><br><u>Active Markets for</u>   | <u>Significant Other</u><br><u>Observable Inputs</u> | <u>Significant</u><br><u>Unobservable Inputs</u> |
|                                              |                                    | <u>Identical Assets</u><br><u>(Level 1)</u>            | <u>(Level 2)</u>                                     | <u>(Level 3)</u>                                 |
| Notes payable associated with Swap Agreement | (61,770)                           | —                                                      | (61,770)                                             | —                                                |
| Other assets (liabilities)—Swap Agreement    | 647                                | —                                                      | 647                                                  | —                                                |
| <b>Total</b>                                 | <b>\$ (61,123)</b>                 | <b>\$ —</b>                                            | <b>\$ (61,123)</b>                                   | <b>\$ —</b>                                      |

**Extra Space Storage Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2008**

**(Dollars in thousands, except share data)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Following is a reconciliation of the beginning and ending balances for the Company's investments available for sale, which were the Company's only material assets or liabilities that are remeasured on a recurring basis using significant unobservable inputs (Level 3):

|                                                                                                                                                                                 |           |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|
| Balance as of December 31, 2007                                                                                                                                                 | \$ 21,812 |
| Total gains or losses (realized/unrealized)                                                                                                                                     |           |
| Included in earnings                                                                                                                                                            | (1,415)   |
| Included in other comprehensive income                                                                                                                                          | 1,415     |
| Settlements received in cash                                                                                                                                                    | (21,812)  |
| Balance as of December 31, 2008                                                                                                                                                 | \$ —      |
| Amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets still held at December 31, 2008 | \$ —      |

*Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis*

Long lived assets held for use are evaluated by the Company for impairment when events or circumstances indicate that there may be an impairment. When such an event occurs, the Company compares the carrying value of these long-lived assets to the undiscounted future net operating cash flows attributable to the assets. An impairment loss is recorded if the net carrying value of the asset exceeds the undiscounted future net operating cash flows attributable to the asset. The impairment loss recognized equals the excess of net carrying value over the related fair value of the asset. Management has determined no property was impaired and no impairment charges have been recognized for the years ended December 31, 2008, 2007 and 2006.

When real estate assets are identified by management as held for sale, the Company discontinues depreciating the assets and estimates the fair value of the assets, net of selling costs. If the estimated fair value, net of selling costs, of the assets that have been identified for sale is less than the net carrying value of the assets, then a valuation allowance is established. The operations of assets held for sale or sold during the period are presented as discontinued operations for all periods presented. Management has determined no property was held for sale at December 31, 2008.

The Company assesses whether there are any indicators that the value of the Company's investments in unconsolidated real estate ventures may be impaired when events or circumstances indicate that there may be an impairment. An investment is impaired if management's estimate of the fair value of the investment is less than its carrying value. To the extent impairment has occurred, and is considered to be other than temporary, the loss is measured as the excess of the carrying amount of the investment over the fair value of the investment. No impairment charges were recognized for the years ended December 31, 2008, 2007 and 2006.

There were no impaired properties or investments in unconsolidated real estate ventures or any real estate assets identified as held for sale during the year ended December 31, 2008. Therefore, the Company did not make any nonrecurring fair value measurements during the period.

**Extra Space Storage Inc.****Notes to Consolidated Financial Statements (Continued)****December 31, 2008****(Dollars in thousands, except share data)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)***Fair Value of Financial Instruments*

The carrying values of cash and cash equivalents, receivables, other financial instruments included in other assets, accounts payable and accrued expenses, variable rate notes payable, line of credit and other liabilities reflected in the consolidated balance sheets at December 31, 2008 and 2007 approximate fair value. The fair value of the note receivable to the Preferred OP unit holder at December 31, 2008 and 2007 was \$124,024 and \$108,915, respectively. The carrying value of the note receivable to the Preferred OP unit holder at December 31, 2008 and 2007 was \$100,000 and \$100,000 respectively. The aggregate fair value of fixed rate notes payable and notes payable to trusts at December 31, 2008 and 2007 was \$1,062,949 and \$968,519, respectively. The carrying value of these fixed rate notes payable and notes payable to trusts at December 31, 2008 and 2007 was \$937,756 and \$944,916, respectively. The fair value of our exchangeable senior notes at December 31, 2008 and 2007 was \$131,039 and \$286,947, respectively. The carrying value of the exchangeable senior notes at December 31, 2008 and 2007 was \$209,663 and \$250,000, respectively.

*Real Estate Assets*

Real estate assets are stated at cost, less accumulated depreciation. Direct and allowable internal costs associated with the development, construction, renovation, and improvement of real estate assets are capitalized. Interest, property taxes, and other costs associated with development incurred during the construction period are capitalized. Capitalized interest during the years ended December 31, 2008, 2007 and 2006 was \$5,506, \$4,555 and \$3,232, respectively.

Expenditures for maintenance and repairs are charged to expense as incurred. Major replacements and betterments that improve or extend the life of the asset are capitalized and depreciated over their estimated useful lives. Depreciation is computed using the straight-line method over the estimated useful lives of the buildings and improvements, which are generally between five and 39 years.

In connection with the Company's acquisition of properties, the purchase price is allocated to the tangible and intangible assets and liabilities acquired based on their fair values. The value of the tangible assets, consisting of land and buildings, are determined as if vacant, that is, at replacement cost. Intangible assets, which represent the value of existing tenant relationships, are recorded at their fair values. The Company measures the value of tenant relationships based on the Company's historical experience with turnover in its facilities. The Company amortizes to expense the tenant relationships on a straight-line basis over the average period that a tenant is expected to utilize the facility (currently estimated to be 18 months).

Intangible lease rights represent: (1) purchase price amounts allocated to leases on two properties that cannot be classified as ground or building leases; these rights are amortized to expense over the life of the leases and (2) intangibles related to ground leases on four properties where the leases were assumed by the Company at rates that were lower than the current market rates for similar leases. The value associated with these assumed leases were recorded as intangibles, which will be amortized over the lease terms.

**Extra Space Storage Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2008**

**(Dollars in thousands, except share data)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Investments in Real Estate Ventures**

The Company's investments in real estate joint ventures, where the Company has significant influence, but not control and joint ventures which are VIEs in which the Company is not the primary beneficiary, are recorded under the equity method of accounting in the accompanying consolidated financial statements.

Under the equity method, the Company's investment in real estate ventures is stated at cost and adjusted for the Company's share of net earnings or losses and reduced by distributions. Equity in earnings of real estate ventures is generally recognized based on the Company's ownership interest in the earnings of each of the unconsolidated real estate ventures. For the purposes of presentation in the statement of cash flows, the Company follows the "look through" approach for classification of distributions from joint ventures. Under this approach, distributions are reported under operating cash flow unless the facts and circumstances of a specific distribution clearly indicate that it is a return of capital (e.g., a liquidating dividend or distribution of the proceeds from the joint venture's sale of assets) in which case it is reported as an investing activity.

**Cash and Cash Equivalents**

The Company's cash is deposited with financial institutions located throughout the United States of America and at times may exceed federally insured limits. The Company considers all highly liquid debt instruments with a maturity date of three months or less to be cash equivalents.

**Investments Available for Sale**

The Company accounts for its investments in debt and equity securities according to the provisions of Statement of Financial Accounting Standards ("SFAS") No. 115, " *Accounting for Certain Investments in Debt and Equity Securities* ," which requires securities classified as "available for sale" to be stated at fair value. Adjustments to the fair value of available for sale securities are recorded as a component of other comprehensive income. A decline in the fair value of investment securities below cost, that is deemed to be other than temporary, results in a reduction in the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. The Company classified its investments in auction rate securities as investments available for sale in the accompanying balance sheet. These investments were carried at fair value with unrealized gains and losses included in accumulated other comprehensive deficit. Unrealized losses that were other-than-temporary were recognized in earnings. The Company had no investments available for sale as of December 31, 2008.

**Restricted Cash**

Restricted cash is comprised of escrowed funds deposited with financial institutions located in various states relating to earnest money deposits on potential acquisitions, real estate taxes, insurance, capital expenditures and lease liabilities.

**Extra Space Storage Inc.****Notes to Consolidated Financial Statements (Continued)****December 31, 2008****(Dollars in thousands, except share data)****2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****Other Assets**

Other assets consist primarily of equipment and fixtures, deferred financing costs, customer accounts receivable, investments in trusts, other intangible assets, deferred tax assets and prepaid expenses. Depreciation of equipment and fixtures is computed on a straight-line basis over three to five years. Deferred financing costs are amortized to interest expense using the effective interest method over the terms of the respective debt agreements.

**Derivative Instruments and Hedging Activities**

SFAS No. 133, " *Accounting for Derivative Instruments and Hedging Activities* ," as amended and interpreted, establishes accounting and reporting standards for derivative instruments and hedging activities. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability or firm commitment attributable to a particular risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

For derivatives designated as fair value hedges, changes in the fair value of the derivative and the hedged item related to the hedged risk are recognized in the statements of operations. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income, outside of earnings and subsequently reclassified to earnings when the hedged transaction affects earnings.

**Risk Management and Use of Financial Instruments**

In the normal course of its on-going business operations, the Company encounters economic risk. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Company is subject to interest rate risk on its interest-bearing liabilities. Credit risk is the risk of inability or unwillingness of tenants to make contractually required payments. Market risk is the risk of declines in the value of properties due to changes in rental rates, interest rates or other market factors affecting the value of properties held by the Company. The Company has entered into Swap Agreements to manage a portion of its interest rate risk.

**Conversion of Operating Partnership Units**

Conversions of Operating Partnership units to common stock, when converted under the original provisions of the agreement, are accounted for by reclassifying the underlying net book value of the units from minority interest to equity in accordance with Emerging Issues Task Force Issue No. 95-7, " *Implementation Issues Related to the Treatment of Minority Interest in Certain Real Estate Investment Trusts* ."

**Revenue and Expense Recognition**

Rental revenues are recognized as earned based upon amounts that are currently due from tenants. Leases are generally on month-to-month terms. Prepaid rents are recognized on a straight-line

**Extra Space Storage Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2008**

**(Dollars in thousands, except share data)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

basis over the term of the leases. Promotional discounts are recognized as a reduction to rental income over the promotional period. Late charges, administrative fees, merchandise sales and truck rentals are recognized as income when earned. Management and franchise fee revenues are recognized monthly as services are performed and in accordance with the terms of the management agreements. Tenant reinsurance premiums are recognized as revenue over the period of insurance coverage. Equity in earnings of real estate entities is recognized based on our ownership interest in the earnings of each of the unconsolidated real estate entities. Interest income is recognized as earned.

Property expenses, including utilities, property taxes, repairs and maintenance and other costs to manage the facilities are recognized as incurred. The Company accrues for property tax expense based upon estimates and historical trends. If these estimates are incorrect, the timing of expense recognition could be affected.

**Real Estate Sales**

The Company evaluates real estate sales for both sale recognition and profit recognition in accordance with the provisions of SFAS No. 66, "Accounting for Sales of Real Estate." In general, sales of real estate and related profits/losses are recognized when all consideration has changed hands and risks and rewards of ownership have been transferred. Certain types of continuing involvement preclude sale treatment and related profit recognition; other forms of continuing involvement allow for sale recognition but require deferral of profit recognition.

**Advertising Costs**

The Company incurs advertising costs primarily attributable to directory, direct mail, internet and other advertising. Direct response advertising costs are deferred and amortized over the expected benefit period determined to be 12 months. All other advertising costs are expensed as incurred. The Company recognized \$5,540, \$5,047 and \$4,960 in advertising expense for the years ended December 31, 2008, 2007 and 2006, respectively.

**Income Taxes**

The Company has elected to be treated as a REIT under Sections 856 through 860 of the Internal Revenue Code. In order to maintain its qualification as a REIT, among other things, the Company is required to distribute at least 90% of its REIT taxable income to its stockholders and meet certain tests regarding the nature of its income and assets. As a REIT, the Company is not subject to federal income tax with respect to that portion of its income which meets certain criteria and is distributed annually to stockholders. The Company plans to continue to operate so that it meets the requirements for taxation as a REIT. Many of these requirements, however, are highly technical and complex. If the Company were to fail to meet these requirements, it would be subject to federal income tax. The Company is subject to certain state and local taxes. Provision for such taxes has been included in property operating and general and administrative expenses in the Company's consolidated statements of operations. For the year ended December 31, 2008, 35.0% (unaudited) of all distributions to stockholders qualifies as a return of capital.

**Extra Space Storage Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2008**

**(Dollars in thousands, except share data)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Company has elected to treat one of its corporate subsidiaries, Extra Space Management, Inc., as a taxable REIT subsidiary ("TRS"). In general, the Company's TRS may perform additional services for tenants and generally may engage in any real estate or non-real estate related business (except for the operation or management of health care facilities or any lodging facilities or the provision to any person, under a franchise, license or otherwise, of rights to any brand name under which lodging facility or health care facility is operated). A TRS is subject to corporate federal income tax. The Company accounts for income taxes in accordance with the provisions of FASB Statement No. 109, "*Accounting for Income Taxes*" ("FAS 109"). Under FAS 109, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities.

The Company adopted the provisions of FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes*" ("FIN 48"), an interpretation of FAS 109, on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized no material adjustment in the liability for unrecognized income tax benefits. At the adoption date of January 1, 2007, there were no material unrecognized tax benefits. At December 31, 2007 and 2008, there were also no material unrecognized tax benefits.

Interest and penalties relating to uncertain tax positions will be recognized as income tax expense when incurred. As of December 31, 2008 and 2007, the Company had no interest or penalties related to uncertain tax provisions.

**Stock-Based Compensation**

Effective January 1, 2006, the Company adopted SFAS No. 123 (revised 2004), "*Share-Based Payment*," ("SFAS 123R"), which requires the measurement and recognition of compensation expense for all share-based payment awards to employees and directors based on estimated fair values. SFAS 123R supersedes SFAS No. 123, "*Accounting for Stock-Based Compensation*" and Accounting Principles Board Opinion No. 25, "*Accounting for Stock Issued to Employees*" ("APB 25"). The Company adopted SFAS 123R using the modified prospective application method of adoption which requires the Company to record compensation cost related to non-vested stock awards as of December 31, 2005 by recognizing the unamortized grant date fair value of these awards over their remaining service period with no change in historical reported earnings. Awards granted after December 31, 2005 are valued at fair value in accordance with provisions of SFAS 123R and recognized on a straight line basis over the service periods of each award. The forfeiture rate, which is estimated at a weighted average of 19.72% of unvested options outstanding as of December 31, 2008, is adjusted periodically based on the extent to which actual forfeitures differ, or are expected to differ, from the previous estimate.

**Net Income Per Share**

Basic earnings per common share is computed by dividing net income by the weighted average common shares outstanding, less non-vested restricted stock. Diluted earnings per common share measures the performance of the Company over the reporting period while giving effect to all potential common shares that were dilutive and outstanding during the period. The denominator includes the

**Extra Space Storage Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2008**

**(Dollars in thousands, except share data)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

weighted average number of basic shares and the number of additional common shares that would have been outstanding if the potential common shares that were dilutive had been issued and is calculated using either the treasury stock or if-converted method. Potential common shares are securities (such as options, warrants, convertible debt, Contingent Conversion Shares ("CCSs"), Contingent Conversion Units ("CCUs"), exchangeable Series A Participating Redeemable Preferred Operating Partnership units ("Preferred OP units") and exchangeable Operating Partnership units ("OP units")) that do not have a current right to participate in earnings but could do so in the future by virtue of their option or conversion right. In computing the dilutive effect of convertible securities, net income is adjusted to add back any changes in earnings in the period associated with the convertible security. The numerator also is adjusted for the effects of any other non-discretionary changes in income or loss that would result from the assumed conversion of those potential common shares. In computing diluted earnings per share, only potential common shares that are dilutive, those that reduce earnings per share, are included.

The Company's Operating Partnership has \$209,663 of exchangeable senior notes issued and outstanding as of December 31, 2008 that also can potentially have a dilutive effect on its earnings per share calculations. The exchangeable senior notes are exchangeable by holders into shares of the Company's common stock under certain circumstances per the terms of the indenture governing the exchangeable senior notes. The exchangeable senior notes are not exchangeable unless the price of the Company's common stock is greater than or equal to 130% of the applicable exchange price for a specified period during a quarter, or unless certain other events occur. The exchange price was \$23.45 per share at December 31, 2008, and could change over time as described in the indenture. The price of the Company's common stock did not exceed 130% of the exchange price for the specified period of time during the fourth quarter of 2008, therefore holders of the exchangeable senior notes may not elect to convert them during the first quarter of 2009.

The Company has irrevocably agreed to pay only cash for the accreted principal amount of the exchangeable senior notes relative to its exchange obligations, but has retained the right to satisfy the exchange obligations in excess of the accreted principal amount in cash and/or common stock. Though the Company has retained that right, FASB Statement No. 128, "*Earnings Per Share*," ("FAS 128"), requires an assumption that shares will be used to pay the exchange obligations in excess of the accreted principal amount, and requires that those shares be included in the Company's calculation of weighted average common shares outstanding for the diluted earnings per share computation. No shares were included in the computation at December 31, 2008 because there was no excess over the accreted principal for the period.

For the purposes of computing the diluted impact on earnings per share of the potential conversion of Preferred OP units into common shares, where the Company has the option to redeem in cash or shares as discussed in Note 14 and where the Company has stated the positive intent and ability to settle at least \$115,000 of the instrument in cash (or net settle a portion of the Preferred OP units against the related outstanding note receivable), only the amount of the instrument in excess of \$115,000 is considered in the calculation of shares contingently issuable for the purposes of computing diluted earnings per share as allowed by paragraph 29 of FAS 128.

## Extra Space Storage Inc.

### Notes to Consolidated Financial Statements (Continued)

December 31, 2008

(Dollars in thousands, except share data)

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For the years ended December 31, 2008, 2007, and 2006 options to purchase approximately 1,870,423 shares, 287,240 shares and 24,273 shares of common stock, respectively, were excluded from the computation of earnings per share as their effect would have been anti-dilutive.

The computation of net income per share is as follows:

|                                                                                                 | For the Year Ended December 31, |            |            |
|-------------------------------------------------------------------------------------------------|---------------------------------|------------|------------|
|                                                                                                 | 2008                            | 2007       | 2006       |
| Net income attributable to common stockholders                                                  | \$ 46,888                       | \$ 34,584  | \$ 14,876  |
| Add:                                                                                            |                                 |            |            |
| Income allocated to minority interest—Preferred Operating Partnership and Operating Partnership | 3,056                           | 2,508      | 985        |
| Net income for diluted computations                                                             | \$ 49,944                       | \$ 37,092  | \$ 15,861  |
| Weighted average common shares outstanding:                                                     |                                 |            |            |
| Average number of common shares outstanding—basic                                               | 76,557,550                      | 64,688,741 | 54,998,935 |
| Operating Partnership units                                                                     | 4,264,968                       | 4,050,588  | 3,799,442  |
| Preferred Operating Partnership units                                                           | 989,980                         | 989,980    | —          |
| Dilutive stock options, restricted stock and CCS/CCU conversions                                | 101,286                         | 774,359    | 493,372    |
| Average number of common shares outstanding—diluted                                             | 81,913,784                      | 70,503,668 | 59,291,749 |
| Net income per common share                                                                     |                                 |            |            |
| Basic                                                                                           | \$ 0.61                         | \$ 0.53    | \$ 0.27    |
| Diluted                                                                                         | \$ 0.61                         | \$ 0.53    | \$ 0.27    |

#### Recently Issued Accounting Standards

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement No. 157, *"Fair Value Measurements"* ("FAS 157"). FAS 157 defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. FAS 157 applies under other accounting pronouncements that require or permit fair value measurements, and does not require any new fair value measurements. FAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. In February 2008, the FASB issued FASB Statement of Position No. 157-2, *"Effective Date of FASB Statement No. 157"* (the "FSP"). The FSP amends FAS 157 to delay the effective date for FAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. For items within that scope, the FSP defers the effective date of FAS 157 to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years.

**Extra Space Storage Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2008**

**(Dollars in thousands, except share data)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Company adopted FAS 157 effective January 1, 2008, except as it relates to nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis as allowed under the FSP.

In February 2007, the FASB issued Statement No. 159, *"The Fair Value Option for Financial Assets and Financial Liabilities"* ("FAS 159"). Under FAS 159, a company may elect to measure eligible financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. This statement is effective for fiscal years beginning after November 15, 2007. The Company adopted FAS 159 effective January 1, 2008, but did not elect to measure any additional financial assets or liabilities at fair value.

In December 2007, the FASB issued revised Statement No. 141, *"Business Combinations"* ("FAS 141(R)"). FAS 141(R) establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the assets acquired and liabilities assumed. Generally, assets acquired and liabilities assumed in a transaction will be recorded at the acquisition-date fair value with limited exceptions. FAS 141(R) will also change the accounting treatment and disclosure for certain specific items in a business combination. Transaction costs associated with the acquisition will be expensed upon close of the acquisition. FAS 141(R) applies proactively to business combinations for which the acquisition date is on or after the beginning of the first fiscal year beginning on or after December 15, 2008. FAS 141(R) will be applied to all acquisitions with closing dates after December 31, 2008.

In December 2007, the FASB issued Statement No. 160, *"Noncontrolling Interests in Consolidated Financial Statements—An Amendment of ARB No. 51"* ("FAS 160"). FAS 160 establishes new accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. FAS 160 requires a company to clearly identify and present ownership interests in subsidiaries held by parties other than the company in the consolidated financial statements within the equity section but separate from the company's equity. FAS 160 also requires the amount of consolidated net income attributable to the parent and to the noncontrolling interest to be clearly identified and presented on the face of the consolidated statement of operations and requires changes in ownership interest to be accounted for similarly as equity transactions. FAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests, with all other requirements applied prospectively. As of December 31, 2008 and 2007, minority interests in the accompanying consolidated balance sheets were \$61,299 and \$64,982, respectively. These amounts will be recharacterized as non-controlling interests as a component of equity when FAS 160 is adopted. FAS 160 is effective for fiscal years beginning on or after December 15, 2008.

In March 2008, the FASB issued Statement No. 161, *"Disclosures about Derivative Instruments and Hedging Activities"*, an amendment of FASB Statement No. 133, *"Accounting for Derivative Instruments and Hedging Activities"* ("FAS 161"). FAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures stating how and why an entity uses derivative instruments; how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and how derivative instruments and

**Extra Space Storage Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2008**

**(Dollars in thousands, except share data)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

related hedged items affect an entity's financial position, financial performance and cash flows. FAS 161 requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. FAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. FAS 161 also encourages but does not require comparative disclosures for earlier periods at initial adoption. The Company is currently evaluating the extent of the footnote disclosures required by FAS 161 and the impact, if any, that it will have on its financial statements.

In December 2007, the SEC staff issued Staff Accounting Bulletin ("SAB") No. 110, which was effective January 1, 2008, and amends and replaces SAB No. 107, "*Share-Based Payment*." SAB No. 110 expresses the views of the SEC staff regarding the use of a "simplified" method in developing an estimate of expected term of "plain vanilla" share options in accordance with SFAS No. 123(R), "*Share-Based Payment*." Under the "simplified" method, the expected term is calculated as the midpoint between the vesting date and the end of the contractual term of the option. The use of the "simplified" method, which was first described in SAB No. 107, was scheduled to expire on December 31, 2007. SAB No. 110 extends the use of the "simplified" method for "plain vanilla" awards in certain situations. The SEC staff does not expect the "simplified" method to be used when sufficient information regarding exercise behavior, such as historical exercise data or exercise information from external sources, becomes available. The adoption of SAB No. 110 did not have a significant effect on the Company's financial statements.

In May 2008, the FASB issued FASB Statement of Position No. APB 14-1, "*Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)*" ("FSP APB 14-1"). Under FSP APB 14-1, entities with convertible debt instruments that may be settled entirely or partially in cash upon conversion should separately account for the liability and equity components of the instrument in a manner that reflects the issuer's economic interest cost. The effect of the adoption FSP APB 14-1 on the Company's exchangeable senior notes is that the equity component will be included in the paid-in-capital section of stockholders' equity on the consolidated balance sheet and the value of the equity component will be treated as original issue discount for purposes of accounting for the debt component. The original issue discount will be amortized over the period of the debt as additional interest expense. FSP APB 14-1 will be effective for fiscal years beginning after December 15, 2008, and for interim periods within those fiscal years, with retrospective application required. The Company expects an annual increase of approximately \$4,500 of non-cash interest expense as a result of the adoption of FSP APB 14-1 based on the exchangeable senior notes outstanding at December 31, 2008.

In April 2008, the FASB issued FASB Staff Position SFAS No. 142-3, "*Determination of the Useful Life of Intangible Assets*" ("FSP SFAS No. 142-3"). FSP SFAS No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used in determining the useful life of a recognized intangible asset under Statement of Financial Accounting Standard No. 142, "*Goodwill and Other Intangible Assets*." This new guidance applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. FSP SFAS No. 142-3 is effective for fiscal years beginning after December 15, 2008, and early adoption is

## Extra Space Storage Inc.

## Notes to Consolidated Financial Statements (Continued)

December 31, 2008

(Dollars in thousands, except share data)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

prohibited. The impact of FSP SFAS No. 142-3 will depend upon the nature, terms, and size of the acquisitions the Company consummates after the effective date.

In June 2008, the FASB issued FASB Staff Position EITF 03-6-1, " *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* ," ("FSP EITF 03-6-1"). FSP EITF 03-6-1 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method as described in FASB Statement of Financial Accounting Standards No. 128, " *Earnings per Share* ." FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning on or after December 15, 2008 and earlier adoption is prohibited. The Company is required to adopt FSP EITF 03-6-1 in the first quarter of 2009 and does not believe that it will have a material affect on its financial statements.

**Reclassifications**

Certain amounts in the 2007 and 2006 financial statements and supporting note disclosures have been reclassified to conform to the current year presentation. Such reclassifications did not impact previously reported net income or accumulated deficit.

**3. REAL ESTATE ASSETS**

The components of real estate assets are summarized as follows:

|                                                 | December 31, 2008   | December 31, 2007   |
|-------------------------------------------------|---------------------|---------------------|
| Land—operating                                  | \$ 461,883          | \$ 411,946          |
| Land—development                                | 64,392              | 52,678              |
| Buildings and improvements                      | 1,555,598           | 1,420,235           |
| Intangible assets—tenant relationships          | 33,234              | 32,173              |
| Intangible lease rights                         | 6,150               | 6,150               |
|                                                 | <u>2,121,257</u>    | <u>1,923,182</u>    |
| Less: accumulated depreciation and amortization | (182,335)           | (131,805)           |
| Net operating real estate assets                | <u>1,938,922</u>    | <u>1,791,377</u>    |
| Real estate under development                   | 58,734              | 49,945              |
| Net real estate assets                          | <u>\$ 1,997,656</u> | <u>\$ 1,841,322</u> |

The Company amortizes to expense intangible assets—tenant relationships on a straight-line basis over the average period that a tenant utilizes the facility (18 months). The Company amortizes to expense the intangible lease rights over the terms of the related leases. Amortization related to the tenant relationships and lease rights was \$4,760 and \$4,213 for 2008 and 2007, respectively. The remaining balance of the unamortized lease rights will be amortized over the next 9 to 53 years.

## Extra Space Storage Inc.

## Notes to Consolidated Financial Statements (Continued)

December 31, 2008

(Dollars in thousands, except share data)

## 4. PROPERTY ACQUISITIONS

The following table shows the Company's acquisition of operating properties for the years ended December 31, 2008 and 2007 and does not include purchases of raw land or improvements made to existing assets:

| <u>Property Location(s)</u>                                     | <u>Number of Properties</u> | <u>Date of Acquisition</u> | <u>Total Consideration</u> | <u>Cash Paid</u> | <u>Loan Assumed</u> | <u>Net Liabilities / (Assets) Assumed</u> | <u>Value of OP Units Issued</u> | <u>Number of OP Units Issued</u> | <u>Source of Acquisition</u> | <u>Notes</u> |
|-----------------------------------------------------------------|-----------------------------|----------------------------|----------------------------|------------------|---------------------|-------------------------------------------|---------------------------------|----------------------------------|------------------------------|--------------|
| Colorado                                                        | 1                           | 11/25/2008                 | \$ 5,901                   | \$ 5,836         | \$ —                | \$ 65                                     | \$ —                            | —                                | Unrelated third party        |              |
| Indiana                                                         | 1                           | 10/31/2008                 | 5,243                      | 4,331            | —                   | 50                                        | 862                             | 81,050                           | Unrelated third party        |              |
| Indiana                                                         | 4                           | 10/10/2008                 | 18,294                     | 15,014           | —                   | 519                                       | 2,761                           | 189,356                          | Unrelated third party        |              |
| New York                                                        | 2                           | 10/2/2008                  | 27,545                     | 27,451           | —                   | 94                                        | —                               | —                                | Unrelated third party        |              |
| Maryland                                                        | 1                           | 9/17/2008                  | 5,035                      | 5,034            | —                   | 1                                         | —                               | —                                | Unrelated third party        |              |
| Florida                                                         | 1                           | 6/19/2008                  | 10,336                     | 10,259           | —                   | 77                                        | —                               | —                                | Unrelated third party        |              |
| California                                                      | 1                           | 5/2/2008                   | 7,500                      | 7,515            | —                   | (15)                                      | —                               | —                                | Unrelated third party        |              |
| Massachusetts(1), California(2), Connecticut(1)                 | 4                           | 12/31/2007                 | 40,674                     | 15,311           | 24,482              | 881                                       | —                               | —                                | Related Party                | (1)          |
| New York                                                        | 1                           | 12/19/2007                 | 2,926                      | 1,240            | 1,765               | (79)                                      | —                               | —                                | Unrelated third party        |              |
| Texas                                                           | 1                           | 12/14/2007                 | 6,122                      | 5,964            | —                   | 158                                       | —                               | —                                | Unrelated third party        |              |
| Florida                                                         | 1                           | 11/20/2007                 | 12,115                     | 4,887            | 7,400               | (172)                                     | —                               | —                                | Unrelated franchisee         |              |
| California                                                      | 1                           | 10/4/2007                  | 10,805                     | 3,675            | 7,205               | (75)                                      | —                               | —                                | Unrelated third party        |              |
| Alabama(1), Colorado(1), Indiana(1), Missouri(3), New Mexico(1) | 7                           | 8/31/2007                  | 36,510                     | 13,558           | 23,340              | (388)                                     | —                               | —                                | Affiliated joint venture     | (2)          |
| Maryland                                                        | 1                           | 8/31/2007                  | 10,471                     | 10,418           | —                   | 53                                        | —                               | —                                | Affiliated joint venture     | (3)          |
| California                                                      | 1                           | 8/1/2007                   | 14,686                     | 4,915            | —                   | 5                                         | 9,766                           | 80,905                           | Unrelated third party        |              |
| California                                                      | 1                           | 6/26/2007                  | 11,216                     | 196              | 2,822               | 1                                         | 8,197                           | 61,398                           | Unrelated third party        |              |
| California(6) & Hawaii(2)                                       | 8                           | 6/25/2007                  | 126,623                    | 11,154           | —                   | 1,933                                     | 113,536                         | 847,677                          | Unrelated third party        |              |
| Georgia                                                         | 3                           | 6/14/2007                  | 13,693                     | 13,594           | —                   | 99                                        | —                               | —                                | Unrelated franchisee         |              |
| California                                                      | 1                           | 6/14/2007                  | 18,703                     | 867              | 14,062              | (60)                                      | 3,834                           | 218,693                          | Unrelated third party        |              |
| Maryland                                                        | 1                           | 6/6/2007                   | 14,942                     | 8,128            | 6,834               | (20)                                      | —                               | —                                | Unrelated third party        |              |
| California                                                      | 1                           | 6/1/2007                   | 4,020                      | 4,036            | —                   | (16)                                      | —                               | —                                | Unrelated third party        |              |
| Florida                                                         | 1                           | 5/31/2007                  | 8,975                      | 8,882            | —                   | 93                                        | —                               | —                                | Unrelated third party        |              |
| California                                                      | 1                           | 5/24/2007                  | 5,585                      | 5,575            | —                   | 10                                        | —                               | —                                | Unrelated third party        |              |
| Maryland                                                        | 1                           | 4/17/2007                  | 12,670                     | 5,428            | 7,292               | (50)                                      | —                               | —                                | Unrelated third party        |              |
| Florida                                                         | 1                           | 3/27/2007                  | 6,320                      | 6,257            | —                   | 63                                        | —                               | —                                | Unrelated franchisee         |              |
| Maryland                                                        | 1                           | 1/11/2007                  | 14,334                     | 14,348           | —                   | (14)                                      | —                               | —                                | Unrelated franchisee         |              |
| Tennessee                                                       | 1                           | 1/5/2007                   | 3,684                      | 3,672            | —                   | 12                                        | —                               | —                                | Unrelated franchisee         |              |
| Arizona                                                         | 1                           | 1/2/2007                   | 4,361                      | 4,527            | —                   | (166)                                     | —                               | —                                | Affiliated joint venture     | (2)          |

## Notes:

- (1) These properties were purchased from a related party that was owned by certain members of the Company's management team and a director. The independent members of the Company's board of directors approved this acquisition. The four properties include the purchase of one consolidated joint venture interest.
- (2) These properties were purchased from a joint venture entity in which the Company held partnership interests. The joint venture was dissolved and proceeds were distributed to joint venture partners. No gain or loss was recognized on these transactions.
- (3) This property was purchased from a joint venture entity in which the Company holds a partnership interest. The joint venture remained in place and proceeds were distributed to the joint venture partner. No gain or loss was recognized on this transaction.

## Extra Space Storage Inc.

## Notes to Consolidated Financial Statements (Continued)

December 31, 2008

(Dollars in thousands, except share data)

## 5. INVESTMENTS IN REAL ESTATE VENTURES

Investments in real estate ventures at December 31, 2008 and 2007 consist of the following:

|                                                                | Equity<br>Ownership % | Excess Profit<br>Participation % | Investment balance at |                      |
|----------------------------------------------------------------|-----------------------|----------------------------------|-----------------------|----------------------|
|                                                                |                       |                                  | December 31,<br>2008  | December 31,<br>2007 |
| Extra Space West One LLC ("ESW")                               | 5%                    | 40%                              | \$ 1,492              | \$ 1,804             |
| Extra Space West Two LLC ("ESW II")                            | 5%                    | 40%                              | 4,874                 | 5,019                |
| Extra Space Northern Properties Six, LLC ("ESNPS")             | 10%                   | 35%                              | 1,482                 | 1,642                |
| Extra Space of Santa Monica LLC ("ESSM")                       | 41%                   | 41%                              | 3,225                 | 5,138                |
| Clarendon Storage Associates Limited Partnership ("Clarendon") | 50%                   | 50%                              | 3,318                 | 4,189                |
| PRISA Self Storage LLC ("PRISA")                               | 2%                    | 17%                              | 12,460                | 12,732               |
| PRISA II Self Storage LLC ("PRISA II")                         | 2%                    | 17%                              | 10,431                | 10,608               |
| PRISA III Self Storage LLC ("PRISA III")                       | 5%                    | 20%                              | 4,118                 | 4,405                |
| VRS Self Storage LLC ("VRS")                                   | 45%                   | 9%                               | 47,488                | 4,515                |
| WCOT Self Storage LLC ("WCOT")                                 | 5%                    | 20%                              | 5,229                 | 5,211                |
| Storage Portfolio I, LLC ("SP I")                              | 25%                   | 40%                              | 17,471                | 18,567               |
| Storage Portfolio Bravo II ("SPB II")                          | 20%                   | 25 - 45%                         | 14,168                | 14,785               |
| U-Storage de Mexico S.A. and related entities ("U-Storage")    | 35 - 40%              | 35 - 40%                         | 9,205                 | 4,891                |
| Other minority owned properties                                | 10 - 50%              | 10 - 50%                         | 1,830                 | 1,663                |
|                                                                |                       |                                  | <u>\$ 136,791</u>     | <u>\$ 95,169</u>     |

In these joint ventures, the Company and the joint venture partner generally receive a preferred return on their invested capital. To the extent that cash/profits in excess of these preferred returns are generated through operations or capital transactions, the Company would receive a higher percentage of the excess cash/profits than its equity interest.

On July 1, 2008, the Company purchased an additional 40.0% interest in VRS Self Storage LLC from Prudential Real Estate Investors for cash of \$44,100, resulting in an increase in the Company's total interest in the joint venture from 5.0% to 45.0%.

On March 1, 2007, the Company acquired a 39.5% interest in U-Storage de Mexico S.A., an existing Mexican corporation ("U-Storage"), which currently manages, develops, owns and operates self storage facilities in Mexico. Kenneth T. Woolley, a former Senior Vice President of the Company and son of Kenneth M. Woolley, the CEO of the Company, also acquired a 0.5% interest in U-Storage.

On December 31, 2007, the Company acquired from Extra Space Development ("ESD"), a related party owned by certain members of management and a director, its ownership interest in three joint ventures: Extra Space of Elk Grove LLC (70% ownership interest, a consolidated joint venture), Extra Space West Two LLC (5% ownership interest) and Storage Associates Holdco LLC (10% ownership interest.) The excess profit participation is 10 - 50% for each joint venture. In addition to the joint venture interests, three wholly-owned properties were purchased.

**Extra Space Storage Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2008**

**(Dollars in thousands, except share data)**

**5. INVESTMENTS IN REAL ESTATE VENTURES (Continued)**

Equity in earnings of real estate ventures for the years ended December 31, 2008, 2007, and 2006 consists of the following:

|                                                                | For the Year Ended<br>December 31, |                |                |
|----------------------------------------------------------------|------------------------------------|----------------|----------------|
|                                                                | 2008                               | 2007           | 2006           |
| Equity in earnings of ESW                                      | \$1,333                            | \$1,490        | \$1,351        |
| Equity in earnings (losses) of ESW II                          | (57)                               | —              | —              |
| Equity in earnings of ESNPS                                    | 236                                | 206            | 166            |
| Equity in earnings of Clarendon                                | 304                                | —              | —              |
| Equity in earnings of PRISA                                    | 702                                | 716            | 528            |
| Equity in earnings of PRISA II                                 | 596                                | 574            | 448            |
| Equity in earnings of PRISA III                                | 274                                | 316            | 124            |
| Equity in earnings of VRS                                      | 1,363                              | 265            | 158            |
| Equity in earnings of WCOT                                     | 299                                | 308            | 151            |
| Equity in earnings of SP I                                     | 1,211                              | 1,099          | 949            |
| Equity in earnings of SPB II                                   | 614                                | 776            | 786            |
| Equity in earnings (losses) of U-Storage                       | (64)                               | (301)          | —              |
| Equity in earnings (losses) of other minority owned properties | 121                                | (149)          | 32             |
|                                                                | <u>\$6,932</u>                     | <u>\$5,300</u> | <u>\$4,693</u> |

Equity in earnings (losses) of ESW II, SP I and SPB II includes the amortization of the Company's excess purchase price of \$25,268 of these equity investments over its original basis. The excess basis is amortized over 40 years.

Information (unaudited) related to the real estate ventures' debt at December 31, 2008 is set forth below:

|                            | <u>Loan Amount</u> | <u>Current Interest Rate</u> | <u>Debt Maturity</u> |
|----------------------------|--------------------|------------------------------|----------------------|
| ESW—Fixed                  | \$ 16,650          | 4.59%                        | July 2010            |
| ESW II—Fixed               | 20,000             | 5.48%                        | March 2012           |
| ESNPS—Fixed                | 34,500             | 5.27%                        | June 2015            |
| ESSM—Variable              | 4,371              | 3.19%                        | November 2011        |
| Clarendon—Swapped to fixed | 8,500              | 5.93%                        | September 2018       |
| PRISA                      | —                  | —                            | Unleveraged          |
| PRISA II                   | —                  | —                            | Unleveraged          |
| PRISA III—Fixed            | 145,000            | 4.97%                        | August 2012          |
| VRS—Fixed                  | 52,100             | 4.76%                        | August 2012          |
| WCOT—Fixed                 | 92,140             | 4.76%                        | August 2012          |
| SPB II—Fixed               | 67,400             | 4.83%                        | July 2009            |
| SP I—Fixed                 | 115,000            | 4.62%                        | April 2011           |
| U-Storage                  | —                  | —                            | Unleveraged          |
| Other                      | 133,099            | various                      | various              |

## Extra Space Storage Inc.

### Notes to Consolidated Financial Statements (Continued)

December 31, 2008

(Dollars in thousands, except share data)

#### 5. INVESTMENTS IN REAL ESTATE VENTURES (Continued)

Combined, condensed unaudited financial information of ESW, ESW II, ESNPS, PRISA, PRISA II, PRISA III, VRS, WCOT, SP I and SPB II as of December 31, 2008 and 2007 and for the years ended December 31, 2008, 2007, and 2006, follows:

| Balance Sheets:                  | December 31,       |                    |
|----------------------------------|--------------------|--------------------|
|                                  | 2008               | 2007               |
| Assets:                          |                    |                    |
| Net real estate assets           | \$2,041,268        | \$2,076,477        |
| Other                            | 34,775             | 48,659             |
|                                  | <u>\$2,076,043</u> | <u>\$2,125,136</u> |
| Liabilities and members' equity: |                    |                    |
| Borrowings                       | \$ 542,790         | \$ 542,790         |
| Other liabilities                | 33,264             | 41,696             |
| Members' equity                  | 1,499,989          | 1,540,650          |
|                                  | <u>\$2,076,043</u> | <u>\$2,125,136</u> |

| Statements of Income:  | For the Year Ended December 31, |                  |                  |
|------------------------|---------------------------------|------------------|------------------|
|                        | 2008                            | 2007             | 2006             |
| Rents and other income | \$295,824                       | \$294,395        | \$282,212        |
| Expenses               | 197,926                         | 195,776          | 210,222          |
| Net income             | <u>\$ 97,898</u>                | <u>\$ 98,619</u> | <u>\$ 71,990</u> |

#### *Variable Interests in Unconsolidated Real Estate Joint Ventures:*

The Company has interests in two unconsolidated joint ventures with unrelated third parties ("Montrose" and "Eastern Avenue") which are VIEs. The Company holds a 10% equity interest in Montrose and Eastern Avenue, but has 50% of the voting rights. Qualification as a VIE was based on the disproportionate voting and ownership percentages. The Company performed a probability-based cash flow analysis for each of these joint ventures to determine which party was the primary beneficiary of these VIEs. These analyses were performed using the Company's best estimates of the future cash flows based on its historical experience with numerous similar assets. As a result of these analyses, the Company determined that it was not the primary beneficiary of either Montrose or Eastern Avenue as the Company does not receive a majority of either joint venture's expected residual returns or bear a majority of the expected losses. Accordingly, these interests are accounted for using the equity method.

Montrose and Eastern Avenue each own a single pre-stabilized self-storage property. These joint ventures are financed through a combination of (1) equity contributions from the Company and its joint venture partners, (2) mortgage notes payable and (3) payables to the Company for working capital. The payables to the Company are generally amounts owed for expenses paid on behalf of the joint ventures by the Company as manager. The Company performs management services for both the

## Extra Space Storage Inc.

## Notes to Consolidated Financial Statements (Continued)

December 31, 2008

(Dollars in thousands, except share data)

## 5. INVESTMENTS IN REAL ESTATE VENTURES (Continued)

Montrose and Eastern Avenue joint ventures in exchange for a management fee of approximately 6% of the gross rental revenues generated by the properties. The Company's joint venture partners can replace the Company as manager of the properties upon written notice. The Company has not provided financial or other support during the periods presented to Montrose or Eastern Avenue that it was not previously contractually obligated to provide.

As of December 31, 2008, \$0 and \$0 for Montrose and Eastern Avenue, respectively were included in Investments in Real Estate on its consolidated balance sheet. No liability was recorded associated with the Company's guarantee of the construction loans of Montrose or Eastern Avenue. The Company's maximum exposure to loss for each joint venture as of December 31, 2008 is the total of the guaranteed loan balance and the Company's investment balances in each joint venture. The following table compares the liability balances and the maximum exposure to loss related to Montrose and Eastern Avenue as of December 31, 2008:

|                | Liability   | Investment  | Balance of<br>Guaranteed | Payables to     | Maximum             |                    |          |
|----------------|-------------|-------------|--------------------------|-----------------|---------------------|--------------------|----------|
|                | Balance     | balance     | loan                     | Company         | exposure<br>to loss | Difference         | Tickmark |
| Eastern Avenue | \$ —        | \$ —        | \$ 5,556                 | \$ 2,800        | \$ 8,356            | \$ (8,356)         | (1)      |
| Montrose       | —           | —           | 7,295                    | 1,300           | 8,595               | (8,595)            | (1)      |
|                | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 12,851</u>         | <u>\$ 4,100</u> | <u>\$ 16,951</u>    | <u>\$ (16,951)</u> |          |

- (1) The maximum exposure to loss above represents the full amount of the loan guaranteed by the Company plus payables to the Company. The Company believes that the risk of having to perform on the guarantee is remote and therefore no liability has been recorded. However, repossessing and/or selling the self-storage facilities and land that collateralize the loans could provide funds sufficient to reimburse the Company, and the Company believes that the risk of having to perform on the guarantees is remote.

*Variable Interests in Consolidated Real Estate Joint Ventures*

The Company has variable interests in three consolidated joint ventures with third parties (the "VIE JVs") which are VIEs. The VIE JVs are financed through a combination of (1) equity contributions from the Company and its joint venture partners, (2) mortgage notes payable and (3) payables to the Company for working capital. The payables to the Company are generally amounts owed for expenses paid on behalf of the joint ventures by the Company as manager. The Company owns 50% to 72% of the common equity interests in the VIE JVs. The Company performed probability-based cash flow projections for each venture using the Company's best estimates of future revenues and expenses based on historical experience with numerous similar assets. According to these analyses, the joint ventures were determined to be VIEs based on an assessment that the equity financing was inadequate to support operations. The Company was also determined to be the primary beneficiary of each of the VIE JVs, as it receives the majority of the benefits and bears the majority of the expected losses of each as a result of its majority ownership and the management agreements. Therefore, each of the VIE JVs are consolidated with the assets and liabilities of each joint venture

## Extra Space Storage Inc.

### Notes to Consolidated Financial Statements (Continued)

December 31, 2008

(Dollars in thousands, except share data)

#### 5. INVESTMENTS IN REAL ESTATE VENTURES (Continued)

included in the Company's consolidated financial statements, with intercompany balances and transactions eliminated.

The Company performs development services for Washington Ave. and ESS of Plantation LLC in exchange for a development fee of 2% and 1% of budgeted costs, respectively. The Company performs management services for Franklin Blvd. in exchange for a management fee of approximately 6% of the gross rental revenues generated.

The table below illustrates the financing of each of the VIE JVs as well as the carrying amounts of the related assets and liabilities as of December 31, 2008:

| Joint Venture         | Equity<br>Ownership % | Excess<br>Profit<br>Participation % | Total<br>Assets | Notes<br>Payable | Payables<br>to Company<br>(eliminated) | Payables and<br>Other<br>Liabilities | JV Partners'                        |                                  |
|-----------------------|-----------------------|-------------------------------------|-----------------|------------------|----------------------------------------|--------------------------------------|-------------------------------------|----------------------------------|
|                       |                       |                                     |                 |                  |                                        |                                      | Company's<br>Equity<br>(eliminated) | Equity<br>(minority<br>interest) |
| Franklin Blvd.        | 50%                   | 50%                                 | \$ 7,235        | \$ 5,358         | \$ 1,695                               | \$ 62                                | \$ 60                               | \$ 60                            |
| Washington Ave.       | 50%                   | 50%                                 | 8,343           | —                | 6,016                                  | 793                                  | 767                                 | 767                              |
| ESS of Plantation LLC | 72%                   | 40%                                 | 4,349           | —                | 84                                     | —                                    | 3,090                               | 1,175                            |
|                       |                       |                                     | <u>\$19,927</u> | <u>\$ 5,358</u>  | <u>\$ 7,795</u>                        | <u>\$ 855</u>                        | <u>\$ 3,917</u>                     | <u>\$ 2,002</u>                  |

Except as disclosed above, the Company has not provided financial or other support during the periods presented to these VIEs that it was not previously contractually obligated to provide. The Company has guaranteed the notes payable for these VIEs. If the joint ventures default on the loans, the Company may be forced to repay its portion of the balance owed. However, repossessing and/or selling the self-storage facilities and land that collateralize the loans could provide funds sufficient to reimburse the Company, and the Company believes that the risk of having to perform on the guarantees is remote.

#### 6. INVESTMENTS AVAILABLE FOR SALE

The Company accounts for its investments in debt and equity securities according to the provisions of Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which requires securities classified as "available for sale" to be stated at fair value. Adjustments to the fair value of available for sale securities are recorded as a component of other comprehensive income. A decline in the market value of investment securities below cost, that is deemed to be other than temporary, results in a reduction in the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. The Company's investments available for sale have generally consisted of non mortgage-backed auction rate securities ("ARS"). ARS are generally long-term debt instruments that provide liquidity through a Dutch auction process that resets the applicable interest rate at pre-determined calendar intervals, generally every 28 days. This mechanism allows existing investors to rollover their holdings and continue to own their respective securities or liquidate their holdings by selling their securities at par.

At December 31, 2007, the Company had \$24,460 invested in non mortgage-backed ARS. Uncertainties in the credit markets had prevented the Company and other investors from liquidating the holdings of auction rate securities in auctions for these securities because the amount of securities

**Extra Space Storage Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2008**

**(Dollars in thousands, except share data)**

**6. INVESTMENTS AVAILABLE FOR SALE (Continued)**

submitted for sale exceeded the amount of purchase orders. As a result, during the year ended December 31, 2007, the Company recorded an other-than-temporary impairment charge of \$1,233 and a temporary impairment charge of \$1,415, which reduced the carrying value of the Company's investments in ARS to an estimated fair value of \$21,812 as of December 31, 2007. On February 29, 2008, the Company liquidated its holdings of ARS for \$21,812 in cash. As a result of this settlement, the Company recognized \$1,415 of the amount that was previously classified as a temporary impairment as a loss on sale of investments available for sale through earnings. The Company has not had investments in ARS since March 1, 2008.

**7. OTHER ASSETS**

The components of other assets are summarized as follows:

|                                  | December 31,<br>2008 | December 31,<br>2007 |
|----------------------------------|----------------------|----------------------|
| Equipment and fixtures           | \$ 10,671            | \$ 11,899            |
| Less: accumulated depreciation   | (7,309)              | (8,364)              |
| Other intangible assets          | 3,296                | 223                  |
| Deferred financing costs, net    | 12,330               | 15,534               |
| Prepaid expenses and deposits    | 5,828                | 5,162                |
| Accounts receivable, net         | 11,120               | 8,516                |
| Fair value of interest rate swap | 647                  | —                    |
| Investments in Trusts            | 3,590                | 3,590                |
| Deferred tax asset               | 2,403                | —                    |
|                                  | <u>\$ 42,576</u>     | <u>\$ 36,560</u>     |

**Extra Space Storage Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2008**

**(Dollars in thousands, except share data)**

**8. NOTES PAYABLE**

The components of notes payable are summarized as follows:

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | <b>December 31,<br/>2008</b> | <b>December 31,<br/>2007</b> |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|------------------------------|
| <b><i>Fixed Rate</i></b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                              |                              |
| Mortgage and construction loans with banks bearing interest at fixed rates between 4.65% and 7.0%. The loans are collateralized by mortgages on real estate assets and the assignment of rents. Principal and interest payments are made monthly with all outstanding principal and interest due between April 2009 and February 2017.                                                                                                                                                                                                                                                      | \$ 818,166                   | \$ 825,326                   |
| <b><i>Variable Rate</i></b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |                              |                              |
| Mortgage and construction loans with banks bearing floating interest rates (including loans subject to interest rate swaps) based on LIBOR. Interest rates based on LIBOR are between LIBOR plus 0.65% (1.09% and 5.25% at December 31, 2008 and 2007, respectively) and LIBOR plus 2.75% (3.19% and 7.35% at December 31, 2008 and 2007, respectively). The loans are collateralized by mortgages on real estate assets and the assignment of rents. Principal and interest payments are made monthly with all outstanding principal and interest due between June 2009 and November 2011. | 125,432                      | 124,855                      |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | <b><u>\$ 943,598</u></b>     | <b><u>\$ 950,181</u></b>     |

The following table summarizes the scheduled maturities of notes payable at December 31, 2008:

|            |                         |
|------------|-------------------------|
| 2009       | \$220,406               |
| 2010       | 156,406                 |
| 2011       | 84,176                  |
| 2012       | 11,280                  |
| 2013       | 23,087                  |
| Thereafter | 448,243                 |
|            | <b><u>\$943,598</u></b> |

Certain real estate assets are pledged as collateral for the notes payable. The Company is subject to certain restrictive covenants relating to the outstanding notes payable. The Company was in compliance with all covenants at December 31, 2008.

In October 2004, the Company entered into a reverse interest rate swap agreement ("Swap Agreement") to float \$61,770 of 4.30% fixed interest rate secured notes due in June 2009. Under this Swap Agreement, the Company will receive interest at a fixed rate of 4.30% and pay interest at a variable rate equal to LIBOR plus 0.65%. The Swap Agreement matures at the same time the notes are due. This Swap Agreement is a fair value hedge, as defined by SFAS No. 133, and the fair value of

**Extra Space Storage Inc.****Notes to Consolidated Financial Statements (Continued)****December 31, 2008****(Dollars in thousands, except share data)****8. NOTES PAYABLE (Continued)**

the Swap Agreement is recorded as an asset or liability, with an offsetting adjustment to the carrying value of the related note payable. Monthly variable interest payments are recognized as an increase or decrease in interest expense.

The estimated fair value of the Swap Agreement at December 31, 2008 was reflected as an other asset of \$647. The estimated fair value of the Swap Agreement at December 31, 2007 was reflected as an other liability of \$125. The fair value of the Swap agreement is determined through observable prices in active markets for identical agreements. For the year ended December 31, 2008, the Company recorded a reduction to interest expense of \$223 relating to the Swap Agreement. For the years ended December 31, 2007 and 2006 interest expense was increased by \$1,032 and \$802, respectively, as a result of the Swap Agreement.

On August 31, 2007, as part of the acquisition of our partner's joint venture interest in seven properties, the Company assumed an interest rate cap agreement related to the assumption of the loan on these properties. The Company has designated the interest rate cap agreement as a cash flow hedge of the interest payments resulting from an increase in the interest rate above the rates designated in the interest rate cap agreement. The interest rate cap agreement will allow increases in interest payments based on an increase in the LIBOR rate above the capped rates (5.19% from 1/1/07 to 12/31/07 and 5.48% from 1/1/08 to 12/31/08) on \$23,340 of floating rate debt to be offset by the value of the interest rate cap agreement. The estimated fair value of the interest rate cap at the assumption date was not material and no asset or liability was recorded. The fair value of the interest rate cap is determined through observable prices in active markets for identical agreements. The interest rate cap expired on December 31, 2008.

On June 30, 2008, the Company entered into a loan agreement in the amount of \$64,530 secured by certain properties. As of December 31, 2008, \$940 was drawn on the loan balance. As part of the loan agreement, the Company agreed to draw down at least 50% of the loan amount by February 1, 2009 with the remainder to be drawn by March 31, 2009. The loan bears interest at LIBOR plus 2%, and matures on June 30, 2011. On February 1, 2009, the Company drew \$40,000 of the \$63,590 available and expects to draw the remaining balance on March 31, 2009.

**9. NOTES PAYABLE TO TRUSTS**

During July 2005, ESS Statutory Trust III (the "Trust III"), a newly formed Delaware statutory trust and a wholly-owned, unconsolidated subsidiary of the Operating Partnership, issued an aggregate of \$40,000 of preferred securities which mature on July 31, 2035. In addition, the Trust III issued 1,238 of Trust common securities to the Operating Partnership for a purchase price of \$1,238. On July 27, 2005, the proceeds from the sale of the preferred and common securities of \$41,238 were loaned in the form of a note to the Operating Partnership ("Note 3"). Note 3 has a fixed rate of 6.91% through July 31, 2010, and then will be payable at a variable rate equal to the three-month LIBOR plus 2.40% per annum. The interest on Note 3, payable quarterly, will be used by the Trust III to pay dividends on the trust preferred securities. The trust preferred securities may be redeemed by the Trust with no prepayment premium after July 27, 2010.

**Extra Space Storage Inc.****Notes to Consolidated Financial Statements (Continued)****December 31, 2008****(Dollars in thousands, except share data)****9. NOTES PAYABLE TO TRUSTS (Continued)**

During May 2005, ESS Statutory Trust II (the "Trust II"), a newly formed Delaware statutory trust and a wholly-owned, unconsolidated subsidiary of the Operating Partnership of the Company, issued an aggregate of \$41,000 of preferred securities which mature on June 30, 2035. In addition, the Trust II issued 1,269 of Trust common securities to the Operating Partnership for a purchase price of \$1,269. On May 24, 2005, the proceeds from the sale of the preferred and common securities of \$42,269 were loaned in the form of a note to the Operating Partnership ("Note 2"). Note 2 has a fixed rate of 6.67% through June 30, 2010, and then will be payable at a variable rate equal to the three-month LIBOR plus 2.40% per annum. The interest on Note 2, payable quarterly, will be used by the Trust II to pay dividends on the trust preferred securities. The trust preferred securities may be redeemed by the Trust with no prepayment premium after June 30, 2010.

During April 2005, ESS Statutory Trust I (the "Trust"), a newly formed Delaware statutory trust and a wholly-owned, unconsolidated subsidiary of the Operating Partnership of the Company issued an aggregate of \$35,000 of trust preferred securities which mature on June 30, 2035. In addition, the Trust issued 1,083 of Trust common securities to the Operating Partnership for a purchase price of \$1,083. On April 8, 2005, the proceeds from the sale of the trust preferred and common securities of \$36,083 were loaned in the form of a note to the Operating Partnership (the "Note"). The Note has a variable rate equal to the three-month LIBOR plus 2.25% per annum. The interest on the Note, payable quarterly, will be used by the Trust to pay dividends on the trust preferred securities. The trust preferred securities may be redeemed by the Trust with no prepayment premium after June 30, 2010.

Under FIN 46R, Trust, Trust II and Trust III are VIEs because the holders of the equity investment at risk (the trust preferred securities) do not have adequate decision making ability over the trusts' activities because of their lack of voting or similar rights. Because the Operating Partnership's investment in the trusts' common securities was financed directly by the trusts as a result of its loan of the proceeds to the Operating Partnership, that investment is not considered to be an equity investment at risk. The Operating Partnership's investment in the trusts is not a variable interest because equity interests are variable interests only to the extent that the investment is considered to be at risk, and therefore the Operating Partnership cannot be the primary beneficiary of the trusts. Since the Company is not the primary beneficiary of the trusts, they have not been consolidated. A debt obligation has been recorded in the form of notes as discussed above for the proceeds, which are owed to the Trust, Trust II, and Trust III by the Company. The Company has also recorded its investment in the trusts' common securities as other assets.

The Company has not provided financing or other support during the periods presented to the trusts that it was not previously contractually obligated to provide. The Company's maximum exposure to loss as a result of its involvement with the trusts is equal to the total amount of the notes discussed above less the amounts of the Company's investments in the trusts' common securities. The net amount is the notes payable that the trusts owe to third parties for their investments in the trusts' preferred securities. Following is a tabular comparison of the carrying amounts of the liabilities the Company has

## Extra Space Storage Inc.

### Notes to Consolidated Financial Statements (Continued)

December 31, 2008

(Dollars in thousands, except share data)

#### 9. NOTES PAYABLE TO TRUSTS (Continued)

recorded as a result of its involvements with the trusts to the maximum exposure to loss the Company is subject to related to the trusts as of December 31, 2008:

|           | Notes payable<br>to Trusts as of<br>December 31, 2008 | Maximum<br>exposure to loss | Difference      |
|-----------|-------------------------------------------------------|-----------------------------|-----------------|
| Trust     | \$ 36,083                                             | \$ 35,000                   | \$ 1,083        |
| Trust II  | 42,269                                                | 41,000                      | 1,269           |
| Trust III | 41,238                                                | 40,000                      | 1,238           |
|           | <u>\$ 119,590</u>                                     | <u>\$ 116,000</u>           | <u>\$ 3,590</u> |

As noted above, these differences represent the amounts that the Trusts would repay the Company for its investment in the trusts' common securities.

#### 10. EXCHANGEABLE SENIOR NOTES

On March 27, 2007, our Operating Partnership issued \$250,000 of its 3.625% Exchangeable Senior Notes due April 1, 2027 (the "Notes"). Costs incurred to issue the Notes were approximately \$5,700. These costs are being amortized as an adjustment to interest expense over five years, which represents the estimated term of the Notes, and are included in other assets, net in the consolidated balance sheet as of December 31, 2008. The Notes are general unsecured senior obligations of the Operating Partnership and are fully guaranteed by the Company. Interest is payable on April 1 and October 1 of each year until the maturity date of April 1, 2027. The Notes bear interest at 3.625% per annum and contain an exchange settlement feature, which provides that the Notes may, under certain circumstances, be exchangeable for cash (up to the principal amount of the Notes) and, with respect to any excess exchange value, for cash, shares of our common stock or a combination of cash and shares of our common stock at an initial exchange rate of approximately 42.6491 shares per \$1,000 principal amount of Notes at the option of the Operating Partnership.

The Operating Partnership may redeem the Notes at any time to preserve the Company's status as a REIT. In addition, on or after April 5, 2012, the Operating Partnership may redeem the Notes for cash, in whole or in part, at 100% of the principal amount plus accrued and unpaid interest, upon at least 30 days but not more than 60 days prior written notice to holders of the Notes.

The holders of the Notes have the right to require the Operating Partnership to repurchase the Notes for cash, in whole or in part, on each of April 1, 2012, April 1, 2017 and April 1, 2022, and upon the occurrence of a designated event, in each case for a repurchase price equal to 100% of the principal amount of the Notes plus accrued and unpaid interest. Certain events are considered "Events of Default," as defined in the indenture governing the Notes, which may result in the accelerated maturity of the Notes.

The Company has considered whether the exchange settlement feature represents an embedded derivative within the debt instrument under the guidance of FAS 133: "Accounting for Derivative Instruments and Hedging Activities," EITF 90-19: "Convertible Bonds with Issuer Option to Settle for Cash Upon Conversion," and EITF 01-6: "The Meaning of 'Indexed to a Company's Own Stock'" that would

## Extra Space Storage Inc.

## Notes to Consolidated Financial Statements (Continued)

December 31, 2008

(Dollars in thousands, except share data)

**10. EXCHANGEABLE SENIOR NOTES (Continued)**

require bifurcation (i.e., separate accounting). The Company has concluded that the exchange settlement feature has satisfied the exemption in SFAS 133 because it is indexed to the Company's own common stock and would otherwise be classified in stockholders equity, among other considerations. Accordingly, the Notes are presented as a single debt instrument (often referred to as "Instrument C" in EITF 90-19) in accordance with APB 14 "Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants" due to the inseparability of the debt and the conversion feature.

During October 2008, the Company repurchased \$40,337 principal amount of the Notes on the open market. The Company paid cash of \$31,721 to repurchase the Notes. The repurchase resulted in a gain of \$7,970 on early extinguishment of debt.

The Company is currently evaluating the impact that the adoption of FSP APB 14-1 will have on its financial statements in 2009 and expects to have an approximate increase of \$4,500 in non-cash interest expense as a result of adoption. The gain on early extinguishment of debt relating to the repurchase of the Notes in October 2008 is also expected to be reduced as a result of the adoption of FSP APB 14-1.

**11. LINE OF CREDIT**

On October 19, 2007, the Company entered into a \$100,000 revolving line of credit (the "Credit Line") that matures October 31, 2010 with two one-year extensions available. The Company intends to use the proceeds of the Credit Line to repay debt maturing in 2009 and for general corporate purposes. The Credit Line has an interest rate of between 100 and 205 basis points over LIBOR, depending on certain financial ratios of the Company. The Credit Line is collateralized by mortgages on certain real estate assets. As of December 31, 2008, the Credit Line had \$100,000 of capacity based on the assets collateralizing the Credit Line of which \$27,000 was drawn. The Company is subject to certain restrictive covenants relating to the Credit Line. The Company was in compliance with all covenants as of December 31, 2008. No amounts were outstanding on the Credit Line at December 31, 2007. On January 30, 2009, the Company drew an additional \$50,000 on the Credit Line.

**12. OTHER LIABILITIES**

Other liabilities at December 31, 2008 and 2007 are summarized as follows:

|                                  | December 31, 2008 | December 31, 2007 |
|----------------------------------|-------------------|-------------------|
| Deferred rental income           | \$ 12,535         | \$ 11,805         |
| Security deposits                | 316               | 383               |
| SUSA lease obligation liability  | 3,029             | 2,592             |
| Fair value of interest rate swap | —                 | 125               |
| Income taxes payable             | 2,825             | —                 |
| Other miscellaneous liabilities  | 3,562             | 3,150             |
|                                  | <u>\$ 22,267</u>  | <u>\$ 18,055</u>  |

## Extra Space Storage Inc.

## Notes to Consolidated Financial Statements (Continued)

December 31, 2008

(Dollars in thousands, except share data)

## 13. RELATED PARTY AND AFFILIATED REAL ESTATE JOINT VENTURE TRANSACTIONS

The Company provides management and development services for certain affiliated real estate joint ventures, franchise, third parties, and other related party properties. Management agreements provide generally for management fees of 6% of gross rental revenues for the management of operations at the self-storage facilities. As discussed in Note 4, the Company has previously purchased self-storage properties from related parties and affiliated entities.

Management fee revenues for related party and affiliated real estate joint ventures are summarized as follows:

| Entity                          | Type                                  | For the Year Ended December 31, |                 |                 |
|---------------------------------|---------------------------------------|---------------------------------|-----------------|-----------------|
|                                 |                                       | 2008                            | 2007            | 2006            |
| ESW                             | Affiliated real estate joint ventures | \$ 432                          | \$ 436          | \$ 413          |
| ESW II                          | Affiliated real estate joint ventures | 310                             | 232             | —               |
| ESNPS                           | Affiliated real estate joint ventures | 466                             | 444             | 422             |
| PRISA                           | Affiliated real estate joint ventures | 5,076                           | 5,132           | 5,057           |
| PRISA II                        | Affiliated real estate joint ventures | 4,147                           | 4,184           | 4,081           |
| PRISA III                       | Affiliated real estate joint ventures | 1,774                           | 1,862           | 1,843           |
| VRS                             | Affiliated real estate joint ventures | 1,175                           | 1,151           | 1,118           |
| WCOT                            | Affiliated real estate joint ventures | 1,536                           | 1,539           | 1,464           |
| SP I                            | Affiliated real estate joint ventures | 1,296                           | 1,264           | 1,221           |
| SPB II                          | Affiliated real estate joint ventures | 1,003                           | 1,026           | 1,032           |
| Extra Space Development ("ESD") | Related party                         | —                               | 743             | 518             |
| Various                         | Franchisees, third parties and other  | 3,730                           | 2,585           | 3,714           |
|                                 |                                       | <u>\$20,945</u>                 | <u>\$20,598</u> | <u>\$20,883</u> |

Receivables from third parties, related parties and affiliated real estate joint ventures balances are summarized as follows:

|                                   | December 31, 2008 | December 31, 2007 |
|-----------------------------------|-------------------|-------------------|
| <i>Receivables :</i>              |                   |                   |
| Development fees                  | \$ 1,382          | \$ 1,501          |
| Other receivables from properties | 9,953             | 5,885             |
|                                   | <u>\$ 11,335</u>  | <u>\$ 7,386</u>   |

Development fees receivable consist of amounts due for development services from third parties and unconsolidated affiliated joint ventures. The Company earns development fees of 1% - 6% of budgeted costs on development projects. Other receivables from properties consist of amounts due for management fees and expenses paid on behalf of the properties that the Company manages. The Company believes that all of these related party and affiliated real estate joint venture receivables are fully collectible. The Company does not have any payables to related parties at December 31, 2008 and 2007.

**Extra Space Storage Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2008**

**(Dollars in thousands, except share data)**

**13. RELATED PARTY AND AFFILIATED REAL ESTATE JOINT VENTURE TRANSACTIONS (Continued)**

Centershift, a related party service provider, is partially owned by a certain director and members of management of the Company. Effective January 1, 2004, the Company entered into a license agreement with Centershift which secures a perpetual right for continued use of STORE (the site management software used at all sites operated by the Company) in all aspects of the Company's property acquisition, development, redevelopment and operational activities. During the years ended December 31, 2008, 2007 and 2006, the Company paid Centershift \$989, \$965 and \$824, respectively, relating to the purchase of software and to license agreements.

The Company has entered into an aircraft dry lease and service and management agreement with SpenAero, L.C. ("SpenAero") an affiliate of Spencer F. Kirk, the Company's President. Under the terms of the agreement, the Company pays a defined hourly rate for use of the aircraft. During the years ended December 31, 2008, 2007 and 2006, the Company paid SpenAero \$440, \$395 and \$314, respectively. The services that the Company receives from SpenAero are similar in nature and price to those that are provided to other outside third parties.

The Company has determined that it had a variable interest in properties in which ESD, a related party, owned or had an ownership interest. The Company did not have an equity investment or interest in these properties, and it was not the primary beneficiary of the variable interests. This variable interest was a result of management and development contracts that were held by the Company. The variable interest was limited to the management and development fees and there was not any additional loss that could be attributed to the Company. The Company determined that it was not the primary beneficiary in these agreements. Accordingly, these properties were not consolidated between August 16, 2004 and December 31, 2007. On December 31, 2007, the Company acquired ESD and its related assets for \$46,674. The following assets were purchased as part of this transaction:

- Three wholly-owned properties;
- 70% ownership interest in Extra Space of Elk Grove LLC, a consolidated joint venture that owns one property;
- 5% ownership interest in Extra Space West Two LLC, an unconsolidated joint venture that owns five properties; and
- 10% ownership interest Storage Associates Holdco LLC, an unconsolidated joint venture that owns six properties.

The independent members of the Company's board of directors reviewed and approved the acquisition of ESD.

**14. MINORITY INTEREST REPRESENTED BY PREFERRED OPERATING PARTNERSHIP UNITS**

On June 15, 2007, the Operating Partnership entered into a Contribution Agreement with various limited partnerships affiliated with AAAAA Rent-A-Space to acquire ten self-storage facilities (the "Properties") in exchange for the issuance of newly designated Preferred OP units of the Operating Partnership. The self-storage facilities are located in California and Hawaii.

Extra Space Storage Inc.

Notes to Consolidated Financial Statements (Continued)

December 31, 2008

(Dollars in thousands, except share data)

**14. MINORITY INTEREST REPRESENTED BY PREFERRED OPERATING PARTNERSHIP UNITS (Continued)**

On June 25 and 26, 2007, nine of the ten properties were contributed to the Operating Partnership in exchange for consideration totaling \$137,800. Preferred OP units totaling 909,075, with a value of \$121,700, were issued along with the assumption of approximately \$14,200 of third-party debt, of which \$11,400 was paid off at close. The final property was contributed on August 1, 2007 in exchange for consideration totaling \$14,700. 80,905 Preferred OP units with a value of \$9,800 were issued along with \$4,900 of cash.

On June 25, 2007, the Company loaned the holder of the Preferred OP units \$100,000. The note receivable bears interest at 4.85%, and is due September 1, 2017. The loan is secured by the borrower's Preferred OP units. The holder of the Preferred OP units can convert up to 114,500 Preferred OP units prior to the maturity date of the loan. If any redemption in excess of 114,500 Preferred OP units occurs prior to the maturity date, the holder of the Preferred OP units is required to repay the loan as of the date of that Preferred OP unit redemption. Preferred OP units are shown on the balance sheet net of the \$100,000 loan under the guidance in EITF No. 85-1, " *Classifying Notes Receivable for Capital*," because the borrower under the loan receivable is also the holder of the Preferred OP units.

The Operating Partnership entered into a Second Amended and Restated Agreement of Limited Partnership (the "Partnership Agreement") which provides for the designation and issuance of the Preferred OP units. The Preferred OP units will have priority over all other partnership interests of the Operating Partnership with respect to distributions and liquidation.

Under the Partnership Agreement, Preferred OP units in the amount of \$115,000 bear a fixed priority return of 5% and have a fixed liquidation value of \$115,000. The remaining balance will participate in distributions with and have a liquidation value equal to that of the common Operating Partnership units. The Preferred OP units became redeemable at the option of the holder on September 1, 2008, which redemption obligation may be satisfied, at the Company's option, in cash or shares of its common stock.

At issuance, in accordance with SFAS 133: " *Accounting for Derivative Instruments and Hedging Activities*" , SFAS 150: " *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*", EITF 00-19: " *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock*", EITF Topic D-109: " *Determining the Nature of a Host Contract Related to a Hybrid Financial Instrument Issued in the Form of a Share under FASB Statement No. 133*": and Accounting Series Release ("ASR") No. 268: " *Presentation in Financial Statements of "Redeemable Preferred Stocks*", from inception through September 28, 2007 (the date of the amendment discussed below), the Preferred OP units were classified as a hybrid instrument such that the value of the units associated with the fixed return were classified in mezzanine after total liabilities on the balance sheet and before stockholders' equity. The remaining balance that participates in distributions equal to that of common OP units had been identified as an embedded derivative and had been classified as a liability on the balance sheet and recorded at fair value on a quarterly basis with any adjustment being recorded through earnings. For the year ended December 31, 2007, the fair value adjustment associated with the embedded derivative was \$1,054.

**Extra Space Storage Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2008**

**(Dollars in thousands, except share data)**

**14. MINORITY INTEREST REPRESENTED BY PREFERRED OPERATING PARTNERSHIP UNITS (Continued)**

On September 28, 2007, the Operating Partnership entered into an amendment to the Contribution Agreement (the "Amendment"). Pursuant to the Amendment, the maximum number of shares that can be issued upon redemption of the Preferred OP units was set at 116 million, after which the Company will have no further obligations with respect to the redeemed or any other remaining Preferred OP units. As a result of the Amendment, and in accordance with the above referenced guidance, the Preferred OP units are no longer considered a hybrid instrument and the previously identified embedded derivative no longer requires bifurcation and is considered permanent equity of the Operating Partnership. The Preferred OP units are included on the consolidated balance sheet as the minority interest represented by Preferred OP units, and no recurring fair value measurements are required subsequent to the date of the Amendment.

On September 18, 2008, the Operating Partnership entered into a First Amendment to the Second Amended and Restated Agreement of Limited Partnership to clarify tax-related provisions relating to the Preferred OP units.

**15. MINORITY INTEREST IN OPERATING PARTNERSHIP**

The Company's interest in its properties is held through the Operating Partnership. ESS Holding Business Trust I, a wholly-owned subsidiary of the Company, is the sole general partner of the Operating Partnership. The Company through ESS Business Trust II, a wholly-owned subsidiary of the Company, is also a limited partner of the Operating Partnership. Between its general partner and limited partner interests, the Company held a 94.23% majority ownership interest therein as of December 31, 2008. The remaining ownership interests in the Operating Partnership (including Preferred OP units) of 5.77% are held by certain former owners of assets acquired by the Operating Partnership, which include a director and officers of the Company. As of December 31, 2008, the Operating Partnership had 4,264,968 and 55,957 OP units and CCUs outstanding, respectively.

The minority interest in the Operating Partnership represents OP units that are not owned by the Company. In conjunction with the formation of the Company and as a result of subsequent acquisitions, certain persons and entities contributing interests in properties to the Operating Partnership received limited partnership units in the form of either OP units or Contingent Conversion units. Limited partners who received OP units in the formation transactions or in exchange for contributions for interests in properties have the right to require the Operating Partnership to redeem part or all of their OP units for cash based upon the fair market value of an equivalent number of shares of the Company's common stock (10 day average) at the time of the redemption. Alternatively, the Company may, at its option, elect to acquire those OP units in exchange for shares of its common stock on a one-for-one basis, subject to anti-dilution adjustments provided in the Operating Partnership agreement. The ten day average closing stock price at December 31, 2008, was \$9.99 and there were 4,264,968 OP units outstanding. Assuming that all of the unit holders exercised their right to redeem all of their OP units on December 31, 2008 and the Company elected to pay the non-controlling members cash, the Company would have paid \$42,607 in cash consideration to redeem the units.

**Extra Space Storage Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2008**

**(Dollars in thousands, except share data)**

**15. MINORITY INTEREST IN OPERATING PARTNERSHIP (Continued)**

During October 2008, the Company issued 270,406 OP units valued at \$3,623 in conjunction with the acquisition of four properties in Indianapolis, Indiana.

In October 2008, 129,499 OP units were redeemed in exchange for the Company's common stock.

During June 2007, the Company issued 218,693 OP units valued at \$3,834 in conjunction with the acquisition of a property in San Francisco, California. 47,334 OP units were redeemed in exchange for cash throughout 2007.

Unlike the OP units, CCUs do not carry any voting rights. Upon the achievement of certain performance thresholds relating to 14 properties, all or a portion of the CCUs will be automatically converted into OP units. Initially, each CCU will be convertible on a one-for-one basis into OP units, subject to customary anti-dilution adjustments. Beginning with the quarter ended March 31, 2006, and ending with the quarter ending December 31, 2008, the Company calculated the net operating income from the 14 wholly-owned properties over the 12-month period ending in such quarter. Within 35 days following the end of each quarter referred to above, some or all of the CCUs were converted so that the total percentage (not to exceed 100%) of CCUs issued in connection with the formation transactions that have been converted to OP units was equal to the percentage determined by dividing the net operating income for such period in excess of \$5,100 by \$4,600. If any CCU remained unconverted through the calculation made in respect of the 12-month period ending December 31, 2008, such outstanding CCUs would be cancelled.

While any CCUs remain outstanding, a majority of the Company's independent directors must review and approve the net operating income calculation for each measurement period and also must approve the sale of any of the 14 wholly-owned properties.

As of December 31, 2008, 144,089 CCUs had converted to OP units. Based on the performance of the properties as of December 31, 2008, no additional CCUs became eligible for conversion during the fourth quarter of 2008. The remaining 55,957 CCUs were cancelled as of February 4, 2009.

**16. STOCKHOLDERS' AND MEMBERS' EQUITY**

**Stockholders' Equity**

The Company's charter provides that it can issue up to 300,000,000 shares of common stock, \$0.01 par value per share, 4,100,000 CCSs, \$.01 par value per share, and 50,000,000 shares of preferred stock, \$0.01 par value per share. As of December 31, 2008, 85,790,331 shares of common stock were issued and outstanding, 1,143,747 CCSs were issued and outstanding and no shares of preferred stock were issued or outstanding.

On May 19, 2008, the Company closed a public common stock offering of 14,950,000 shares at an offering price of \$16.35 per share, for aggregate gross proceeds of \$244,433. Transaction costs were \$11,715 for net proceeds of \$232,718.

On October 3, 2008, the Company issued 3,000,000 shares of its common stock at an offering price of \$14.71 per share in a registered direct placement to certain clients of RREEF America L.L.C. The

**Extra Space Storage Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2008**

**(Dollars in thousands, except share data)**

**16. STOCKHOLDERS' AND MEMBERS' EQUITY (Continued)**

Company received aggregate gross proceeds of \$44,130. Transaction costs were \$247 for net proceeds of \$43,883.

All stockholders of the Company's common stock are entitled to receive dividends and to one vote on all matters submitted to a vote of stockholders. The transfer agent and registrar for the Company's common stock is American Stock Transfer & Trust Company. On October 29, 2007, the Company's Board of Directors approved an increase in the Company's annual dividend to \$1.00 per common share to be paid quarterly at the rate of \$0.25 per common share starting in the fourth quarter of 2007.

Unlike the Company's shares of common stock, CCSs do not carry any voting rights. Upon the achievement of certain performance thresholds relating to 14 properties, all or a portion of the CCSs will be automatically converted into shares of the Company's common stock. Initially, each CCS will be convertible on a one-for-one basis into shares of common stock, subject to customary anti-dilution adjustments. Beginning with the quarter ended March 31, 2006, and ending with the quarter ending December 31, 2008, the Company calculated the net operating income from the 14 wholly-owned properties over the 12-month period ending in such quarter. Within 35 days following the end of each quarter referred to above, some or all of the CCSs were converted so that the total percentage (not to exceed 100%) of CCSs issued in connection with the formation transactions that have been converted to common stock was equal to the percentage determined by dividing the net operating income for such period in excess of \$5,100 by \$4,600. If any CCS remained unconverted through the calculation made in respect of the 12-month period ending December 31, 2008, such outstanding CCSs would be cancelled and restored to the status of authorized but unissued shares of common stock.

While any CCSs remain outstanding, a majority of the Company's independent directors must review and approve the net operating income calculation for each measurement period and also must approve the sale of any of the 14 wholly-owned properties.

As of December 31, 2008, 2,801,053 CCSs had converted to common stock. Based on the performance of the properties as of December 31, 2008, no additional CCSs became eligible for conversion during the fourth quarter of 2008. The remaining 1,087,790 CCSs were cancelled and restored to the status of authorized but unissued shares of common stock as of February 4, 2009.

**17. STOCK-BASED COMPENSATION**

The Company has the following two plans under which shares were available for grant at December 31, 2008: 1) the 2004 Long-Term Incentive Compensation Plan as amended and restated, effective March 25, 2008, and 2) the 2004 Non-Employee Directors' Share Plan (together, the "Plans"). Option grants are issued with an exercise price equal to the closing price of stock on the date of grant. Unless otherwise determined by the Compensation, Nominating and Governance Committee at the time of grant, options shall vest ratably over a four-year period beginning on the date of grant. Each option will be exercisable once it has vested. Options are exercisable at such times and subject to such terms as determined by the Compensation, Nominating and Governance Committee, but under no circumstances may be exercised if such exercise would cause a violation of the ownership limit in the Company's charter. Options expire after 10 years from the date of grant.

**Extra Space Storage Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2008**

**(Dollars in thousands, except share data)**

**17. STOCK-BASED COMPENSATION (Continued)**

Also as defined under the terms of the Plans, restricted stock grants may be awarded. The stock grants are subject to a performance or vesting period over which the restrictions are released and the stock certificates are given to the grantee. During the performance or vesting period, the grantee is not permitted to sell, transfer, pledge, encumber or assign shares of restricted stock granted under the Plans, however, the grantee has the ability to vote the shares and receive nonforfeitable dividends paid on shares. The forfeiture and transfer restrictions on the shares lapse typically over a four-year period beginning on the date of grant. As of December 31, 2008, 4,701,745 shares were available for issuance under the Plans.

**Option Grants to Employees**

A summary of stock option activity for the years ended December 31, 2008, 2007 and 2006 is as follows:

| <u>Options</u>                   | <u>Number of<br/>Shares</u> | <u>Weighted Average</u> |                                       | <u>Aggregate Intrinsic<br/>Value as of<br/>December 31, 2008</u> |
|----------------------------------|-----------------------------|-------------------------|---------------------------------------|------------------------------------------------------------------|
|                                  |                             | <u>Exercise Price</u>   | <u>Remaining<br/>Contractual Life</u> |                                                                  |
| Outstanding at December 31, 2005 | 3,046,523                   | \$ 13.89                |                                       |                                                                  |
| Granted                          | 161,914                     | 15.48                   |                                       |                                                                  |
| Exercised                        | (259,700)                   | 13.11                   |                                       |                                                                  |
| Forfeited                        | (384,174)                   | 14.92                   |                                       |                                                                  |
| Outstanding at December 31, 2006 | 2,564,563                   | \$ 13.92                |                                       |                                                                  |
| Granted                          | 418,000                     | 18.51                   |                                       |                                                                  |
| Exercised                        | (126,801)                   | 13.68                   |                                       |                                                                  |
| Forfeited                        | (204,044)                   | 14.71                   |                                       |                                                                  |
| Outstanding at December 31, 2007 | 2,651,718                   | \$ 14.54                |                                       |                                                                  |
| Granted                          | 380,000                     | 15.57                   |                                       |                                                                  |
| Exercised                        | (146,795)                   | 13.09                   |                                       |                                                                  |
| Forfeited                        | (43,000)                    | 14.26                   |                                       |                                                                  |
| Outstanding at December 31, 2008 | 2,841,923                   | \$ 14.76                | 6.81                                  | \$ —                                                             |
| Vested and Expected to Vest      | 2,629,669                   | \$ 14.63                | 6.67                                  | \$ —                                                             |
| Ending Exercisable               | 1,853,930                   | \$ 13.92                | 6.11                                  | \$ —                                                             |

The aggregate intrinsic value in the table above represents the total value (the difference between the Company's closing stock price on the last trading day of 2008 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2008. The amount of aggregate intrinsic value will change based on the fair market value of the Company's stock.

# Extra Space Storage Inc.

## Notes to Consolidated Financial Statements (Continued)

December 31, 2008

(Dollars in thousands, except share data)

### 17. STOCK-BASED COMPENSATION (Continued)

The weighted average fair value of stock options granted in 2008, 2007 and 2006 was \$1.83, \$2.34 and \$1.78, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

|                               | <u>For the Year Ended December 31,</u> |             |             |
|-------------------------------|----------------------------------------|-------------|-------------|
|                               | <u>2008</u>                            | <u>2007</u> | <u>2006</u> |
| Expected volatility           | 26%                                    | 25%         | 24%         |
| Dividend yield                | 6.5%                                   | 6.4%        | 5.5%        |
| Risk-free interest rate       | 2.7%                                   | 3.5%        | 4.7%        |
| Average expected term (years) | 5                                      | 5           | 5           |

The Black-Scholes model incorporates assumptions to value stock-based awards. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of the grant for the estimated life of the option. The Company uses actual historical data to calculate the expected price volatility, dividend yield and average expected term. The forfeiture rate, which is estimated at a weighted-average of 19.72% of unvested options outstanding as of December 31, 2008, is adjusted periodically based on the extent to which actual forfeitures differ, or are expected to differ, from the previous estimates.

A summary of stock options outstanding and exercisable as of December 31, 2008 is as follows:

|               | <u>Options Outstanding</u> |                                   |                                        | <u>Options Exercisable</u> |                                        |  |
|---------------|----------------------------|-----------------------------------|----------------------------------------|----------------------------|----------------------------------------|--|
|               | <u>Weighted Average</u>    |                                   |                                        | <u>Weighted Average</u>    |                                        |  |
|               | <u>Shares</u>              | <u>Remaining Contractual Life</u> | <u>Weighted Average Exercise Price</u> | <u>Shares</u>              | <u>Weighted Average Exercise Price</u> |  |
| 12.50 - 14.00 | 1,114,597                  | 5.67                              | \$ 12.58                               | 1,082,597                  | \$ 12.56                               |  |
| 14.01 - 15.50 | 584,325                    | 7.89                              | 14.80                                  | 198,075                    | 14.83                                  |  |
| 15.51 - 17.00 | 845,001                    | 7.08                              | 15.90                                  | 498,758                    | 15.66                                  |  |
| 17.01 - 18.50 | —                          | —                                 | —                                      | —                          | —                                      |  |
| 18.51 - 20.00 | 298,000                    | 8.18                              | 19.61                                  | 74,500                     | 19.61                                  |  |
|               | <u>2,841,923</u>           | <u>6.81</u>                       | <u>\$ 14.76</u>                        | <u>1,853,930</u>           | <u>\$ 13.92</u>                        |  |

The Company recorded compensation expense relating to outstanding options of \$970, \$865 and \$798 for the years ended December 31, 2008, 2007 and 2006, respectively. Total cash received for the years ended December 31, 2008, 2007 and 2006 related to option exercises was \$2,063, \$1,735 and \$934, respectively. At December 31, 2008, there was \$725 of total unrecognized compensation expense related to non-vested stock options under the Company's 2004 Long-Term Incentive Compensation Plan. That cost is expected to be recognized over a weighted-average period of 2.11 years. The valuation model applied in this calculation utilizes subjective assumptions that could potentially change over time, including the expected forfeiture rate. Therefore, the amount of unrecognized compensation expense at December 31, 2008, noted above does not necessarily represent the expense that will ultimately be realized by the Company in the Statement of Operations.

**Extra Space Storage Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2008**

**(Dollars in thousands, except share data)**

**17. STOCK-BASED COMPENSATION (Continued)**

**Common Stock Granted to Employees and Directors**

For the years ended December 31, 2008, 2007 and 2006, the Company granted 361,624, 120,729 and 62,300 shares respectively of common stock to certain employees and directors, without monetary consideration under the Plans. Restricted stock granted typically vests over a four year period and is paid non-forfeitable dividends during the term of the grant. The Company recorded \$2,530, \$1,260 and \$927 of expense in general and administrative expense in its statement of operations related to outstanding shares of common stock granted to employees and directors for the years ended December 31, 2008, 2007 and 2006, respectively. The forfeiture rate, which is estimated at a weighted-average of 7.0% of unvested awards outstanding as of December 31, 2008, is adjusted periodically based on the extent to which actual forfeitures differ, or are expected to differ, from the previous estimates. At December 31, 2008, there was \$4,576 of total unrecognized compensation expense related to non-vested restricted stock awards under the Company's 2004 Long-Term Incentive Compensation Plan. That cost is expected to be recognized over a weighted-average period of 2.81 years.

The fair value of common stock awards is determined based on the closing trading price of the Company's common stock on the grant date. The total fair value of the shares released for the years ending December 31, 2008, 2007, and 2006 was \$1,688, \$982, and \$908, respectively. A summary of the Company's employee and director share grant activity for the years ended December 31, 2008, 2007 and 2006 is as follows:

|                                 |                | <b>Weighted-Average</b>      |
|---------------------------------|----------------|------------------------------|
| <b>Restricted Stock Grants</b>  | <b>Shares</b>  | <b>Grant-Date Fair Value</b> |
| Unreleased at December 31, 2005 | 173,750        | \$ 15.66                     |
| Granted                         | 62,300         | 16.42                        |
| Released                        | (46,250)       | 15.68                        |
| Cancelled                       | (33,500)       | 15.71                        |
| Unreleased at December 31, 2006 | 156,300        | \$ 15.94                     |
| Granted                         | 120,729        | 18.17                        |
| Released                        | (61,975)       | 15.90                        |
| Cancelled                       | (3,082)        | 18.39                        |
| Unreleased at December 31, 2007 | 211,972        | \$ 17.23                     |
| Granted                         | 361,624        | 15.69                        |
| Released                        | (122,206)      | 16.45                        |
| Cancelled                       | (10,186)       | 17.21                        |
| Unreleased at December 31, 2008 | <u>441,204</u> | <u>\$ 16.21</u>              |

**18. EMPLOYEE BENEFIT PLAN**

The Company has a retirement savings plan under Section 401(k) of the Internal Revenue Code under which eligible employees can contribute up to 15% of their annual salary, subject to a statutory prescribed annual limit. For the years ended December 31, 2008, 2007 and 2006, the Company made matching contributions to the plan of \$779, \$999 and \$772, respectively, based on 100% of the first 3% and up to 50% of the next 2% of an employee's compensation.

## Extra Space Storage Inc.

### Notes to Consolidated Financial Statements (Continued)

**December 31, 2008**

(Dollars in thousands, except share data)

#### 19. GAIN ON SALE OF REAL ESTATE ASSETS

On June 19, 2008, the Company sold an undeveloped parcel of vacant land in Antelope, California for its book value of \$340. There was no gain or loss recognized on the sale.

On August 3, 2007, the Company sold an undeveloped parcel of vacant land in Kendall, Florida for its book value of \$1,999. There was no gain or loss recognized on the sale.

On January 30, 2006, the Company sold an excess parcel of vacant land in Lanham, Pennsylvania for its book value of \$728. There was no gain or loss recognized on the sale.

#### 20. INCOME TAXES

As a REIT, the Company is generally not subject to federal income tax with respect to that portion of its income which is distributed annually to its stockholders. However, the Company has elected to treat one of its corporate subsidiaries, Extra Space Management, Inc., as a taxable REIT subsidiary ("TRS"). In general, the Company's TRS may perform additional services for tenants and generally may engage in any real estate or non-real estate related business (except for the operation or management of health care facilities or lodging facilities or the provision to any person, under a franchise, license or otherwise, of rights to any brand name under which lodging facility or health care facility is operated). A TRS is subject to corporate federal income tax. The Company accounts for income taxes in accordance with the provisions of FAS 109. Under FAS 109, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities. There were no material deferred tax assets or liabilities as of December 31, 2007, and no material income tax provisions for the years ended December 31, 2007 or 2006.

The income tax provision for the year ended December 31, 2008 is comprised of the following components:

|                   | December 31, 2008 |              |               |
|-------------------|-------------------|--------------|---------------|
|                   | Federal           | State        | Total         |
| Current           | \$ 2,663          | \$ 259       | \$ 2,922      |
| Deferred benefit  | (2,190)           | (213)        | (2,403)       |
| Total tax expense | <u>\$ 473</u>     | <u>\$ 46</u> | <u>\$ 519</u> |

A reconciliation of the statutory income tax provision to the effective income tax provision for the years ended December 31, 2008, is as follows:

|                                 | December 31, 2008 |             |
|---------------------------------|-------------------|-------------|
| Expected tax at statutory rate  | \$ 16,118         | 34.0%       |
| Dividend paid deduction benefit | (14,555)          | (30.7)%     |
| State and local tax benefit     | (587)             | (1.2)%      |
| Change in valuation allowance   | (690)             | (1.5)%      |
| Miscellaneous                   | 233               | 0.5%        |
| Total provision                 | <u>\$ 519</u>     | <u>1.1%</u> |

**Extra Space Storage Inc.****Notes to Consolidated Financial Statements (Continued)****December 31, 2008****(Dollars in thousands, except share data)****20. INCOME TAXES (Continued)**

The Company had a release of its valuation allowance during 2008 from a prior year net operating loss related to the TRS of approximately \$1,277. This reduction was offset by an additional valuation allowance recorded that related to state income tax net operating losses that may not be utilized.

The major sources of temporary differences stated at their deferred tax effect at December 31, 2008 are as follows:

|                              | December 31,<br>2008 |
|------------------------------|----------------------|
| Captive insurance subsidiary | \$ 109               |
| Fixed assets                 | 34                   |
| Various liabilities          | 1,042                |
| Stock compensation           | 1,218                |
| State net operating losses   | 587                  |
|                              | <u>2,990</u>         |
| Valuation allowance          | (587)                |
| Net deferred tax asset       | <u>\$ 2,403</u>      |

The state income tax net operating losses expire between 2012 and 2027. There were no material deferred tax assets or liabilities as of December 31, 2007, and no material income tax provisions for the years ended December 31, 2007 or 2006.

# Extra Space Storage Inc.

## Notes to Consolidated Financial Statements (Continued)

December 31, 2008

(Dollars in thousands, except share data)

### 21. SEGMENT INFORMATION

The Company operates in two distinct segments; (1) property management, acquisition and development and (2) rental operations. Financial information for the Company's business segments are set forth below:

|                                                                                                                                                                                                                           | For the Year Ended<br>December 31, |                    |                    |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|--------------------|--------------------|
|                                                                                                                                                                                                                           | 2008                               | 2007               | 2006               |
| <b>Statement of Operations</b>                                                                                                                                                                                            |                                    |                    |                    |
| Total revenues                                                                                                                                                                                                            |                                    |                    |                    |
| Property management, acquisition and development                                                                                                                                                                          | \$ 37,556                          | \$ 32,551          | \$ 26,271          |
| Rental operations                                                                                                                                                                                                         | 235,695                            | 206,315            | 170,993            |
|                                                                                                                                                                                                                           | <u>\$ 273,251</u>                  | <u>\$ 238,866</u>  | <u>\$ 197,264</u>  |
| Operating expenses, including depreciation and amortization                                                                                                                                                               |                                    |                    |                    |
| Property management, acquisition and development                                                                                                                                                                          | \$ 48,682                          | \$ 43,450          | \$ 39,055          |
| Rental operations                                                                                                                                                                                                         | 132,626                            | 111,618            | 98,557             |
|                                                                                                                                                                                                                           | <u>\$ 181,308</u>                  | <u>\$ 155,068</u>  | <u>\$ 137,612</u>  |
| Income (loss) before interest, equity in earnings of real estate ventures, gain on repurchase of exchangeable notes, loss on investments available for sale, Preferred Operating Partnership units and minority interests |                                    |                    |                    |
| Property management, acquisition and development                                                                                                                                                                          | \$ (11,126)                        | \$ (10,899)        | \$ (12,784)        |
| Rental operations                                                                                                                                                                                                         | 103,069                            | 94,697             | 72,436             |
|                                                                                                                                                                                                                           | <u>\$ 91,943</u>                   | <u>\$ 83,798</u>   | <u>\$ 59,652</u>   |
| Interest expense                                                                                                                                                                                                          |                                    |                    |                    |
| Property management, acquisition and development                                                                                                                                                                          | \$ (1,579)                         | \$ (1,300)         | \$ (829)           |
| Rental operations                                                                                                                                                                                                         | (63,032)                           | (59,715)           | (50,124)           |
|                                                                                                                                                                                                                           | <u>\$ (64,611)</u>                 | <u>\$ (61,015)</u> | <u>\$ (50,953)</u> |
| Interest income                                                                                                                                                                                                           |                                    |                    |                    |
| Property management, acquisition and development                                                                                                                                                                          | \$ 3,399                           | \$ 7,925           | \$ 2,469           |
| Interest income on note receivable from Preferred Operating Partnership unit holder                                                                                                                                       |                                    |                    |                    |
| Property management, acquisition and development                                                                                                                                                                          | \$ 4,850                           | \$ 2,492           | \$ —               |
| Equity in earnings of real estate ventures                                                                                                                                                                                |                                    |                    |                    |
| Rental operations                                                                                                                                                                                                         | \$ 6,932                           | \$ 5,300           | \$ 4,693           |
| Gain on repurchase of exchangeable notes payable                                                                                                                                                                          |                                    |                    |                    |
| Rental operations                                                                                                                                                                                                         | \$ 7,970                           | \$ —               | \$ —               |
| Loss on investments available for sale                                                                                                                                                                                    |                                    |                    |                    |
| Property management, acquisition and development                                                                                                                                                                          | \$ (1,415)                         | \$ (1,233)         | \$ —               |
| Fair value adjustment of obligation associated with Preferred Operating Partnership units                                                                                                                                 |                                    |                    |                    |
| Property management, acquisition and development                                                                                                                                                                          | \$ —                               | \$ 1,054           | \$ —               |
| Minority interests—Preferred Operating Partnership, Operating Partnership and other                                                                                                                                       |                                    |                    |                    |
| Property management, acquisition and development                                                                                                                                                                          | \$ (2,180)                         | \$ (2,227)         | \$ (985)           |
| Net income (loss)                                                                                                                                                                                                         |                                    |                    |                    |
| Property management, acquisition and development                                                                                                                                                                          | \$ (80)                            | \$ (4,188)         | \$ (12,129)        |
| Rental operations                                                                                                                                                                                                         | 46,969                             | 40,282             | 27,005             |
|                                                                                                                                                                                                                           | <u>\$ 46,888</u>                   | <u>\$ 36,094</u>   | <u>\$ 14,876</u>   |
| <b>Depreciation and amortization expense</b>                                                                                                                                                                              |                                    |                    |                    |
| Property management, acquisition and development                                                                                                                                                                          | \$ 1,462                           | \$ 1,253           | \$ 858             |
| Rental operations                                                                                                                                                                                                         | 48,104                             | 38,548             | 36,314             |
|                                                                                                                                                                                                                           | <u>\$ 49,566</u>                   | <u>\$ 39,801</u>   | <u>\$ 37,172</u>   |

## Extra Space Storage Inc.

### Notes to Consolidated Financial Statements (Continued)

December 31, 2008

(Dollars in thousands, except share data)

#### 21. SEGMENT INFORMATION (Continued)

|                                                    | For the Year Ended December 31, |                     |             |
|----------------------------------------------------|---------------------------------|---------------------|-------------|
|                                                    | 2008                            | 2007                | 2006        |
| <b>Statement of Cash Flows</b>                     |                                 |                     |             |
| Acquisition of real estate assets                  |                                 |                     |             |
| Property management, acquisition and development   | \$(127,293)                     | \$(183,690)         | \$(174,305) |
| Development and construction of real estate assets |                                 |                     |             |
| Property management, acquisition and development   | \$ (64,344)                     | \$ (45,636)         | \$ (34,782) |
| <br><b>Balance Sheet</b>                           |                                 |                     |             |
| Investment in real estate ventures                 |                                 |                     |             |
| Rental operations                                  | \$ 136,791                      | \$ 95,169           |             |
| Total assets                                       |                                 |                     |             |
| Property management, acquisition and development   | \$ 479,591                      | \$ 385,394          |             |
| Rental operations                                  | 1,811,417                       | 1,668,681           |             |
|                                                    | <u>\$ 2,291,008</u>             | <u>\$ 2,054,075</u> |             |

#### 22. COMMITMENTS AND CONTINGENCIES

The Company has operating leases on its corporate offices and owns 13 self-storage facilities that are subject to ground leases. At December 31, 2008, future minimum rental payments under these non-cancelable operating leases are as follows:

|                  |                 |
|------------------|-----------------|
| Less than 1 year | \$ 5,604        |
| Year 2           | 5,603           |
| Year 3           | 4,944           |
| Year 4           | 4,205           |
| Year 5           | 4,211           |
| Thereafter       | 34,880          |
|                  | <u>\$59,447</u> |

The monthly rental amount for one of the ground leases is the greater of a minimum amount or a percentage of gross monthly receipts. The Company recorded rent expense of \$2,262, \$3,115 and \$2,641 related to these leases in the years ended December 31, 2008, 2007 and 2006, respectively.

The Company has guaranteed two construction loans for unconsolidated partnerships that own development properties in Baltimore, Maryland, and Chicago, Illinois. These properties are owned by joint ventures in which the Company has between 10% and 50% equity interests. These guarantees were entered into in November 2004 and July 2005, respectively. At December 31, 2008, the total amount of guaranteed mortgage debt relating to these joint ventures was \$12,851 (unaudited). These mortgage loans mature December 12, 2009 and, July 28, 2009, respectively. If the joint ventures default on the loans, the Company may be forced to repay the loans. Repossessing and/or selling the self-storage facilities and land that collateralize the loans could provide funds sufficient to reimburse

## Extra Space Storage Inc.

### Notes to Consolidated Financial Statements (Continued)

December 31, 2008

(Dollars in thousands, except share data)

#### 22. COMMITMENTS AND CONTINGENCIES (Continued)

the Company. The estimated fair market value of the encumbered assets at December 31, 2008 is \$17,507 (unaudited). The Company has recorded no liability in relation to this guarantee as of December 31, 2008, as the fair value of the guarantee is not material. To date, the joint ventures have not defaulted on their mortgage debt. The Company believes the risk of having to perform on the guarantee is remote.

The Company has been involved in routine litigation arising in the ordinary course of business. As of December 31, 2008, the Company is not presently involved in any material litigation nor, to its knowledge, is any material litigation threatened against its properties.

#### 23. SUPPLEMENTARY QUARTERLY FINANCIAL DATA (UNAUDITED)

|                                                | Three months ended |          |               |              |
|------------------------------------------------|--------------------|----------|---------------|--------------|
|                                                | March 31,          | June 30, | September 30, | December 31, |
|                                                | 2008               | 2008     | 2008          | 2008         |
| Revenues                                       | \$65,707           | \$67,336 | \$ 69,848     | \$ 70,360    |
| Cost of operations                             | 43,727             | 45,428   | 45,506        | 46,647       |
| Revenues less cost of operations               | \$21,980           | \$21,908 | \$ 24,342     | \$ 23,713    |
| Net income                                     | \$ 6,700           | \$ 8,901 | \$ 12,327     | \$ 18,960    |
| Net income attributable to common stockholders | \$ 6,700           | \$ 8,901 | \$ 12,327     | \$ 18,960    |
| Net income—basic                               | \$ 0.10            | \$ 0.12  | \$ 0.15       | \$ 0.25      |
| Net income—diluted                             | \$ 0.10            | \$ 0.12  | \$ 0.15       | \$ 0.24      |

|                                                | Three months ended |          |               |              |
|------------------------------------------------|--------------------|----------|---------------|--------------|
|                                                | March 31,          | June 30, | September 30, | December 31, |
|                                                | 2007               | 2007     | 2007          | 2007         |
| Revenues                                       | \$53,776           | \$56,550 | \$ 63,826     | \$ 64,714    |
| Cost of operations                             | 36,155             | 36,819   | 41,112        | 40,982       |
| Revenues less cost of operations               | \$17,621           | \$19,731 | \$ 22,714     | \$ 23,732    |
| Net income                                     | \$ 6,470           | \$ 8,695 | \$ 11,338     | \$ 9,591     |
| Net income attributable to common stockholders | \$ 6,470           | \$ 8,695 | \$ 9,828      | \$ 9,591     |
| Net income—basic                               | \$ 0.10            | \$ 0.13  | \$ 0.15       | \$ 0.15      |
| Net income—diluted                             | \$ 0.10            | \$ 0.13  | \$ 0.15       | \$ 0.15      |

#### 24. SUBSEQUENT EVENTS

On February 2, 2009, the Company announced that Kenneth M. Woolley, its Chairman and Chief Executive Officer, would be taking a 3-year leave from the Company's management team beginning April 1, 2009, but will remain on the board of directors. The Company's Board of Directors selected

**Extra Space Storage Inc.**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 2008**

**(Dollars in thousands, except share data)**

**24. SUBSEQUENT EVENTS (Continued)**

the Company's President, Spencer F. Kirk, to succeed Mr. Woolley as Chairman and Chief Executive Officer.

On January 23, 2009, the Company purchased one self-storage facility located in Virginia from an unrelated third party for cash of \$7,400.

On February 10, 2009, the Company closed on a \$9,100 term loan secured by certain properties of the Company. The term of the loan is for 36 months maturing on February 9, 2012. On February 13, 2009, the Company closed on a \$50,000 Revolving Credit Line ("Revolving Credit Line") secured by certain properties of the Company. The term of the Revolving Credit Line is 36 months maturing on February 13, 2012. No amounts have been drawn down on the Revolving Credit Line.

**Extra Space Storage Inc.**  
**Schedule III**  
**Real Estate and Accumulated Depreciation**  
**(Dollars in thousands)**

|                |       |          |                         |                                              |                                 |                                 |                     |       |                         |        | Gross carrying amount at<br>December 31, 2008 |                              |        |                             |                                                 |
|----------------|-------|----------|-------------------------|----------------------------------------------|---------------------------------|---------------------------------|---------------------|-------|-------------------------|--------|-----------------------------------------------|------------------------------|--------|-----------------------------|-------------------------------------------------|
| Property Name  | State | Debt     | Land<br>initial<br>cost | Building and<br>improvements<br>initial cost | Land costs                      | Building<br>costs               | Land<br>Adjustments | Notes | Building<br>Adjustments | Notes  | Land                                          | Building and<br>improvements | Total  | Accumulated<br>depreciation | Date<br>acquired or<br>development<br>completed |
|                |       |          |                         |                                              | subsequent<br>to<br>acquisition | subsequent<br>to<br>acquisition |                     |       |                         |        |                                               |                              |        |                             |                                                 |
| Hoover         | AL    | \$ 2,550 | \$1,313                 | \$ 2,858                                     | \$ —                            | \$ 456                          | \$ —                |       | \$ —                    |        | \$1,313                                       | \$ 3,314                     | 4,627  | 190                         | Aug-07                                          |
| Mesa           | AZ    | 1,439    | 849                     | 2,547                                        | —                               | 49                              | —                   |       | —                       |        | 849                                           | 2,596                        | 3,445  | 302                         | Aug-04                                          |
| Peoria         | AZ    | —        | 652                     | 4,105                                        | —                               | 13                              | —                   |       | —                       |        | 652                                           | 4,118                        | 4,770  | 264                         | Apr-06                                          |
| Peoria         | AZ    | —        | 1,060                   | —                                            | —                               | —                               | —                   |       | —                       |        | 1,060                                         | —                            | 1,060  | —                           |                                                 |
| Phoenix        | AZ    | 7,400    | 1,441                   | 7,982                                        | —                               | 223                             | —                   |       | —                       |        | 1,441                                         | 8,205                        | 9,646  | 778                         | Jul-05                                          |
| Phoenix        | AZ    | —        | 669                     | 4,135                                        | —                               | 49                              | —                   |       | —                       |        | 669                                           | 4,184                        | 4,853  | 211                         | Jan-07                                          |
| Phoenix        | AZ    | 3,440    | 552                     | 3,530                                        | —                               | 103                             | —                   |       | —                       |        | 552                                           | 3,633                        | 4,185  | 249                         | Jun-06                                          |
| Alameda        | CA    | —        | 2,919                   | 12,984                                       | —                               | 1,041                           | —                   |       | —                       |        | 2,919                                         | 14,025                       | 16,944 | 597                         | Jun-07                                          |
| Antelope       | CA    | —        | 1,525                   | 8,345                                        | —                               | —                               | (340)               | (b)   | —                       |        | 1,185                                         | 8,345                        | 9,530  | 62                          | Jul-08                                          |
| Belmont        | CA    | —        | 3,500                   | 7,280                                        | —                               | 9                               | —                   |       | —                       |        | 3,500                                         | 7,289                        | 10,789 | 256                         | May-07                                          |
| Berkley        | CA    | 257      | 1,716                   | 19,602                                       | —                               | 668                             | —                   |       | —                       |        | 1,716                                         | 20,270                       | 21,986 | 779                         | Jun-07                                          |
| Burbank        | CA    | 8,186    | 3,199                   | 5,082                                        | —                               | 247                             | 419                 | (a)   | 672                     | (a)    | 3,618                                         | 6,001                        | 9,619  | 1,278                       | Aug-00                                          |
| Carson         | CA    | —        | —                       | —                                            | —                               | —                               | —                   |       | —                       |        | —                                             | —                            | —      | —                           |                                                 |
| Casitas        | CA    | 4,268    | 1,431                   | 2,976                                        | —                               | 90                              | 180                 | (a)   | 374                     | (a)    | 1,611                                         | 3,440                        | 5,051  | 768                         | Mar-00                                          |
| Castro Valley  | CA    | —        | —                       | 6,346                                        | —                               | 207                             | —                   |       | —                       |        | —                                             | 6,553                        | 6,553  | 252                         | Jun-07                                          |
| Chatsworth     | CA    | 11,200   | 3,594                   | 11,166                                       | —                               | 504                             | —                   |       | —                       |        | 3,594                                         | 11,670                       | 15,264 | 1,059                       | Jul-05                                          |
| Claremont      | CA    | 2,624    | 1,472                   | 2,012                                        | —                               | 154                             | —                   |       | —                       |        | 1,472                                         | 2,166                        | 3,638  | 251                         | Jun-04                                          |
| Colma          | CA    | —        | 3,947                   | 22,002                                       | —                               | 950                             | —                   |       | —                       |        | 3,947                                         | 22,952                       | 26,899 | 918                         | Jun-07                                          |
| Compton        | CA    | 5,927    | 1,426                   | 7,307                                        | —                               | —                               | —                   |       | —                       |        | 1,426                                         | 7,307                        | 8,733  | 54                          | Sep-08                                          |
| Culver City    | CA    | —        | 3,991                   | 9,774                                        | —                               | —                               | —                   |       | —                       |        | 3,991                                         | 9,774                        | 13,765 | 251                         | Dec-07                                          |
| El Cajon       | CA    | —        | 1,100                   | —                                            | —                               | —                               | —                   |       | —                       |        | 1,100                                         | —                            | 1,100  | —                           |                                                 |
| El Sobrante    | CA    | —        | 1,209                   | 4,018                                        | —                               | 734                             | —                   |       | —                       |        | 1,209                                         | 4,752                        | 5,961  | 202                         | Jun-07                                          |
| Elk Grove      | CA    | 5,240    | 952                     | 6,936                                        | —                               | 7                               | —                   |       | —                       |        | 952                                           | 6,943                        | 7,895  | 354                         | Dec-07                                          |
| Fontana        | CA    | —        | 1,246                   | 3,356                                        | —                               | 107                             | 54                  | (a)   | 179                     | (a)(c) | 1,300                                         | 3,642                        | 4,942  | 516                         | Oct-03                                          |
| Fontana        | CA    | 3,364    | 961                     | 3,846                                        | —                               | 82                              | 39                  | (a)   | 186                     | (a)(c) | 1,000                                         | 4,114                        | 5,114  | 695                         | Sep-02                                          |
| Glendale       | CA    | 4,480    | —                       | 6,084                                        | —                               | 105                             | —                   |       | —                       |        | —                                             | 6,189                        | 6,189  | 739                         | Jun-04                                          |
| Hawthorne      | CA    | 3,840    | 1,532                   | 3,871                                        | —                               | 96                              | —                   |       | —                       |        | 1,532                                         | 3,967                        | 5,499  | 489                         | Jun-04                                          |
| Hayward        | CA    | —        | 3,149                   | 8,006                                        | —                               | 1,155                           | —                   |       | —                       |        | 3,149                                         | 9,161                        | 12,310 | 357                         | Jun-07                                          |
| Hemet          | CA    | 5,300    | 1,146                   | 6,369                                        | —                               | 141                             | —                   |       | —                       |        | 1,146                                         | 6,510                        | 7,656  | 591                         | Jul-05                                          |
| Inglewood      | CA    | 4,119    | 1,379                   | 3,343                                        | —                               | 313                             | 150                 | (a)   | 377                     | (a)    | 1,529                                         | 4,033                        | 5,562  | 926                         | Aug-00                                          |
| LA Central Ave | CA    | 6,279    | 2,200                   | 8,108                                        | —                               | —                               | —                   |       | —                       |        | 2,200                                         | 8,108                        | 10,308 | 60                          | Sep-08                                          |
| LA Pico/Union  | CA    | —        | 3,075                   | —                                            | —                               | —                               | —                   |       | —                       |        | 3,075                                         | —                            | 3,075  | —                           |                                                 |

**Extra Space Storage Inc.**  
**Schedule III (Continued)**  
**Real Estate and Accumulated Depreciation**  
**(Dollars in thousands)**

|                     |       |        |                         |                                              |                                 |                                 |                     |       |                         |       | Gross carrying amount at<br>December 31, 2008 |                              |        |                             |                                                 |
|---------------------|-------|--------|-------------------------|----------------------------------------------|---------------------------------|---------------------------------|---------------------|-------|-------------------------|-------|-----------------------------------------------|------------------------------|--------|-----------------------------|-------------------------------------------------|
| Property Name       | State | Debt   | Land<br>initial<br>cost | Building and<br>improvements<br>initial cost | Land costs                      | Building<br>costs               | Land<br>Adjustments | Notes | Building<br>Adjustments | Notes | Land                                          | Building and<br>improvements | Total  | Accumulated<br>depreciation | Date<br>acquired or<br>development<br>completed |
|                     |       |        |                         |                                              | subsequent<br>to<br>acquisition | subsequent<br>to<br>acquisition |                     |       |                         |       |                                               |                              |        |                             |                                                 |
| Lancaster           | CA    | \$ —   | \$1,425                 | \$ —                                         | \$ —                            | \$ —                            | \$ —                | —     | \$ —                    | —     | \$1,425                                       | \$ —                         | 1,425  | —                           |                                                 |
| Lancaster           | CA    | 5,840  | 1,347                   | 5,827                                        | —                               | 179                             | —                   | —     | —                       | —     | 1,347                                         | 6,006                        | 7,353  | 401                         | Jul-06                                          |
| Livermore           | CA    | 4,920  | 1,134                   | 4,615                                        | —                               | 58                              | —                   | —     | —                       | —     | 1,134                                         | 4,673                        | 5,807  | 553                         | Jun-04                                          |
| Long Beach          | CA    | 6,200  | 1,403                   | 7,595                                        | —                               | 301                             | —                   | —     | —                       | —     | 1,403                                         | 7,896                        | 9,299  | 733                         | Jul-05                                          |
| Los Gatos           | CA    | —      | 2,550                   | —                                            | —                               | —                               | —                   | —     | —                       | —     | 2,550                                         | —                            | 2,550  | —                           |                                                 |
| Manteca             | CA    | 3,777  | 848                     | 2,543                                        | —                               | 50                              | —                   | —     | —                       | —     | 848                                           | 2,593                        | 3,441  | 342                         | Jan-04                                          |
| Marina Del Rey      | CA    | 18,400 | 4,248                   | 23,549                                       | —                               | 315                             | —                   | —     | —                       | —     | 4,248                                         | 23,864                       | 28,112 | 2,112                       | Jul-05                                          |
| Modesto             | CA    | —      | 909                     | 3,043                                        | —                               | 160                             | —                   | —     | —                       | —     | 909                                           | 3,203                        | 4,112  | 138                         | Jun-07                                          |
| N Highlands         | CA    | 2,200  | 696                     | 2,806                                        | —                               | 459                             | —                   | —     | —                       | —     | 696                                           | 3,265                        | 3,961  | 338                         | Jul-05                                          |
| North<br>Hollywood  | CA    | —      | 3,125                   | 9,257                                        | —                               | 50                              | —                   | —     | —                       | —     | 3,125                                         | 9,307                        | 12,432 | 621                         | May-06                                          |
| Oakland             | CA    | 4,157  | —                       | 3,777                                        | —                               | 290                             | —                   | —     | 494                     | (a)   | —                                             | 4,561                        | 4,561  | 1,022                       | Apr-00                                          |
| Oakland             | CA    | —      | 3,024                   | —                                            | —                               | —                               | —                   | —     | —                       | —     | 3,024                                         | —                            | 3,024  | —                           |                                                 |
| Oceanside           | CA    | 9,700  | 3,241                   | 11,361                                       | —                               | 347                             | —                   | —     | —                       | —     | 3,241                                         | 11,708                       | 14,949 | 1,084                       | Jul-05                                          |
| Pacoima             | CA    | —      | 3,050                   | —                                            | —                               | —                               | —                   | —     | —                       | —     | 3,050                                         | —                            | 3,050  | —                           |                                                 |
| Palmdale            | CA    | —      | 1,225                   | 5,379                                        | —                               | 2,125                           | —                   | —     | —                       | —     | 1,225                                         | 7,504                        | 8,729  | 668                         | Jan-05                                          |
| Pico Rivera         | CA    | 4,473  | 1,150                   | 3,450                                        | —                               | 71                              | —                   | —     | —                       | —     | 1,150                                         | 3,521                        | 4,671  | 646                         | Aug-00                                          |
| Pleasanton          | CA    | —      | 1,208                   | 4,283                                        | —                               | 305                             | —                   | —     | —                       | —     | 1,208                                         | 4,588                        | 5,796  | 216                         | May-07                                          |
| Richmond            | CA    | 4,696  | 953                     | 4,635                                        | —                               | 361                             | —                   | —     | —                       | —     | 953                                           | 4,996                        | 5,949  | 585                         | Jun-04                                          |
| Riverside           | CA    | 2,557  | 1,075                   | 4,042                                        | —                               | 320                             | —                   | —     | —                       | —     | 1,075                                         | 4,362                        | 5,437  | 509                         | Aug-04                                          |
| Sacramento          | CA    | 4,200  | 852                     | 4,720                                        | —                               | 260                             | —                   | —     | —                       | —     | 852                                           | 4,980                        | 5,832  | 479                         | Jul-05                                          |
| Sacramento          | CA    | 5,358  | 1,738                   | 5,522                                        | —                               | —                               | —                   | —     | —                       | —     | 1,738                                         | 5,522                        | 7,260  | 112                         | Dec-07                                          |
| San Bernardino      | CA    | 3,376  | 1,213                   | 3,061                                        | —                               | 66                              | —                   | —     | —                       | —     | 1,213                                         | 3,127                        | 4,340  | 381                         | Jun-04                                          |
| San Bernardino      | CA    | —      | 750                     | 5,135                                        | —                               | 12                              | —                   | —     | —                       | —     | 750                                           | 5,147                        | 5,897  | 279                         | Jun-06                                          |
| San Francisco       | CA    | 13,750 | 8,457                   | 9,928                                        | —                               | 1,053                           | —                   | —     | —                       | —     | 8,457                                         | 10,981                       | 19,438 | 488                         | Jun-07                                          |
| San Jose            | CA    | 2,375  | 5,340                   | —                                            | —                               | —                               | —                   | —     | —                       | —     | 5,340                                         | —                            | 5,340  | —                           |                                                 |
| San Leandro         | CA    | —      | 3,343                   | —                                            | —                               | —                               | —                   | —     | —                       | —     | 3,343                                         | —                            | 3,343  | —                           |                                                 |
| San Leandro         | CA    | —      | 4,601                   | 9,777                                        | —                               | 962                             | —                   | —     | —                       | —     | 4,601                                         | 10,739                       | 15,340 | 415                         | Aug-07                                          |
| Santa Clara         | CA    | —      | 4,750                   | —                                            | —                               | —                               | —                   | —     | —                       | —     | 4,750                                         | —                            | 4,750  | —                           |                                                 |
| Santa Fe<br>Springs | CA    | 7,102  | 3,617                   | 7,022                                        | —                               | 209                             | —                   | —     | —                       | —     | 3,617                                         | 7,231                        | 10,848 | 237                         | Oct-07                                          |
| Sherman Oaks        | CA    | 17,204 | 4,051                   | 12,152                                       | —                               | 201                             | —                   | —     | —                       | —     | 4,051                                         | 12,353                       | 16,404 | 1,367                       | Aug-04                                          |
| Simi Valley         | CA    | —      | 5,535                   | —                                            | —                               | —                               | —                   | —     | —                       | —     | 5,535                                         | —                            | 5,535  | —                           |                                                 |
| Stockton            | CA    | 3,170  | 649                     | 3,272                                        | —                               | 62                              | —                   | —     | —                       | —     | 649                                           | 3,334                        | 3,983  | 583                         | May-02                                          |

**Extra Space Storage Inc.**  
**Schedule III (Continued)**  
**Real Estate and Accumulated Depreciation**  
**(Dollars in thousands)**

| Property Name    | State | Debt  | Land<br>initial<br>cost | Building and<br>improvements<br>initial cost | Land costs        |                   | Land<br>Adjustments | Notes | Building costs    |                   | Building<br>Adjustments | Notes | Gross carrying amount at<br>December 31, 2008 |              |        | Accumulated<br>depreciation | Date<br>acquired or<br>development<br>completed |
|------------------|-------|-------|-------------------------|----------------------------------------------|-------------------|-------------------|---------------------|-------|-------------------|-------------------|-------------------------|-------|-----------------------------------------------|--------------|--------|-----------------------------|-------------------------------------------------|
|                  |       |       |                         |                                              | to<br>acquisition | to<br>acquisition |                     |       | to<br>acquisition | to<br>acquisition |                         |       | Land                                          | improvements | Total  |                             |                                                 |
| Sylmar           | CA    | \$ —  | \$3,058                 | \$ 4,671                                     | \$ —              | \$ 209            | \$ —                | —     | \$ —              | —                 | \$ —                    | —     | \$3,058                                       | \$ 4,880     | 7,938  | 84                          | May-08                                          |
| Thousand Oaks    | CA    | —     | 4,500                   | —                                            | —                 | —                 | —                   | —     | —                 | —                 | —                       | —     | 4,500                                         | —            | 4,500  | —                           | —                                               |
| Torrance         | CA    | 6,960 | 3,710                   | 6,271                                        | —                 | 276               | —                   | —     | —                 | —                 | —                       | —     | 3,710                                         | 6,547        | 10,257 | 788                         | Jun-04                                          |
| Tracy A          | CA    | —     | 946                     | 1,937                                        | —                 | 90                | —                   | —     | —                 | 10                | (c)                     | —     | 946                                           | 2,037        | 2,983  | 331                         | Apr-04                                          |
| Tracy D          | CA    | —     | 778                     | 2,638                                        | —                 | 76                | 133                 | (a)   | —                 | 481               | (a)(c)                  | —     | 911                                           | 3,195        | 4,106  | 476                         | Jul-03                                          |
| Vallejo          | CA    | —     | 1,177                   | 2,157                                        | —                 | 504               | —                   | —     | —                 | —                 | —                       | —     | 1,177                                         | 2,661        | 3,838  | 110                         | Jun-07                                          |
| Venice           | CA    | 6,863 | 2,803                   | 8,410                                        | —                 | 69                | —                   | —     | —                 | —                 | —                       | —     | 2,803                                         | 8,479        | 11,282 | 941                         | Aug-04                                          |
| Watsonville      | CA    | 3,400 | 1,699                   | 3,056                                        | —                 | 125               | —                   | —     | —                 | —                 | —                       | —     | 1,699                                         | 3,181        | 4,880  | 300                         | Jul-05                                          |
| West Sacramento  | CA    | —     | 2,400                   | —                                            | —                 | —                 | —                   | —     | —                 | —                 | —                       | —     | 2,400                                         | —            | 2,400  | —                           | —                                               |
| Whittier         | CA    | 2,489 | —                       | 2,985                                        | —                 | 27                | —                   | —     | —                 | 20                | (c)                     | —     | —                                             | 3,032        | 3,032  | 527                         | Jun-02                                          |
| Arvada           | CO    | —     | 286                     | 1,521                                        | —                 | 411               | —                   | —     | —                 | —                 | —                       | —     | 286                                           | 1,932        | 2,218  | 484                         | Sep-00                                          |
| Colorado Springs | CO    | 3,245 | 781                     | 3,400                                        | —                 | 92                | —                   | —     | —                 | —                 | —                       | —     | 781                                           | 3,492        | 4,273  | 128                         | Aug-07                                          |
| Colorado Springs | CO    | —     | 1,525                   | 4,310                                        | —                 | —                 | —                   | —     | —                 | —                 | —                       | —     | 1,525                                         | 4,310        | 5,835  | 14                          | Nov-08                                          |
| Denver           | CO    | 2,250 | 368                     | 1,574                                        | —                 | 77                | —                   | —     | —                 | —                 | —                       | —     | 368                                           | 1,651        | 2,019  | 166                         | Jul-05                                          |
| Denver           | CO    | —     | 602                     | 2,052                                        | —                 | 346               | 143                 | (a)   | —                 | 512               | (a)                     | —     | 745                                           | 2,910        | 3,655  | 633                         | Sep-00                                          |
| Parker           | CO    | —     | 800                     | 4,549                                        | —                 | 393               | —                   | —     | —                 | —                 | —                       | —     | 800                                           | 4,942        | 5,742  | 284                         | Sep-06                                          |
| Thornton         | CO    | —     | 212                     | 2,044                                        | —                 | 421               | 36                  | (a)   | —                 | 389               | (a)                     | —     | 248                                           | 2,854        | 3,102  | 686                         | Sep-00                                          |
| Westminster      | CO    | —     | 291                     | 1,586                                        | —                 | 754               | 8                   | (a)   | —                 | 48                | (a)                     | —     | 299                                           | 2,388        | 2,687  | 538                         | Sep-00                                          |
| Groton           | CT    | —     | 1,277                   | 3,992                                        | —                 | 287               | —                   | —     | —                 | 46                | (c)                     | —     | 1,277                                         | 4,325        | 5,602  | 607                         | Jan-04                                          |
| Middletown       | CT    | —     | 932                     | 2,810                                        | —                 | 56                | —                   | —     | —                 | —                 | —                       | —     | 932                                           | 2,866        | 3,798  | 74                          | Dec-07                                          |
| Wethersfield     | CT    | —     | 709                     | 4,205                                        | —                 | 102               | —                   | —     | —                 | 16                | (c)                     | —     | 709                                           | 4,323        | 5,032  | 720                         | Aug-02                                          |
| Coral Springs    | FL    | —     | 3,638                   | 6,590                                        | —                 | 47                | —                   | —     | —                 | —                 | —                       | —     | 3,638                                         | 6,637        | 10,275 | 93                          | Jun-08                                          |
| Deland           | FL    | —     | 1,318                   | 3,971                                        | —                 | 84                | —                   | —     | —                 | —                 | —                       | —     | 1,318                                         | 4,055        | 5,373  | 313                         | Jan-06                                          |
| Estero           | FL    | —     | 2,198                   | —                                            | —                 | —                 | —                   | —     | —                 | —                 | —                       | —     | 2,198                                         | —            | 2,198  | —                           | —                                               |
| Forest Hill      | FL    | 2,301 | 1,164                   | 2,511                                        | —                 | 207               | 82                  | (a)   | —                 | 180               | (a)                     | —     | 1,246                                         | 2,898        | 4,144  | 646                         | Aug-00                                          |
| Fort Myers       | FL    | 4,400 | 1,985                   | 4,983                                        | —                 | 302               | —                   | —     | —                 | —                 | —                       | —     | 1,985                                         | 5,285        | 7,270  | 509                         | Jul-05                                          |
| Fort Myers       | FL    | 5,082 | 1,691                   | 4,711                                        | —                 | 122               | —                   | —     | —                 | 29                | (c)                     | —     | 1,691                                         | 4,862        | 6,553  | 575                         | Aug-04                                          |
| Fountainbleau    | FL    | 4,189 | 1,325                   | 4,395                                        | —                 | 223               | 114                 | (a)   | —                 | 388               | (a)                     | —     | 1,439                                         | 5,006        | 6,445  | 1,132                       | Aug-00                                          |
| Ft Lauderdale    | FL    | 4,457 | 1,587                   | 4,205                                        | —                 | 178               | —                   | —     | —                 | 32                | (c)                     | —     | 1,587                                         | 4,415        | 6,002  | 518                         | Aug-04                                          |
| Greenacres       | FL    | —     | 1,463                   | 3,244                                        | —                 | 23                | —                   | —     | —                 | 14                | (c)                     | —     | 1,463                                         | 3,281        | 4,744  | 338                         | Mar-05                                          |
| Hialeah          | FL    | —     | 2,800                   | 7,588                                        | —                 | —                 | —                   | —     | —                 | —                 | —                       | —     | 2,800                                         | 7,588        | 10,388 | 57                          | Aug-08                                          |
| Hialeah          | FL    | —     | 1,750                   | —                                            | —                 | —                 | —                   | —     | —                 | —                 | —                       | —     | 1,750                                         | —            | 1,750  | —                           | —                                               |
| Hollywood        | FL    | 7,346 | 3,214                   | 8,689                                        | —                 | 112               | —                   | —     | —                 | —                 | —                       | —     | 3,214                                         | 8,801        | 12,015 | 255                         | Nov-07                                          |

**Extra Space Storage Inc.**  
**Schedule III (Continued)**  
**Real Estate and Accumulated Depreciation**  
**(Dollars in thousands)**

|                    |       |         |                              |                                |                                       |             |                     |       |                         |       | Gross carrying amount at<br>December 31, 2008 |                              |             |              | Date<br>acquired or<br>development |
|--------------------|-------|---------|------------------------------|--------------------------------|---------------------------------------|-------------|---------------------|-------|-------------------------|-------|-----------------------------------------------|------------------------------|-------------|--------------|------------------------------------|
|                    |       |         | Building and<br>improvements | Land costs<br>subsequent<br>to | Building<br>costs<br>subsequent<br>to |             |                     |       |                         |       |                                               |                              | Accumulated |              |                                    |
| Property Name      | State | Debt    | Land<br>initial<br>cost      | initial cost                   | acquisition                           | acquisition | Land<br>Adjustments | Notes | Building<br>Adjustments | Notes | Land                                          | Building and<br>improvements | Total       | depreciation | completed                          |
| Hunters Creek      | FL    | \$8,200 | \$2,233                      | \$ 9,223                       | \$ —                                  | \$ 65       | \$ —                |       | \$ 21                   | (c)   | \$2,233                                       | \$ 9,309                     | 11,542      | 937          | Mar-05                             |
| Kendall            | FL    | 7,673   | 5,315                        | 4,305                          | —                                     | 145         | 544                 | (a)   | 447                     | (a)   | 5,859                                         | 4,897                        | 10,756      | 1,069        | Aug-00                             |
| Madeira Beach      | FL    | 4,857   | 1,686                        | 5,163                          | —                                     | 72          | —                   |       | 29                      | (c)   | 1,686                                         | 5,264                        | 6,950       | 612          | Aug-04                             |
| Margate            | FL    | 2,662   | 430                          | 3,139                          | —                                     | 236         | 39                  | (a)   | 287                     | (a)   | 469                                           | 3,662                        | 4,131       | 796          | Aug-00                             |
| Metro West         | FL    | 6,400   | 1,474                        | 6,101                          | —                                     | 36          | —                   |       | 21                      | (c)   | 1,474                                         | 6,158                        | 7,632       | 624          | Mar-05                             |
| Miami              | FL    | —       | 1,238                        | 7,597                          | —                                     | 132         | —                   |       | —                       |       | 1,238                                         | 7,729                        | 8,967       | 333          | May-07                             |
| Miami              | FL    | —       | 4,798                        | —                              | —                                     | —           | —                   |       | —                       |       | 4,798                                         | —                            | 4,798       | —            |                                    |
| Military Trail     | FL    | 2,468   | 1,312                        | 2,511                          | —                                     | 269         | 104                 | (a)   | 204                     | (a)   | 1,416                                         | 2,984                        | 4,400       | 691          | Aug-00                             |
| N. Lauderdale      | FL    | 2,264   | 428                          | 3,516                          | —                                     | 423         | 31                  | (a)   | 260                     | (a)   | 459                                           | 4,199                        | 4,658       | 951          | Aug-00                             |
| Naples             | FL    | 5,400   | 2,570                        | 5,102                          | —                                     | 175         | —                   |       | —                       |       | 2,570                                         | 5,277                        | 7,847       | 502          | Jul-05                             |
| North Miami        | FL    | 5,848   | 1,256                        | 6,535                          | —                                     | 198         | —                   |       | —                       |       | 1,256                                         | 6,733                        | 7,989       | 816          | Jun-04                             |
| Ocoee              | FL    | 3,750   | 872                          | 3,642                          | —                                     | 68          | —                   |       | 17                      | (c)   | 872                                           | 3,727                        | 4,599       | 389          | Mar-05                             |
| Orlando            | FL    | 5,290   | 1,216                        | 5,008                          | —                                     | 99          | —                   |       | 39                      | (c)   | 1,216                                         | 5,146                        | 6,362       | 614          | Aug-04                             |
| Plantation         | FL    | —       | 3,850                        | —                              | —                                     | —           | —                   |       | —                       |       | 3,850                                         | —                            | 3,850       | —            |                                    |
| Port Charlotte     | FL    | 4,481   | 1,389                        | 4,632                          | —                                     | 66          | —                   |       | 20                      | (c)   | 1,389                                         | 4,718                        | 6,107       | 552          | Aug-04                             |
| Riverview          | FL    | 3,591   | 654                          | 2,953                          | —                                     | 69          | —                   |       | 29                      | (c)   | 654                                           | 3,051                        | 3,705       | 368          | Aug-04                             |
| Tamiami            | FL    | 6,100   | 2,979                        | 5,351                          | —                                     | 214         | —                   |       | —                       |       | 2,979                                         | 5,565                        | 8,544       | 527          | Jul-05                             |
| Tampa              | FL    | —       | 1,425                        | 4,766                          | —                                     | 202         | —                   |       | —                       |       | 1,425                                         | 4,968                        | 6,393       | 249          | Mar-07                             |
| Tampa              | FL    | 57      | 883                          | 3,533                          | —                                     | 89          | —                   |       | —                       |       | 883                                           | 3,622                        | 4,505       | 200          | Nov-06                             |
| Valrico            | FL    | 4,272   | 1,197                        | 4,411                          | —                                     | 60          | —                   |       | 34                      | (c)   | 1,197                                         | 4,505                        | 5,702       | 533          | Aug-04                             |
| Venice             | FL    | 7,096   | 1,969                        | 5,903                          | —                                     | 152         | —                   |       | —                       |       | 1,969                                         | 6,055                        | 8,024       | 471          | Jan-06                             |
| Waterford<br>Lakes | FL    | 4,600   | 1,166                        | 4,816                          | —                                     | 1,086       | —                   |       | 15                      | (c)   | 1,166                                         | 5,917                        | 7,083       | 547          | Mar-05                             |
| West Palm Bch      | FL    | 2,600   | 1,449                        | 2,586                          | —                                     | 222         | —                   |       | —                       |       | 1,449                                         | 2,808                        | 4,257       | 297          | Jul-05                             |
| WPB                | FL    | 4,000   | 1,752                        | 4,909                          | —                                     | 233         | —                   |       | —                       |       | 1,752                                         | 5,142                        | 6,894       | 498          | Jul-05                             |
| Alpharetta         | GA    | 2,852   | 1,893                        | 3,161                          | —                                     | 95          | —                   |       | —                       |       | 1,893                                         | 3,256                        | 5,149       | 208          | Aug-06                             |
| Cheshire           | GA    | 8,169   | 3,737                        | 8,333                          | —                                     | 104         | —                   |       | 35                      | (c)   | 3,737                                         | 8,472                        | 12,209      | 980          | Aug-04                             |
| Dacula             | GA    | 3,879   | 1,993                        | 3,001                          | —                                     | 60          | —                   |       | —                       |       | 1,993                                         | 3,061                        | 5,054       | 234          | Jan-06                             |
| Duluth             | GA    | 54      | 1,454                        | 4,151                          | —                                     | 67          | —                   |       | —                       |       | 1,454                                         | 4,218                        | 5,672       | 170          | Jun-07                             |
| Meridian           | GA    | 9,600   | 3,319                        | 8,325                          | —                                     | 158         | —                   |       | 33                      | (c)   | 3,319                                         | 8,516                        | 11,835      | 890          | Feb-05                             |
| Roswell            | GA    | 2,813   | 1,665                        | 2,028                          | —                                     | 75          | —                   |       | 21                      | (c)   | 1,665                                         | 2,124                        | 3,789       | 254          | Aug-04                             |
| Snellville         | GA    | 5,210   | 2,691                        | 4,026                          | —                                     | 99          | —                   |       | 23                      | (c)   | 2,691                                         | 4,148                        | 6,839       | 488          | Aug-04                             |
| Stone Mountain     | GA    | 1,998   | 925                          | 3,505                          | —                                     | 120         | —                   |       | —                       |       | 925                                           | 3,625                        | 4,550       | 330          | Jul-05                             |

**Extra Space Storage Inc.**  
**Schedule III (Continued)**  
**Real Estate and Accumulated Depreciation**  
**(Dollars in thousands)**

| Property Name  | State | Debt    | Land initial cost | Building and improvements initial cost | Land costs subsequent acquisition to | Building costs subsequent acquisition to | Land Adjustments | Notes | Building Adjustments | Notes  | Gross carrying amount at December 31, 2008 |              |        | Accumulated depreciation | Date acquired or development completed |
|----------------|-------|---------|-------------------|----------------------------------------|--------------------------------------|------------------------------------------|------------------|-------|----------------------|--------|--------------------------------------------|--------------|--------|--------------------------|----------------------------------------|
|                |       |         |                   |                                        |                                      |                                          |                  |       |                      |        | Land                                       | Improvements | Total  |                          |                                        |
| Stone Mountain | GA    | \$4,256 | \$1,817           | \$ 4,382                               | \$ —                                 | \$ 94                                    | \$ —             |       | \$ 24                | (c)    | \$1,817                                    | \$ 4,500     | 6,317  | 531                      | Aug-04                                 |
| Sugar Hill     | GA    | —       | 1,368             | 2,540                                  | —                                    | 86                                       | —                |       | —                    |        | 1,368                                      | 2,626        | 3,994  | 108                      | Jun-07                                 |
| Sugar Hill     | GA    | —       | 1,371             | 2,547                                  | —                                    | 94                                       | —                |       | —                    |        | 1,371                                      | 2,641        | 4,012  | 110                      | Jun-07                                 |
| Holcomb        |       |         |                   |                                        |                                      |                                          |                  |       |                      |        |                                            |              |        |                          |                                        |
| Bridge         | GL    | 2,445   | 1,973             | 1,587                                  | —                                    | 53                                       | —                |       | 20                   | (c)    | 1,973                                      | 1,660        | 3,633  | 209                      | Aug-04                                 |
| Kahului        | HI    | —       | 3,984             | 15,044                                 | —                                    | 357                                      | —                |       | —                    |        | 3,984                                      | 15,401       | 19,385 | 600                      | Jun-07                                 |
| Kapolei        | HI    | 243     | —                 | 24,701                                 | —                                    | 272                                      | —                |       | —                    |        | —                                          | 24,973       | 24,973 | 972                      | Jun-07                                 |
| Chicago        | IL    | 3,200   | 449               | 2,471                                  | —                                    | 367                                      | —                |       | —                    |        | 449                                        | 2,838        | 3,287  | 279                      | Jul-05                                 |
| Chicago        | IL    | 2,900   | 472               | 2,582                                  | —                                    | 457                                      | —                |       | —                    |        | 472                                        | 3,039        | 3,511  | 297                      | Jul-05                                 |
| Chicago        | IL    | 4,400   | 621               | 3,428                                  | —                                    | 491                                      | —                |       | —                    |        | 621                                        | 3,919        | 4,540  | 383                      | Jul-05                                 |
| Chicago        | IL    | —       | 1,925             | —                                      | —                                    | —                                        | —                |       | —                    |        | 1,925                                      | —            | 1,925  | —                        |                                        |
| Crest Hill     | IL    | —       | 847               | 2,946                                  | —                                    | 54                                       | 121              | (a)   | 472                  | (a)(c) | 968                                        | 3,472        | 4,440  | 523                      | Jul-03                                 |
| Gurnee         | IL    | 124     | 1,374             | 8,296                                  | —                                    | 10                                       | —                |       | —                    |        | 1,374                                      | 8,306        | 9,680  | 259                      | Oct-07                                 |
| Naperville     | IL    | —       | 2,800             | 7,355                                  | —                                    | —                                        | —                |       | —                    |        | 2,800                                      | 7,355        | 10,155 | 11                       | Dec-08                                 |
| North Aurora   | IL    | —       | 600               | 5,833                                  | —                                    | —                                        | —                |       | —                    |        | 600                                        | 5,833        | 6,433  | 81                       | May-08                                 |
| South Holland  | IL    | 3,033   | 839               | 2,879                                  | —                                    | 86                                       | 26               | (a)   | 108                  | (a)(c) | 865                                        | 3,073        | 3,938  | 528                      | Oct-02                                 |
| Tinley Park    | IL    | —       | 1,823             | 4,794                                  | —                                    | —                                        | —                |       | —                    |        | 1,823                                      | 4,794        | 6,617  | 35                       | Aug-08                                 |
| Carmel         | IN    | —       | 1,169             | 4,393                                  | —                                    | —                                        | —                |       | —                    |        | 1,169                                      | 4,393        | 5,562  | 23                       | Oct-08                                 |
| Ft Wayne       | IN    | —       | 1,899             | 3,292                                  | —                                    | —                                        | —                |       | —                    |        | 1,899                                      | 3,292        | 5,191  | 18                       | Oct-08                                 |
| Indianapolis   | IN    | 3,013   | 588               | 3,457                                  | —                                    | 130                                      | —                |       | —                    |        | 588                                        | 3,587        | 4,175  | 135                      | Aug-07                                 |
| Indianapolis   | IN    | —       | 426               | 2,903                                  | —                                    | —                                        | —                |       | —                    |        | 426                                        | 2,903        | 3,329  | 15                       | Oct-08                                 |
| Indianapolis   | IN    | —       | 850               | 4,545                                  | —                                    | —                                        | —                |       | —                    |        | 850                                        | 4,545        | 5,395  | 24                       | Oct-08                                 |
| Indianapolis   | IN    | —       | 630               | 3,349                                  | —                                    | —                                        | —                |       | —                    |        | 630                                        | 3,349        | 3,979  | 18                       | Oct-08                                 |
| Wichita        | KS    | 2,154   | 366               | 1,897                                  | —                                    | 226                                      | —                |       | —                    |        | 366                                        | 2,123        | 2,489  | 166                      | Apr-06                                 |
| Louisville     | KY    | 3,000   | 586               | 3,244                                  | —                                    | 121                                      | —                |       | —                    |        | 586                                        | 3,365        | 3,951  | 328                      | Jul-05                                 |
| Louisville     | KY    | 2,771   | 1,217             | 4,611                                  | —                                    | 107                                      | —                |       | —                    |        | 1,217                                      | 4,718        | 5,935  | 434                      | Jul-05                                 |
| Louisville     | KY    | 59      | 892               | 2,677                                  | —                                    | 110                                      | —                |       | —                    |        | 892                                        | 2,787        | 3,679  | 222                      | Dec-05                                 |
| Metairie       | LA    | 5,419   | 2,056             | 4,216                                  | —                                    | 77                                       | —                |       | 18                   | (c)    | 2,056                                      | 4,311        | 6,367  | 500                      | Aug-04                                 |
| New Orleans    | LA    | 7,927   | 4,058             | 4,325                                  | —                                    | 410                                      | —                |       | 24                   | (c)    | 4,058                                      | 4,759        | 8,817  | 554                      | Aug-04                                 |
| Ashland        | MA    | —       | 474               | 3,324                                  | —                                    | 162                                      | —                |       | 27                   | (c)    | 474                                        | 3,513        | 3,987  | 641                      | Jun-03                                 |
| Auburn         | MA    | 3,598   | 918               | 3,728                                  | —                                    | 89                                       | —                |       | —                    |        | 918                                        | 3,817        | 4,735  | 838                      | May-04                                 |
| Brockton       | MA    | 2,386   | 647               | 2,762                                  | —                                    | 74                                       | —                |       | —                    |        | 647                                        | 2,836        | 3,483  | 537                      | May-04                                 |
| Cambridge      | MA    | —       | —                 | —                                      | —                                    | 89                                       | —                |       | 14                   | (c)    | —                                          | 103          | 103    | 45                       | Feb-04                                 |

**Extra Space Storage Inc.**  
**Schedule III (Continued)**  
**Real Estate and Accumulated Depreciation**  
**(Dollars in thousands)**

|                  |       |        |                         |                                              |                                               |                                                      |                     |       |                         |       | Gross carrying amount at<br>December 31, 2008 |          |        |                             |                                                 |  |
|------------------|-------|--------|-------------------------|----------------------------------------------|-----------------------------------------------|------------------------------------------------------|---------------------|-------|-------------------------|-------|-----------------------------------------------|----------|--------|-----------------------------|-------------------------------------------------|--|
| Property Name    | State | Debt   | Land<br>initial<br>cost | Building and<br>improvements<br>initial cost | Land costs<br>subsequent<br>to<br>acquisition | Building<br>costs<br>subsequent<br>to<br>acquisition | Land<br>Adjustments | Notes | Building<br>Adjustments | Notes | Building and<br>improvements                  |          |        | Accumulated<br>depreciation | Date<br>acquired or<br>development<br>completed |  |
|                  |       |        |                         |                                              |                                               |                                                      |                     |       |                         |       | Land                                          | Total    |        |                             |                                                 |  |
| Dedham           | MA    | \$ —   | \$2,127                 | \$ 3,041                                     | \$ —                                          | \$ 404                                               | \$ —                |       | \$ 28                   | (c)   | \$2,127                                       | \$ 3,473 | 5,600  | 702                         | Mar-02                                          |  |
| Dedham II        | MA    | —      | 2,443                   | 7,328                                        | —                                             | 487                                                  | —                   |       | 16                      | (c)   | 2,443                                         | 7,831    | 10,274 | 1,053                       | Feb-04                                          |  |
| Everett          | MA    | 3,750  | 692                     | 2,129                                        | —                                             | 486                                                  | —                   |       | —                       |       | 692                                           | 2,615    | 3,307  | 245                         | Jul-05                                          |  |
| Foxboro          | MA    | 3,598  | 759                     | 4,158                                        | —                                             | 365                                                  | —                   |       | —                       |       | 759                                           | 4,523    | 5,282  | 1,255                       | May-04                                          |  |
| Hudson           | MA    | 2,738  | 806                     | 3,122                                        | —                                             | 188                                                  | —                   |       | —                       |       | 806                                           | 3,310    | 4,116  | 829                         | May-04                                          |  |
| Jamaica Plain    | MA    | —      | 3,285                   | 11,275                                       | —                                             | 22                                                   | —                   |       | —                       |       | 3,285                                         | 11,297   | 14,582 | 290                         | Dec-07                                          |  |
| Kingston         | MA    | —      | 555                     | 2,491                                        | —                                             | 52                                                   | —                   |       | 32                      | (c)   | 555                                           | 2,575    | 3,130  | 492                         | Oct-02                                          |  |
| Lynn             | MA    | 2,426  | 1,703                   | 3,237                                        | —                                             | 151                                                  | —                   |       | —                       |       | 1,703                                         | 3,388    | 5,091  | 710                         | Jun-01                                          |  |
| Marshfield       | MA    | 4,776  | 1,039                   | 4,155                                        | —                                             | 153                                                  | —                   |       | —                       |       | 1,039                                         | 4,308    | 5,347  | 523                         | Mar-04                                          |  |
| Milton           | MA    | —      | 2,838                   | 3,979                                        | —                                             | 3,360                                                | —                   |       | 20                      | (c)   | 2,838                                         | 7,359    | 10,197 | 856                         | Nov-02                                          |  |
| North Bergen     | MA    | —      | 2,100                   | 6,606                                        | —                                             | 81                                                   | —                   |       | 74                      | (c)   | 2,100                                         | 6,761    | 8,861  | 1,074                       | Jul-03                                          |  |
| Northboro        | MA    | 2,551  | 280                     | 2,715                                        | —                                             | 440                                                  | —                   |       | —                       |       | 280                                           | 3,155    | 3,435  | 704                         | Feb-01                                          |  |
| Norwood          | MA    | —      | 2,160                   | 2,336                                        | —                                             | 1,339                                                | 61                  | (a)   | 95                      | (a)   | 2,221                                         | 3,770    | 5,991  | 672                         | Aug-99                                          |  |
| Oxford           | MA    | 1,526  | 482                     | 1,762                                        | —                                             | 165                                                  | 46                  | (a)   | 168                     | (a)   | 528                                           | 2,095    | 2,623  | 501                         | Oct-99                                          |  |
| Plainville       | MA    | 5,400  | 2,223                   | 4,430                                        | —                                             | 269                                                  | —                   |       | —                       |       | 2,223                                         | 4,699    | 6,922  | 504                         | Jul-05                                          |  |
| Quincy           | MA    | —      | 1,359                   | 4,078                                        | —                                             | 171                                                  | —                   |       | 18                      | (c)   | 1,359                                         | 4,267    | 5,626  | 609                         | Feb-04                                          |  |
| Raynham          | MA    | 3,560  | 588                     | 2,270                                        | —                                             | 217                                                  | 82                  | (a)   | 323                     | (a)   | 670                                           | 2,810    | 3,480  | 540                         | May-00                                          |  |
| Saugus           | MA    | —      | 1,725                   | 5,514                                        | —                                             | 273                                                  | —                   |       | 104                     | (c)   | 1,725                                         | 5,891    | 7,616  | 1,001                       | Jun-03                                          |  |
| Somerville       | MA    | 114    | 1,728                   | 6,570                                        | —                                             | 214                                                  | 3                   | (a)   | 13                      | (a)   | 1,731                                         | 6,797    | 8,528  | 1,241                       | Jun-01                                          |  |
| Stoneham         | MA    | 5,400  | 944                     | 5,241                                        | —                                             | 83                                                   | —                   |       | —                       |       | 944                                           | 5,324    | 6,268  | 486                         | Jul-05                                          |  |
| Stoughton        | MA    | 3,012  | 1,754                   | 2,769                                        | —                                             | 150                                                  | —                   |       | —                       |       | 1,754                                         | 2,919    | 4,673  | 638                         | May-04                                          |  |
| Waltham          | MA    | —      | 3,770                   | 11,310                                       | —                                             | 303                                                  | —                   |       | 17                      | (c)   | 3,770                                         | 11,630   | 15,400 | 1,503                       | Feb-04                                          |  |
| Weymouth         | MA    | 4,539  | 2,806                   | 3,129                                        | —                                             | 89                                                   | —                   |       | —                       |       | 2,806                                         | 3,218    | 6,024  | 745                         | Sep-00                                          |  |
| Woburn           | MA    | —      | —                       | —                                            | —                                             | 144                                                  | —                   |       | 17                      | (c)   | —                                             | 161      | 161    | 60                          | Feb-04                                          |  |
| Worcester        | MA    | 1,744  | 896                     | 4,377                                        | —                                             | 2,235                                                | —                   |       | —                       |       | 896                                           | 6,612    | 7,508  | 1,150                       | May-04                                          |  |
| Worcester/Ararat | MA    | 52     | 1,350                   | 4,433                                        | —                                             | 40                                                   | —                   |       | —                       |       | 1,350                                         | 4,473    | 5,823  | 242                         | Dec-06                                          |  |
| Anapolis         | MD    | —      | 1,375                   | 8,896                                        | —                                             | 234                                                  | —                   |       | —                       |       | 1,375                                         | 9,130    | 10,505 | 324                         | Aug-07                                          |  |
| Anapolis         | MD    | 7,151  | 5,248                   | 7,247                                        | —                                             | 100                                                  | —                   |       | —                       |       | 5,248                                         | 7,347    | 12,595 | 329                         | Apr-07                                          |  |
| Arnold           | MD    | 9,500  | 2,558                   | 9,446                                        | —                                             | 168                                                  | —                   |       | —                       |       | 2,558                                         | 9,614    | 12,172 | 866                         | Jul-05                                          |  |
| Baltimore        | MD    | —      | 800                     | 5,955                                        | —                                             | —                                                    | —                   |       | —                       |       | 800                                           | 5,955    | 6,755  | 31                          | Nov-08                                          |  |
| Bethesda         | MD    | 12,800 | —                       | 18,331                                       | —                                             | 204                                                  | —                   |       | —                       |       | —                                             | 18,535   | 18,535 | 1,649                       | Jul-05                                          |  |
| Columbia         | MD    | 8,400  | 1,736                   | 9,632                                        | —                                             | 117                                                  | —                   |       | —                       |       | 1,736                                         | 9,749    | 11,485 | 878                         | Jul-05                                          |  |

**Extra Space Storage Inc.**  
**Schedule III (Continued)**  
**Real Estate and Accumulated Depreciation**  
**(Dollars in thousands)**

|                |       |        |                         |                                              |                                 |                                 |                     |       |                         |        | Gross carrying amount at<br>December 31, 2008 |                              |        |                             |                                                 |
|----------------|-------|--------|-------------------------|----------------------------------------------|---------------------------------|---------------------------------|---------------------|-------|-------------------------|--------|-----------------------------------------------|------------------------------|--------|-----------------------------|-------------------------------------------------|
| Property Name  | State | Debt   | Land<br>initial<br>cost | Building and<br>improvements<br>initial cost | Land costs                      | Building<br>costs               | Land<br>Adjustments | Notes | Building<br>Adjustments | Notes  | Land                                          | Building and<br>improvements | Total  | Accumulated<br>depreciation | Date<br>acquired or<br>development<br>completed |
|                |       |        |                         |                                              | subsequent<br>to<br>acquisition | subsequent<br>to<br>acquisition |                     |       |                         |        |                                               |                              |        |                             |                                                 |
| Edgewood       | MD    | \$ —   | \$1,000                 | \$ —                                         | \$ —                            | \$ —                            | \$ —                |       | \$ —                    |        | \$1,000                                       | \$ —                         | 1,000  | —                           |                                                 |
| Ft Washington  | MD    | 11,280 | 4,920                   | 9,174                                        | —                               | 82                              | —                   |       | —                       |        | 4,920                                         | 9,256                        | 14,176 | 467                         | Jan-07                                          |
| Lanham         | MD    | —      | 3,346                   | 10,079                                       | —                               | 651                             | (728)               | (b)   | 12                      | (c)    | 2,618                                         | 10,742                       | 13,360 | 1,406                       | Feb-04                                          |
| Laurel Heights | MD    | —      | 3,000                   | 5,930                                        | —                               | 7                               | —                   |       | —                       |        | 3,000                                         | 5,937                        | 8,937  | 160                         | Dec-07                                          |
| Park Lawn      | MD    | 12,680 | 4,596                   | 11,328                                       | —                               | 144                             | —                   |       | —                       |        | 4,596                                         | 11,472                       | 16,068 | 678                         | Sep-06                                          |
| Pasadena       | MD    | —      | 1,869                   | 3,056                                        | —                               | 15                              | —                   |       | —                       |        | 1,869                                         | 3,071                        | 4,940  | 23                          | Sep-08                                          |
| Pasadena       | MD    | —      | 3,500                   | —                                            | —                               | —                               | —                   |       | —                       |        | 3,500                                         | —                            | 3,500  | —                           |                                                 |
| Towson         | MD    | 4,100  | 861                     | 4,742                                        | —                               | 99                              | —                   |       | —                       |        | 861                                           | 4,841                        | 5,702  | 448                         | Jul-05                                          |
| Grandville     | MI    | 1,700  | 726                     | 1,298                                        | —                               | 230                             | —                   |       | —                       |        | 726                                           | 1,528                        | 2,254  | 159                         | Jul-05                                          |
| Mt Clemens     | MI    | 2,100  | 798                     | 1,796                                        | —                               | 181                             | —                   |       | —                       |        | 798                                           | 1,977                        | 2,775  | 194                         | Jul-05                                          |
| Florissant     | MO    | 3,533  | 1,241                   | 4,648                                        | —                               | 214                             | —                   |       | —                       |        | 1,241                                         | 4,862                        | 6,103  | 197                         | Aug-07                                          |
| Forest Park    | MO    | 1,125  | 156                     | 1,313                                        | —                               | 229                             | 17                  | (a)   | 151                     | (a)    | 173                                           | 1,693                        | 1,866  | 397                         | Jun-00                                          |
| Grandview      | MO    | 1,100  | 612                     | 1,770                                        | —                               | 180                             | —                   |       | —                       |        | 612                                           | 1,950                        | 2,562  | 209                         | Jul-05                                          |
| Halls Ferry    | MO    | 2,222  | 631                     | 2,159                                        | —                               | 206                             | 59                  | (a)   | 205                     | (a)    | 690                                           | 2,570                        | 3,260  | 594                         | Jun-00                                          |
| St Louis       | MO    | 3,963  | 1,444                   | 4,162                                        | —                               | 189                             | —                   |       | —                       |        | 1,444                                         | 4,351                        | 5,795  | 170                         | Aug-07                                          |
| St Louis       | MO    | 2,819  | 676                     | 3,551                                        | —                               | 168                             | —                   |       | —                       |        | 676                                           | 3,719                        | 4,395  | 150                         | Aug-07                                          |
| Merrimack      | NH    | 3,669  | 754                     | 3,299                                        | —                               | 120                             | 63                  | (a)   | 279                     | (a)    | 817                                           | 3,698                        | 4,515  | 601                         | Apr-99                                          |
| Nashua         | NH    | —      | —                       | 755                                          | —                               | 60                              | —                   |       | —                       |        | —                                             | 815                          | 815    | 79                          | Jul-05                                          |
| Avenel         | NJ    | 8,080  | 1,518                   | 8,037                                        | —                               | 118                             | —                   |       | 24                      | (c)    | 1,518                                         | 8,179                        | 9,697  | 847                         | Jan-05                                          |
| Bayville       | NJ    | 5,300  | 1,193                   | 5,312                                        | —                               | 165                             | —                   |       | 41                      | (c)    | 1,193                                         | 5,518                        | 6,711  | 619                         | Dec-04                                          |
| Bellmawr       | NJ    | 6,600  | 3,600                   | 4,540                                        | —                               | 4                               | 75                  | (c)   | —                       |        | 3,675                                         | 4,544                        | 8,219  | —                           | Sep-08                                          |
| Edison         | NJ    | 6,479  | 2,519                   | 8,547                                        | —                               | 276                             | —                   |       | —                       |        | 2,519                                         | 8,823                        | 11,342 | 1,670                       | Dec-01                                          |
| Egg Harbor     | NJ    | 5,345  | 1,724                   | 5,001                                        | —                               | 367                             | —                   |       | —                       |        | 1,724                                         | 5,368                        | 7,092  | 1,052                       | Dec-01                                          |
| Ewing          | NJ    | 5,339  | 1,552                   | 4,720                                        | —                               | 8                               | 11                  | (c)   | —                       |        | 1,563                                         | 4,728                        | 6,291  | 239                         | Mar-07                                          |
| Glen Rock      | NJ    | 3,990  | 1,109                   | 2,401                                        | —                               | 99                              | 113                 | (a)   | 249                     | (a)(c) | 1,222                                         | 2,749                        | 3,971  | 476                         | Mar-01                                          |
| Hackensack     | NJ    | 9,500  | 2,283                   | 11,234                                       | —                               | 512                             | —                   |       | —                       |        | 2,283                                         | 11,746                       | 14,029 | 1,086                       | Jul-05                                          |
| Hazlet         | NJ    | 10,560 | 1,362                   | 10,262                                       | —                               | 322                             | —                   |       | —                       |        | 1,362                                         | 10,584                       | 11,946 | 1,947                       | Dec-01                                          |
| Hoboken        | NJ    | 8,206  | 2,687                   | 6,092                                        | —                               | 138                             | —                   |       | 3                       | (c)    | 2,687                                         | 6,233                        | 8,920  | 1,079                       | Jul-02                                          |
| Howell         | NJ    | 2,950  | 2,440                   | 3,407                                        | —                               | 198                             | —                   |       | —                       |        | 2,440                                         | 3,605                        | 6,045  | 714                         | Dec-01                                          |
| Lawrenceville  | NJ    | 11,946 | 3,402                   | 10,230                                       | —                               | 245                             | —                   |       | 8                       | (c)    | 3,402                                         | 10,483                       | 13,885 | 1,357                       | Feb-04                                          |
| Linden         | NJ    | 6,700  | 1,517                   | 8,384                                        | —                               | 111                             | —                   |       | —                       |        | 1,517                                         | 8,495                        | 10,012 | 766                         | Jul-05                                          |
| Lumberton      | NJ    | 4,925  | 831                     | 4,060                                        | —                               | 84                              | —                   |       | 22                      | (c)    | 831                                           | 4,166                        | 4,997  | 487                         | Dec-04                                          |

**Extra Space Storage Inc.**  
**Schedule III (Continued)**  
**Real Estate and Accumulated Depreciation**  
**(Dollars in thousands)**

|                 |       |          |                         |                                              |                                 |                                 |                     |       |                         |        | Gross carrying amount at<br>December 31, 2008 |                              |        |                             |                                                 |  |
|-----------------|-------|----------|-------------------------|----------------------------------------------|---------------------------------|---------------------------------|---------------------|-------|-------------------------|--------|-----------------------------------------------|------------------------------|--------|-----------------------------|-------------------------------------------------|--|
| Property Name   | State | Debt     | Land<br>initial<br>cost | Building and<br>improvements<br>initial cost | Land costs                      | Building costs                  | Land<br>Adjustments | Notes | Building<br>Adjustments | Notes  | Land                                          | Building and<br>improvements | Total  | Accumulated<br>depreciation | Date<br>acquired or<br>development<br>completed |  |
|                 |       |          |                         |                                              | subsequent<br>to<br>acquisition | subsequent<br>to<br>acquisition |                     |       |                         |        |                                               |                              |        |                             |                                                 |  |
| Lyndhurst       | NJ    | \$ 6,791 | \$ 2,679                | \$ 4,644                                     | \$ —                            | \$ 164                          | \$ 250              | (a)   | \$ 446                  | (a)(c) | \$ 2,929                                      | \$ 5,254                     | 8,183  | 898                         | Mar-01                                          |  |
| Metuchen        | NJ    | —        | 1,153                   | 4,462                                        | —                               | 141                             | —                   | —     | —                       | —      | 1,153                                         | 4,603                        | 5,756  | 840                         | Dec-01                                          |  |
| Morrisville     | NJ    | —        | 2,487                   | 7,494                                        | —                               | 1,031                           | —                   | —     | 11                      | (c)    | 2,487                                         | 8,536                        | 11,023 | 1,095                       | Feb-04                                          |  |
| Neptune         | NJ    | —        | 4,204                   | 8,906                                        | —                               | 102                             | —                   | —     | —                       | —      | 4,204                                         | 9,008                        | 13,212 | 493                         | Nov-06                                          |  |
| North Bergen    | NJ    | 11,000   | 2,299                   | 12,728                                       | —                               | 146                             | —                   | —     | —                       | —      | 2,299                                         | 12,874                       | 15,173 | 1,153                       | Jul-05                                          |  |
| Old Bridge      | NJ    | 5,561    | 2,758                   | 6,450                                        | —                               | 382                             | —                   | —     | —                       | —      | 2,758                                         | 6,832                        | 9,590  | 1,315                       | Dec-01                                          |  |
| Parlin          | NJ    | 6,700    | 2,517                   | 4,516                                        | —                               | 291                             | —                   | —     | —                       | —      | 2,517                                         | 4,807                        | 7,324  | 513                         | Jul-05                                          |  |
| Parlin          | NJ    | 4,146    | —                       | 5,273                                        | —                               | 180                             | —                   | —     | —                       | —      | —                                             | 5,453                        | 5,453  | 1,288                       | May-04                                          |  |
| South Brunswick | NJ    | 1,442    | 1,700                   | —                                            | —                               | —                               | —                   | —     | —                       | —      | 1,700                                         | —                            | 1,700  | —                           | —                                               |  |
| Tom's River     | NJ    | 8,300    | 1,790                   | 9,935                                        | —                               | 206                             | —                   | —     | —                       | —      | 1,790                                         | 10,141                       | 11,931 | 959                         | Jul-05                                          |  |
| Union           | NJ    | —        | 1,754                   | 6,237                                        | —                               | 129                             | —                   | —     | 78                      | (c)    | 1,754                                         | 6,444                        | 8,198  | 739                         | Dec-04                                          |  |
| Woodbridge      | NJ    | 3,805    | 505                     | 4,524                                        | —                               | 280                             | —                   | —     | —                       | —      | 505                                           | 4,804                        | 5,309  | 956                         | Dec-01                                          |  |
| Albuquerque     | NM    | 4,216    | 1,298                   | 4,628                                        | —                               | 527                             | —                   | —     | —                       | —      | 1,298                                         | 5,155                        | 6,453  | 185                         | Aug-07                                          |  |
| Lamont St.      | NV    | 988      | 251                     | 717                                          | —                               | 258                             | 27                  | (a)   | 87                      | (a)    | 278                                           | 1,062                        | 1,340  | 290                         | Feb-00                                          |  |
| Las Vegas       | NV    | 3,900    | 748                     | 4,131                                        | —                               | 398                             | —                   | —     | —                       | —      | 748                                           | 4,529                        | 5,277  | 472                         | Jul-05                                          |  |
| Bohemia         | NY    | 1,723    | 1,456                   | 1,398                                        | —                               | 315                             | —                   | —     | —                       | —      | 1,456                                         | 1,713                        | 3,169  | 44                          | Dec-07                                          |  |
| Brooklyn        | NY    | —        | 12,993                  | 10,405                                       | —                               | —                               | —                   | —     | —                       | —      | 12,993                                        | 10,405                       | 23,398 | 56                          | Oct-08                                          |  |
| Centereach      | NY    | —        | 2,226                   | 1,657                                        | —                               | —                               | —                   | —     | —                       | —      | 2,226                                         | 1,657                        | 3,883  | 9                           | Oct-08                                          |  |
| Fordham         | NY    | 9,817    | 3,995                   | 11,870                                       | —                               | 423                             | —                   | —     | 28                      | (c)    | 3,995                                         | 12,321                       | 16,316 | 1,470                       | Aug-04                                          |  |
| Mt Vernon       | NY    | 5,100    | 1,585                   | 6,025                                        | —                               | 762                             | —                   | —     | —                       | —      | 1,585                                         | 6,787                        | 8,372  | 606                         | Jul-05                                          |  |
| Mt Vernon       | NY    | —        | 1,926                   | 7,622                                        | —                               | 446                             | —                   | —     | 33                      | (c)    | 1,926                                         | 8,101                        | 10,027 | 1,261                       | Nov-02                                          |  |
| Nanuet          | NY    | 3,792    | 2,072                   | 4,644                                        | 666                             | 169                             | —                   | —     | 24                      | (c)    | 2,738                                         | 4,837                        | 7,575  | 922                         | Feb-02                                          |  |
| New Paltz       | NY    | 5,000    | 2,059                   | 3,715                                        | —                               | 229                             | —                   | —     | —                       | —      | 2,059                                         | 3,944                        | 6,003  | 386                         | Jul-05                                          |  |
| New York        | NY    | 16,400   | 3,060                   | 16,978                                       | —                               | 449                             | —                   | —     | —                       | —      | 3,060                                         | 17,427                       | 20,487 | 1,591                       | Jul-05                                          |  |
| Plainview       | NY    | —        | 4,287                   | 3,710                                        | —                               | 399                             | —                   | —     | —                       | —      | 4,287                                         | 4,109                        | 8,396  | 936                         | Dec-00                                          |  |
| Columbus        | OH    | 2,900    | 483                     | 2,654                                        | —                               | 386                             | —                   | —     | —                       | —      | 483                                           | 3,040                        | 3,523  | 330                         | Jul-05                                          |  |
| Columbus        | OH    | 1,500    | 374                     | 2,059                                        | —                               | 82                              | —                   | —     | —                       | —      | 374                                           | 2,141                        | 2,515  | 212                         | Jul-05                                          |  |
| Columbus        | OH    | 3,800    | 601                     | 3,336                                        | —                               | 83                              | —                   | —     | —                       | —      | 601                                           | 3,419                        | 4,020  | 322                         | Jul-05                                          |  |
| Kent            | OH    | 1,500    | 220                     | 1,206                                        | —                               | 109                             | —                   | —     | —                       | —      | 220                                           | 1,315                        | 1,535  | 150                         | Jul-05                                          |  |
| Aloha           | OR    | 6,200    | 1,221                   | 6,262                                        | —                               | 120                             | —                   | —     | —                       | —      | 1,221                                         | 6,382                        | 7,603  | 589                         | Jul-05                                          |  |
| King City       | OR    | —        | 2,520                   | —                                            | —                               | —                               | —                   | —     | —                       | —      | 2,520                                         | —                            | 2,520  | —                           | —                                               |  |
| Banksville      | PA    | 1,984    | 991                     | 1,990                                        | —                               | 338                             | 91                  | (a)   | 199                     | (a)    | 1,082                                         | 2,527                        | 3,609  | 525                         | Aug-00                                          |  |
| Bensalem        | PA    | 51       | 1,131                   | 4,525                                        | —                               | 125                             | —                   | —     | 66                      | (c)    | 1,131                                         | 4,716                        | 5,847  | 549                         | Dec-04                                          |  |

**Extra Space Storage Inc.**  
**Schedule III (Continued)**  
**Real Estate and Accumulated Depreciation**  
**(Dollars in thousands)**

| Property Name | State | Debt   | Land initial cost | Building and improvements initial cost | Land costs     |                | Building costs |                | Land Adjustments | Notes | Building Adjustments | Notes | Gross carrying amount at December 31, 2008 |              |        | Accumulated depreciation | Date acquired or development completed |
|---------------|-------|--------|-------------------|----------------------------------------|----------------|----------------|----------------|----------------|------------------|-------|----------------------|-------|--------------------------------------------|--------------|--------|--------------------------|----------------------------------------|
|               |       |        |                   |                                        | to acquisition | to acquisition | to acquisition | to acquisition |                  |       |                      |       | Land                                       | improvements | Total  |                          |                                        |
| Bensalem      | PA    | \$ —   | \$ 750            | \$ 3,015                               | \$ —           | \$ 96          | \$ —           | \$ —           | —                | (a)   | 384                  | (a)   | \$ 750                                     | \$ 3,111     | 3,861  | 231                      | Mar-06                                 |
| Doylestown    | PA    | 3,739  | 220               | 3,442                                  | —              | 203            | —              | 24             | —                | —     | —                    | —     | 244                                        | 4,029        | 4,273  | 668                      | Nov-99                                 |
| Kennedy       | PA    | 2,488  | 736               | 3,173                                  | —              | 109            | —              | —              | —                | —     | —                    | —     | 736                                        | 3,282        | 4,018  | 750                      | May-04                                 |
| Penn Ave      | PA    | 2,894  | 889               | 4,117                                  | —              | 284            | —              | —              | —                | —     | —                    | —     | 889                                        | 4,401        | 5,290  | 924                      | May-04                                 |
| Philadelphia  | PA    | 9,000  | 1,470             | 8,162                                  | —              | 811            | —              | —              | —                | —     | —                    | —     | 1,470                                      | 8,973        | 10,443 | 856                      | Jul-05                                 |
| Philadelphia  | PA    | —      | 1,965             | 5,925                                  | —              | 842            | —              | —              | —                | (c)   | 7                    | (c)   | 1,965                                      | 6,774        | 8,739  | 871                      | Feb-04                                 |
| Johnston      | RI    | 7,100  | 2,658             | 4,799                                  | —              | 222            | —              | —              | —                | —     | —                    | —     | 2,658                                      | 5,021        | 7,679  | 484                      | Jul-05                                 |
| Charleston    | SC    | 3,791  | 1,279             | 4,171                                  | —              | 38             | —              | —              | —                | (c)   | 30                   | (c)   | 1,279                                      | 4,239        | 5,518  | 505                      | Aug-04                                 |
| Columbia      | SC    | 3,182  | 838               | 3,312                                  | —              | 81             | —              | —              | —                | (c)   | 38                   | (c)   | 838                                        | 3,431        | 4,269  | 420                      | Aug-04                                 |
| Goose Creek   | SC    | 4,184  | 1,683             | 4,372                                  | —              | 43             | —              | —              | —                | (c)   | 30                   | (c)   | 1,683                                      | 4,445        | 6,128  | 523                      | Aug-04                                 |
| Summerville   | SC    | 3,591  | 450               | 4,454                                  | —              | 62             | —              | —              | —                | (c)   | 26                   | (c)   | 450                                        | 4,542        | 4,992  | 539                      | Aug-04                                 |
| Cordova       | TN    | 2,700  | 852               | 2,720                                  | —              | 119            | —              | —              | —                | —     | —                    | —     | 852                                        | 2,839        | 3,691  | 283                      | Jul-05                                 |
| Cordova       | TN    | 6,900  | 1,351             | 7,476                                  | —              | 138            | —              | —              | —                | —     | —                    | —     | 1,351                                      | 7,614        | 8,965  | 712                      | Jul-05                                 |
| Cordova       | TN    | —      | 894               | 2,680                                  | —              | 52             | —              | —              | —                | —     | —                    | —     | 894                                        | 2,732        | 3,626  | 137                      | Jan-07                                 |
| Memphis       | TN    | 2,100  | 976               | 1,725                                  | —              | 167            | —              | —              | —                | —     | —                    | —     | 976                                        | 1,892        | 2,868  | 216                      | Jul-05                                 |
| Memphis       | TN    | 3,100  | 814               | 2,766                                  | —              | 90             | —              | —              | —                | —     | —                    | —     | 814                                        | 2,856        | 3,670  | 287                      | Jul-05                                 |
| Nashville     | TN    | 2,960  | 390               | 2,598                                  | —              | 125            | —              | —              | —                | —     | —                    | —     | 390                                        | 2,723        | 3,113  | 202                      | Apr-06                                 |
| Allen         | TX    | 71     | 901               | 5,553                                  | —              | 93             | —              | —              | —                | —     | —                    | —     | 901                                        | 5,646        | 6,547  | 308                      | Nov-06                                 |
| Arlington     | TX    | 2,020  | 534               | 2,525                                  | —              | 181            | —              | —              | —                | (c)   | 34                   | (c)   | 534                                        | 2,740        | 3,274  | 349                      | Aug-04                                 |
| Austin        | TX    | 2,400  | 1,105             | 2,313                                  | —              | 122            | —              | —              | —                | —     | —                    | —     | 1,105                                      | 2,435        | 3,540  | 275                      | Jul-05                                 |
| Austin        | TX    | 3,944  | 870               | 4,455                                  | —              | 88             | —              | —              | —                | (c)   | 35                   | (c)   | 870                                        | 4,578        | 5,448  | 554                      | Aug-04                                 |
| Culebra       | TX    | 2,068  | 1,269             | 1,816                                  | —              | 123            | —              | —              | —                | (c)   | 30                   | (c)   | 1,269                                      | 1,969        | 3,238  | 251                      | Aug-04                                 |
| Dallas        | TX    | 4,400  | 1,010             | 5,547                                  | —              | 197            | —              | —              | —                | —     | —                    | —     | 1,010                                      | 5,744        | 6,754  | 534                      | Jul-05                                 |
| Dallas        | TX    | 11,700 | 1,980             | 12,501                                 | —              | 145            | —              | —              | —                | —     | —                    | —     | 1,980                                      | 12,646       | 14,626 | 853                      | May-06                                 |
| Dallas        | TX    | 2,080  | 337               | 2,216                                  | —              | 253            | —              | —              | —                | —     | —                    | —     | 337                                        | 2,469        | 2,806  | 193                      | Apr-06                                 |
| Dallas        | TX    | 6,332  | 4,432             | 6,181                                  | —              | 128            | —              | —              | —                | (c)   | 36                   | (c)   | 4,432                                      | 6,345        | 10,777 | 764                      | Aug-04                                 |
| Fort. Worth   | TX    | 3,880  | 631               | 5,794                                  | —              | 79             | —              | —              | —                | (c)   | 31                   | (c)   | 631                                        | 5,904        | 6,535  | 696                      | Aug-04                                 |
| Grand Prairie | TX    | 2,204  | 551               | 2,330                                  | —              | 65             | —              | —              | —                | (c)   | 31                   | (c)   | 551                                        | 2,426        | 2,977  | 299                      | Aug-04                                 |
| Houston       | TX    | 3,400  | 749               | 4,122                                  | —              | 155            | —              | —              | —                | —     | —                    | —     | 749                                        | 4,277        | 5,026  | 420                      | Jul-05                                 |
| Houston       | TX    | 4,823  | 2,596             | 8,735                                  | —              | 178            | —              | —              | —                | —     | —                    | —     | 2,596                                      | 8,913        | 11,509 | 618                      | Apr-06                                 |
| Plano         | TX    | 3,300  | 1,613             | 2,871                                  | —              | 125            | —              | —              | —                | —     | —                    | —     | 1,613                                      | 2,996        | 4,609  | 351                      | Jul-05                                 |
| Plano         | TX    | —      | 1,010             | 6,203                                  | —              | 115            | —              | —              | —                | —     | —                    | —     | 1,010                                      | 6,318        | 7,328  | 343                      | Nov-06                                 |

**Extra Space Storage Inc.**  
**Schedule III (Continued)**  
**Real Estate and Accumulated Depreciation**  
**(Dollars in thousands)**

|                                                              |       |           |                         |              |            |            |          |       |            |       | Gross carrying amount at<br>December 31, 2008 |              |             |              |                                                             |
|--------------------------------------------------------------|-------|-----------|-------------------------|--------------|------------|------------|----------|-------|------------|-------|-----------------------------------------------|--------------|-------------|--------------|-------------------------------------------------------------|
| Property Name                                                | State | Debt      | Land<br>initial<br>cost | Building and | Land costs | Building   | Land     | Notes | Building   | Notes | Land                                          | Building and | Total       | depreciation | Date<br>acquired or<br>Accumulated development<br>completed |
|                                                              |       |           |                         | improvements | subsequent | costs      |          |       | subsequent |       |                                               | Adjustments  |             |              |                                                             |
| Plano                                                        | TX    | \$ —      | \$ 614                  | \$ 3,775     | \$ —       | \$ 134     | \$ —     |       | \$ —       |       | \$ 614                                        | \$ 3,909     | 4,523       | 217          | Nov-06                                                      |
| Rowlette                                                     | TX    | 34        | 1,002                   | 2,601        | —          | 124        | —        |       | —          |       | 1,002                                         | 2,725        | 3,727       | 169          | Aug-06                                                      |
| San Antonio                                                  | TX    | —         | 2,471                   | 3,556        | —          | 109        | —        |       | —          |       | 2,471                                         | 3,665        | 6,136       | 99           | Dec-07                                                      |
| South Houston                                                | TX    | 2,635     | 478                     | 4,069        | —          | 218        | —        |       | —          |       | 478                                           | 4,287        | 4,765       | 312          | Apr-06                                                      |
| Westchase                                                    | TX    | 1,812     | 253                     | 1,496        | —          | 45         | —        |       | 32         | (c)   | 253                                           | 1,573        | 1,826       | 205          | Aug-04                                                      |
| Kearns                                                       | UT    | 2,520     | 642                     | 2,607        | —          | 179        | —        |       | —          |       | 642                                           | 2,786        | 3,428       | 344          | Jun-04                                                      |
| West Valley<br>City                                          | UT    | 2,000     | 461                     | 1,722        | —          | 54         | —        |       | —          |       | 461                                           | 1,776        | 2,237       | 174          | Jul-05                                                      |
| Wethersfield                                                 | UT    | 4,000     | 1,349                   | 4,372        | —          | 131        | —        |       | —          |       | 1,349                                         | 4,503        | 5,852       | 416          | Jul-05                                                      |
| Alexandria                                                   | VA    | 6,596     | 1,620                   | 13,103       | —          | 281        | —        |       | —          |       | 1,620                                         | 13,384       | 15,004      | 568          | Jun-07                                                      |
| Falls Church                                                 | VA    | 6,200     | 1,259                   | 6,975        | —          | 267        | —        |       | —          |       | 1,259                                         | 7,242        | 8,501       | 656          | Jul-05                                                      |
| Fred Oaks Rd                                                 | VA    | 5,100     | 2,067                   | 4,261        | —          | 115        | —        |       | —          |       | 2,067                                         | 4,376        | 6,443       | 419          | Jul-05                                                      |
| West Broad                                                   | VA    | 5,723     | 2,305                   | 5,467        | —          | 53         | —        |       | 8          | (c)   | 2,305                                         | 5,528        | 7,833       | 631          | Aug-04                                                      |
| Lakewood                                                     | WA    | 4,600     | 1,917                   | 5,256        | —          | 107        | —        |       | —          |       | 1,917                                         | 5,363        | 7,280       | 396          | Feb-06                                                      |
| Lakewood                                                     | WA    | 4,597     | 1,389                   | 4,780        | —          | 142        | —        |       | —          |       | 1,389                                         | 4,922        | 6,311       | 371          | Feb-06                                                      |
| Seattle                                                      | WA    | 7,400     | 2,727                   | 7,241        | —          | 129        | —        |       | —          |       | 2,727                                         | 7,370        | 10,097      | 676          | Jul-05                                                      |
| Tacoma                                                       | WA    | 57        | 1,031                   | 3,103        | —          | 86         | —        |       | —          |       | 1,031                                         | 3,189        | 4,220       | 244          | Feb-06                                                      |
| Miscellaneous<br>other                                       |       | 647       | 849                     | 2,202        | —          | 1,610      | —        |       | —          |       | 849                                           | 3,812        | 4,661       | 1,757        |                                                             |
| Construction in<br>progress                                  |       | —         | —                       | —            | —          | 58,734     | —        |       | —          |       | —                                             | 58,734       | 58,734      | —            |                                                             |
| Intangible<br>tenant<br>relationships<br>and lease<br>rights |       | —         | —                       | 28,836       | —          | 10,547     | —        |       | —          |       | —                                             | 39,383       | 39,383      | 31,500       |                                                             |
|                                                              |       | \$943,598 | \$523,532               | \$ 1,507,556 | \$ 666     | \$ 135,828 | \$ 2,077 |       | \$ 10,332  |       | \$526,275                                     | \$ 1,653,716 | \$2,179,991 | \$ 182,335   |                                                             |

- (a) Adjustments relate to the acquisition of joint venture partners interests
- (b) Adjustment relates to partial disposition of land
- (c) Adjustment relates to asset transfers between land, building and/or equipment

**Extra Space Storage Inc.**  
**Schedule III (Continued)**  
**Real Estate and Accumulated Depreciation**  
**(Dollars in thousands)**

Activity in real estate facilities during the years ended December 31, 2008, 2007 and 2006 is as follows:

|                                         | 2008                      | 2007                      | 2006                      |
|-----------------------------------------|---------------------------|---------------------------|---------------------------|
| <b>Operating facilities</b>             |                           |                           |                           |
| Balance at beginning of year            | \$1,923,182               | \$1,475,674               | \$1,260,211               |
| Acquisitions                            | 110,258                   | 400,902                   | 189,725                   |
| Improvements                            | 32,487                    | 17,679                    | 12,445                    |
| Transfers from construction in progress | 55,824                    | 30,926                    | 14,096                    |
| Dispositions and other                  | (494)                     | (1,999)                   | (803)                     |
| Balance at end of year                  | <u>\$2,121,257</u>        | <u>\$1,923,182</u>        | <u>\$1,475,674</u>        |
| <b>Accumulated depreciation:</b>        |                           |                           |                           |
| Balance at beginning of year            | \$ 131,805                | \$ 93,619                 | \$ 58,252                 |
| Depreciation expense                    | 49,031                    | 38,186                    | 35,367                    |
| Dispositions and other                  | 1,499                     | —                         | —                         |
| Balance at end of year                  | <u>\$ 182,335</u>         | <u>\$ 131,805</u>         | <u>\$ 93,619</u>          |
| <b>Construction in progress</b>         |                           |                           |                           |
| Balance at beginning of year            | \$ 49,945                 | \$ 35,336                 | \$ 10,719                 |
| Current developent                      | 64,344                    | 45,764                    | 38,915                    |
| Transfers to operating facilities       | (55,824)                  | (30,926)                  | (14,096)                  |
| Dispositions and other                  | 269                       | (229)                     | (202)                     |
| Balance at end of year                  | <u>\$ 58,734</u>          | <u>\$ 49,945</u>          | <u>\$ 35,336</u>          |
| <b>Net real estate assets</b>           | <u><u>\$1,997,656</u></u> | <u><u>\$1,841,322</u></u> | <u><u>\$1,417,391</u></u> |

The aggregate cost of real estate for U.S. federal income tax purposes is \$2,121,257

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None

### **Item 9A. Controls and Procedures**

#### **(i) Disclosure Controls and Procedures**

We maintain disclosure controls and procedures to ensure that information required to be disclosed in the reports we file pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based on the definition of "disclosure controls and procedures" in Rule 13a-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 only provide reasonable assurance of achieving the desired control objectives, and in reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We have a disclosure committee that is responsible for considering the materiality of information and determining the disclosure obligations of the Company on a timely basis. The disclosure committee meets quarterly and reports directly to our Chief Executive Officer and Chief Financial Officer.

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 of the end of the period covered by this Annual Report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

#### **(ii) Internal Control over Financial Reporting**

##### **(a) Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-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 of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2008.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. 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.

Our independent registered public accounting firm Ernst & Young LLP, has issued the following attestation report over our internal control over financial reporting.

**(b) Attestation Report of the Registered Public Accounting Firm**

**Report of Independent Registered Public Accounting Firm**

**The Board of Directors and Stockholders of Extra Space Storage Inc.**

We have audited Extra Space Storage Inc. (the "Company") internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company'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 directors 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, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, 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 as of December 31, 2008 and 2007, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the period ended December 31, 2008, 2007 and 2006 of Extra Space Storage Inc. and our report dated February 24, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Salt Lake City, Utah  
February 24, 2009

**(c) Changes in Internal Control over Financial Reporting**

There was no change in our internal control over financial reporting (as such term is defined in Exchange Act Rule 13a- 15(f)) that occurred during our most recent quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information**

None

## **PART III**

### **Item 10. Directors, Executive Officers and Corporate Governance**

As required by Section 303A.12(a) of the NYSE Listed Company Manual, our Chief Executive Officer made his annual certification to the NYSE stating that he was not aware of any violation by our Company of the corporate governance listing standards of the NYSE. In addition, we have filed, as exhibits to this Annual Report on Form 10-K, the certifications of our Chief Executive Officer and Chief Financial Officer required under Section 302 of the Sarbanes-Oxley Act of 2002 to be filed with the Securities and Exchange Commission regarding the quality of our public disclosure.

Information required by this item is incorporated by reference to the information set forth under the captions "Item 1—Election of Directors," "Executive Officers," "Information About the Board of Directors and its Committees," and "Section 16(a) Beneficial Ownership Reporting Compliance" in our definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after December 31, 2008.

We have adopted a Code of Business Conduct and Ethics in compliance with rules of the Securities and Exchange Commission that applies to all of our personnel, including our Board of Directors, Chief Executive Officer, Chief Financial Officer and principal accounting officer. The Code of Business Conduct and Ethics is available free of charge on the "Investor Info—Corporate Governance" section of our web site at [www.extraspace.com](http://www.extraspace.com). We intend to satisfy any disclosure requirements under Item 5.05 of Form 8-K regarding amendment to, or waiver from, a provision of this Code of Business Conduct and Ethics by posting such information on our web site at the address and location specified above.

The Board of Directors has adopted Corporate Governance Guidelines and charters for our Audit Committee and Compensation, Nominating and Governance Committee, each of which is posted on our website at the address and location specified above. Investors may obtain a free copy of the Code of Business Conduct and Ethics, the Corporate Governance Guidelines and the committee charters by contacting the Investor Relations Department at 2795 East Cottonwood Parkway, Suite 400, Salt Lake City, Utah 84121, Attn: James Overturf or by telephoning (801) 562-5556.

### **Item 11. Executive Compensation**

Information with respect to executive compensation is incorporated by reference to the information set forth under the caption "Executive Compensation" in our definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after December 31, 2008.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

Information with respect to security ownership of certain beneficial owners and management and related stockholder matters is incorporated by reference to the information set forth under the captions "Voting—Principal Stockholders," "Security Ownership of Directors and Officers" and "Equity Compensation Plan Information" in our definitive Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after December 31, 2008.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

Information with respect to certain relationships and related transactions is incorporated by reference to the information set forth under the captions "Information about the Board of Directors and its Committees" and "Certain Relationships and Related Transactions" in our Proxy Statement to

be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after December 31, 2008.

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

Information with respect to principal accountant fees and services is incorporated by reference to the information set forth under the caption "Item 2. Ratification of Appointment of Independent Registered Public Accounting Firm" in our Proxy Statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after December 31, 2008.

**PART IV**

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

(a) Documents filed as part of this report:

(1) and (2). All Financial Statements and Financial Statement Schedules filed as part of this Annual Report on 10-K are included in Item 8—"Financial Statements and Supplementary Data" of this Annual Report on 10-K and reference is made thereto.

(3) The following documents are filed or incorporated by references as exhibits to this report:

| <b>Exhibit<br/>Number</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|---------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1                       | Purchase and Sale Agreement, dated May 5, 2005 by and among Security Capital Self Storage Incorporated, as seller and Extra Space Storage LLC, PRISA Self Storage LLC, PRISA II Self Storage LLC, PRISA III Self Storage LLC, VRS Self Storage LLC, WCOT Self Storage LLC and Extra Space Storage LP, as purchaser parties and The Prudential Insurance Company of America (incorporated by reference from Exhibit 2.1 of Form 8-K filed on May 11, 2005).       |
| 3.1                       | Amended and Restated Articles of Incorporation of Extra Space Storage Inc.(1)                                                                                                                                                                                                                                                                                                                                                                                    |
| 3.2                       | Articles of Amendment dated September 28, 2007 (incorporated by reference from Exhibit 3.1 of Form 8-K filed on October 3, 2007).                                                                                                                                                                                                                                                                                                                                |
| 3.3                       | Bylaws of Extra Space Storage Inc.(1)                                                                                                                                                                                                                                                                                                                                                                                                                            |
| 3.4                       | Second Amended and Restated Agreement of Limited Partnership of Extra Space Storage LP (incorporated by reference from Exhibit 10.1 of Form 8-K filed on June 26, 2007).                                                                                                                                                                                                                                                                                         |
| 3.5                       | Declaration of Trust of ESS Holdings Business Trust I.(1)                                                                                                                                                                                                                                                                                                                                                                                                        |
| 3.6                       | Declaration of Trust of ESS Holdings Business Trust II.(1)                                                                                                                                                                                                                                                                                                                                                                                                       |
| 4.1                       | Junior Subordinated Indenture dated as of July 27, 2005, between Extra Space Storage LP and JPMorgan Chase Bank, National Association, as trustee (incorporated by reference from Exhibit 4.1 of Form 8-K filed on August 2, 2005).                                                                                                                                                                                                                              |
| 4.2                       | Amended and Restated Trust Agreement, dated as of July 27, 2005, among Extra Space Storage LP, as depositor and JPMorgan Chase Bank, National Association, as property trustee, Chase Bank USA, National Association, as Delaware trustee, the Administrative Trustees named therein and the holders of undivided beneficial interest in the assets of ESS Statutory Trust III (incorporated by reference from Exhibit 4.2 of Form 8-K filed on August 2, 2005). |
| 4.3                       | Form of Junior Subordinated Note—including in Exhibit 4.1 hereto (incorporated by reference from Exhibit 4.2 of Form 8-K filed on August 2, 2005).                                                                                                                                                                                                                                                                                                               |
| 4.4                       | Form of Trust Preferred Security Certificate—including in Exhibit 4.2 hereto (incorporated by reference from Exhibit 4.2 of Form 8-K filed on August 2, 2005).                                                                                                                                                                                                                                                                                                   |
| 4.5                       | Indenture, dated March 27, 2007 among Extra Space Storage LP, Extra Space Storage Inc. and Wells Fargo Bank, N.A., as trustee, including the form of 3.625% Exchangeable Senior Notes due 2027 and form of guarantee (incorporated by reference from Exhibit 4.1 of Form 8-K filed on March 28, 2007).                                                                                                                                                           |

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| Exhibit<br>Number | Description                                                                                                                                                                                                                                     |
|-------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1              | Registration Rights Agreement, by and among Extra Space Storage Inc. and the parties listed on Schedule I thereto.(1)                                                                                                                           |
| 10.2              | License between Centershift Inc. and Extra Space Storage LP.(1)                                                                                                                                                                                 |
| 10.3              | Loan Agreement, dated as of May 4, 2004, by and between Extra Space of Northborough LLC, Extra Space of Whittier LLC, Extra Space of Stockton LLC, Extra Space of Weymouth LLC, and Extra Space of Lynn LLC, and Bank of America, N.A.(1)       |
| 10.4              | Loan Agreement, dated as of May 4, 2004, by and between Extra Space Properties Ten LLC and Bank of America, N.A.(1)                                                                                                                             |
| 10.5              | Loan Agreement, dated as of May 4, 2004, by and between Extra Space of Raynham LLC, Extra Space of Doylestown LLC, Extra Space of Glen Rock LLC, Extra Space of Fontana One LLC, and Extra Space of Merrimack LLC, and Bank of America, N.A.(1) |
| 10.6              | 2004 Long-Term Compensation Incentive Plan as amended and restated effective March 25, 2008 (incorporated by reference from the Definitive Proxy Statement on Schedule 14A filed on April 14, 2008)                                             |
| 10.7              | Extra Space Storage Performance Bonus Plan.(1)                                                                                                                                                                                                  |
| 10.8              | Amended and Restated Employment Agreement dated August 28, 2008, by and between Extra Space Storage Inc. and Kenneth M. Woolley (incorporated by reference from Exhibit 10.1 of Form 8-K filed on September 4, 2008).                           |
| 10.9              | Amended and Restated Employment Agreement dated August 28, 2008, by and between Extra Space Storage Inc. and Kent W. Christensen (incorporated by reference from Exhibit 10.2 of Form 8-K filed on September 4, 2008).                          |
| 10.10             | Amended and Restated Employment Agreement dated August 28, 2008, by and between Extra Space Storage Inc. and Charles L. Allen (incorporated by reference from Exhibit 10.4 of Form 8-K filed on September 4, 2008).                             |
| 10.11             | Form of 2004 Long Term Incentive Compensation Plan Option Award Agreement for Employees with employment agreements (incorporated by reference from Exhibit 10.14 of Form 10-K filed on March 15, 2005).                                         |
| 10.12             | Form of 2004 Long Term Incentive Compensation Plan Option Award Agreement for employees without employment agreements. (Incorporated by reference from Exhibit 10.15 of Form 10-K filed on March 15, 2005).                                     |
| 10.13             | Form of 2004 Non-Employee Directors Share Plan Option Award Agreement for Directors. (Incorporated by reference from Exhibit 10.16 of Form 10-K filed on March 15, 2005).                                                                       |
| 10.14             | Joint Venture Agreement, dated June 1, 2004, by and between Extra Space Storage LLC and Prudential Financial, Inc.(1)                                                                                                                           |
| 10.15             | Extra Space Storage Non-Employee Directors' Share Plan (incorporated by reference from Exhibit 10.22 of Form 10-K/A filed on March 22, 2007).                                                                                                   |
| 10.16             | Purchase Agreement, dated June 20, 2005, among Extra Space Storage Inc. and the investors named therein (incorporated by reference from Exhibit 10.1 of Form 8-K filed on June 24, 2005).                                                       |

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| Exhibit<br>Number | Description                                                                                                                                                                                                                                                                                                                                    |
|-------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.17             | Registration Rights Agreement, dated June 20, 2005, among Extra Space Storage Inc. and the investors named therein (incorporated by reference from Exhibit 10.1 of Form 8-K filed on June 24, 2005).                                                                                                                                           |
| 10.18             | Purchase Agreement, dated as of July 27, 2005, among Extra Space Storage LP, ESS Statutory Trust III and the Purchaser named therein (incorporated by reference from Exhibit 10.1 of Form 8-K filed on August 2, 2005).                                                                                                                        |
| 10.19             | Purchase Agreement, dated as of July 27, 2005, among Extra Space Storage LP, ESS Statutory Trust III and the Purchaser named therein (incorporated by reference from Exhibit 10.1 of Form 8-K filed on August 2, 2005).                                                                                                                        |
| 10.20             | Purchase and Sale Agreement, dated as of December 8, 2006 between Extra Space Storage LLC (Purchaser) and various limited partnerships affiliated with AAAAA Rent-A-Space (collectively, Sellers) (incorporated by reference from Exhibit 10.27 of Form 10-K filed on February 28, 2007).                                                      |
| 10.21             | Amended and Restated Employment Agreement dated August 28, 2008, by and between Extra Space Storage Inc. and Karl Haas (incorporated by reference from Exhibit 10.3 of Form 8-K filed on September 4, 2008).                                                                                                                                   |
| 10.22             | Registration Rights Agreement, dated March 27, 2007, among Extra Space Storage LP, Extra Space Storage Inc., Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated (incorporated by reference from Exhibit 10.1 of Form 8-K filed on March 28, 2007).                                                           |
| 10.23             | Contribution Agreement, dated June 15, 2007, among Extra Space Storage LP and various limited partnerships affiliated with AAAAA Rent-A-Space (incorporated by reference to Exhibit 10.1 of Form 8-K filed on June 18, 2007).                                                                                                                  |
| 10.24             | Promissory Note, dated June 25, 2007, among Extra Space Storage LP, H. James Knuppe and Barbara Knuppe (incorporated by reference to Exhibit 10.2 of Form 8-K filed on June 26, 2007).                                                                                                                                                         |
| 10.25             | Pledge Agreement, dated June 25, 2007, among Extra Space Storage LP, H. James Knuppe and Barbara Knuppe (incorporated by reference to Exhibit 10.3 of Form 8-K filed on June 26, 2007).                                                                                                                                                        |
| 10.26             | Form of Registration Rights Agreement among Extra Space Storage LP, H. James Knuppe and Barbara Knuppe (incorporated by reference to Exhibit 10.4 of Form 8-K filed on June 26, 2007).                                                                                                                                                         |
| 10.27             | First Amendment to Contribution Agreement and to Agreement Regarding Transfer of Series A units among Extra Space Storage LP, various limited partnerships affiliated with AAAAA Rent-A-Space, H. James Knuppe and Barbara Knuppe, dated September 28, 2007. (incorporated by reference to Exhibit 10.1 of Form 8-K filed on October 3, 2007). |
| 10.28             | 2004 Long Term Incentive Compensation Plan Restricted Stock Award Agreement (incorporated by reference from Exhibit 10.2 of Form 10-Q filed on November 7, 2007).                                                                                                                                                                              |
| 10.29             | First Amendment to Extra Space Storage Inc. 2004 Non-Employee Directors' Share Plan (incorporated by reference from Exhibit 10.4 of Form 10-Q filed on November 7, 2007).                                                                                                                                                                      |
| 10.30             | Loan Agreement between ESP Seven Subsidiary LLC as Borrower and General Electric Capital Corporation as Lender, dated October 16, 2007 (incorporated by reference from Exhibit 10.38 of Form 10-K filed on February 29, 2008).                                                                                                                 |

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| Exhibit<br>Number | Description                                                                                                                                                                                                                 |
|-------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.31             | Subscription Agreement, dated December 31, 2007, among Extra Space Storage LLC and Extra Space Development, LLC (incorporated by reference from Exhibit 10.38 of Form 10-K filed on February 29, 2008).                     |
| 10.32             | First Amendment to Second Amended and Restated Agreement of Limited Partnership of Extra Space Storage LP, dated September 18, 2008 (incorporated by reference from Exhibit 10.5 of Form 10-Q filed on September 30, 2008). |
| 10.33             | Form of Revolving Promissory Note between Extra Space Properties Thirty LLC and Bank of America as Lender, dated February 13, 2009.(2)                                                                                      |
| 10.34             | Form of Revolving Line of Credit between Extra Space Properties Thirty LLC and Bank of America as Lender, dated February 13, 2009.(2)                                                                                       |
| 14.0              | Code of Business Conduct and Ethics (incorporated by reference from our Annual Report on Form 10-K filed on March 15, 2005).                                                                                                |
| 21.1              | Subsidiaries of the Company.(2)                                                                                                                                                                                             |
| 23.1              | Consent of Ernst & Young LLP.(2)                                                                                                                                                                                            |
| 31.1              | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.(2)                                                                                                                      |
| 31.2              | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.(2)                                                                                                                      |
| 32                | Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.(2)                                      |

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(1) Incorporated by reference from our Registration Statement on Form S-11 (File No. 333-115436 dated August 11, 2004).

(2) Filed herewith.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 27, 2009

EXTRA SPACE STORAGE INC.

By: /s/ KENNETH M. WOOLLEY

Kenneth M. Woolley  
*Chairman and Chief Executive Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: February 27, 2009

By: /s/ KENNETH M. WOOLLEY

Kenneth M. Woolley  
*Chairman and Chief Executive Officer*  
*(Principal Executive Officer)*

Date: February 27, 2009

By: /s/ KENT W. CHRISTENSEN

Kent W. Christensen  
*Executive Vice President and*  
*Chief Financial Officer*  
*(Principal Financial Officer)*

Date: February 27, 2009

By: /s/ P. SCOTT STUBBS

P. Scott Stubbs  
*Senior Vice President Finance and Accounting*  
*(Principal Accounting Officer)*

Date: February 27, 2009

By: /s/ SPENCER F. KIRK

Spencer F. Kirk  
*President and Director*

Date: February 27, 2009

By: /s/ JOSEPH D. MARGOLIS

Joseph D. Margolis  
*Director*

Date: February 27, 2009

By: /s/ ROGER B. PORTER

Roger B. Porter  
*Director*

Date: February 27, 2009

By: /s/ K. FRED SKOUSEN

K. Fred Skousen  
*Director*



**Promissory Note**  
(Borrowing Base Revolving Line of Credit)

\$50,000,000.00

February , 2009

FOR VALUE RECEIVED **EXTRA SPACE PROPERTIES THIRTY LLC** , a Delaware limited liability company (the " *Borrower* "), hereby promises to pay to the order of **BANK OF AMERICA, N.A.** , a national banking association (together with any and all of its successors, participants and assigns and/or any other holder of this Note, " *Lender* "), without offset, in immediately available funds in lawful money of the United States of America, at Bank of America, N.A., Commercial Real Estate Bank, NV1-119-04-08, 300 S. Fourth Street, 4<sup>th</sup> Floor, Las Vegas, NV 89101-6014, the principal sum of **Fifty Million and No/100 Dollars (\$50,000,000.00)** (or the unpaid balance of all principal advanced against this Note, if that amount is less), together with interest on the unpaid principal balance of this Note from day to day outstanding as hereinafter provided.

Section 1. *Payments; Revolving Nature of Loan.*

(a) *Payment Schedule and Maturity Date.* Prior to maturity, accrued and unpaid interest shall be due and payable in arrears on the first day of each month commencing on **March 1, 2009** . The entire principal balance of this Note then unpaid, together with all accrued and unpaid interest and all other amounts payable hereunder and under the other Loan Documents (as hereinafter defined), shall be due and payable in full on **February , 2012** (the " *Maturity Date* "), the final maturity of this Note.

(b) *Nature of Revolving Line of Credit.* The loan evidenced hereby is a revolving line of credit and Borrower shall be entitled to re-borrow amounts prepaid prior to the Maturity Date. Although the outstanding principal balance of this Note may be zero from time to time, this Note and the other Loan Documents will remain in full force and effect until the Maturity Date or all obligations of Borrower and Guarantor relating to the Loan are indefeasibly paid and performed in full, whichever is later. Upon the occurrence of any Event of Default, Lender may in its sole discretion suspend or terminate its commitment to make advances of the proceeds hereof without notice to Borrower or Guarantor or further act on the part of Lender.

Section 2. *Loan Documents.* This Note is secured by certain Deeds of Trust, Assignments, Security Agreements and Fixture Filings and/or Mortgages Assignments, Security Agreements and Fixture Filings (as the same may from time to time be amended, restated, modified or supplemented, and individually and collectively, the " *Security Instruments* ") from Borrower or certain wholly owned subsidiaries of Borrower, to Lender or the trustee named therein (as applicable), for the benefit of Lender, conveying and encumbering certain real and personal properties more particularly described therein (individually and collectively, the " *Property* "). This Note, the Security Instruments, the Revolving Line of Credit Agreement between Borrower and Lender of even date herewith (as the same may from time to time be amended, restated, modified or supplemented, the " *Loan Agreement* ") and all other documents now or hereafter securing, guaranteeing or executed in connection with the loan evidenced by this Note (the " *Loan* "), other than the Environmental Agreements as the same may from time to time be amended, restated, modified or supplemented, are herein sometimes called individually a " *Loan Document* " and together the " *Loan Documents* ."

Section 3. *Interest Rate.*

(a) *BBA LIBOR Daily Floating Rate.* The unpaid principal balance of this Note from day to day outstanding which is not past due, shall bear interest at a fluctuating rate of interest per annum equal to the BBA LIBOR Daily Floating Rate for that day plus **Three Hundred Twenty-Five (325) basis points** per annum. The " *BBA LIBOR Daily Floating Rate* " shall mean a fluctuating rate of interest per annum equal to the British Bankers Association LIBOR Rate (" *BBA LIBOR* "), as published by Reuters (or other commercially available source providing quotations of BBA LIBOR as selected by Lender from time to time) as determined for each

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Business Day at approximately 11:00 a.m. London time two (2) London Banking Days prior to the date in question, for U.S. Dollar deposits (for delivery on the first day of such interest period) with a one month term, as adjusted from time to time in Lender's sole discretion for reserve requirements, deposit insurance assessment rates and other regulatory costs. A " *London Banking Day* " is a day on which banks in London are open for business and dealing in offshore dollars. Interest shall be computed for the actual number of days which have elapsed, on the basis of a 360-day year.

(b) *Alternative Rates.* Lender may notify Borrower if the BBA LIBOR Daily Floating Rate is not available for any reason, or if Lender determines that no adequate basis exists for determining the BBA LIBOR Daily Floating Rate, or that the BBA LIBOR Daily Floating Rate will not adequately and fairly reflect the cost to Lender of funding the Loan, or that any applicable Law or regulation or compliance therewith by Lender prohibits or restricts or makes impossible the charging of interest based on the BBA LIBOR Daily Floating Rate. If Lender so notifies Borrower, then interest shall accrue and be payable on the unpaid principal balance of this Note at a fluctuating rate of interest equal to the Prime Rate of Lender plus **One Hundred (100) basis points** per annum, from the date of such notification by Lender until Lender notifies Borrower that the circumstances giving rise to such suspension no longer exist, or until the Maturity Date of this Note (whether by acceleration, declaration, extension or otherwise), whichever is earlier to occur. The term " *Prime Rate* " means, on any day, the rate of interest per annum then most recently established by Lender as its "prime rate." Any such rate is a general reference rate of interest, may not be related to any other rate, and may not be the lowest or best rate actually charged by Lender to any customer or a favored rate and may not correspond with future increases or decreases in interest rates charged by other lenders or market rates in general, and Lender may make various business or other loans at rates of interest having no relationship to such rate. Any change in the Prime Rate shall take effect at the opening of business on the day specified in the public announcement of a change in Lender's Prime Rate. If Lender (including any subsequent holder of this Note) ceases to exist or to establish or publish a prime rate from which the Prime Rate is then determined, the applicable variable rate from which the Prime Rate is determined thereafter shall be instead the prime rate reported in *The Wall Street Journal* (or the average prime rate if a high and a low prime rate are therein reported), and the Prime Rate shall change without notice with each change in such prime rate as of the date such change is reported.

(c) *Past Due Rate.* If any amount payable by Borrower under any Loan Document is not paid when due (without regard to any applicable grace periods), such amount shall thereafter bear interest at the Past Due Rate (as defined below) to the fullest extent permitted by applicable Law. Accrued and unpaid interest on past due amounts (including interest on past due interest) shall be due and payable on demand, at a fluctuating rate per annum (the " *Past Due Rate* ") equal to the BBA LIBOR Daily Floating Rate plus seven hundred twenty-five (725) basis points.

Section 4. *Prepayment.* Borrower may prepay the principal balance of this Note, in full at any time or in part from time to time, without fee, premium or penalty, provided that: (a) Lender shall have actually received from Borrower prior written notice of (i) Borrower's intent to prepay, (ii) the amount of principal which will be prepaid (the "Prepaid Principal"), and (iii) the date on which the prepayment will be made; (b) each prepayment shall be in the amount of \$1,000 or a larger integral multiple of \$1,000 (unless the prepayment retires the outstanding balance of this Note in full); and (d) each prepayment shall be in the amount of 100% of the Prepaid Principal, plus accrued unpaid interest thereon to the date of prepayment, plus any other sums which have become due to Lender under the Loan Documents on or before the date of prepayment but have not been paid. Although the outstanding principal balance of this Note may be zero from time to time, such fact shall not constitute an election by Borrower to terminate the Loan and this Note and the other Loan Documents will remain in full force and effect until the Maturity Date.

Section 5. *Late Charges.* If Borrower shall fail to make any payment under the terms of this Note (other than the payment due at maturity) within fifteen (15) days after the date such payment is due, Borrower shall pay to Lender on demand a late charge equal to four percent (4%) of the amount of such payment. Such fifteen (15) day period shall not be construed as in any way extending the due date of any payment. The late charge is imposed for the purpose of defraying the expenses of Lender incident to handling such delinquent payment. This charge shall be in addition to, and not in lieu of, any other amount that Lender may be entitled to receive or action that Lender may be authorized to take as a result of such late payment. All unpaid late charges shall be included in the total indebtedness subject to the Security Instruments for all purposes, including in connection with a foreclosure sale. For purposes of *Utah Code Annotated* Section 57-1-28, the parties agree that (A) all unpaid late charges and other amounts owing hereunder or under the Loan Documents shall constitute a part of and be entitled to the benefits of Lender's Security Instruments lien upon the Property and (ii) Lender may add all unpaid late charges and other amounts owing hereunder or under the Loan Documents to the principal balance of this Note, and in either case Lender may include the amount of all unpaid late charges and other amounts owing hereunder or under the Loan Documents in any credit bid Lender may make at a foreclosure sale. Lender shall have no obligation to purchase, sell and/or match funds in connection with the funding or maintaining of the Loan or any portion thereof.

Section 6. *Certain Provisions Regarding Payments.* All payments made under this Note shall be applied, to the extent thereof, to late charges, to accrued but unpaid interest, to unpaid principal, and to any other sums due and unpaid to Lender under the Loan Documents, in such manner and order as Lender may elect in its sole discretion, any instructions from Borrower or anyone else to the contrary notwithstanding. Remittances shall be made without offset, demand, counterclaim, deduction, or recoupment (each of which is hereby waived) and shall be accepted subject to the condition that any check or draft may be handled for collection in accordance with the practice of the collecting bank or banks. Acceptance by Lender of any payment in an amount less than the amount then due on any indebtedness shall be deemed an acceptance on account only, notwithstanding any notation on or accompanying such partial payment to the contrary, and shall not in any way (a) waive or excuse the existence of an Event of Default (as hereinafter defined), (b) waive, impair or extinguish any right or remedy available to Lender hereunder or under the other Loan Documents, or (c) waive the requirement of punctual payment and performance or constitute a novation in any respect. Payments received after 2:00 p.m. shall be deemed to be received on, and shall be posted as of, the following Business Day. Whenever any payment under this Note or any other Loan Document falls due on a day which is not a Business Day, such payment may be made on the next succeeding Business Day.

Section 7. *Events of Default.* The occurrence of any one or more of the following shall constitute an " *Event of Default* " under this Note:

- (a) Borrower fails to pay any amounts payable by Borrower to Lender under the terms of this Note on the date on which such payment was due, and Borrower fails to make such payment within three (3) Banking Days of notice (whether oral notice, by e-mail or in writing) from Lender to Borrower.
- (b) Any covenant, agreement or condition in this Note is not fully and timely performed, observed or kept, subject to any applicable grace or cure period.
- (c) An Event of Default (as therein defined) occurs under any of the Loan Documents other than this Note or under any of the Environmental Agreements (subject to any applicable grace or cure period).

Section 8. *Remedies.* Upon the occurrence of an Event of Default, Lender may at any time thereafter exercise any one or more of the following rights, powers and remedies:

- (a) Lender may accelerate the Maturity Date and declare the unpaid principal balance and accrued but unpaid interest on this Note, and all other amounts payable hereunder and under the other Loan Documents, at once due and payable, and upon such declaration the same shall at once be due and payable.
- (b) Lender may set off the amount due against any and all accounts, credits, money, securities or other property now or hereafter on deposit with, held by or in the possession of Lender to the credit or for the account of Borrower, without notice to or the consent of Borrower.
- (c) Lender may exercise any of its other rights, powers and remedies under the Loan Documents or the Environmental Agreements or at law or in equity.

Section 9. *Remedies Cumulative.* All of the rights and remedies of Lender under this Note, the other Loan Documents and the Environmental Agreements are cumulative of each other and of any and all other rights at law or in equity, and the exercise by Lender of any one or more of such rights and remedies shall not preclude the simultaneous or later exercise by Lender of any or all such other rights and remedies. No single or partial exercise of any right or remedy shall exhaust it or preclude any other or further exercise thereof, and every right and remedy may be exercised at any time and from time to time. No failure by Lender to exercise, nor delay in exercising, any right or remedy shall operate as a waiver of such right or remedy or as a waiver of any Event of Default.

Section 10. *Costs and Expenses of Enforcement.* Borrower agrees to pay to Lender on demand all costs and expenses incurred by Lender in seeking to collect this Note or to enforce any of Lender's rights and remedies under the Loan Documents, including court costs and reasonable attorneys' fees and expenses, whether or not suit is filed hereon, or whether in connection with bankruptcy, insolvency or appeal.

Section 11. *Service of Process.* Borrower hereby consents to process being served in any suit, action, or proceeding instituted in connection with this Note by (a) the mailing of a copy thereof by certified mail, postage prepaid, return receipt requested, to Borrower and (b) serving a copy thereof personally upon David L. Rasmussen, General Counsel of Borrower, the agent hereby designated and appointed by Borrower as Borrower's agent for service of process. Borrower irrevocably agrees that such service shall be deemed to be service of process upon Borrower in any such suit, action, or proceeding. Nothing in this Note shall affect the right of Lender to serve process in any manner otherwise permitted by law and nothing in this Note will limit the right of Lender otherwise to bring proceedings against Borrower in the courts of any jurisdiction or jurisdictions, subject to any provision or agreement for arbitration or dispute resolution set forth in the Loan Agreement.

Section 12. *Heirs, Successors and Assigns.* The terms of this Note and of the other Loan Documents shall bind and inure to the benefit of the heirs, devisees, representatives, successors and assigns of the parties. The foregoing sentence shall not be construed to permit Borrower to assign the Loan except as otherwise permitted under the Loan Documents.

Section 13. *General Provisions.* Time is of the essence with respect to Borrower's obligations under this Note. If more than one person or entity executes this Note as Borrower, all of said parties shall be jointly and severally liable for payment of the indebtedness evidenced hereby. Borrower and each party executing this Note as Borrower hereby severally (a) waive demand, presentment for payment, notice of dishonor and of nonpayment, protest, notice of protest, notice of intent to accelerate, notice of acceleration and all other notices (except any notices which are specifically required by this Note or any other Loan Document), filing of suit and diligence in collecting this Note or enforcing any of the security herefor; (b) agree to any substitution, subordination, exchange or release of any such security or the release of any party primarily or secondarily liable hereon; (c) agree

that Lender shall not be required first to institute suit or exhaust its remedies hereon against Borrower or others liable or to become liable hereon or to perfect or enforce its rights against them or any security herefor; (d) consent to any extensions or postponements of time of payment of this Note for any period or periods of time and to any partial payments, before or after maturity, and to any other indulgences with respect hereto, without notice thereof to any of them; and (e) submit (and waive all rights to object) to non-exclusive personal jurisdiction of any state or federal court sitting in the state and county in which the Property is located for the enforcement of any and all obligations under this Note and the other Loan Documents; (f) waive the benefit of all homestead and similar exemptions as to this Note; (g) agree that their liability under this Note shall not be affected or impaired by any determination that any title, security interest or lien taken by Lender to secure this Note is invalid or unperfected; and (h) hereby subordinate to the Loan and the Loan Documents any and all rights against Borrower and any security for the payment of this Note, whether by subrogation, agreement or otherwise, until this Note is paid in full. A determination that any provision of this Note is unenforceable or invalid shall not affect the enforceability or validity of any other provision and the determination that the application of any provision of this Note to any person or circumstance is illegal or unenforceable shall not affect the enforceability or validity of such provision as it may apply to other persons or circumstances. This Note may not be amended except in a writing specifically intended for such purpose and executed by the party against whom enforcement of the amendment is sought. Captions and headings in this Note are for convenience only and shall be disregarded in construing it. This Note and its validity, enforcement and interpretation shall be governed by the laws of the State of Utah (without regard to any principles of conflicts of laws) and applicable United States federal law. Whenever a time of day is referred to herein, unless otherwise specified such time shall be the local time of the place where payment of this Note is to be made. The term " *Business Day* " shall mean a day on which Lender is open for the conduct of substantially all of its banking business at its office in the city in which this Note is payable (excluding Saturdays and Sundays). Capitalized terms used herein without definition shall have the meanings ascribed to such terms in the Loan Agreement. The words "include" and "including" shall be interpreted as if followed by the words "without limitation."

Section 14. *Notices.* Any notice, request, or demand to or upon Borrower or Lender shall be deemed to have been properly given or made when delivered in accordance with the terms of the Loan Agreement regarding notices.

Section 15. *No Usury.* It is expressly stipulated and agreed to be the intent of Borrower and Lender at all times to comply with applicable state law or applicable United States federal law (to the extent that it permits Lender to contract for, charge, take, reserve, or receive a greater amount of interest than under state law) and that this Section shall control every other covenant and agreement in this Note and the other Loan Documents. If applicable state or federal law should at any time be judicially interpreted so as to render usurious any amount called for under this Note or under any of the other Loan Documents, or contracted for, charged, taken, reserved, or received with respect to the Loan, or if Lender's exercise of the option to accelerate the Maturity Date, or if any prepayment by Borrower results in Borrower having paid any interest in excess of that permitted by applicable law, then it is Lender's express intent that all excess amounts theretofore collected by Lender shall be credited on the principal balance of this Note and all other indebtedness secured by the Security Instruments, and the provisions of this Note and the other Loan Documents shall immediately be deemed reformed and the amounts thereafter collectible hereunder and thereunder reduced, without the necessity of the execution of any new documents, so as to comply with the applicable law, but so as to permit the recovery of the fullest amount otherwise called for hereunder or thereunder. All sums paid or agreed to be paid to Lender for the use or forbearance of the Loan shall, to the extent permitted by applicable law, be amortized, prorated, allocated, and spread throughout the full stated term of the Loan.

**THE LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.**

**THERE ARE NO ORAL AGREEMENTS BETWEEN THE PARTIES.**

[Remainder of Page Intentionally Left Blank]

Borrower has duly executed this Note as of the date first above written.

**BORROWER:**

**EXTRA SPACE PROPERTIES THIRTY LLC**

a Delaware limited liability company

By: \_\_\_\_\_

Name: Kent W. Christensen

Title: Manager

QuickLinks

Exhibit 10.33

Promissory Note (Borrowing Base Revolving Line of Credit)



**Revolving Line of Credit Agreement**

by and between

**EXTRA SPACE PROPERTIES THIRTY LLC**  
a Delaware limited liability company

as Borrower,

and

**BANK OF AMERICA, N.A.**  
a national banking association,

as Lender,

with respect to

a \$50,000,000.00 Real Estate Borrowing Base Revolving Line of Credit

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*Schedules to Term Loan Agreement*

|            |                                    |
|------------|------------------------------------|
| Schedule 1 | Definitions                        |
| Schedule 2 | Form of Draw Request               |
| Schedule 3 | Leasing and Tenant Matters         |
| Schedule 4 | Tax and Insurance Reserve Deposits |
| Schedule 5 | Swap Contracts                     |
| Schedule 6 | Borrowing Base Properties          |
| Schedule 7 | Borrowing Base Certificate         |

**Revolving Line of Credit Agreement**  
(Borrowing Base Revolving Line of Credit)

This Revolving Line of Credit Agreement (this "*Agreement*") is made as of February \_\_\_\_\_, 2009 (the "*Effective Date*"), by and between **EXTRA SPACE PROPERTIES THIRTY LLC**, a Delaware limited liability company (the "*Borrower*"), and **BANK OF AMERICA, N.A.**, a national banking association, and its successors, participants and assigns ("*Lender*").

***Recitals***

A. Borrower has requested that Lender make a secured, borrowing base revolving line of credit available to Borrower in the maximum principal amount of up to **Fifty Million and No/100 Dollars (\$50,000,000.00)**.

B. The line of credit will be secured by (i) certain real properties and related improvements and personal property which are owned by Borrower from time to time, (ii) certain real properties and related improvements and personal property which are owned as of the date hereof by **EXTRA SPACE OF NORTH BERGEN LLC**, a New Jersey limited liability company, and **EXTRA SPACE OF KNIGHTS ROAD LLC**, a Pennsylvania limited liability company (individually and collectively, the "*Permitted Subsidiaries*"), each of which is a wholly-owned subsidiary of Borrower, and (iii) a pledge of 100% of the memberships interests in each of the Permitted Subsidiaries, which membership interests are owned by Borrower.

C. The credit available hereunder to Borrower shall be based on a borrowing base calculated with respect to the value, at any time, of the individual real properties and related improvements and personal property which then secure the obligations of Borrower hereunder.

D. As more particularly described herein Borrower shall have the right to, subject to certain conditions and limitations:

(i) pledge to Lender additional real properties and related improvements and personal property as collateral security for the obligations of Borrower hereunder; and

(ii) cause Lender to release one or more of the real properties and related improvements and personal property which act as collateral security for the obligations hereunder.

E. Lender is willing to extend such loan to Borrower pursuant to this Agreement and all other documents, instruments and agreements required hereby or related hereto (collectively, the "*Loan Documents*").

Therefore, Lender and Borrower agree as follows:

**ARTICLE 1**

*General Information.*

**1.1** *Conditions to Closing.*

The conditions precedent to closing the Loan and recording a Security Instrument are set forth in the Closing Checklist.

**1.2** *Schedules.*

The Schedules attached to this Agreement are incorporated herein and made a part hereof.

**1.3** *Defined Terms.*

Capitalized terms in this Agreement shall have the meanings ascribed to such terms in the Preamble hereto and in **Schedule 1**.

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## ARTICLE 2

### *Terms of the Loan.*

#### 2.1 *The Loan; Maximum Availability; Remargining.*

(a) Subject to the terms and conditions hereof, Lender agrees to make Advances to Borrower in an aggregate principal amount at any one time outstanding of up to, but not to exceed, the Maximum Availability less the sum of (i) the face amount of all undrawn letters of credit, plus (ii) the amount of all drawings under letters of credit which have not been reimbursed by Borrower to Lender. Interest shall accrue and be payable in arrears only on sums advanced hereunder for the period of time outstanding. Subject to the terms and conditions of this Agreement, Borrower may repay and re-borrow Advances hereunder on a revolving basis. Although the outstanding principal of the Note may be zero from time to time, the Loan Documents will remain in full force and effect until the Maturity Date, unless sooner terminated, and all Obligations are paid and performed in full. The obligation of Borrower to repay Advances will be evidenced by the Note. Upon the occurrence of a Default or Event of Default, Lender may suspend or terminate its commitment to make Advances without notice to or consent of Borrower.

(b) If at any time the outstanding balance of the Loan exceeds the then current Maximum Availability, Borrower shall within ten (10) Banking Days either (i) make a principal payment to Lender in an amount sufficient to reduce the outstanding balance of the Loan plus sum of (A) the face amount of all undrawn letters of credit, plus (B) the amount of all drawings under letters of credit which have not been reimbursed by Borrower to Lender to an amount less than or equal to the then current Maximum Availability, or (ii) identify in writing to Lender a Property proposed to be added as a new Borrowing Base Property which Borrower in good faith believes will have a sufficient Adjusted (LTV) Appraised Value and Initial Debt Service Coverage Ratio Value to provide sufficient Maximum Availability to exceed the outstanding balance of the Loan plus sum of (A) the face amount of all undrawn letters of credit, plus (B) the amount of all drawings under letters of credit which have not been reimbursed by Borrower to Lender. In the event that Borrower identifies any such proposed replacement Property, such Property must be approved as a Borrowing Base Property and shall otherwise meet all conditions of a Borrowing Base Property within sixty (60) days. If such approval is not provided by Lender or any of such conditions are not satisfied, then Borrower shall within two (2) Banking Days make the payment to Lender required by subsection (i) above.

#### 2.2 *Closing; No Initial Borrowing Base Properties.*

(a) Subject to the other terms and conditions hereof, Lender hereby agrees to close the Loan without any current Borrowing Base Properties. No Advances hereunder shall be permitted until such time as not less than six (6) Borrowing Base Properties have been approved and accepted by Lender to secure the Loan. Unless agreed otherwise by Lender in writing, if six (6) Borrowing Base Properties have not been approved and accepted by Lender on or before May , 2009 , this Agreement shall terminate and all amounts outstanding hereunder or under the Note shall immediately be due and payable in full.

(b) Borrower has proposed that Lender initially consider the Properties described in *Schedule 6* for acceptance by Lender as Borrowing Base Properties. Lender is currently conducting due diligence on such Properties in accordance with **Section 4.1** hereof and the other terms and conditions hereof, but to date has not received all information required to consider approving any such Properties as Borrowing Base Properties. Such approval, if any, shall be subject to the terms and conditions hereof.

### 2.3 *Advances; Borrowing Base Calculation Prior to Initial Advance.*

(a) Borrower shall give Lender notice pursuant to a Draw Request of each requested borrowing of an Advance. Each Draw Request shall be delivered to Lender before 9:00 a.m. on the date three (3) Banking Days prior to the proposed date of such borrowing. Each Draw Request shall be irrevocable once given and shall be binding on Borrower.

(b) Prior to the initial Advance hereunder, Lender shall calculate the Adjusted (LTV) Appraised Value and Initial Debt Service Coverage Ratio Value for each then current Borrowing Base Property (each such calculation being on a property specific basis and not on an overall portfolio basis). Based on the foregoing calculations, Lender shall determine the initial Borrowing Base and Maximum Availability.

### 2.4 *Disbursement of Loan Proceeds.*

Subject to the satisfaction of all applicable conditions, Lender will make the proceeds of such borrowing available to Borrower no later than 1:00 p.m. on the date and at the account specified by Borrower in such Draw Request.

### 2.5 *Availability Period.*

The availability of the Loan commences on the date of this Agreement and expires on the Maturity Date, as defined in the Note, unless there is an Event of Default (the "*Availability Period*"). If there is an Event of Default, then in addition to Lender's other remedies, Lender may terminate Borrower's ability to request Advances and may require Borrower to repay any amounts outstanding under the Loan immediately.

### 2.6 *Letters of Credit.*

(a) From time to time, Lender may issue letters of credit for Borrower's account upon at least five (5) Banking Days' prior written notice from Borrower; provided, however, that at no time shall the sum of (i) the face amount of all undrawn letters of credit, plus (ii) the amount of all drawings under letters of credit which have not been reimbursed by Borrower to Lender, plus (iii) the amount of all outstanding Advances, exceed, the Maximum Availability. In the event such disbursement under the Loan causes the total amount of credit outstanding under the Loan to exceed the limitations set forth in this Agreement, Borrower will immediately pay the excess to Lender upon Lender's demand.

(b) Each letter of credit shall be issued pursuant to the terms and conditions of a Lender standard form Application and Agreement for Letter(s) of Credit ("*Letter of Credit Agreement*") executed by Borrower; and each letter of credit shall be in form and substance and in favor of beneficiaries satisfactory to Lender. Pursuant to the terms and conditions of Lender's standard form of Letter of Credit Agreement, any drawings under a letter of credit shall be repaid by Borrower to Lender on demand; and the Letter of Credit Agreement will set forth all of the terms and conditions regarding the issuance of a letter of credit and any draws thereunder.

(c) The Letter of Credit Agreement shall set forth the rate of interest on any draws thereunder. Until repaid, any drawing under the letter of credit shall bear interest at the rate specified in the Note for Advances and shall be due and payable within thirty (30) days from the date drawn.

(d) Each letter of credit shall expire on or before the date that is the earlier of (i) one (1) year after the date of issuance thereof or (ii) the Maturity Date.

(e) Each letter of credit shall be issued only for the account of Borrower or for an affiliate of Borrower acceptable to Lender in its sole discretion.

(f) If at any time there are letters of credit outstanding and this Loan is canceled or expires, Borrower shall provide Lender with cash collateral in an amount at least equal to the aggregate amount of all letters of credit outstanding, or other form of collateral acceptable to Lender in its sole and absolute discretion.

(g) Borrower shall pay to Lender nonrefundable issuance fees for each letter of credit in an amount equal to two percent (2.0%) per annum of the face amount of such letter of credit, payable upon the issuance of each letter of credit for the first year and upon each anniversary of such issuance date (which fee shall be pro rated for any partial year). Such fees shall be calculated on the basis of a three hundred sixty (360) day year and actual days elapsed, which results in higher fees than if a three hundred sixty-five (365) day year were used.

## *2.7 Liability of Lender.*

Lender shall in no event be responsible or liable to any Person other than Borrower for the disbursement of or failure to disburse the Loan proceeds or any part thereof and no Person other than Borrower shall have any right or claim against Lender under this Agreement or the other Loan Documents.

# **ARTICLE 3**

## *Fees and Expenses*

### *3.1 Loan Fee.*

Borrower agrees to pay to Lender a non-refundable fee of Five Hundred Thousand and No/100 Dollars (\$500,000.00) due on closing. Such fee is equal to one (1) percent of the Loan Amount. Borrower acknowledges that the fee paid under this **Section 3.1** has been fully earned by Lender at time of payment and is non-refundable to Borrower in the event this Agreement is terminated or expires as provided herein and whether or not any Borrowing Base Properties are subsequently approved or Advances made.

### *3.2 Unused Commitment Fee.*

Within five (5) Banking Days following the last day of such calendar quarter, Borrower shall pay to Lender the applicable Unused Commitment Fee for each month in the previous calendar quarter. If any Unused Commitment Fee required to be paid under this **Section 3.2** is not paid when due, Borrower agrees to pay interest on such fee at the Default Interest Rate set forth in the Note from the date due until paid in full. As used herein, the following terms shall have the following meanings:

" *Unused Commitment Fee* " means for each calendar month:

(a) if as of the end of any calendar month after the date hereof, the Average Monthly Outstanding Borrowings for such calendar month were less than one half (1/2) of the Loan Amount for such calendar month, an annual fee equal to 0.20% of the difference between the Loan Amount and the Average Monthly Outstanding Borrowing calculated on a monthly basis

(b) if as of the end of any calendar month after the date hereof, the Average Monthly Outstanding Borrowings for such calendar month were greater than or equal to one half (1/2) of the Loan Amount for such calendar month, an annual fee equal to 0.15% of the difference between the Loan Amount and the Average Monthly Outstanding Borrowing calculated on a monthly basis

Such fee shall be pro-rated in the event that an Unused Commitment Fee is due and payable for less and payable quarterly in arrears than a full calendar month.

" *Average Monthly Outstanding Borrowings* " means the sum of all Outstanding Borrowings on each day during a calendar month (or portion thereof) with respect to which the Unused Commitment Fee is being computed, divided by the number of days in that calendar month (or portion thereof).

" *Outstanding Borrowings* " means, at any time, the aggregate amount of then outstanding Advances plus the undrawn available amount of all issued and un-expired Letters of Credit.

### 3.3 *Expenses and Costs.*

(a) Borrower will pay all costs and expenses incurred by Lender in connection with the making, disbursement and administration of the Loan, and in the exercise of any of Lender's rights or remedies under the Loan Documents. Such costs and expenses include legal fees and expenses of Lender's counsel and any other reasonable fees and costs for services, regardless of whether such services are furnished by Lender's employees or by independent contractors.

(b) Borrower agrees to indemnify Lender from and hold it harmless against any transfer or documentary taxes, assessments or charges imposed by any governmental authority by reason of the execution, delivery and performance of the Loan Documents.

## ARTICLE 4

### *Borrowing Base Properties*

#### 4.1 *Eligibility of Properties*

(a) *Initial Borrowing Base Properties.* Upon satisfaction of the conditions set forth in this **Article 4** with respect to a Property, as determined by Lender in its sole discretion, such Property shall be deemed to be Borrowing Base Property for all purposes hereof.

(b) *Minimum Number of Borrowing Base Properties; Ownership.* Borrower covenants and agrees that at all times from and after May , 2009 , there will be a minimum of six (6) Borrowing Base Properties. All Borrowing Base Properties other than the Properties described in *Schedule 6.10* and *6.11* (if approved as Borrowing Base Properties by Lender) must be owned by Borrower and not by any Permitted Subsidiary or any other affiliate of Borrower or any third party.

(c) *Additional Borrowing Base Properties.*

(i) *Notice and Initial Evaluation.* If at any time Borrower desires that a Property be approved as a Borrowing Base Property, Borrower shall so notify Lender in writing. No Property will be evaluated for consideration to be added as a Borrowing Base Property by Lender unless and until Borrower delivers to Lender the following, in form and substance satisfactory to Lender in its sole and absolute discretion:

a. An executive summary of the Property including, at a minimum, the following information relating to such Property: (i) a description of such Property, such description to include the age, location, site plan, current occupancy rate and physical condition of such Property; (ii) the purchase price paid or to be paid for such Property if the Property is being acquired; (iii) the current and projected condition of the regional self-storage market and specific submarket in which such Property is located; and (iv) the current projected capital plans and, if applicable current renovation plans for such Property;

b. An operating statement for such Property certified by a representative of Borrower as being true and correct in all material respects and prepared in accordance with Borrower's standard accounting procedures for the previous three (3) calendar years, provided that, with respect to any period such Property was not owned by Borrower, such

information shall only be required to be delivered to the extent reasonably available to Borrower and such certification may be based upon the best of Borrower's knowledge and provided further, that if such Property has been operating for less than three (3) years, Borrower shall provide such projections and other information concerning the anticipated operation of such Property as Lender may reasonably request;

c. A current rent roll for such Property certified by a representative of Borrower as being true and correct in all material respects; and

d. A current title commitment for such Property issued by Chicago Title Insurance Company or another title insurer acceptable to Lender in its sole discretion (which discretion may specifically include the right to refuse to accept policies from LandAmerica Title Insurance Company, Lawyers Title Insurance Company and Commonwealth Land Title Insurance Company), together with legible copies of all Schedule B-2 exception documents. Borrower may elect in its discretion to change title insurance agents as long as any replacement agent is an authorized agent of the foregoing title insurer.

(ii) *Lender's Right to Request Additional Information.* Upon receipt of Borrower's notice requesting that Lender evaluate another property and upon receipt and review of the items described in **Section 4.1(c)(i)** above, Lender may request from Borrower, and Borrower shall deliver to Lender (to the extent available to Borrower (or a Permitted Subsidiary in the case of the Properties described in *Schedule 6.10* and *6.11* and not other Properties), provided, however, that if Lender requests any such item and Borrower does not deliver the same Lender shall have no obligation to approve the proposed Property as a Borrowing Base Property) the following, in form and substance satisfactory to Lender in its sole and absolute discretion:

a. A copy of Borrower's (or a Permitted Subsidiary in the case of the Properties described in *Schedule 6.10* and *6.11* and not other Properties) ALTA Owner's Policy of Title Insurance (" *Owner's Policy* ") covering such Property showing Borrower as fee titleholder thereto and all matters of record;

b. Copies of all documents of record reflected in Schedule B of the Owner's Policy;

c. A copy of the most recent real estate tax bill and notice of assessments;

d. A current survey of such Property certified by a surveyor licensed in the applicable jurisdiction to have been prepared in accordance with the then effective Minimum Standard Detail Requirements for ALTA/ACSM Land Title Surveys;

e. A "Phase I" environmental assessment of such Property not more than six (6) months old, which report (i) has been prepared by an environmental engineering firm reasonably acceptable to Lender and (ii) complies with the requirements contained in Lender's guidelines adopted from time to time by Lender to be used in its lending practice generally and any other environmental assessments or other reports relating to such Property, including any "Phase II" environmental assessment prepared or recommended by such environmental engineering firm to be prepared for such Property and satisfactory evidence that all environmental issues pertaining to such Property, including, without limitation, removal and remediation of mold, have been fully remediated in accordance with Applicable Law;

f. Copies of all Property Management Agreements and all other Material Contracts relating to the use, occupancy, operation, maintenance, enjoyment, or ownership of such Property, if any;

- g. Evidence that insurance in an amount satisfactory to Lender in its sole and absolute discretion is maintained with respect to the Property;
- h. Evidence that the Property complies with applicable zoning and land use laws;
- i. A detailed calculation of the Adjusted (LTV) Appraised Value for such Property and supporting documentation for such calculation;
- j. A detailed calculation of the Initial Debt Service Coverage Ratio Value for such Property and supporting documentation for such calculation;
- k. Rent rolls and other evidence acceptable to Lender showing that not less than 75% of the rentable self storage units and other rentable Improvements on such Property (on a overall square footage basis) have been leased to third party tenants pursuant to the permitted leasing guidelines of *Schedule 3* hereof; and
- l. Such other information as Lender may request in its sole and absolute discretion.

(d) *Appraisal; Approval.* Upon receipt of the aforementioned items, Lender shall commission, at Borrower's expense, an Appraisal of such Property, to be in form and substance satisfactory to Lender in its sole and absolute discretion. Within twenty (20) Banking Days of receipt such Appraisal, Lender shall review such Appraisal and determine whether Lender is willing to accept such Property as a Borrowing Base Property, which shall be determined in Lender's sole and absolute discretion based on the Appraisal and the information submitted to Lender pursuant to **Section 4.1(c)**. Upon a determination by Lender that the proposed Property is an Eligible Property and upon Lender's discretionary decision to include such Property as a Borrowing Base Property, Borrower shall pay to Lender a non-refundable processing fee in the amount of \$1,500.00 (however, such \$1,500 fee shall not apply with respect to the initial Borrowing Base Properties described on *Schedule 6* hereto) in addition to all reasonable fees and expenses incurred by Lender in its due diligence of the Property.

(e) *Security Instrument.* Prior to adding any Property as a Borrowing Base Property, Borrower (or a Permitted Subsidiary in the case of the Properties described in *Schedule 6.10* and *6.11* and not other Properties) shall execute and deliver to Lender a Security Instrument for the benefit of Lender encumbering the Property and an environmental indemnity in form and substance acceptable to Lender in its discretion. If the Property is ground leased to Borrower rather than owned in fee, Borrower shall have executed and delivered to Lender or caused such other parties as Lender may require to execute and deliver to Lender, a ground lessor's consent, non-disturbance and attornment agreement and/or a fee mortgagee consent, each in form and content acceptable to Lender. Borrower shall also cause Guarantor and each Permitted Subsidiary to execute and deliver such consents as Lender may require and request.

(f) *Title Insurance.* Prior to adding any Property as a Borrowing Base Property, Borrower shall provide Lender with an 2006 Form ALTA extended coverage title insurance policy (or local equivalent in the State in which the Property is located) issued by Chicago Title Insurance Company or another title insurer acceptable to Lender in its sole discretion (which discretion may specifically include the right to refuse to accept policies from LandAmerica Title Insurance Company, Lawyers Title Insurance Company and Commonwealth Land Title Insurance Company), in the maximum amount of the Loan plus any other amount secured by the Security Instrument (or a pro rated amount of the Loan Amount together with a tie in endorsement, as determined by Lender), on a coinsurance and/or reinsurance basis if and as required by Lender, insuring without exclusion or exception for creditors' rights (including the endorsement of any standard exclusion appearing in the Jacket or standard conditions of such title insurance policy out of such exclusions in form and substance acceptable to Lender) that the Security Instrument encumbering the

Property to be added as a Borrowing Base Property constitutes a valid lien covering said Property and all Improvements thereon, having the first priority required by Lender and subject only to those exceptions and encumbrances (regardless of rank or priority) Lender approves, in a form acceptable to Lender and with such endorsements as Lender may require, and with all "standard" exceptions which can be deleted, including the exception for matters which a current survey would show, deleted to the fullest extent authorized under applicable title insurance rules, and Borrower shall satisfy all requirements therefor permitted; containing no exception for standby fees or real estate taxes or assessments other than those for the year in which the closing occurs to the extent the same are not then due and payable and endorsed "not yet due and payable" and no exception for subsequent assessments for prior years; providing full coverage against mechanics' and materialmen's liens to the extent authorized under applicable title insurance rules, and Borrower shall satisfy all requirements therefor; insuring that no restrictive covenants shown in the title insurance have been violated, and that no violation of the restrictions will result in a reversion or forfeiture of title; insuring all appurtenant easements; insuring that fee simple indefeasible or marketable (as coverage is available) fee simple or leasehold (as applicable) title to such Property and Improvements is vested in Borrower (or a Permitted Subsidiary in the case of the Properties described in *Schedule 6.10* and *6.11* and not other Properties); containing such affirmative coverage and endorsements as Lender may require and are available under applicable title insurance rules, and Borrower shall satisfy all requirements therefor; insuring any easements, leasehold estates or other matters appurtenant to or benefiting the Property and/or the Improvements as part of the insured estate; insuring the right of access to the Property to the extent authorized under applicable title insurance rules and regulations.

(g) *Lender Credit Approval.* Prior to adding any Property as a Borrowing Base Property, Lender shall have obtained such internal credit approvals as may be required by Lender's then current policies and procedures. Lender shall have the right to approve or disapprove any Property in its sole and absolute discretion.

#### 4.2 *Release of Properties.*

From time to time Borrower may request, upon not less than thirty (30) days prior written notice to Lender that a Borrowing Base Property be released from the Liens created by the Security Instrument applicable thereto, which release ("*Property Release*") shall be effected by Lender if Lender determines all of the following conditions are satisfied as of the date of the Property Release:

(a) No Default or Event of Default exists or will exist immediately after giving effect to such Property Release and the reduction of the Borrowing Base by reason of the release of such Property;

(b) The Borrower shall have delivered to Lender a Borrowing Base Certificate demonstrating on a pro forma basis that the sum of (i) the face amount of all undrawn letters of credit, plus (ii) the amount of all drawings under letters of credit which have not been reimbursed by Borrower to lender, plus (iii) the amount of all outstanding Advances, will not exceed the Maximum Availability after giving effect to such request and any prepayment to be made and/or the acceptance of any Property as an additional or replacement Borrowing Base Property to be given concurrently with such request;

(c) The Borrower shall have paid any amounts as are required in order to ensure that sum of (i) the face amount of all undrawn letters of credit, plus (ii) the amount of all drawings under letters of credit which have not been reimbursed by Borrower to lender, plus (iii) the amount of all outstanding Advances, does not exceed, the Maximum Availability after giving effect to such release;

(d) The Borrower shall have delivered to Lender all documents and instruments reasonably requested by Lender in connection with such Property Release including, without limitation, the following:

(i) the quitclaim deed or other instruments to be used to effect such Property Release if the Property is being sold or transferred; and

(ii) If required by Lender, an appropriate partial release or modification endorsement to the title insurance policies in effect with respect to the remaining Borrowing Base Properties;

(e) Lender shall have recalculated the Borrowing Base; and

(f) Borrower shall also cause Guarantor and each Permitted Subsidiary to execute and deliver such consents to such release as Lender may require and request.

(g) Borrower shall have paid to Lender all costs and expenses, including attorneys' fees, title insurance fees, and costs and expenses incurred by Lender in connection with the Property Release and Lender's consideration of Borrower's request therefor.

Except as set forth in this **Section 4.2**, no Borrowing Base Property shall be released from the Liens created by the Security Instrument applicable thereto.

#### *4.3 Frequency of Appraisals.*

The Appraised Value of a Borrowing Base Property shall be determined or re-determined, as applicable, under each of the following circumstances:

(a) In connection with the acceptance of a Property as a Borrowing Base Property Lender will determine the Appraised Value thereof as provided in **Section 4.1**;

(b) From time to time upon at least five (5) Banking Days written notice to Borrower and at Borrower's expense, Lender may re-determine the Appraised Value of a Borrowing Base Property in any of the following circumstances:

(i) if necessary in order to comply with FIRREA, other applicable laws related to Lender, or requests by a Governmental Authority;

(ii) if Lender determines such Property contains structural defects, title defects, environmental conditions or other adverse matters material to the profitable operation of such Property (including, without limitation, negligent acts or omissions by Borrower with respect to the operation of such Property) and Lender has not declared such Property ineligible pursuant to **Section 4.1(d)**; or

(iii) upon the occurrence of a Default or Event of Default.

(iv) At any time and from time to time, Lender may re-determine, at its own expense, the Appraised Value of a Borrowing Base Property;

(v) If Borrower has requested a Property Release; or

(vi) Upon Borrower's written request to Lender and at Borrower's expense, but not more frequently than one (1) time per calendar year per Borrowing Base Property, Lender shall re-determine the Appraised Value of any Borrowing Base Property.

#### 4.4 *Borrowing Base; Frequency of Calculations of Borrowing Base; Remargining.*

(a) Initially, the Borrowing Base shall be the amount set forth as such in the Borrowing Base Certificate delivered under **Section 2.3(b)**. Thereafter, the Borrowing Base shall be the amount set forth as such in the Borrowing Base Certificate delivered from time to time under **Section 4.2(b)** and **Section 7.8**. Any increase in the Adjusted (LTV) Appraised Value of a Borrowing Base Property due to an increase in the Appraised Value of such Property pursuant to a re-appraisal of such Property as contemplated by **Section 4.3**, shall become effective as of the next re-determination of the Borrowing Base by Lender, provided that prior to such effective date Borrower shall have delivered to Lender an endorsement to the title insurance policy insuring the Lien of the Security Instrument encumbering such property to increase the coverage amount thereof to not less than the portion of the Borrowing Base attributable to such Property.

(b) If at any time Lender determines that the Adjusted (LTV) Appraised Value or 1.40 Debt Service Coverage Ratio Value has decreased for any Borrowing Base Property, Lender may recalculate the Borrowing Base and Borrower shall remargin the Loan as required by **Section 2.1(b)**, if required by the provisions of such **Section 2.1(b)**.

### ARTICLE 5

#### *Conditions*

##### 5.1 *Conditions.*

Lender must receive the following items, in form and content acceptable to Lender, before it is required to extend any credit to Borrower under this Agreement:

(a) *Authorizations.* Evidence that the execution, delivery and performance by Borrower, Guarantor and each Permitted Subsidiary of the Loan Documents have been duly authorized.

(b) *Governing Documents; Good Standing Certificates.* A copy of Borrower's, Guarantor's and each Permitted Subsidiary's articles of incorporation, bylaws, articles of organization, certificate of formation, and/or operating agreements, as applicable. A certificate of good standing for Borrower, Guarantor and each Permitted Subsidiary from the state where formed and from any other state in which Borrower, Guarantor and each Permitted Subsidiary owns any Property or where any such party is required to qualify to conduct its business.

(c) *Loan Documents.* Duly executed Loan Documents.

(d) *Insurance.* Evidence of insurance coverage required by the Loan Documents.

(e) *Payment of Fees.* Payment of all accrued and unpaid expenses incurred by Lender as provided for by the Loan Documents.

(f) *Opinions.* Such opinions of counsel for Borrower, Guarantor and each Permitted Subsidiary as Lender may require, including opinions as to the enforceability of each Security Instrument, each in form and content acceptable to Lender in its discretion.

(g) *Other Items.* Any other documents and other items Lender may reasonably require as conditions precedent to this Agreement.

## ARTICLE 6

### *Representations and Warranties.*

Borrower makes the following representations and warranties to Lender as of the date hereof and as of the date of each Advance hereunder:

#### 6.1 *Organization, Power and Authority of Borrower; Loan Documents.*

Each of Borrower, Guarantor and the Permitted Subsidiaries: (a) is duly organized, existing and in good standing under the laws of the state in which it is organized and is duly qualified to do business and in good standing in the state in which their Property is located (if different from the state of its formation) and in any other state where the nature of their business or property requires it to be qualified to do business, and (b) has the power, authority and legal right to own its property and carry on the business now being conducted by it and to engage in the transactions contemplated by the Loan Documents. The Loan Documents to which each of Borrower, Guarantor and the Permitted Subsidiaries is a party have been duly executed and delivered by such party, and the execution and delivery of, and the carrying out of the transactions contemplated by, such Loan Documents, and the performance and observance of the terms and conditions thereof, have been duly authorized by all necessary organizational action by and on behalf of such party. The Loan Documents to which each of Borrower, Guarantor and the Permitted Subsidiaries is a party constitute the valid and legally binding obligations of Borrower, Guarantor and the Permitted Subsidiaries and are fully enforceable against Borrower, Guarantor and the Permitted Subsidiaries in accordance with their respective terms, except to the extent that such enforceability may be limited by laws generally affecting the enforcement of creditors' rights.

#### 6.2 *Other Documents; Laws.*

The execution and performance of the Loan Documents to which each of Borrower, Guarantor and a Permitted Subsidiary is a party and the consummation of the transactions contemplated thereby will not conflict with, result in any breach of, or constitute a default under, the organizational documents of such party, or to the best of such party's knowledge, any contract, agreement, document or other instrument to which Borrower, Guarantor and/or any Permitted Subsidiary is a party by which Borrower, Guarantor and/or any Permitted Subsidiary or any of their properties may be bound or affected, and to the best of such party's knowledge, such actions do not and will not violate or contravene any Law to which they are subject.

#### 6.3 *Taxes.*

Borrower, Guarantor and each Permitted Subsidiary has filed all federal, state, county and municipal Tax returns required to have been filed by such parties and has paid all Taxes which have become due pursuant to such returns or pursuant to any Tax assessments received by Borrower, Guarantor and/or the Permitted Subsidiaries.

#### 6.4 *Legal Actions.*

To the best of Borrower's, Guarantor's and the Permitted Subsidiaries' knowledge: (a) there are no Claims or investigations by or before any court or Governmental Authority, pending or affecting Borrower, Guarantor and/or the Permitted Subsidiaries, their business or any Property which would have a Material Adverse Effect, and (b) neither Borrower, Guarantor nor any Permitted Subsidiaries is in default with respect to any order, writ, injunction, decree or demand of any court or any Governmental Authority affecting such party or any Property which would have a Material Adverse Effect.

#### 6.5 *Nature of Loan.*

Borrower is a business or commercial organization. The Loan is being obtained solely for business or investment purposes, and will not be used for personal, family, household or agricultural purposes.

#### 6.6 *Trade Names.*

Borrower, Guarantor and each Permitted Subsidiary conducts its business solely under the name set forth in the Preamble to this Agreement and makes use of no trade names in connection therewith, unless such trade names have been previously disclosed to Lender in writing. Lender acknowledges that it will have no lien or security interest in and to then Extra Space or Extra Space Storage name, logo or trademarks.

#### 6.7 *Financial Statements.*

The financial statements heretofore delivered by Borrower, Guarantor and each Permitted Subsidiary to Lender are true and correct in all material respects, have been prepared in accordance with sound accounting principles consistently applied, and fairly present in all material respects the respective financial conditions of the subjects thereof as of the respective dates thereof.

#### 6.8 *No Material Adverse Change.*

No material adverse change has occurred in the financial conditions reflected in the financial statements of Borrower, Guarantor and each Permitted Subsidiary since the respective dates of such statements, and no material additional liabilities have been incurred by Borrower, Guarantor or any Permitted Subsidiary since the dates of such statements other than the borrowings contemplated herein or as approved in writing by Lender.

#### 6.9 *ERISA and Prohibited Transactions.*

As of the date hereof and throughout the term of the Loan: (a) neither Borrower, Guarantor nor any Permitted Subsidiary is or will be (i) an "employee benefit plan," as defined in Section 3(3) of ERISA, (ii) a "governmental plan" within the meaning of Section 3(32) of ERISA, or (iii) a "plan" within the meaning of Section 4975(e) of the Code; (b) the assets of Borrower, Guarantor and each Permitted Subsidiary do not and will not constitute "plan assets" within the meaning of the United States Department of Labor Regulations set forth in Section 2510.3-101 of Title 29 of the Code of Federal Regulations; (c) to the best of Borrower's, Guarantor's and each Permitted Subsidiary's knowledge, transactions by or with Borrower, Guarantor and each Permitted Subsidiary are not and will not be subject to state statutes applicable to Borrower, Guarantor and each Permitted Subsidiary regulating investments of fiduciaries with respect to governmental plans; and (d) to the best of Borrower's, Guarantor's and each Permitted Subsidiary's knowledge, Borrower, Guarantor and each Permitted Subsidiary will not engage in any transaction that would cause any Obligation or any action taken or to be taken hereunder (or the exercise by Lender of any of its rights under the Security Instrument or any of the other Loan Documents) to be a non-exempt (under a statutory or administrative class exemption) prohibited transaction under ERISA or Section 4975 of the Code. Borrower, Guarantor and each Permitted Subsidiary agree to deliver to Lender such certifications or other evidence of compliance with the provisions of this Section as Lender may from time to time request.

#### 6.10 *Compliance with Laws and Zoning and Other Requirements; Encroachments.*

Borrower, Guarantor and each Permitted Subsidiary is in compliance with the requirements of all applicable Laws. The use of each Property complies with applicable zoning ordinances, regulations and restrictive covenants affecting the Property. To the best of Borrower's, Guarantor's and each Permitted Subsidiary's knowledge, all use and other requirements of any Governmental Authority having jurisdiction over any Property have been satisfied. No material violation of any Law exists with respect

to any Property. Except as otherwise disclosed to and approved by lender pursuant to *Article 4* , the Improvements are constructed entirely on any Property and do not encroach upon any easement or right-of-way, or upon the land of others. Except as otherwise disclosed to and approved by Lender pursuant to *Article 4* , the Improvements comply with all applicable building restriction lines and set-backs, however established, and are in strict compliance with all applicable use or other restrictions and the provisions of all applicable agreements, declarations and covenants and all applicable zoning and subdivision ordinances and regulations.

6.11 *Certificates of Occupancy.*

To the best of Borrower's, Guarantor's and each Permitted Subsidiary's knowledge, all certificates of occupancy and other permits and licenses necessary or required in connection with the use and occupancy of the Improvements have been validly issued.

6.12 *Utilities; Roads; Access.*

All utility services necessary for the operation of the Improvements for their intended purposes have been fully installed, including telephone service, water supply, storm and sanitary sewer facilities, natural gas and electric facilities. All roads and other accesses necessary to serve each Property and Improvements have been completed, are serviceable in all weather, and where required by the appropriate Governmental Authority, have been dedicated to and formally accepted by such Governmental Authority.

6.13 *Other Liens.*

Except for contracts for labor, materials and services furnished or to be furnished in connection with any construction at the Property, including any construction of tenant improvements, neither Borrower, Guarantor nor any Permitted Subsidiary has made a contract or arrangement of any kind the performance of which by the other party thereto would give rise to a lien on any Property.

6.14 *No Defaults.*

To the best of Borrower's, Guarantor's and each Permitted Subsidiary's knowledge: (a) there is no Default or Event of Default under any of the Loan Documents, and (b) there is no default or event of default under any material contract, agreement or other document related to the construction or operation of the Improvements which would have a Material Adverse Effect.

6.15 *Draw Requests.*

Each draw request or other request for an Advance hereunder and each receipt of the funds requested thereby shall constitute Borrower's, Guarantor's and each Permitted Subsidiary's affirmation that Borrower's, Guarantor's and each Permitted Subsidiary's representations and warranties set forth in this Agreement are true and correct as of the date of the draw request or other request for an Advance and, unless Lender is notified to the contrary prior to the disbursement of the Advance requested, will be so on the date of the disbursement.

## ARTICLE 7

### *Affirmative Covenants and Agreements.*

Borrower covenants as of the date hereof and until such time as all Obligations shall be paid and performed in full, that:

7.1 *Compliance with Laws; Use of Proceeds.*

Borrower, Guarantor and each Permitted Subsidiary shall use commercially reasonable efforts to comply with all Laws and all orders, writs, injunctions, decrees and demands of any court or any Governmental Authority affecting Borrower, Guarantor, any Permitted Subsidiary or a Property.

Borrower shall use all proceeds of the Loan for business purposes which are not in contravention of any Law or any Loan Document.

## *7.2 Inspections; Cooperation.*

Borrower, Guarantor and each Permitted Subsidiary shall permit representatives of Lender to enter upon each Property, to inspect the Improvements and any and all materials to be used in connection with any construction at the Property, including any construction of tenant improvements, to examine all detailed plans and shop drawings and similar materials as well as all records and books of account maintained by or on behalf of Borrower, Guarantor and each Permitted Subsidiary relating thereto and to discuss the affairs, finances and accounts pertaining to the Loan and the Improvements with representatives of Borrower, Guarantor and each Permitted Subsidiary. Borrower, Guarantor and each Permitted Subsidiary shall at all times cooperate and cause each and every one of its contractors, subcontractors and material suppliers to cooperate with the representatives of Lender in connection with or in aid of the performance of Lender's functions under this Agreement. Except in the event of an emergency, Lender shall give Borrower, Guarantor or the affected Permitted Subsidiary at least twenty-four hours' notice by telephone in each instance before entering upon a Property and/or exercising any other rights granted in this **Section 7.2** .

## *7.3 Payment and Performance of Contractual Obligations.*

Borrower, Guarantor and each Permitted Subsidiary shall perform in a timely manner all of its obligations under any and all contracts and agreements related to any construction activities at the Property or the maintenance or operation of the Improvements, and Borrower, Guarantor and each Permitted Subsidiary will pay when due all bills for services or labor performed and materials supplied in connection with such construction, maintenance and/or operation. Within thirty (30) days after the filing of any mechanic's lien or other lien or encumbrance against a Property, Borrower, Guarantor and each Permitted Subsidiary will promptly discharge the same by payment or filing a bond or otherwise as permitted by Law. So long as Lender's security has been protected by the filing of a bond or otherwise in a manner satisfactory to Lender in its sole and absolute discretion, Borrower, Guarantor and each Permitted Subsidiary shall have the right to contest in good faith any claim, lien or encumbrance, provided that Borrower does so diligently and without prejudice to Lender or delay in completing construction of any tenant improvements.

## *7.4 Insurance.*

Borrower and each Permitted Subsidiary shall maintain the following insurance at its sole cost and expense:

(a) Insurance against Casualty to the Property under a policy or policies covering such risks as are presently included in "special form" (also known as "all risk") coverage, including such risks as are ordinarily insured against by similar businesses, but in any event including fire, lightning, windstorm, hail, explosion, riot, riot attending a strike, civil commotion, damage from aircraft, smoke, vandalism, malicious mischief and acts of terrorism. Such insurance shall name Lender as mortgagee and loss payee. Unless otherwise agreed in writing by Lender, such insurance shall be for the full insurable value of the Property on a replacement cost basis, with a deductible amount, if any, satisfactory to Lender. No policy of insurance shall be written such that the proceeds thereof will produce less than the minimum coverage required by this **Section 7.4** by reason of co-insurance provisions or otherwise. The term "full insurable value" means one hundred percent (100%) of the actual replacement cost of the Property, including tenant improvements (excluding foundation and excavation costs and costs of underground flues, pipes, drains and other uninsurable items).

(b) Comprehensive (also known as commercial) general liability insurance on an "occurrence" basis against claims for "personal injury" liability and liability for death, bodily injury

and damage to property, products and completed operations, in limits satisfactory to Lender with respect to any one occurrence and the aggregate of all occurrences during any given annual policy period. Such insurance shall name Lender as an additional insured.

(c) Workers' compensation insurance for all employees of Borrower and each Permitted Subsidiary in such amount as is required by Law and including employer's liability insurance, if required by Lender.

(d) During any period of construction of tenant improvements, Borrower and each Permitted Subsidiary shall maintain, or cause others to maintain, such insurance as may be required by Lender of the type customarily carried in the case of similar construction for one hundred percent (100%) of the full replacement cost of materials stored at or upon the Property. During any period of other construction upon the Property, Borrower and each Permitted Subsidiary shall maintain, or cause others to maintain, builder's risk insurance (non-reporting form) of the type customarily carried in the case of similar construction for one hundred percent (100%) of the full replacement cost of work in place and materials stored at or upon the Property.

(e) If at any time any portion of any structure on the Property is insurable against Casualty by flood and is located in a Special Flood Hazard Area under the Flood Disaster Protection Act of 1973, as amended, a flood insurance policy in form and amount acceptable to Lender but in no amount less than the amount sufficient to meet the requirements of applicable Law as such requirements may from time to time be in effect.

(f) Loss of rental value insurance or business interruption insurance in an amount equal to twelve (12) months of the projected gross income of the Property and an extended period of indemnity endorsement providing an additional twelve (12) months' loss of rental value or business interruption insurance after the Property has been restored or until the projected gross income returns to the level that existed prior to the loss, whichever is first to occur.

(g) Such other and further insurance as may be required from time to time by Lender in order to comply with regular requirements and practices of Lender in similar transactions including, if required by Lender, boiler and machinery insurance, pollution liability insurance, wind insurance and earthquake insurance, so long as any such insurance is generally available at commercially reasonable premiums as determined by Lender from time to time.

Each policy of insurance (i) shall be issued by one or more insurance companies each of which must have an A.M. Best Company financial and performance rating of A-IX or better and are qualified or authorized by the Laws of the State and as applicable, the laws of the State in which the Property is located, to assume the risks covered by such policy, (ii) with respect to the insurance described under the preceding **Subsections (a), (d), (e) and (f)**, shall have attached thereto standard non-contributing, non-reporting mortgagee clauses in favor of and entitling Lender without contribution to collect any and all proceeds payable under such insurance, either as sole payee or as joint payee with Borrower and each Permitted Subsidiary, (iii) shall provide that such policy shall not be canceled or modified for nonpayment of premiums without at least ten (10) days prior written notice to Lender, or for any other reason without at least thirty (30) days prior written notice to Lender, and (iv) shall provide that any loss otherwise payable thereunder shall be payable notwithstanding any act or negligence of Borrower or any Permitted Subsidiary which might, absent such agreement, result in a forfeiture of all or a part of such insurance payment. Borrower and each Permitted Subsidiary shall promptly pay all premiums when due on such insurance and, not less than ten (10) days prior to the expiration dates of each such policy, Borrower and each Permitted Subsidiary will deliver to Lender acceptable evidence of insurance, such as a renewal policy or policies marked "premium paid" or other evidence satisfactory to Lender reflecting that all required insurance is current and in force. Borrower and each Permitted Subsidiary will immediately give Notice to Lender of any cancellation of, or change in, any insurance policy. Lender shall not, because of accepting, rejecting, approving or obtaining insurance, incur any liability

for (A) the existence, nonexistence, form or legal sufficiency thereof, (B) the solvency of any insurer, or (C) the payment of losses. Borrower and each Permitted Subsidiary may satisfy any insurance requirement hereunder by providing one or more "blanket" insurance policies, subject to Lender's approval in each instance as to limits, coverages, forms, deductibles, inception and expiration dates, and cancellation provisions.

#### 7.5 *Adjustment of Condemnation and Insurance Claims .*

Borrower, Guarantor and each Permitted Subsidiary shall give prompt Notice to Lender of any Casualty or any Condemnation or threatened Condemnation. Lender is authorized, at its sole and absolute option, to commence, appear in and prosecute, in its own or Borrower's, Guarantor's and/or each Permitted Subsidiary's name, any action or proceeding relating to any Condemnation or Casualty, and to make proof of loss for and to settle or compromise any Claim in connection therewith. In such case, Lender shall have the right to receive all Condemnation Awards and Insurance Proceeds, and may deduct therefrom all of its Expenses. However, so long as no Event of Default has occurred and Borrower, Guarantor and/or a Permitted Subsidiary is diligently pursuing its rights and remedies with respect to a Claim, Lender will obtain Borrower's written consent (which consent shall not be unreasonably withheld or delayed) before making proof of loss for or settling or compromising such Claim. Borrower, Guarantor and each Permitted Subsidiary agrees to diligently assert its rights and remedies with respect to each Claim and to promptly pursue the settlement and compromise of each Claim subject to Lender's approval, which approval shall not be unreasonably withheld or delayed. If, prior to the receipt by Lender of any Condemnation Award or Insurance Proceeds, the Property shall have been sold pursuant to the provisions of the Security Instrument, Lender shall have the right to receive such funds (a) to the extent of any deficiency found to be due upon such sale with interest thereon (whether or not a deficiency judgment on the Security Instrument shall have been sought or recovered or denied), and (b) to the extent necessary to reimburse Lender for its Expenses. If any Condemnation Awards or Insurance Proceeds are paid to Borrower, Guarantor or a Permitted Subsidiary, such party shall receive the same in trust for Lender. Within ten (10) days after Borrower's, Guarantor's or a Permitted Subsidiary's receipt of any Condemnation Awards or Insurance Proceeds, such party shall deliver such awards or proceeds to Lender in the form in which they were received, together with any endorsements or documents that may be necessary to effectively negotiate or transfer the same to Lender. Borrower, Guarantor and each Permitted Subsidiary agrees to execute and deliver from time to time, upon the request of Lender, such further instruments or documents as may be requested by Lender to confirm the grant and assignment to Lender of any Condemnation Awards or Insurance Proceeds. Notwithstanding the foregoing, Borrower shall not be required to notify Lender of *de minimus* condemnation proceedings which have nominal value or do not have a Material Adverse Effect on the use or operating of the Property.

#### 7.6 *Utilization of Net Proceeds.*

(a) Net Proceeds must be utilized either for payment of the Obligations or for the restoration of the Property. Net Proceeds may be utilized for the restoration of the Property only if no Default shall exist and only if in the reasonable judgment of Lender (i) there has been no material adverse change in the financial viability of the Improvements, (ii) the Net Proceeds, together with other funds deposited with Lender for that purpose, are sufficient to pay the cost of the restoration pursuant to a budget and plans and specifications approved by Lender, and (iii) the restoration can be completed prior to the final maturity of the Loan and prior to the date required by any permanent loan commitment or any purchase and sale agreement or by any Lease. Otherwise, Net Proceeds shall be utilized for payment of the Obligations.

(b) If Net Proceeds are to be utilized for the restoration of the Property, the Net Proceeds, together with any other funds deposited with Lender for that purpose, must be deposited in a Borrower's Deposit Account, which shall be an interest-bearing account, with all accrued interest

to become part of such deposit. Borrower agrees that it shall include all interest and earnings on any such deposit as its income (and, if Borrower is a partnership or other pass-through entity, the income of its partners, members or beneficiaries, as the case may be), and shall be the owner of all funds on deposit in Borrower's Deposit Account for federal and applicable state and local tax purposes. Lender shall have the exclusive right to manage and control all funds in Borrower's Deposit Account, but Lender shall have no fiduciary duty with respect to such funds. Lender will advance the deposited funds from time to time to Borrower for the payment of costs of restoration of the Property upon presentation of evidence acceptable to Lender that such restoration has been completed satisfactorily and lien-free. If at any time Lender determines that there is a deficiency in the funds available in Borrower's Deposit Account to complete the restoration as contemplated, then Borrower will promptly deposit in Borrower's Deposit Account additional funds equal to the amount of the deficiency. Any account fees and charges may be deducted from the balance, if any, in Borrower's Deposit Account. Borrower grants to Lender a security interest in Borrower's Deposit Account and all funds hereafter deposited to such deposit account, and any proceeds thereof, as security for the Obligations. Such security interest shall be governed by the Uniform Commercial Code of the State, and Lender shall have available to it all of the rights and remedies available to a secured party thereunder. The Borrower's Deposit Account may be established and held in such name or names as Lender shall deem appropriate, including in the name of Lender. Borrower hereby constitutes and appoints Lender and any officer or agent of Lender its true and lawful attorneys-in-fact with full power of substitution to open Borrower's Deposit Account and to do any and every act that Borrower might do on its own behalf to fulfill the terms of this **Section 7.6**. To the extent permitted by Law, Borrower hereby ratifies all that said attorneys shall lawfully do or cause to be done by virtue hereof. It is understood and agreed that this power of attorney, which shall be deemed to be a power coupled with an interest, cannot be revoked.

#### *7.7 Management.*

Borrower and each Permitted Subsidiary at all times shall provide for the competent and responsible management and operation of the Property. At all times, Borrower and each Permitted Subsidiary shall cause the Property to be managed by a Qualified Manager pursuant to a Property Management Agreement. All Property Management Agreements affecting a Property shall be terminable upon thirty (30) days' written notice without penalty or charge (except for unpaid accrued management fees). All Property Management Agreements must be approved in writing by Lender prior to the execution of the same. Advances and reimbursements of operating expenses for the Properties may be made from or to a Qualified Manager in connection with a Management Agreement entered into for a management fee not to exceed six (6.0%) percent of gross revenues.

#### *7.8 Books and Records; Financial Statements; Tax Returns.*

Borrower, Guarantor and each Permitted Subsidiary will keep and maintain full and accurate books and records administered in accordance with sound accounting principles, consistently applied, showing in detail the earnings and expenses of each Property and the operation thereof. Borrower, Guarantor and each Permitted Subsidiary will keep and maintain its books and records, including recorded data of any kind and regardless of the medium of recording, at the address of Borrower set forth in **Section 11.6**. Borrower, Guarantor and each Permitted Subsidiary shall permit Lender, or any Person authorized by Lender, to inspect and examine such books and records (regardless of where maintained) and all supporting vouchers and data and to make copies and extracts therefrom at all reasonable times and as often as may be requested by Lender. Borrower will furnish or cause to be furnished to Lender:

- (a) quarterly financial statements, including balance sheets and income statements, for Guarantor within one hundred twenty (120) days after each calendar year end. Such financial statements shall be prepared in accordance with GAAP.

(b) Annual audited financial statements, including balance sheets and income statements, for Extra Space Storage Inc. within one hundred twenty (120) days after each calendar year end. Such financial statements shall be prepared in accordance with GAAP and shall contain and unqualified opinion of the auditors thereof.

(c) If requested by Lender, the annual federal income tax return together with all schedules and supporting exhibits of Borrower within thirty (30) of filing but not later than November 1 of the succeeding year.

(d) A quarterly compliance certificate from each of Borrower and Guarantor within thirty (30) days of the end of each calendar quarter.

(e) A quarterly rent roll and operating statement for each Borrowing Base Property and its tenants and leases within thirty (30) days of the end of each calendar quarter.

(f) a current Borrowing Base Certificate within thirty (30) days of the end of each calendar quarter.

All financial statements must be in form and detail acceptable to Lender and must be certified as to accuracy by Borrower and/or Guarantor, as applicable. Borrower shall provide, upon Lender's request, convenient facilities for the audit and verification of any such statement. All certifications and signatures on behalf of corporations, partnerships, limited liability companies and other entities shall be by a representative of the reporting party satisfactory to Lender.

#### *7.9 Estoppel Certificates.*

Within ten (10) days after any request by Lender or a proposed assignee or purchaser of the Loan or any interest therein, Borrower, Guarantor and each Permitted Subsidiary shall certify in writing to Lender, or to such proposed assignee or purchaser, the then unpaid balance of the Loan and whether Borrower, Guarantor and each Permitted Subsidiary claims any right of defense or setoff to the payment or performance of any of the Obligations, and if Borrower, Guarantor and each Permitted Subsidiary claims any such right of defense or setoff, Borrower, Guarantor and each Permitted Subsidiary shall give a detailed written description of such claimed right.

#### *7.10 Taxes; Tax Receipts.*

Borrower, Guarantor and each Permitted Subsidiary shall pay and discharge all Taxes prior to the date on which penalties are attached thereto unless and to the extent only that such Taxes are contested in accordance with the terms of the Security Instrument. If Borrower, Guarantor and each Permitted Subsidiary fails, following demand, to provide Lender the tax receipts required under the Security Instrument, without limiting any other remedies available to Lender, Lender may, at Borrower's sole expense, obtain and enter into a tax services contract with respect to the applicable Property with a tax reporting agency satisfactory to Lender.

#### *7.11 Lender's Rights to Pay and Perform.*

If, after any required notice, Borrower, Guarantor or any Permitted Subsidiary fails to promptly pay or perform any of the Obligations within any applicable grace or cure periods, Lender, without Notice to or demand upon Borrower, Guarantor or the Permitted Subsidiary, and without waiving or releasing any Obligation or Default, may (but shall be under no obligation to) at any time thereafter make such payment or perform such act for the account and at the expense of Borrower. Lender may enter upon any Property for that purpose and take all action thereon as Lender considers necessary or appropriate.

#### 7.12 *Reimbursement; Interest.*

If Lender shall incur any Expenses or pay any Claims by reason of the Loan or the rights and remedies provided under the Loan Documents (regardless of whether or not any of the Loan Documents expressly provide for an indemnification by Borrower, Guarantor or any Permitted Subsidiary against such Claims), Lender's payment of such Expenses and Claims shall constitute Advances to Borrower which shall be paid by Borrower to Lender on demand, together with interest thereon from the date incurred until paid in full at the rate of interest then applicable to the Loan under the terms of the Note. Each Advance arising out of the Environmental Agreement shall not be secured by the Security Instrument. All other Advances shall be secured by the Security Instrument and the other Loan Documents as fully as if made to Borrower, regardless of the disposition thereof by the party or parties to whom such Advance is made. Notwithstanding the foregoing, however, in any action or proceeding to foreclose the Security Instrument or to recover or collect the Obligations, the provisions of Law governing the recovery of costs, disbursements and allowances shall prevail unaffected by this **Section 7.12**.

#### 7.13 *Notification by Borrower.*

Borrower, Guarantor and each Permitted Subsidiary will promptly give Notice to Lender of the occurrence of any Default or Event of Default hereunder or under any of the other Loan Documents. Borrower, Guarantor and each Permitted Subsidiary will also promptly give Notice to Lender of any claim of a default by Borrower, Guarantor and each Permitted Subsidiary, or any claim by Borrower, Guarantor and each Permitted Subsidiary of a default by any other party, under any Property Management Agreement or any Lease which would result in a Material Adverse Effect.

#### 7.14 *Indemnification by Borrower.*

Borrower and each Permitted Subsidiary agrees to indemnify Lender and to hold Lender harmless for, from and against, and to defend Lender by counsel approved by Lender against, any and all Claims brought by third parties directly or indirectly arising out of or resulting from any transaction, act, omission, event or circumstance in any way connected with the Property or the Loan, including any Claim arising out of or resulting from (a) any construction activity at the Property, including any defective workmanship or materials; (b) any failure by Borrower, Guarantor or Permitted Subsidiary to comply with the requirements of any Laws or to comply with any agreement that applies or pertains to the Property, including any agreement with a broker or "finder" in connection with the Loan or other financing of the Property; (c) any failure by Borrower, Guarantor or Permitted Subsidiary to observe and perform any of the obligations imposed upon the landlord under the Leases; (d) any other Default or Event of Default hereunder or under any of the other Loan Documents; or (e) any assertion or allegation that Lender is liable for any act or omission of Borrower, Guarantor or Permitted Subsidiary or any other Person in connection with the ownership, development, financing, leasing, operation or sale of the Property; *provided, however*, that neither Borrower nor any Permitted Subsidiary shall not be obligated to indemnify Lender with respect to any Claim arising solely from the gross negligence or willful misconduct of Lender. The agreements and indemnifications contained in this **Section 7.14** shall apply to Claims arising both before and after the repayment of the Loan and shall survive the repayment of the Loan, any foreclosure or deed, assignment or conveyance in lieu thereof and any other action by Lender to enforce the rights and remedies of Lender hereunder or under the other Loan Documents.

#### 7.15 *Fees and Expenses.*

Borrower, Guarantor and each Permitted Subsidiary shall pay all fees, charges, costs and expenses required to satisfy the conditions of the Loan Documents. Without limitation of the foregoing, Borrower, Guarantor and each Permitted Subsidiary will pay, when due, and if paid by Lender will reimburse Lender on demand for, all fees and expenses of any construction consultant (if any), the title

insurer, environmental engineers, appraisers, surveyors and Lender's counsel in connection with the closing, administration, modification or any "workout" of the Loan, or the enforcement of Lender's rights and remedies under any of the Loan Documents.

*7.16 Leasing and Tenant Matters.*

Borrower, Guarantor and each Permitted Subsidiary shall comply with the terms and conditions of **Schedule 3** in connection with the leasing of space within the Improvements.

*7.17 Preservation of Rights.*

Borrower, Guarantor and each Permitted Subsidiary shall obtain, preserve and maintain in good standing, as applicable, all rights, privileges and franchises necessary or desirable for the operation of the Property and the conduct of such party's business thereon or therefrom.

*7.18 Income from Property.*

Borrower, Guarantor and each Permitted Subsidiary shall first apply all income derived from the Property, including all income from Leases, to pay costs and expenses associated with the ownership, maintenance, operation and leasing of the Property, including all amounts then required to be paid under the Loan Documents, before using or applying such income for any other purpose. No such income shall be distributed or paid to any member, partner, shareholder or, if Borrower, Guarantor or any Permitted Subsidiary is a trust, to any beneficiary or trustee, unless and until all such costs and expenses which are then due shall have been paid in full.

*7.19 Representations and Warranties.*

Borrower, Guarantor and each Permitted Subsidiary shall take all actions commercially reasonable actions and shall do all reasonable things necessary or desirable to cause all of such party's representations and warranties in this Agreement to be materially true and correct at all times.

*7.20 Tax and Insurance Reserve Deposits.*

If required by Lender, commencing with the execution of this Agreement or at any time during the term of the Loan, Borrower shall make monthly payments in an amount estimated by Lender to pay installments of real property Taxes and insurance premiums for insurance required to be maintained by Borrower under the Loan Documents, pursuant to the terms and conditions of **Schedule 4**.

*7.21 Swap Contracts.*

Borrower, Guarantor and each Permitted Subsidiary shall comply with the terms and conditions of **Schedule 5** with respect to all Swap Contracts.

## **ARTICLE 8**

*Negative Covenants.*

Borrower covenants as of the date hereof and until such time as all Obligations shall be paid and performed in full, that:

*8.1 Conditional Sales.*

Neither Borrower, Guarantor nor any Permitted Subsidiary shall incorporate in the Improvements any property acquired under a conditional sales contract or lease or as to which the vendor retains title or a security interest, without the prior written consent of Lender.

## 8.2 Insurance Policies and Bonds.

Neither Borrower, Guarantor nor any Permitted Subsidiary shall do or permit to be done anything that would negatively and materially affect the coverage or indemnities provided for pursuant to the provisions of any insurance policy, performance bond, labor and material payment bond or any other bond given in connection with any construction at a Property, including any construction of tenant improvements.

## 8.3 Additional Debt.

Neither Borrower nor any Permitted Subsidiary shall incur any debt, secured or unsecured, direct or contingent (including guaranteeing any obligation), other than (a) the Loan, and (b) advances or trade debt or accrued expenses incurred in the ordinary course of business of operating the Property. No other debt may be secured by the Property, whether senior, subordinate or *pari passu*.

# ARTICLE 9

## *Events of Default.*

The occurrence or happening, from time to time, of any one or more of the following shall constitute an Event of Default under this Agreement:

### 9.1 Payment Default.

Borrower fails to pay any Obligation under this Agreement when and as due, whether on the scheduled due date or upon acceleration, maturity or otherwise, and Borrower fails to make such payment within three (3) Banking Days of notice (whether oral notice, by e-mail or in writing) from Lender to Borrower.

### 9.2 Default Under Other Loan Documents.

An Event of Default (as defined therein) occurs under the Note or the Security Instrument or any other Loan Document or the Environmental Agreement, or Borrower, Guarantor or any Permitted Subsidiary fails to promptly pay, perform, observe or comply with any term, obligation or agreement contained in any of the Loan Documents or the Environmental Agreement (within any applicable grace or cure period).

### 9.3 Accuracy of Information; Representations and Warranties.

Any information contained in any financial statement, schedule, report or any other document delivered by Borrower, Guarantor, any Permitted Subsidiary, or any other Person to Lender in connection with the Loan proves at any time not to be in all respects true and accurate, or Borrower, Guarantor, any Permitted Subsidiary, or any other Person shall have failed to state any material fact or any fact necessary to make such information not misleading, or any representation or warranty contained in this Agreement or in any other Loan Document or other document, certificate or opinion delivered to Lender in connection with the Loan, proves at any time to be incorrect or misleading in any material respect either on the date when made or on the date when reaffirmed pursuant to the terms of this Agreement.

### 9.4 Deposits.

Borrower fails to deposit funds with Lender, in the amount requested by Lender, pursuant to **Section 7.6** hereof or the other provisions of requirements of this Agreement, within ten (10) days from the effective date of a Notice from Lender requesting such deposit, or Borrower fails to deliver to Lender any Condemnation Awards or Insurance Proceeds within ten (10) days after Borrower's receipt thereof.

#### 9.5 *Insurance Obligations.*

Borrower, Guarantor, any Permitted Subsidiary, or any other Person fails to promptly perform or comply with any of the covenants contained in the Loan Documents with respect to maintaining insurance, including the covenants contained in **Section 7.4** ; provided that borrower shall have fifteen (15) days after notice from Lender to cure any default hereunder.

#### 9.6 *Other Obligations.*

Borrower, Guarantor, any Permitted Subsidiary, or any other Person fails to promptly perform or comply with any of the Obligations set forth in this Agreement (other than those expressly described in other Sections of this *Article IX* ), and such failure continues uncured for a period of thirty (30) days after Notice from Lender to Borrower, unless (a) such failure, by its nature, is not capable of being cured within such period, and (b) within such period, Borrower commences to cure such failure and thereafter diligently prosecutes the cure thereof, and (c) Borrower causes such failure to be cured no later than ninety (90) days after the date of such Notice from Lender.

#### 9.7 *Damage to Improvements.*

The Improvements are substantially damaged or destroyed by fire or other casualty and Lender determines that the Improvements cannot be restored in accordance with the terms and provisions of this Agreement and the Security Instrument; provided that Borrower shall have the opportunity to elect to remove the damaged Improvements from the Borrowing Base pursuant to the requirements and conditions of **Section 4.2** .

#### 9.8 *Lapse of Permits or Approvals.*

Any permit, license, certificate or approval that Borrower, any Permitted Subsidiary, or any other Person is required to obtain with respect to any construction activities at the Property or the operation, leasing or maintenance of the Improvements or the Property lapses or ceases to be in full force and effect; provided that Borrower shall have the opportunity to elect to remove the damaged Improvements from the Borrowing Base pursuant to the requirements and conditions of **Section 4.2** ..

#### 9.9 *Mechanic's Lien.*

A lien for the performance of work or the supply of materials filed against the Property, or any stop notice served on Borrower, any contractor of Borrower, Guarantor, any Permitted Subsidiary, or any other Person, or Lender, remains uncontested (as described below) unsatisfied or unbonded for a period of thirty (30) days after the date of filing or service. Borrower, Guarantor or any Permitted Subsidiary may, in good faith and by appropriate proceedings, contest the validity, applicability or amount of any asserted lien for the performance of work or the supply of materials filed against a Property after written notice of the same to Lender.

#### 9.10 *Bankruptcy.*

Any of Borrower, Guarantor or any Permitted Subsidiary files a bankruptcy petition or makes a general assignment for the benefit of creditors, or a bankruptcy petition is filed against Borrower, Guarantor or any Permitted Subsidiary and such involuntary bankruptcy petition continues undismissed for a period of sixty (60) days after the filing thereof.

#### 9.11 *Appointment of Receiver, Trustee, Liquidator.*

Borrower, Guarantor or any Permitted Subsidiary applies for or consents in writing to the appointment of a receiver, trustee or liquidator of Borrower, Guarantor or any Permitted Subsidiary, any Property, or all or substantially all of the other assets of Borrower, Guarantor or any Permitted Subsidiary or an order, judgment or decree is entered by any court of competent jurisdiction on the application of a creditor appointing a receiver, trustee or liquidator of Borrower, Guarantor or any

Permitted Subsidiary, any Property, or all or substantially all of the other assets of Borrower, Guarantor or any Permitted Subsidiary.

9.12 *Inability to Pay Debts.*

Borrower, Guarantor or any Permitted Subsidiary becomes unable or admits in writing its inability or fails generally to pay its debts as they become due.

9.13 *Judgment.*

A final nonappealable judgment for the payment of money involving more than \$100,000.00 is entered against Borrower, Guarantor or any Permitted Subsidiary, and Borrower, Guarantor or any Permitted Subsidiary fails to discharge the same, or causes it to be discharged or bonded off to Lender's satisfaction, within thirty (30) days from the date of the entry of such judgment.

9.14 *Dissolution; Change in Business Status.*

Unless the written consent of Lender is previously obtained, all or substantially all of the business assets of Borrower, Guarantor or any Permitted Subsidiary are sold, Borrower, Guarantor or any Permitted Subsidiary is dissolved, or there occurs any change in the form of business entity through which Borrower, Guarantor or any Permitted Subsidiary presently conducts its business or any merger or consolidation involving Borrower.

9.15 *Default Under Other Indebtedness to Lender.*

Borrower, Guarantor or any Permitted Subsidiary fails to pay any indebtedness (other than the Loan) owed by Borrower, Guarantor or any Permitted Subsidiary to Lender on Other Loans when and as due and payable (whether by acceleration or otherwise).

9.16 *Cross Default to Other Third Party Loans.*

Any failure, breach or default by Borrower, Guarantor or any Permitted Subsidiary under the Other Loans, it being the intention and agreement of Lender, Borrower and Guarantor to cross-default the Loan and the Other Loans with one another. With respect to any Other Loan to a subsidiary of Guarantor other than Borrower, such failure, breach or default by Guarantor must be a monetary default or default under a non-recourse or limited recourse carve out provision of such Other Loan for such failure, breach or default to constitute an Event of Default hereunder.

9.17 *Change in Controlling Interest.*

Without the prior written consent of Lender (which consent may be conditioned, among other matters, on the issuance of a satisfactory endorsement to the title insurance policy insuring Lender's interest under the Security Instrument), the controlling interest in Borrower ceases to be owned by Extra Space Storage LLC.

9.18 *Material Adverse Change.*

In the reasonable opinion of Lender, the prospect of payment or performance of all or any part of the Obligations has been impaired because of a material adverse change in the financial condition, results of operations, business or properties of Borrower, Guarantor or any Permitted Subsidiary or any other Person liable for the payment or performance of any of the Obligations.

## ARTICLE 10

### *Remedies on Default.*

#### 10.1 *Remedies on Default.*

Upon the happening of any Event of Default, Lender shall have the right, in addition to any other rights or remedies available to Lender under the Security Instrument or any of the other Loan Documents or under applicable Law, to exercise any one or more of the following rights and remedies:

(a) Lender may accelerate all of Borrower's, Guarantor's and each Permitted Subsidiary's Obligations under the Loan Documents whereupon such Obligations shall become immediately due and payable, without notice of default, acceleration or intention to accelerate, presentment or demand for payment, protest or notice of nonpayment or dishonor, or notices or demands of any kind or character (all of which are hereby waived by Borrower, Guarantor and each Permitted Subsidiary).

(b) Lender may apply to any court of competent jurisdiction for, and obtain appointment without bond of, a receiver for any or all of the Properties.

(c) Lender may set off the amounts due Lender under the Loan Documents against any and all accounts, credits, money, securities or other property of Borrower, Guarantor and each Permitted Subsidiary now or hereafter on deposit with, held by or in the possession of Lender to the credit or for the account of Borrower, Guarantor and each Permitted Subsidiary, without notice to or the consent of Borrower, Guarantor or any Permitted Subsidiary.

(d) Lender may enter into possession of any or all of the Properties and perform any and all work and labor necessary to complete any then pending construction at any or all of the Properties, including any construction of tenant improvements pursuant to executed Lease, and to employ watchmen to protect any or all of the Properties and the Improvements. All sums expended by Lender for such purposes shall be deemed to have been advanced to Borrower under the Note and shall be secured by the Security Instrument. For this purpose, Borrower hereby constitutes and appoints Lender its true and lawful attorney-in-fact with full power of substitution, which power is coupled with an interest, to complete the work in the name of Borrower, and hereby empowers said attorney or attorneys, in the name of Borrower or Lender:

(i) To use any funds of Borrower including any balance which may be held by Lender and any funds (if any) which may remain unadvanced hereunder for the purpose of completing any such construction, including any construction of any such tenant improvements, whether or not in the manner called for in the applicable plans and specifications;

(ii) To make such reasonable additions and changes and corrections to any plans and specifications as shall be necessary in the judgment of Lender to complete any construction, including any construction of tenant improvements in accordance with the applicable Lease;

(iii) To employ such contractors, subcontractors, agents, architects and inspectors as shall be necessary or desirable for said purpose;

(iv) To pay, settle or compromise on commercially reasonable terms all existing bills and claims which are or may be liens against the Property, or may be necessary or desirable for the completion of the work or the clearance of title to the Property;

(v) To execute all applications and certificates which may be required in the name of Borrower;

(vi) To enter into, enforce, modify or cancel Leases and to fix or modify Rents on such terms as Lender may consider proper;

(vii) To file for record, at Borrower's cost and expense and in Borrower's name, any notices of completion, notices of cessation of labor, or any other notices that Lender in its sole and absolute discretion may consider necessary or desirable to protect its security; and

(viii) To do any and every other necessary act with respect to any such construction which Borrower may do in its own behalf.

It is understood and agreed that this power of attorney shall be deemed to be a power coupled with an interest which cannot be revoked. Said attorney-in-fact shall also have the power to prosecute and defend all actions or proceedings in connection with any construction at the Property, including any construction of tenant improvements, and to take such actions and to require such performance as Lender may deem necessary.

#### 10.2 *No Release or Waiver; Remedies Cumulative and Concurrent.*

Neither Borrower, Guarantor nor any Permitted Subsidiary shall be relieved of any Obligation by reason of the failure of Lender to comply with any request of Borrower, Guarantor or any Permitted Subsidiary or of any other Person to take action to foreclose on the Property under the Security Instrument or otherwise to enforce any provision of the Loan Documents, or by reason of the release, regardless of consideration, of all or any part of the Property. No delay or omission of Lender to exercise any right, power or remedy accruing upon the happening of an Event of Default shall impair any such right, power or remedy or shall be construed to be a waiver of any such Event of Default or any acquiescence therein. No delay or omission on the part of Lender to exercise any option for acceleration of the maturity of the Obligations, or for foreclosure of the Security Instrument following any Event of Default as aforesaid, or any other option granted to Lender hereunder in any one or more instances, or the acceptance by Lender of any partial payment on account of the Obligations shall constitute a waiver of any such Event of Default and each such option shall remain continuously in full force and effect. No remedy herein conferred upon or reserved to Lender is intended to be exclusive of any other remedies provided for in the Loan Documents, and each and every such remedy shall be cumulative, and shall be in addition to every other remedy given hereunder, or under the Loan Documents, or now or hereafter existing at Law or in equity or by statute. Every right, power and remedy given by the Loan Documents to Lender shall be concurrent and may be pursued separately, successively or together against Borrower, Guarantor and each Permitted Subsidiary or any Property or any part thereof, and every right, power and remedy given by the Loan Documents may be exercised from time to time as often as may be deemed expedient by Lender. All notice and cure periods provided in this Agreement or in any Loan Document shall run concurrently with any notice or cure periods provided by law.

### ARTICLE 11

#### *Miscellaneous.*

##### 11.1 *Further Assurances; Authorization to File Documents.*

At any time, and from time to time, upon request by Lender, Borrower, Guarantor and each Permitted Subsidiary will, at Borrower's expense, (a) correct any defect, error or omission which may be discovered in the form or content of any of the Loan Documents, and (b) make, execute, deliver and record, or cause to be made, executed, delivered and recorded, any and all further instruments, certificates and other documents as may, in the opinion of Lender, be necessary or desirable in order to complete, perfect or continue and preserve the lien of the Security Instrument. Upon any failure by Borrower, Guarantor and each Permitted Subsidiary to do so, Lender may make, execute and record any and all such instruments, certificates and other documents for and in the name of Borrower,

Guarantor and each Permitted Subsidiary, all at the sole expense of Borrower, and Borrower hereby appoints Lender the agent and attorney-in-fact of Borrower to do so, this appointment being coupled with an interest and being irrevocable. Without limitation of the foregoing, Borrower, Guarantor and each Permitted Subsidiary irrevocably authorizes Lender at any time and from time to time to file any initial financing statements, amendments thereto and continuation statements deemed necessary or desirable by Lender to establish or maintain the validity, perfection and priority of the security interests granted in the Security Instrument, and Borrower, Guarantor and each Permitted Subsidiary ratifies any such filings made by Lender prior to the date hereof.

11.2 *No Warranty by Lender.*

By accepting or approving anything required to be observed, performed or fulfilled by Borrower, Guarantor and each Permitted Subsidiary or to be given to Lender pursuant to this Agreement, including any certificate, Survey, receipt, appraisal or insurance policy, Lender shall not be deemed to have warranted or represented the sufficiency, legality, effectiveness or legal effect of the same, or of any term, provision or condition thereof and any such acceptance or approval thereof shall not be or constitute any warranty or representation with respect thereto by Lender.

11.3 *Standard of Conduct of Lender.*

Nothing contained in this Agreement or any other Loan Document shall limit the right of Lender to exercise its business judgment or to act, in the context of the granting or withholding of any Advance or consent under this Agreement or any other Loan Document, in a subjective manner, so long as Lender's exercise of its business judgment or action is made or undertaken in good faith. Borrower and Lender intend by the foregoing to set forth and affirm their entire understanding with respect to the standard pursuant to which Lender's duties and obligations are to be judged and the parameters within which Lender's discretion may be exercised hereunder and under the other Loan Documents. As used herein, "good faith" means honesty in fact in the conduct and transaction concerned.

11.4 *No Partnership.*

Nothing contained in this Agreement shall be construed in a manner to create any relationship between Borrower, Guarantor and each Permitted Subsidiary and Lender other than the relationship of borrower and lender and Borrower and Lender shall not be considered partners or co-venturers for any purpose on account of this Agreement.

11.5 *Severability.*

In the event any one or more of the provisions of this Agreement or any of the other Loan Documents shall for any reason be held to be invalid, illegal or unenforceable, in whole or in part or in any other respect, or in the event any one or more of the provisions of any of the Loan Documents operates or would prospectively operate to invalidate this Agreement or any of the other Loan Documents, then and in either of those events, at the option of Lender, such provision or provisions only shall be deemed null and void and shall not affect the validity of the remaining Obligations, and the remaining provisions of the Loan Documents shall remain operative and in full force and effect and shall in no way be affected, prejudiced or disturbed thereby.

11.6 *Notices.*

All Notices required or which any party desires to give hereunder or under any other Loan Document shall be in writing and, unless otherwise specifically provided in such other Loan Document, shall be deemed sufficiently given or furnished if delivered by personal delivery, by nationally recognized overnight courier service or by certified United States mail, postage prepaid, addressed to the party to whom directed at the applicable address set forth below (unless changed by similar notice in writing given by the particular party whose address is to be changed). Any Notice shall be deemed to have been given either at the time of personal delivery or, in the case of courier or mail, as of the date

of first attempted delivery at the address and in the manner provided herein; provided that service of a Notice required by any applicable statute shall be considered complete when the requirements of that statute are met. Notwithstanding the foregoing, no notice of change of address shall be effective except upon actual receipt. This Section shall not be construed in any way to affect or impair any waiver of notice or demand provided in this Agreement or in any other Loan Document or to require giving of notice or demand to or upon any Person in any situation or for any reason.

The address of Borrower is:

c/o Extra Space Storage LLC  
2795 East Cottonwood Parkway, Suite 400  
Salt Lake City, Utah 84121  
Attention: David L. Rasmussen, General Counsel

with a copy to:

Nelson Christensen Helsten Hollingworth & Williams  
68 South Main Street, 6<sup>th</sup> Floor  
Salt Lake City, Utah 84101  
Attention: Bradley R. Helsten, Esq.  
Fax Number: 801-363-3614

The address of Lender is:

Bank of America, N.A.  
Commercial Real Estate Banking  
NV1-119-04-08  
300 Fourth Street, 4<sup>th</sup> Floor,  
Las Vegas, NV 89101  
Attention: Ricky G. Monroe

with a copy to:

Snell & Wilmer L.L.P.  
Beneficial Tower  
15 West South Temple, Suite 1200  
Salt Lake City, Utah 84101  
Attention: Brian D. Cunningham, Esq.

#### 11.7 *Permitted Successors and Assigns; Disclosure of Information.*

(a) Each and every one of the covenants, terms, provisions and conditions of this Agreement and the Loan Documents shall apply to, bind and inure to the benefit of Borrower, its successors and those assigns of Borrower consented to in writing by Lender, and shall apply to, bind and inure to the benefit of Lender and the endorsees, transferees, successors and assigns of Lender, and all Persons claiming under or through any of them.

(b) Borrower agrees not to transfer, assign, pledge or hypothecate any right or interest in any payment or Advance due pursuant to this Agreement, or any of the other benefits of this Agreement, without the prior written consent of Lender, which consent may be withheld by Lender in its sole and absolute discretion. Any such transfer, assignment, pledge or hypothecation made or attempted by Borrower without the prior written consent of Lender shall be void and of no effect. No consent by Lender to an assignment shall be deemed to be a waiver of the requirement of prior written consent by Lender with respect to each and every further assignment and as a condition precedent to the effectiveness of such assignment.

(c) Lender may sell or offer to sell the Loan or interests therein to one or more assignees or participants. Borrower, Guarantor and each Permitted Subsidiary shall execute, acknowledge and deliver any and all instruments reasonably requested by Lender in connection therewith, and to the extent, if any, specified in any such assignment or participation, such assignee(s) or participant(s) shall have the same rights and benefits with respect to the Loan Documents as such Person(s) would have if such Person(s) were Lender hereunder. Lender may disseminate any information it now has or hereafter obtains pertaining to the Loan, including any security for the Loan, any credit or other information on the Property (including environmental reports and assessments), Borrower, Guarantor and each Permitted Subsidiary, any of their principals, to any actual or prospective assignee or participant, to Lender's affiliates, including Banc of America Securities LLC, to any regulatory body having jurisdiction over Lender, to any actual or prospective counterparty (or its advisors) to any swap or derivative transaction relating to Borrower, Guarantor and each Permitted Subsidiary and the Loan, or to any other party as necessary or appropriate in Lender's reasonable judgment.

#### 11.8 *Modification; Waiver.*

None of the terms or provisions of this Agreement may be changed, waived, modified, discharged or terminated except by instrument in writing executed by the party or parties against whom enforcement of the change, waiver, modification, discharge or termination is asserted. None of the terms or provisions of this Agreement shall be deemed to have been abrogated or waived by reason of any failure or failures to enforce the same.

#### 11.9 *Third Parties; Benefit.*

All conditions to the obligation of Lender to make Advances hereunder are imposed solely and exclusively for the benefit of Lender and its assigns and no other Persons shall have standing to require satisfaction of such conditions in accordance with their terms or be entitled to assume that Lender will refuse to make Advances in the absence of strict compliance with any or all thereof and no other Person shall, under any circumstances, be deemed to be the beneficiary of such conditions, any or all of which may be freely waived in whole or in part by Lender at any time in the sole and absolute exercise of its discretion. The terms and provisions of this Agreement are for the benefit of the parties hereto and, except as herein specifically provided, no other Person shall have any right or cause of action on account thereof.

#### 11.10 *Rules of Construction.*

The words "hereof," "herein," "hereunder," "hereto," and other words of similar import refer to this Agreement in its entirety. The terms "agree" and "agreements" mean and include "covenant" and "covenants." The words "include" and "including" shall be interpreted as if followed by the words "without limitation." The captions and headings contained in this Agreement are included herein for convenience of reference only and shall not be considered a part hereof and are not in any way intended to define, limit or enlarge the terms hereof. All references (a) made in the neuter, masculine or feminine gender shall be deemed to have been made in all such genders, (b) made in the singular or plural number shall be deemed to have been made, respectively, in the plural or singular number as well, (c) to the Loan Documents are to the same as extended, amended, restated, supplemented or otherwise modified from time to time unless expressly indicated otherwise, (d) to the Property, the Improvements or the Property shall mean all or any portion of each of the foregoing, respectively, and (e) to Articles, Sections and Schedules are to the respective Articles, Sections and Schedules contained in this Agreement unless expressly indicated otherwise.

#### 11.11 *Counterparts.*

This Agreement may be executed in any number of counterparts, each of which shall be considered an original for all purposes; provided, however, that all such counterparts shall together constitute one and the same instrument.

#### 11.12 *Governing Law.*

This Agreement shall be governed by and construed, interpreted and enforced in accordance with the laws of the State and applicable federal law.

#### 11.13 *Time of Essence.*

Time shall be of the essence for each and every provision of this Agreement of which time is an element.

#### 11.14 *Electronic Transmission of Data.*

Lender and Borrower, Guarantor and each Permitted Subsidiary agree that certain data related to the Loan (including confidential information, documents, applications and reports) may be transmitted electronically, including transmission over the Internet. This data may be transmitted to, received from or circulated among agents and representatives of Borrower, Guarantor and each Permitted Subsidiary and/or Lender and their affiliates and other Persons involved with the subject matter of this Agreement. Borrower, Guarantor and each Permitted Subsidiary acknowledges and agrees that (a) there are risks associated with the use of electronic transmission and that Lender does not control the method of transmittal or service providers, (b) Lender has no obligation or responsibility whatsoever and assumes no duty or obligation for the security, receipt or third party interception of any such transmission, and (c) Borrower, Guarantor and each Permitted Subsidiary will release, hold harmless and indemnify Lender for, from and against any claim, damage or loss, including that arising in whole or part from Lender's strict liability or sole, comparative or contributory negligence, which is related to the electronic transmission of data.

#### 11.15 *Dispute Resolution.*

(a) *Arbitration.* Except to the extent expressly provided below, any Dispute shall, upon the request of either party, be determined by binding arbitration in accordance with the Federal Arbitration Act, Title 9, United States Code (or if not applicable, the applicable state law), the then-current rules for arbitration of financial services disputes of AAA and the "Special Rules" set forth below. In the event of any inconsistency, the Special Rules shall control. The filing of a court action is not intended to constitute a waiver of the right of Borrower or Lender, including the suing party, thereafter to require submittal of the Dispute to arbitration. Any party to this Agreement may bring an action, including a summary or expedited proceeding, to compel arbitration of any Dispute in any court having jurisdiction over such action. For the purposes of this Dispute Resolution Section only, the terms "party" and "parties" shall include any parent corporation, subsidiary or affiliate of Lender involved in the servicing, management or administration of any obligation described in or evidenced by this Agreement, together with the officers, employees, successors and assigns of each of the foregoing.

##### (b) *Special Rules.*

(i) The arbitration shall be conducted in any U.S. state where real or tangible personal property collateral is located, or if there is no such collateral, in the City and County where Lender is located pursuant to its address for notice purposes in this Agreement.

(ii) The arbitration shall be administered by AAA, who will appoint an arbitrator. If AAA is unwilling or unable to administer the arbitration, or if AAA is unwilling or unable to enforce or legally precluded from enforcing any and all provisions of this Dispute Resolution Section, then any party to this Agreement may substitute another arbitration organization that has similar procedures to AAA and that will observe and enforce any and all provisions of this Dispute Resolution Section. All Disputes shall be determined by one arbitrator; however, if the amount in controversy in a Dispute exceeds Five Million Dollars (\$5,000,000), upon the request of any party, the Dispute shall be decided by three arbitrators (for purposes of this Agreement, referred to collectively as the "arbitrator").

(iii) All arbitration hearings will be commenced within ninety (90) days of the demand for arbitration and completed within ninety (90) days from the date of commencement; provided, however, that upon a showing of good cause, the arbitrator shall be permitted to extend the commencement of such hearing for up to an additional sixty (60) days.

(iv) The judgment and the award, if any, of the arbitrator shall be issued within thirty (30) days of the close of the hearing. The arbitrator shall provide a concise written statement setting forth the reasons for the judgment and for the award, if any. The arbitration award, if any, may be submitted to any court having jurisdiction to be confirmed and enforced, and such confirmation and enforcement shall not be subject to arbitration.

(v) The arbitrator will give effect to statutes of limitations and any waivers thereof in determining the disposition of any Dispute and may dismiss one or more claims in the arbitration on the basis that such claim or claims is or are barred. For purposes of the application of the statute of limitations, the service on AAA under applicable AAA rules of a notice of Dispute is the equivalent of the filing of a lawsuit.

(vi) Any dispute concerning this arbitration provision, including any such dispute as to the validity or enforceability of this provision, or whether a Dispute is arbitrable, shall be determined by the arbitrator; provided, however, that the arbitrator shall not be permitted to vary the express provisions of these Special Rules or the Reservations of Rights in subsection (c) below.

(vii) The arbitrator shall have the power to award legal fees and costs pursuant to the terms of this Agreement.

(viii) The arbitration will take place on an individual basis without reference to, resort to, or consideration of any form of class or class action.

(c) *Reservations of Rights.* Nothing in this Agreement shall be deemed to (i) limit the applicability of any otherwise applicable statutes of limitation and any waivers contained in this Agreement, or (ii) apply to or limit the right of Lender (A) to exercise self help remedies such as (but not limited to) setoff, or (B) to foreclose judicially or nonjudicially against any real or personal property collateral, or to exercise judicial or nonjudicial power of sale rights, or to bring or pursue a deficiency action in accordance with *Utah Code Annotated* Section 57-1-32, (C) to obtain from a court provisional or ancillary remedies such as (but not limited to) injunctive relief, writ of possession, prejudgment attachment, or the appointment of a receiver, or (D) to pursue rights against a party to this Agreement in a third-party proceeding in any action brought against Lender in a state, federal or international court, tribunal or hearing body (including actions in specialty courts, such as bankruptcy and patent courts). Lender may exercise the rights set forth in clauses (A) through (D), inclusive, before, during or after the pendency of any arbitration proceeding brought pursuant to this Agreement. Neither the exercise of self help remedies nor the institution or maintenance of an action for foreclosure or provisional or ancillary remedies shall constitute a waiver of the right of any party, including the claimant in any such action, to arbitrate the merits of the Dispute occasioning resort to such remedies. No provision in the Loan Documents regarding submission to jurisdiction and/or venue in any court is intended or shall be construed to be in derogation of the provisions in any Loan Document for arbitration of any Dispute.

(d) *Conflicting Provisions for Dispute Resolution.* If there is any conflict between the terms, conditions and provisions of this Section and those of any other provision or agreement for arbitration or dispute resolution, the terms, conditions and provisions of this Section shall prevail as to any Dispute arising out of or relating to (i) this Agreement, (ii) any other Loan Document, (iii) any related agreements or instruments, or (iv) the transaction contemplated herein or therein (including any claim based on or arising from an alleged personal injury or business tort). In any other situation, if the

resolution of a given Dispute is specifically governed by another provision or agreement for arbitration or dispute resolution, the other provision or agreement shall prevail with respect to said Dispute.

(e) *Jury Trial Waiver.* By agreeing to this Section, the parties irrevocably and voluntarily waive any right they may have to a trial by jury in respect of any Dispute.

11.16 *Forum.*

Borrower, Guarantor and each Permitted Subsidiary hereby irrevocably submits generally and unconditionally for itself and in respect of its property to the jurisdiction of any state court or any United States federal court sitting in the State specified in the governing law section of this Agreement and to the jurisdiction of any state court or any United States federal court sitting in the state in which any of the Property is located, over any Dispute. Borrower, Guarantor and each Permitted Subsidiary hereby irrevocably waives, to the fullest extent permitted by Law, any objection that Borrower, Guarantor and each Permitted Subsidiary may now or hereafter have to the laying of venue in any such court and any claim that any such court is an inconvenient forum. Borrower, Guarantor and each Permitted Subsidiary hereby agrees and consents that, in addition to any methods of service of process provided for under applicable law, all service of process in any such suit, action or proceeding in any state court or any United States federal court sitting in the state specified in the governing law section of this Agreement may be made by certified or registered mail, return receipt requested, directed to Borrower, Guarantor or a Permitted Subsidiary at its address for notice set forth in this Agreement, or at a subsequent address of which Lender received actual notice from Borrower, Guarantor and each Permitted Subsidiary in accordance with the notice section of this Agreement, and service so made shall be complete five (5) days after the same shall have been so mailed. Nothing herein shall affect the right of Lender to serve process in any manner permitted by Law or limit the right of Lender to bring proceedings against Borrower, Guarantor or a Permitted Subsidiary in any other court or jurisdiction.

11.17 *WAIVER OF JURY TRIAL.*

**WITHOUT INTENDING IN ANY WAY TO LIMIT THE PARTIES' AGREEMENT TO ARBITRATE ANY "DISPUTE" (FOR PURPOSES OF THIS SECTION, AS DEFINED IN *SCHEDULE 1* ) AS SET FORTH IN THIS AGREEMENT, TO THE EXTENT ANY "DISPUTE" IS NOT SUBMITTED TO ARBITRATION OR IS DEEMED BY THE ARBITRATOR OR BY ANY COURT WITH JURISDICTION TO BE NOT ARBITRABLE OR NOT REQUIRED TO BE ARBITRATED, BORROWER, GUARANTOR, EACH PERMITTED SUBSIDIARY AND LENDER WAIVE TRIAL BY JURY IN RESPECT OF ANY SUCH "DISPUTE" AND ANY ACTION ON SUCH "DISPUTE." THIS WAIVER IS KNOWINGLY, WILLINGLY AND VOLUNTARILY MADE BY BORROWER, GUARANTOR, EACH PERMITTED SUBSIDIARY AND LENDER, AND BORROWER, GUARANTOR, EACH PERMITTED SUBSIDIARY AND LENDER HEREBY REPRESENT THAT NO REPRESENTATIONS OF FACT OR OPINION HAVE BEEN MADE BY ANY PERSON OR ENTITY TO INDUCE THIS WAIVER OF TRIAL BY JURY OR TO IN ANY WAY MODIFY OR NULLIFY ITS EFFECT. THIS PROVISION IS A MATERIAL INDUCEMENT FOR THE PARTIES ENTERING INTO THE LOAN DOCUMENTS. BORROWER, GUARANTOR, EACH PERMITTED SUBSIDIARY AND LENDER ARE EACH HEREBY AUTHORIZED TO FILE A COPY OF THIS SECTION IN ANY PROCEEDING AS CONCLUSIVE EVIDENCE OF THIS WAIVER OF JURY TRIAL. BORROWER, GUARANTOR AND EACH PERMITTED SUBSIDIARY FURTHER REPRESENTS AND WARRANTS THAT IT HAS BEEN REPRESENTED IN THE SIGNING OF THIS AGREEMENT AND IN THE MAKING OF THIS WAIVER BY INDEPENDENT LEGAL COUNSEL, OR HAS HAD THE OPPORTUNITY TO BE REPRESENTED BY INDEPENDENT LEGAL COUNSEL SELECTED OF ITS OWN FREE WILL, AND THAT IT HAS HAD THE OPPORTUNITY TO DISCUSS THIS WAIVER WITH COUNSEL.**

11.18 *USA Patriot Act Notice.*

Lender hereby notifies Borrower, Guarantor and each Permitted Subsidiary that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the " Act "), Lender is required to obtain, verify and record information that identifies Borrower, Guarantor and each Permitted Subsidiary, which information includes the name and address of Borrower, Guarantor and each Permitted Subsidiary and other information that will allow Lender to identify Borrower, Guarantor and each Permitted Subsidiary in accordance with the Act.

11.19 *Entire Agreement.*

PURSUANT TO UTAH CODE ANNOTATED SECTION 25-5-4, BORROWER IS NOTIFIED THAT THE WRITTEN LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF ANY ALLEGED PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES. In particular, and without limitation, the terms of any commitment by Lender to make the Loan are merged into the Loan Documents. Except as incorporated in writing into the Loan Documents, there are no representations, understandings, stipulations, agreements or promises, oral or written, with respect to the matters addressed in the Loan Documents. If there is any conflict between the terms, conditions and provisions of this Agreement and those of any other instrument or agreement, including any other Loan Document, the terms, conditions and provisions of this Agreement shall prevail.

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IN WITNESS WHEREOF, Borrower and Lender have caused this Agreement to be executed as of the date first above written.

**BORROWER:**

**EXTRA SPACE PROPERTIES THIRTY LLC**

a Delaware limited liability company

By: \_\_\_\_\_

Name: Kent W. Christensen

Title: Manager

**LENDER:**

**BANK OF AMERICA, N.A.**

a national banking association

By: \_\_\_\_\_

Name: Ricky G. Monroe

Title: Senior Vice President

## ***Schedule 1***

### ***Definitions***

Unless the context otherwise specifies or requires, the following terms shall have the meanings herein specified, such definitions to be applicable equally to the singular and the plural forms of such terms and to all genders:

" *1.40 Debt Service Coverage Ratio Value* " means, as applicable, the Initial 1.40 Debt Service Coverage Ratio Value for any Property or Borrowing Base Property when such Property becomes a Borrowing Base Property or when the 1.40 Debt Service Coverage Ratio Value is first determined with respect to such Property, and in all other cases and for all other periods of determination, the Ongoing Debt Service Coverage Ratio Value.

" *AAA* " means the American Arbitration Association, or any successor thereof.

" *Act* " means the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)).

" *Advance* " means a disbursement of Loan proceeds to Borrower pursuant to the terms of this Agreement.

" *Appraisal* " means, with respect to any Property, an M.A.I. appraisal (or local equivalent) commissioned by and addressed to Lender (acceptable to Lender as to form, substance, and appraisal date), prepared by a professional appraiser acceptable to Lender, having at least the minimum qualifications required under the applicable Governmental Authority, including without limitation, FIRREA, and determining "as is" (and, as applicable "as stabilized") market value of such Property as between a willing buyer and a willing seller.

" *Adjusted (LTV) Appraised Value* " means, with respect to an Property or Borrowing Base Property an amount equal to seventy-five percent (75%) of the Appraised Value of such Property or Borrowing Base Property.

" *Appraised Value* " means, with respect to any Property, the "as is" (and, as applicable, the "as completed" and/or "as stabilized") market value of such Property as reflected in the most recent Appraisal of such Property as the same may have been reasonably adjusted by Lender based upon its internal review of such Appraisal which is based on criteria and factors then generally used and considered by Lender in determining the value of similar real estate properties, which review shall be conducted prior to acceptance of such Appraisal by Lender.

" *Authorized Signer* " means any signer of this Agreement, acting alone, or any other representative of Borrower duly designated and authorized by Borrower to sign draw requests in a writing addressed to Lender, which writing may include a draw request in the form attached hereto as **Schedule 2**.

" *Banking Day* " means any day that is not a Saturday, Sunday or banking holiday in the State.

" *Borrowing Base* " means the dollar amount that is the sum for each Borrowing Base Property of the *lesser* of (a) the Adjusted (LTV) Appraised Value of such Borrowing Base Property or (b) the 1.40 Debt Service Coverage Ratio Value for such Property. The parties agree and acknowledge that the Borrowing Base is an aggregate amount determined on a Property by Property basis as set forth above and not on an overall pool or aggregate basis.

" *Borrowing Base Certificate* " means a report in substantially the form of **Schedule 7** , certified by the chief financial officer, or its equivalent, of Borrower setting forth (a) the calculations required to establish the Adjusted (LTV) Appraised Value for each Borrowing Base Property, (b) the 1.40 Debt Service Coverage Ratio Value for each Borrowing Base Property, and (c) the Maximum Availability, all in form and detail satisfactory to Lender in its sole and absolute discretion.

" *Borrowing Base Property* " means an Eligible Property which Lender has agreed to include in calculations of the Borrowing Base pursuant to **Article 4** . A Property shall cease to be a Borrowing Base Property if (a) at any time such Property shall cease to be an Eligible Property, (b) Lender shall cease to hold a valid and perfected first priority Lien in such Property, or (c) there shall have occurred

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a default under the Security Instrument in respect of such Property; provided, however, that Lender shall only be obligated to reconvey the lien encumbering any such Property in accordance with the provisions of **Article 4** .

" *Borrower's Deposit Account* " means an account established with Lender pursuant to the terms of **Section 7.6** .

" *Casualty* " means any act or occurrence of any kind or nature that results in damage, loss or destruction to the Property.

" *Claim* " means any liability, suit, action, claim, demand, loss, expense, penalty, fine, judgment or other cost of any kind or nature whatsoever, including fees, costs and expenses of attorneys, consultants, contractors and experts.

" *Closing Checklist* " means that certain Closing Requirements and Checklist setting forth the conditions for closing the Loan and recording the Security Instrument.

" *Code* " means the Internal Revenue Code of 1986, as amended.

" *Collateral* " means any real or personal property directly or indirectly securing any of the Obligations or any other obligation of Borrower or any other Person under or in respect of any Loan Document to which it is party, and includes, without limitation, all "Property" under as defined in any Security Instrument, all "Assigned Contracts" as defined in any Property Management Agreement Assignment, all "Rents" as defined in any Security Instrument and all other property subject to a Lien created by a Security Instrument.

" *Condemnation* " means any taking of title to, use of, or any other interest in the Property under the exercise of the power of condemnation or eminent domain, whether temporarily or permanently, by any Governmental Authority or by any other Person acting under or for the benefit of a Governmental Authority.

" *Condemnation Awards* " means any and all judgments, awards of damages (including severance and consequential damages), payments, proceeds, settlements, amounts paid for a taking in lieu of Condemnation, or other compensation heretofore or hereafter made, including interest thereon, and the right to receive the same, as a result of, or in connection with, any Condemnation or threatened Condemnation.

" *Default* " means an event or circumstance that, with the giving of Notice or lapse of time, or both, would constitute an Event of Default under the provisions of this Agreement.

" *Dispute* " means any controversy, claim or dispute between or among the parties to this Agreement, including any such controversy, claim or dispute arising out of or relating to (a) this Agreement, (b) any other Loan Document, (c) any related agreements or instruments, or (d) the transaction contemplated herein or therein (including any claim based on or arising from an alleged personal injury or business tort).

" *Draw Request* " means a notice in the form of **Schedule 2** to be delivered to Lender pursuant to **Section 2.3** evidencing Borrower's request for a borrowing of Advances.

" *Eligible Property* " means a Property which satisfies all of the following requirement as confirmed by Lender:

(a) such Property is owned in fee simple by Borrower or such Property is ground leased to Borrower from a third party fee owner and Lender has approved such leased Property in its sole and absolute discretion;

(b) such Property is located within the United States of America;

(c) such Property is a self storage facility and related Improvements;

(d) if such Property is included as a Borrowing Base Property, not more 25% of all Borrowing Base Properties may be located within any single Metropolitan Statistical Area or similar geographical market;

(e) if such Property is included as a Borrowing Base Property, not more 25% of the Borrowing Base shall be derived at any time from the Adjusted (LTV) Appraised Value or the 1.40 Debt Service Coverage Ratio Value of such Borrowing Base Property;

(f) such Property is not subject to any Lien other than the lien of the Security Instrument (and such Property is subject to the lien of the Security Instrument);

(g) pursuant to **Section 4.1** Lender has agreed to include such Property in calculations of the Borrowing Base.

(h) all of the conditions of **Section 4.1** continue at all times to be satisfied with respect to such Property;

(i) all of the representations, warranties and covenants of Borrower hereunder with respect to such Property are true and accurate in all material respects; and

(j) such Property has not been deemed ineligible for the Borrowing Base in accordance with **Section 4.1** and has not been released pursuant to **Section 4.2** .

Any Property which does not meet the foregoing requirements shall cease to be an Eligible Property at the time of non-compliance and shall continue to be ineligible to be a Borrowing Base Property until such deficiency is cured, as determined by Lender in its reasonable discretion.

" *Environmental Agreement* " means one or more Environmental Indemnification and Release Agreements by and between Borrower, each Permitted Subsidiary (if applicable), Guarantor and Lender pertaining to a Property, as the same may from time to time be extended, amended, restated or otherwise modified. The Environmental Agreements are unsecured.

" *ERISA* " means the Employee Retirement Income Security Act of 1974, as amended.

" *Event of Default* " means any event or circumstance specified in **Article 7** and the continuance of such event or circumstance beyond the applicable grace and/or cure periods therefor, if any, set forth in **Article 7** .

" *Expenses* " means all fees, charges, costs and expenses of any nature whatsoever incurred at any time and from time to time (whether before or after an Event of Default) by Lender in making, funding, administering or modifying the Loan, in negotiating or entering into any "workout" of the Loan, or in exercising or enforcing any rights, powers and remedies provided in the Security Instrument or any of the other Loan Documents, including attorneys' fees, court costs, receiver's fees, management fees and costs incurred in the repair, maintenance and operation of, or taking possession of, or selling, the Property.

" *Governmental Authority* " means any governmental or quasi-governmental entity, including any court, department, commission, board, bureau, agency, administration, service, district or other instrumentality of any governmental entity.

" *Guarantor* " means, individually and collectively, as the context requires, **EXTRA SPACE STORAGE LLC** , a Delaware limited liability company, and its successors and assigns.

" *Guaranty* " means the Guaranty Agreement of even date herewith executed by Guarantor for the benefit of Lender, as the same may from time to time be extended, amended, restated, supplemented or otherwise modified.

" *Improvements* " means any and all improvements located on a Property.

" *Initial Debt Service Coverage Ratio Value* " means the value of any Property or Borrowing Base Property upon first becoming a Borrowing Base Property, determined as the maximum loan amount which could be outstanding (the " *Hypothetical Loan Amount* ") which yields a debt service coverage ratio of not less than 1.40 for Properties or Borrowing Base Properties owned in fee simple by Borrower or a Permitted Subsidiary or 1.75 for Properties or Borrowing Base Properties ground leased by Borrower.

(a) The foregoing debt service coverage ratio shall be calculated and determined using a standard mortgage style financial amortization based on the (i) Net Operating Income generated by the Property or Borrowing Base Property and the (ii) the constant derived from the amortization of \$1.00 over a period of thirty years at an imputed interest rate equal to the greater of: (1) 8.00% per annum, and (2) the sum of one hundred seventy-five (175) basis points per annum and the weekly average yield on United States Treasury Securities Constant Maturities Series issued by the United States Government for a ten (10) year term as most recently published by the Board of Governors of the Federal Reserve System and Federal Reserve Statistical Release H.15(519) (or any similar or successor publication selected by Lender) as of the date of determination.

(b) As used herein, " *Net Operating Income* " means, for any period of determination, the Borrowing Base Properties' appraised annual revenues less appraised annual expenses as approved by Lender. In the event that vacancy of any Borrowing Base Property is less than 15%, Net Operating Income shall be adjusted downward and determined as if such vacancy were 15%.

By way of illustration:

(1) if a Property or Borrowing Base Property owned in fee simple has Net Operating Income of \$1,000,000 for a period of determination, the Initial Debt Service Coverage Ratio Value would be \$8,107,699.86, determined as  $(\$1,000,000 / 1.4 / 0.0881) = \$8,107,699.86$ ; and

(2) if a leasehold Property or Borrowing Base Property has Net Operating Income of \$1,000,000 for a period of determination, the Initial Debt Service Coverage Ratio Value would be \$6,486,135.88, determined as  $(\$1,000,000 / 1.75 / 0.0881) = \$6,486,135.88$ .

" *Insurance Proceeds* " means the insurance claims under and the proceeds of any and all policies of insurance covering the Property or any part thereof, including all returned and unearned premiums with respect to any insurance relating to such Property, in each case whether now or hereafter existing or arising.

" *Laws* " means all federal, state and local laws, statutes, rules, ordinances, regulations, codes, licenses, authorizations, decisions, injunctions, interpretations, orders or decrees of any court or other Governmental Authority having jurisdiction as may be in effect from time to time.

" *Leases* " means all self storage leases or residential leases, license agreements and other occupancy or use agreements (whether oral or written), now or hereafter existing, which cover or relate to the Property or any part thereof, together with all options therefor, amendments thereto and renewals, modifications and guaranties thereof, including any cash or security deposited under the Leases to secure performance by the tenants of their obligations under the Leases, whether such cash or security is to be held until the expiration of the terms of the Leases or applied to one or more of the installments of rent coming due thereunder.

" *Lien* " as applied to the property of Borrower, a Permitted Subsidiary or any Person means: (a) any security interest, encumbrance, mortgage, deed to secure debt, deed of trust, pledge, lien, charge or lease constituting a capitalized lease obligation (which shall be obligations under a lease that is required to be capitalized for financial reporting purposes in accordance with GAAP), condition sale

or other title retention agreement, or other security title or encumbrance of any kind in respect of any property of Borrower, a Permitted Subsidiary or such Person, or upon the income or profits therefrom; (b) any arrangement, express or implied, under which any property of Borrower, a Permitted Subsidiary or such Person is transferred, sequestered or otherwise identified for the purpose of subjecting the same to the payment of indebtedness or performance of any other obligation in priority to the payment of unsecured creditors of Borrower, A Permitted Subsidiary or such Person; (c) the filing any financing statement under the UCC or its equivalent in any jurisdiction; and (d) any agreement by Borrower, a Permitted Subsidiary, or such Person to grant, give or otherwise convey any of the foregoing.

" *Loan* " means the loan from Lender to Borrower, the repayment obligations in connection with which are evidenced by the Note.

" *Loan Amount* " means Fifty Million and No/100 Dollars (\$50,000,000.00).

" *Loan Documents* " means this Agreement, the Note, each Security Instrument, the Pledge Documents, each Environmental Agreement, the Guaranty, any Swap Contract, any application or reimbursement agreement executed in connection with any letter of credit issued pursuant to **Section 2.6** hereof, and any and all other documents which Borrower, Guarantor, any Permitted Subsidiary or any other party or parties have executed and delivered, or may hereafter execute and deliver, to evidence, secure or guarantee the Obligations, or any part thereof, as the same may from time to time be extended, amended, restated, supplemented or otherwise modified.

" *Material Contracts* " means each Property Management Agreement, if any, with respect to an Eligible Property and any other contract or other arrangement (other than Loan Documents), whether written or oral, to which Borrower, Guarantor or a Permitted Subsidiary is a party as to which the breach, nonperformance, cancellation or failure to renew by an party thereto could have a Material Adverse Effect.

" *Material Adverse Effect* " means a materially adverse effect on (a) the business, assets, liabilities, financial condition, results of operations or business prospects of any of Borrower, Guarantor or any Permitted Subsidiary, (b) the ability of Borrower, Guarantor or any Permitted Subsidiary to perform its obligations under any of the Loan Documents, (c) the validity or enforceability of any of the Loan Documents, (d) the rights and remedies of Lender under any of the Loan Documents, or (e) the timely payment of the principal of or interest on the Advances or other amounts payable in connection therewith.

" *Maximum Availability* " shall, at any time, be the lesser of (a) the Loan Amount and (b) the Borrowing Base. Maximum Availability shall be reduced at all times by (i) the amount of all undrawn letters of credit issued pursuant to **Section 2.6** and (ii) the amount of all drawings under letters of credit issued pursuant to **Section 2.6** which have not been reimbursed to Lender.

" *Net Proceeds* ," when used with respect to any Condemnation Awards or Insurance Proceeds, means the gross proceeds from any Condemnation or Casualty remaining after payment of all expenses, including attorneys' fees, incurred in the collection of such gross proceeds.

" *Note* " means the Promissory Note of even date herewith, in an amount equal to the Loan Amount, made by Borrower to the order of Lender, as the same may from time to time be extended, amended, restated, supplemented or otherwise modified.

" *Notice* " means a notice, request, consent, demand or other communication given in accordance with the provisions of **Section 11.6** of this Agreement.

" *Obligations* " means all present and future debts, obligations and liabilities of Borrower or a Permitted Subsidiary to Lender arising pursuant to, or on account of, the provisions of this Agreement, the Note or any of the other Loan Documents, including the obligations: (a) to pay all principal, interest, late charges, prepayment premiums (if any) and other amounts due at any time under the

Note; (b) to pay all Expenses, indemnification payments, fees and other amounts due at any time under the Security Instrument or any of the other Loan Documents, together with interest thereon as provided in the Security Instrument or such Loan Document; (c) to pay and perform all obligations of Borrower or a Permitted Subsidiary (or its affiliate) under any Swap Contract; and (d) to perform, observe and comply with all of the terms, covenants and conditions, expressed or implied, which Borrower or a Permitted Subsidiary is required to perform, observe or comply with pursuant to the terms of this Agreement, the Security Instrument or any of the other Loan Documents. Notwithstanding any language contained in the Loan Documents, the Obligations of Borrower or a Permitted Subsidiary to pay and perform under the Environmental Agreement are not secured by the Security Instrument.

" *Ongoing Debt Service Coverage Ratio Value* " means the value of any Property or Borrowing Base Property determined as the maximum loan amount which could be outstanding (the " *Hypothetical Loan Amount* ") which yields a debt service coverage ratio of not less than 1.40 for Properties or Borrowing Base Properties owned in fee simple by Borrower or a Permitted Subsidiary or 1.75 for Properties or Borrowing Base Properties ground leased by Borrower.

(a) The foregoing debt service coverage ratio shall be calculated and determined using a standard mortgage style financial amortization based on the (i) Net Operating Income generated by the Property or Borrowing Base Property and the (ii) the constant derived from the amortization of \$1.00 over a period of thirty years at an imputed interest rate equal to the greater of: (A) 8.00% per annum, and (B) the sum of one hundred seventy-five (175) basis points per annum and the weekly average yield on United States Treasury Securities Constant Maturities Series issued by the United States Government for a ten (10) year term as most recently published by the Board of Governors of the Federal Reserve System and Federal Reserve Statistical Release H.15(519) (or any similar or successor publication selected by Lender) as of the date of determination.

(b) As used herein, " *Net Operating Income* " means, for any period of determination, the Borrowing Base Properties' collective revenues generated during the immediately preceding 90 calendar days (prorated for an annual period) from leases with tenants in occupancy which comply with the terms of the Loan Agreement less the expenses incurred during such period in connection with the Borrowing Base Properties (prorated for an annual period), all as compiled by Borrower and approved by Lender. In computing the Net Operating Income, revenues and expenses shall be calculated on an accrual basis, each in accordance with generally accepted accounting principals consistently applied.

By way of illustration:

(1) if a Property or Borrowing Base Property owned in fee simple has Net Operating Income of \$1,000,000 for a period of determination, the Ongoing Debt Service Coverage Ratio Value would be \$8,107,699.86, determined as  $(\$1,000,000 / 1.4 / 0.0881) = \$8,107,699.86$ ; and

(2) if a leasehold Property or Borrowing Base Property has Net Operating Income of \$1,000,000 for a period of determination, the Ongoing Debt Service Coverage Ratio Value would be \$6,486,135.88, determined as  $(\$1,000,000 / 1.75 / 0.0881) = \$6,486,135.88$ .

" *Other Loans* " means any loan, financing arrangement or extension of credit from Lender to Borrower, a Permitted Subsidiary, or Guarantor or any subsidiary or affiliate of such parties or which is guaranteed by any such party, other than the Loan. Other Loans shall not include any loan, financing arrangement or extension of credit in which Borrower, a Permitted Subsidiary, or Guarantor or any subsidiary or affiliate of such parties owns the real property collateral therefore directly or indirectly with an unaffiliated joint venture partner or equity partner.

" *Person* " means an individual, a corporation, a partnership, a joint venture, a limited liability company, a trust, an unincorporated association, any Governmental Authority or any other entity.

" *Pledge Documents* " means a Membership Interest Pledge and Security Agreement together with a consent of the applicable Permitted Subsidiary, and an Irrevocable Proxy in form and content acceptable to Lender in its discretion to grant to Lender a security interest in and to 100% of the issued and outstanding membership interests in each Permitted Subsidiary, as the same may from time to time be extended, amended, restated, supplemented or otherwise modified.

" *Property* " means a parcel (or group of related parcels) of real property:

(a) owned in fee by any Borrower,

(b) in which Borrower holds a ground leasehold interest; or

(c) owned in fee by a Permitted Subsidiary as of the date hereof and provided that such property owned by the Permitted Subsidiary is listed on *Schedule 6* hereto.

Property includes all Borrowing Base Properties.

" *Property Management Agreement* " means, collectively, all agreements entered into by Borrower pursuant to which Borrower engages a Person to advise it with respect to the management of a given Property. All Property Management Agreements shall be with a Qualified Manager.

" *Qualified Manager* " means a subsidiary or affiliate of Guarantor or other reputable and experienced owner, operator, developer or manager of Class "A" or "B" self-storage facilities that (1) has at least ten (10) years experience in the ownership, operation, development or management of Class "A" or "B" self-storage facilities, and (2) is the owner, operator, developer or manager of self-storage facilities containing, in the aggregate, not less than 2,000,000 rentable square feet.

" *Rents* " means all of the rents, royalties, issues, profits, revenues, earnings, income and other benefits of the Property or any part thereof, or arising from the use or enjoyment of the Property or any part thereof, including all such amounts paid under or arising from any of the Leases and all fees, charges, accounts or other payments for the use or occupancy of rooms or other public facilities within the Property or any part thereof.

" *Security Instrument* " means any Deed of Trust, Assignment of Rents, Security Agreement, and Financing Statement, any Mortgage, Assignment of Rents, Security Agreement, and Financing Statement, Assignment of Rents, Security Agreement, and Financing Statement, any Deed to Secure Debt, or other mortgage, deed of trust or similar real property security document executed by Borrower or a Permitted Subsidiary for the benefit of Lender, any assignments of Property Management Agreements, and any other security agreements, financing statements or other document or instrument or agreement creating, evidencing or perfecting Lender's Liens in any of the Collateral.

" *State* " means the State of Utah.

" *Survey* " means a map or plat of survey of the Property which conforms with Lender's survey requirements set forth in the Closing Checklist and with the "Minimum Standard Detail Requirements for ALTA/ACSM Land Title Surveys" jointly established and adopted by ALTA, ACSM and NSPS in 2005, and pursuant to Accuracy Standards as adopted by ALTA, ACSM and NSPS and in effect on the date when the Survey is certified to Lender in the form specified in the Closing Checklist.

" *Swap Contract* " means any agreement, whether or not in writing, relating to any Swap Transaction, including, unless the context otherwise clearly requires, any form of master agreement (the " *Master Agreement* ") published by the International Swaps and Derivatives Association, Inc., or any other master agreement, entered into between Swap Counterparty and Borrower (or its affiliate) in connection with the Loan, together with any related schedule and confirmation, as amended,

supplemented, superseded or replaced from time to time, relating to or governing any Swap Transaction.

" *Swap Counterparty* " means Lender or an affiliate of Lender, in its capacity as counterparty under any Swap Contract.

" *Swap Transaction* " means any transaction that is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap or option, bond, note or bill option, interest rate option, forward foreign exchange transaction, cap, collar or floor transaction, currency swap, cross-currency rate swap, swap option, currency option or any other similar transaction (including any option to enter into the foregoing) or any combination of the foregoing, entered into between Swap Counterparty and Borrower (or its affiliate) in connection with the Loan.

" *Taxes* " means all taxes and assessments whether general or special, ordinary or extraordinary, or foreseen or unforeseen, which at any time may be assessed, levied, confirmed or imposed by any Governmental Authority or any communities facilities or other private district on Borrower or on any of its properties or assets or any part thereof or in respect of any of its franchises, businesses, income or profits.

**Schedule 2**  
**Form of Draw Request**

[BORROWER'S LETTERHEAD]

DRAW REQUEST NO.

TO: BANK OF AMERICA, N.A. (" Lender ")

LOAN NO.

\_\_\_\_\_

PROJECT

\_\_\_\_\_

LOCATION

\_\_\_\_\_

BORROWER

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

FOR PERIOD ENDING

\_\_\_\_\_

In accordance with the Revolving Line of Credit Agreement in the maximum principal amount of up to \$50,000,000.00 dated February \_\_\_\_\_, 2009, between Borrower and Lender, as amended and modified from time to time, Borrower requests that \$ \_\_\_\_\_ be advanced from Loan proceeds. The proceeds should be credited to the account of \_\_\_\_\_, Account No. \_\_\_\_\_, at \_\_\_\_\_.

TOTAL DRAW REQUEST \$ \_\_\_\_\_

CURRENT BORROWING BASE \$ \_\_\_\_\_

CURRENT MAXIMUM AVAILABILITY \$ \_\_\_\_\_

**[\*\*\* Optional language to appoint a new Authorized Signer for draw requests: \*\*\*]**

\_\_\_\_\_ is hereby designated and authorized to sign future draw requests on behalf of Borrower in connection with the Loan. Lender shall be entitled to rely on draw requests given by such Person(s) until this authorization is revoked by Borrower in writing.

AUTHORIZED SIGNER:

\_\_\_\_\_ Dated: \_\_\_\_\_

\_\_\_\_\_

**Schedule 3**  
**Leasing and Tenant Matters**

1. *Representations and Warranties of Borrower Regarding Leases.*

Borrower represents and warrants that Borrower has delivered to Lender Borrower's standard form of self-storage tenant lease. Lender acknowledges approval of Borrower's standard form self-storage tenant lease.

2. *Covenants of Borrower Regarding Leases and Rents.*

Borrower covenants that Borrower (a) may administer, enforce, modify and terminate self-storage space leases, residential leases, manager apartment leases, and Leases for non self-storage space in the Improvements provided that such Leases are for less than 1,500 net rentable square feet or are for a term of less than 5 years (including cell tower leases, billboard leases, and retail, office and general commercial leases, if any) in the ordinary course of Borrower's business; (b) will use its commercially reasonable efforts to enforce or secure, or cause to be enforced or secured, the performance of each and every obligation and undertaking of the respective tenants under the Leases and will appear in and defend, at Borrower's sole cost and expense, any action or proceeding arising under, or in any manner connected with, the Leases; (c) will not collect any of the Rents in advance of the time when the same become due provided that aggregate prepaid rents collected from the Property for more than one month in advance does not exceed 1/6<sup>th</sup> of Net Operating Income for the most recent 12 month period; (d) will not discount any future accruing Rents except in the ordinary course of business; (e) without the prior written consent of Lender, will not execute any assignment of the Leases or the Rents; (f) except for Leases described in subsection (a) above, Borrower will not modify the rent, the term, the demised premises or the common area maintenance charges under any of the Leases, (g) will not add or modify any option or right of first refusal to purchase all or any portion of the Property or any present or future interest therein, or surrender, cancel or terminate any Lease (other than Leases described in subsection (a) above, without the prior written consent of Lender; and (h) will execute and deliver, at the request of Lender, all such assignments of the Leases and Rents in favor of Lender as Lender may from time to time require.

Notwithstanding anything to the contrary set forth above or contained in the Loan Documents, the following activities in connection with the Improvements, Property and the Borrower are expressly permitted without further consent of the Lender:

(a) *Self-Storage Leases* . Self storage leases (including outdoor, vehicle and RV parking space leases) may be made, administered, enforced, modified, or terminated in the ordinary course of the Borrower's business, on Borrower's standard lease form, as amended from time to time.

(b) *Non Self-Storage Leases* . Non self-storage leases (for cell/tower communication purposes, billboard/advertising purposes, retail/office/general commercial purposes) may be made, administered, enforced, modified, or terminated, in the ordinary course of the Borrower's business; provided each such leases if for less than 1,500 rentable square feet, or for a term of less than five (5) years.

(c) *Residential Leases* . Residential leases or occupancies of the manager's apartment (if any) which is located on the Property may be made, administered, enforced, modified, or terminated, in the ordinary course of the Borrower's business.

3. *Leasing Guidelines.*

Borrower shall not enter into any Lease of self-storage space in the Improvements except in the ordinary course of Borrower's self-storage business and only upon Borrower's standard form of tenant lease. Any material revisions thereto, must have the prior written approval of Lender.

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4. *Delivery of Leasing Information and Documents.*

From time to time upon Lender's request, Borrower shall promptly deliver to Lender (a) complete executed copies of each Lease (except self-storage leases), including any exhibits thereto and any guaranty(ies) thereof, (b) a complete rent roll of the Property in such detail as Lender may require, together with such operating statements and leasing schedules and reports as Lender may require, (c) any and all financial statements of the tenants, subtenants and any lease guarantors to the extent available to Borrower, and/or (d) such other information regarding tenants and prospective tenants and other leasing information as Lender may request.

**Schedule 4**  
**Tax and Insurance Reserve Deposits**

1. If required by Lender, on each monthly payment date under the Note, Borrower shall pay to Lender one-twelfth (1/12<sup>th</sup>) of the amount estimated by Lender to pay all installments of Taxes levied against the Property and all insurance premiums for insurance required to be maintained by Borrower under the Loan Documents, in each case coming due during the upcoming twelve (12) month period. Required payments hereunder shall be added together with the regular payments under the Note and with any other sums required under the Loan Documents, all of which shall be paid monthly as an aggregate sum by Borrower to Lender until the Obligations are paid and performed in full. Unless otherwise required by applicable Law, funds paid by Borrower hereunder shall not be or be deemed to be escrow or trust funds. At Lender's option, such funds may be held in an individual account, consolidated with other like accounts, or commingled with the general funds of Lender. Such funds shall be held in an interest-bearing account in the name of Lender and all interest shall be credited to Borrower. Borrower agrees that it shall include all interest and earnings on such funds paid to or deposited with Lender as its income (and, if Borrower is a partnership or other pass-through entity, the income of its partners, members or beneficiaries, as the case may be), and shall be the owner of all such funds for federal and applicable state and local tax purposes.

2. Provided no Default then exists, Lender shall pay for the account of Borrower, to the extent funds paid to Lender hereunder are sufficient for such purposes, prior to the delinquency date for such expense, real property Taxes and insurance premiums for which Borrower has provided invoices to Lender in advance. In its sole and absolute discretion, Lender may retain a third party tax lien service to obtain tax certificates or other evidence or estimates of Taxes due or to become due and Borrower shall promptly reimburse Lender for the cost of retaining any such service. Any unpaid reimbursements for any tax lien service will be added to the Obligations. Borrower shall ensure Lender's receipt, at least thirty (30) days prior to the respective due date for payment, of all bills, invoices and statements for all Taxes and insurance premiums to be paid. Lender shall not be responsible for the payment of any invoice if Borrower has not paid to Lender sufficient funds for such item under this *Schedule 4*, even if the shortfall results from Lender's failure to adequately estimate and collect sufficient funds to satisfy such charges. In making any payment for Taxes or insurance hereunder, Lender shall be entitled to rely on any tax lien service or any bill, statement or estimate procured from the appropriate public office or insurance company or agent without any inquiry into the accuracy, validity, enforceability or contestability of any Taxes, valuation, sale, forfeiture, tax lien or title or claim thereof.

3. Borrower grants to Lender a security interest in all funds paid to or deposited with Lender hereunder, and any proceeds thereof, as security for the Obligations. Such security interest shall be governed by the Uniform Commercial Code of the State, and Lender shall have available to it all of the rights and remedies available to a secured party thereunder. Borrower shall have no right to unilaterally demand payment of or to withdraw funds deposited with Lender hereunder except as expressly permitted hereby. Upon the occurrence of an Event of Default, Borrower agrees that Lender may apply any funds paid to or deposited with Lender hereunder to cure the default.

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**Schedule 5**  
**Swap Contracts**

1. *Swap Documentation* . Within the timeframes required by Lender and Swap Counterparty, Borrower shall deliver to Swap Counterparty the following documents and other items, executed and acknowledged as appropriate, all in form and substance satisfactory to Lender and Swap Counterparty: (a) Master Agreement in the form published by the International Swaps and Derivatives Association, Inc. and related schedule in the form agreed upon between Borrower (or its affiliate) and Swap Counterparty; (b) a confirmation under the foregoing; (c) the Guaranty; (d) if Borrower (or its affiliate) is anything other than a natural person, evidence of due authorization to enter into transactions under the foregoing Swap Contract with Swap Counterparty, together with evidence of due authorization and execution of any Swap Contract; and such other title endorsements, documents, instruments and agreements as Lender and Swap Counterparty may require to evidence satisfaction of the conditions set forth in this *Section 1 of Schedule 7* , including a swap endorsement to Lender's title policy in form and substance satisfactory to Lender.

2. *Conveyance and Security Interest* . To secure Borrower's Obligations, Borrower hereby transfers, assigns and transfers to Lender, and grants to Lender a security interest in, all of Borrower's right, title and interest, but not its obligations, duties or liabilities for any breach, in, under and to the Swap Contract, any and all amounts received by Borrower in connection therewith or to which Borrower is entitled thereunder, and all proceeds of the foregoing. All amounts payable to Borrower under the Swap Contract shall be paid to Lender and shall be applied to pay interest or other amounts under the Loan.

3. *Interest Reserve* . [Intentionally Omitted]

4. *Cross-Default* . It shall be an Event of Default under this Agreement if any Event of Default occurs as defined under any Swap Contract as to which Borrower is the Defaulting Party, or if any Termination Event occurs under any Swap Contract as to which Borrower is an Affected Party. As used in this Section, the terms "*Defaulting Party* ," "*Termination Event* " and "*Affected Party* " have the meanings ascribed to them in the Swap Contract.

5. *Remedies; Cure Rights* . In addition to any and all other remedies to which Lender and Swap Counterparty are entitled at law or in equity, Swap Counterparty shall have the right, to the extent so provided in any Swap Contract or any Master Agreement relating thereto, (a) to declare an event of default, termination event or other similar event thereunder and to designate an Early Termination Date as defined under the Master Agreement, and (b) to determine net termination amounts in accordance with the Swap Contract and to setoff amounts between Swap Contracts. Lender shall have the right at any time (but shall have no obligation) to take in its name or in the name of Borrower (or its affiliate) such action as Lender may at any time determine to be necessary or advisable to cure any default under any Swap Contract or to protect the rights of Borrower (or its affiliate) or Swap Counterparty thereunder; provided, however, that before the occurrence of an Event of Default under this Agreement, Lender shall give prior written notice to Borrower before taking any such action. For this purpose, Borrower hereby constitutes Lender its true and lawful attorney-in-fact with full power of substitution, which power of attorney is coupled with an interest and irrevocable, to exercise, at the election of Lender, any and all rights and remedies of Borrower (or its affiliate) under the Swap Contract, including making any payments thereunder and consummating any transactions contemplated thereby, and to take any action that Lender may deem proper in order to collect, assert or enforce any claim, right or title, in and to the Swap Contract hereby assigned and conveyed, and generally to take any and all such action in relation thereto as Lender shall deem advisable. Lender shall not incur any liability if any action so taken by Lender or on its behalf shall prove to be inadequate or invalid. Borrower expressly understands and agrees that Lender is not hereby assuming any duties or obligations of Borrower (or its affiliate) to make payments to Swap Counterparty under any Swap Contract or under any other Loan Document. Such payment duties and obligations remain the responsibility of Borrower (or its affiliate) notwithstanding any language in this Agreement.

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6. *Automatic Deduction and Credit.*

(a) At all times when any Swap Contract is in effect, Borrower shall maintain the Checking Account in good standing with Lender. Borrower hereby grants to Lender and Swap Counterparty a security interest in the Checking Account, and any other accounts and deposit accounts from which Borrower may from time to time authorize Lender to debit payments due on the Loan and the Swap Contracts. Borrower is granting this security interest to Lender and Swap Counterparty for the purpose of securing the Obligations.

(b) At all times when any Swap Contract is in effect, all monthly payments owed by Borrower under the Note will be automatically deducted on their due dates from the Checking Account. Lender is hereby authorized to apply the amounts so debited to Borrower's obligations under the Loan. Notwithstanding the foregoing, Lender will not automatically deduct the principal payment at maturity from the Checking Account.

(c) At all times when any Swap Contract is in effect, all payments owed by Borrower (or its Affiliate) under any Swap Contract will be automatically deducted on their due dates from the Checking Account. The preceding sentence includes Borrower's authorization for Lender to debit from the Checking Account any monetary obligation owed by Borrower (or its Affiliate) to Swap Counterparty following any Early Termination Date, as defined under the Master Agreement. Swap Counterparty is hereby authorized to apply the amounts so debited to the obligations of Borrower (or its Affiliate) under the applicable Swap Contract.

(d) Lender will debit the Checking Account on the dates the foregoing payments become due; provided, however, that if a due date does not fall on a Banking Day, Lender will debit the Checking Account on the first Banking Day following such due date.

(e) Borrower shall maintain sufficient funds on the dates when Lender enters debits authorized by this Agreement. If there are insufficient funds in the Checking Account on any date when Lender enters any debit authorized by this Agreement, without limiting Lender's other remedies in such an event, the debit will be reversed in whole or in part, in Lender's sole and absolute discretion, and such amount not debited shall be deemed to be unpaid and shall be immediately due and payable in accordance with the terms of the Note and/or the Swap Contract, as applicable.

(f) So long as there is no Event of Default existing under this Agreement or any Swap Contract, Lender will automatically credit the Checking Account for payments owed by Swap Counterparty under the Swap Contract. Lender will credit the Checking Account on the dates the foregoing payments become due; provided, however, that if a due date does not fall on a Banking Day, Lender will credit the Checking Account on the first Banking Day following such due date.

*Schedule 6*  
*Borrowing Base Properties*

**1. Phoenix, Arizona Property (ES Property # 0659)**

Property located in Maricopa County, Arizona and legally described as:

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## **2. Sugar Hill, Georgia Property #1 (ES Property # 0745)**

Property located in Gwinnett County, Georgia and legally described as:

**3. Sugar Hill, Georgia Property #2 (ES Property # 0754)**

Property located in Gwinnett County, Georgia and legally described as:

#### **4. Ashland, Massachusetts Property (ES Property # 1028)**

Property located in Middlesex County, Massachusetts and legally described as:

**5. Culver City, California Property (ES Property # 1160)**

Property located in Los Angeles County, California and legally described as:

**6. Dedham, Massachusetts Property (ES Property # 1205)**

Property located in Norfolk County, Massachusetts and legally described as:

**7. Kahului, Hawaii Property (ES Property # 1375)**

Property located in Maui County, Hawaii and legally described as:

**8. San Antonio, Texas Property (ES Property # 1387)**

Property located in Bexar County, Texas and legally described as:

**9. Indianapolis, Indiana Property (ES Property # 1395)**

Property located in Marion County, Indiana and legally described as:

**10. North Bergen, New Jersey Property (ES Property # 1089)  
(Property Owned by Extra Space of North Bergen LLC)**

Property located in Hudson County, New Jersey and legally described as:

**11. Bensalem, Pennsylvania Property (ES Property # 1354)  
(Property Owned by Extra Space of Knights Road LLC)**

Property located in Bucks County, Pennsylvania and legally described as:

*Schedule 7*  
*Borrowing Base Certificate*

**See Attached**

## BORROWING BASE CERTIFICATE

TO: Bank of America, N.A.  
Real Estate Banking  
NV1-119-04-08  
300 S. Fourth Street, 4<sup>th</sup> Floor,  
Las Vegas, NV 89101  
Attention: L. Kelly Peterson  
Fax Number: 702-654-7175

**EXTRA SPACE PROPERTIES THIRTY LLC**, a Delaware limited liability company ("*Borrower*"), makes this certification under that certain Revolving Line of Credit Agreement, dated February , 2009 ("*Loan Agreement*"), by and between Borrower and **BANK OF AMERICA, N.A.**, a national banking association, and its successors, participants and assigns ("*Lender*").

The undersigned hereby provides this quarterly Borrowing Base Certificate to Lender pursuant to **Section 7.8(e)** of the Loan Agreement, and certifies to Lender that the following information is true and correct and that all accounting information is derived from the accounting records of Borrower, that such records have been maintained in a consistent manner in accordance with sound accounting practices from quarter to quarter (all capitalized terms used herein shall have the meanings given to such terms in the Loan Agreement):

1. Attached hereto is a schedule showing the calculation of the Adjusted (LTV) Appraised Value for each Borrowing Base Property. To the best of Borrower's knowledge, no condition or event has occurred which would materially adversely affect the Adjusted (LTV) Appraised Value as set forth on such schedule.
2. Attached hereto is a schedule showing the calculation of the 1.40 Debt Service Coverage Ratio Value for each Borrowing Base Property. To the best of Borrower's knowledge, no condition or event has occurred which would materially adversely affect the 1.40 Debt Service Coverage Ratio Value as set forth on such schedule.
3. Based on the lesser of (a) the Adjusted (LTV) Appraised Value and (b) the 1.40 Debt Service Coverage Ratio Value for each Borrowing Base Property as set forth in the schedules hereto, the Borrowing Base as of the end of the immediately preceding calendar quarter is \$ and the Maximum Availability as of the end of the immediately preceding calendar quarter is \$ .
4. Except as set forth in a schedule attached hereto, each Borrowing Base Property is an Eligible Property.
5. No Default or Event of Default has occurred since the last Borrowing Base Certificate submitted by Borrower to Lender. Borrower and each Borrowing Base Property is in material compliance with all representations, warranties and covenants contained in the Loan Documents.
6. Attached hereto is a schedule showing the calculation of the Net Worth of Guarantor as defined in and contemplated by *Section 4* of Guarantor's Guaranty. Borrower confirms that the Guarantor is in full compliance with the financial covenants contained in *Section 4* of the Guaranty. As of the date hereof, Guarantor's Net Worth is \$ .

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Date of Borrowing Base Calculation:

,

**BORROWER:**

**EXTRA SPACE PROPERTIES THIRTY LLC**

a Delaware limited liability company

By: \_\_\_\_\_

Name: Kent W. Christensen

Title: Manager

## QuickLinks

### Exhibit 10.34

Revolving Line of Credit Agreement

EXTRA SPACE PROPERTIES THIRTY LLC a Delaware limited liability company

BANK OF AMERICA, N.A. a national banking association,

Revolving Line of Credit Agreement (Borrowing Base Revolving Line of Credit)

Recitals

ARTICLE 1

ARTICLE 2

ARTICLE 3

ARTICLE 4

ARTICLE 5

ARTICLE 6

ARTICLE 7

ARTICLE 8

ARTICLE 9

ARTICLE 10

ARTICLE 11

Schedule 1 Definitions

Schedule 2 Form of Draw Request

Schedule 3 Leasing and Tenant Matters

Schedule 4 Tax and Insurance Reserve Deposits

Schedule 5 Swap Contracts

Schedule 6 Borrowing Base Properties

1. Phoenix, Arizona Property (ES Property # 0659)

2. Sugar Hill, Georgia Property #1 (ES Property # 0745)

3. Sugar Hill, Georgia Property #2 (ES Property # 0754)

4. Ashland, Massachusetts Property (ES Property # 1028)

5. Culver City, California Property (ES Property # 1160)

6. Dedham, Massachusetts Property (ES Property # 1205)

7. Kahului, Hawaii Property (ES Property # 1375)

8. San Antonio, Texas Property (ES Property # 1387)

9. Indianapolis, Indiana Property (ES Property # 1395)

10. North Bergen, New Jersey Property (ES Property # 1089) (Property Owned by Extra Space of North Bergen LLC)

11. Bensalem, Pennsylvania Property (ES Property # 1354) (Property Owned by Extra Space of Knights Road LLC)

Schedule 7 Borrowing Base Certificate

See Attached

BORROWING BASE CERTIFICATE

| <u>Name</u>            | <u>Jurisdiction of Formation/Incorporation</u> |
|------------------------|------------------------------------------------|
| Extra Space Storage LP | Delaware                                       |

The list above excludes consolidated wholly-owned subsidiaries carrying on the same line of business (the ownership and operation of commercial real estate). The list also excludes other subsidiaries which, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary as of December 31, 2008. A total of 201 subsidiaries have been excluded, each of which operates in the United States [other than one subsidiary which operates in Bermuda].

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**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the:

Registration Statement (Form S-8 No. 333-126742) pertaining to the 2004 Non-Employee Directors' Share Plan and 2004 Long Term Incentive Compensation Plan of Extra Space Storage, Inc., and

Registration Statements and related prospectus' (Forms S-3: No. 333-128504, 333-128970, 333-128988, 333-13407, 33-142816, 333-153081 and 333-153082) of Extra Space Storage, Inc.

of our reports dated February 24, 2009, with respect to the consolidated financial statements and schedule of Extra Space Storage, Inc., and the effectiveness of internal control over financial reporting of Extra Space Storage, Inc., included in this Annual Report (Form 10-K) for the year ended December 31, 2008.

/s/ Ernst & Young LLP

Salt Lake City, Utah  
February 24, 2009

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QuickLinks

[Consent of Independent Registered Public Accounting Firm](#)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Kenneth M. Woolley, certify that:

- 1) I have reviewed this annual report on Form 10-K of Extra Space Storage Inc.;
- 2) Based on my knowledge, this annual 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 officer 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 officer 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.

Date: February 27, 2009

By: /s/ KENNETH M. WOOLLEY

Name: Kenneth M. Woolley

Title: *Chairman of the Board and Chief Executive Office*

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**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Kent W. Christensen, certify that:

- 1) I have reviewed this annual report on Form 10-K of Extra Space Storage Inc.;
- 2) Based on my knowledge, this annual 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 officer 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 officer 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.

Date: February 27, 2009

By: /s/ KENT W. CHRISTENSEN

Name: Kent W. Christensen

Title: *Executive Vice President and Chief Financial Officer*

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**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Kenneth M. Woolley, Chief Executive Officer of Extra Space Storage Inc. (the "Company"), hereby certify as of the date hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of the Company on Form 10-K for the year ended December 31, 2008 (the "Form 10-K") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ KENNETH M. WOOLLEY

Name: Kenneth M. Woolley

Dated: February 27, 2009

Title: *Chairman of the Board and Chief Executive Officer*

I, Kent W. Christensen, the Chief Financial Officer of the Company, hereby certify as of the date hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of the Company on Form 10-K for the year ended December 31, 2008 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in the Form 10-K fairly presents in all material respects the financial condition and results of operations of the Company.

By: /s/ KENT W. CHRISTENSEN

Name: Kent W. Christensen

Dated: February 27, 2009

Title: *Executive Vice President and Chief Financial Officer*

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[CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002](#)