

CubeSmart  
Form 10-Q  
October 28, 2016  
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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FORM 10-Q

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December 30, 2016  
(Mark one)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2016.

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to .

Commission file number:  
001-32324 (CubeSmart)  
000-54462 (CubeSmart, L.P.)

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CUBESMART

CUBESMART, L.P.

(Exact Name of Registrant as Specified in its Charter)

|                                                                   |                                         |
|-------------------------------------------------------------------|-----------------------------------------|
| Maryland (CubeSmart)                                              | 20-1024732                              |
| Delaware (CubeSmart, L.P.)                                        | 34-1837021                              |
| (State or Other Jurisdiction of<br>Incorporation or Organization) | (I.R.S. Employer<br>Identification No.) |
|                                                                   |                                         |
| 5 Old Lancaster Road                                              |                                         |
| Malvern, Pennsylvania                                             | 19355                                   |
| (Address of Principal Executive Offices)                          | (Zip Code)                              |

(610) 535-5000

(Registrant's Telephone Number, Including Area Code)

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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.

|                 |     |    |
|-----------------|-----|----|
| CubeSmart       | Yes | No |
| CubeSmart, L.P. | Yes | No |

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

|                 |     |    |
|-----------------|-----|----|
| CubeSmart       | Yes | No |
| CubeSmart, L.P. | Yes | No |

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

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CubeSmart:

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

CubeSmart, L.P.:

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

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

CubeSmart      Yes   No

CubeSmart, L.P.   Yes   No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

| Class                                                   | Outstanding at October 26, 2016 |
|---------------------------------------------------------|---------------------------------|
| Common shares, \$0.01 par value per share, of CubeSmart | 180,038,120                     |

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended September 30, 2016 of CubeSmart (the “Parent Company” or “CubeSmart”) and CubeSmart, L.P. (the “Operating Partnership”). The Parent Company is a Maryland real estate investment trust, or REIT, that owns its assets and conducts its operations through the Operating Partnership, a Delaware limited partnership, and subsidiaries of the Operating Partnership. The Parent Company, the Operating Partnership and their consolidated subsidiaries are collectively referred to in this report as the “Company”. In addition, terms such as “we”, “us”, or “our” used in this report may refer to the Company, the Parent Company or the Operating Partnership.

The Parent Company is the sole general partner of the Operating Partnership and, as of September 30, 2016, owned a 98.8% interest in the Operating Partnership. The remaining 1.2% interest consists of common units of limited partnership interest issued by the Operating Partnership to third parties in exchange for contributions of facilities to the Operating Partnership. As the sole general partner of the Operating Partnership, the Parent Company has full and complete authority over the Operating Partnership’s day-to-day operations and management.

Management operates the Parent Company and the Operating Partnership as one enterprise. The management teams of the Parent Company and the Operating Partnership are identical, and their constituents are officers of both the Parent Company and of the Operating Partnership.

There are few differences between the Parent Company and the Operating Partnership, which are reflected in the note disclosures in this report. The Company believes it is important to understand the differences between the Parent Company and the Operating Partnership in the context of how these entities operate as a consolidated enterprise. The Parent Company is a REIT, whose only material asset is its ownership of the partnership interests of the Operating Partnership. As a result, the Parent Company does not conduct business itself, other than acting as the sole general partner of the Operating Partnership, issuing public equity from time to time and guaranteeing the debt obligations of the Operating Partnership. The Operating Partnership holds substantially all the assets of the Company and, directly or indirectly, holds the ownership interests in the Company’s real estate ventures. The Operating Partnership conducts the operations of the Company’s business and is structured as a partnership with no publicly traded equity. Except for net proceeds from equity issuances by the Parent Company, which are contributed to the Operating Partnership in exchange for partnership units, the Operating Partnership generates the capital required by the Company’s business through the Operating Partnership’s operations, by the Operating Partnership’s direct or indirect incurrence of indebtedness or through the issuance of partnership units of the Operating Partnership or equity interests in subsidiaries of the Operating Partnership.

The substantive difference between the Parent Company’s and the Operating Partnership’s filings is the fact that the Parent Company is a REIT with public equity, while the Operating Partnership is a partnership with no publicly traded equity. In the financial statements, this difference is primarily reflected in the equity (or capital for the Operating Partnership) section of the consolidated balance sheets and in the consolidated statements of equity (or capital). Apart

from the different equity treatment, the consolidated financial statements of the Parent Company and the Operating Partnership are nearly identical.

The Company believes that combining the quarterly reports on Form 10-Q of the Parent Company and the Operating Partnership into a single report will:

- facilitate a better understanding by the investors of the Parent Company and the Operating Partnership by enabling them to view the business as a whole in the same manner as management views and operates the business;
- remove duplicative disclosures and provide a more straightforward presentation in light of the fact that a substantial portion of the disclosure applies to both the Parent Company and the Operating Partnership; and
- create time and cost efficiencies through the preparation of one combined report instead of two separate reports.

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In order to highlight the differences between the Parent Company and the Operating Partnership, the separate sections in this report for the Parent Company and the Operating Partnership specifically refer to the Parent Company and the Operating Partnership. In the sections that combine disclosures of the Parent Company and the Operating Partnership, this report refers to such disclosures as those of the Company. Although the Operating Partnership is generally the entity that directly or indirectly enters into contracts and real estate ventures and holds assets and debt, reference to the Company is appropriate because the business is one enterprise and the Parent Company operates the business through the Operating Partnership.

As general partner with control of the Operating Partnership, the Parent Company consolidates the Operating Partnership for financial reporting purposes, and the Parent Company does not have significant assets other than its investment in the Operating Partnership. Therefore, the assets and liabilities of the Parent Company and the Operating Partnership are the same on their respective financial statements. The separate discussions of the Parent Company and the Operating Partnership in this report should be read in conjunction with each other to understand the results of the Company's operations on a consolidated basis and how management operates the Company.

This report also includes separate Item 4 - Controls and Procedures sections, signature pages and Exhibit 31 and 32 certifications for each of the Parent Company and the Operating Partnership in order to establish that the Chief Executive Officer and the Chief Financial Officer of the Parent Company and the Chief Executive Officer and the Chief Financial Officer of the Operating Partnership have made the requisite certifications and that the Parent Company and the Operating Partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350.

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Filing Format

This combined Form 10-Q is being filed separately by CubeSmart and CubeSmart, L.P.

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### Forward-Looking Statements

This Quarterly Report on Form 10-Q, or “this Report”, together with other statements and information publicly disseminated by the Parent Company and the Operating Partnership, contain certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the “Exchange Act.” Forward-looking statements include statements concerning the Company’s 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. Such statements are based on assumptions and expectations that may not be realized and are inherently subject to risks, uncertainties and other factors, many of which cannot be predicted with accuracy and some of which might not even be anticipated. Although we believe the expectations reflected in these forward-looking statements are based on reasonable assumptions, future events and actual results, performance, transactions or achievements, financial and otherwise, may differ materially from the results, performance, transactions or achievements expressed or implied by the forward-looking statements. As a result, you should not rely on or construe any forward-looking statements in this Report, or which management may make orally or in writing from time to time, as predictions of future events or as guarantees of future performance. We caution you not to place undue reliance on forward-looking statements, which speak only as of the date of this Report or as of the dates otherwise indicated in the statements. All of our forward-looking statements, including those in this Report, are qualified in their entirety by this statement.

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 and uncertainties referred to in Item 1A. “Risk Factors” in the Parent Company’s and the Operating Partnership’s combined Annual Report on Form 10-K for the year ended December 31, 2015 and in our other filings with the Securities and Exchange Commission (“SEC”). These risks include, but are not limited to, the following:

- national and local economic, business, real estate and other market conditions;
- the competitive environment in which we operate, including our ability to maintain or raise occupancy and rental rates;
- the execution of our business plan;
- the availability of external sources of capital;
- financing risks, including the risk of over-leverage and the corresponding risk of default on our mortgage and other debt and potential inability to refinance existing indebtedness;



- increases in interest rates and operating costs;
- counterparty non-performance related to the use of derivative financial instruments;
- our ability to maintain our Parent Company's qualification as a real estate investment trust for federal income tax purposes;
- acquisition and development risks;
- increases in taxes, fees, and assessments from state and local jurisdictions;
- risks of investing through joint ventures;
- changes in real estate and zoning laws or regulations;
- risks related to natural disasters;
- potential environmental and other liabilities;
- other factors affecting the real estate industry generally or the self-storage industry in particular; and

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- other risks identified in the Parent Company's and the Operating Partnership's Annual Report on Form 10-K for the year ended December 31, 2015 and, from time to time, in other reports that we file with the SEC or in other documents that we publicly disseminate.

Given these uncertainties and the other risks identified elsewhere in this Report, we caution readers not to place undue reliance on forward-looking statements. We undertake no obligation to publicly update or revise these forward-looking statements, whether as a result of new information, future events or otherwise except as may be required by securities laws. Because of the factors referred to above, the future events discussed in or incorporated by reference in this Report may not occur and actual results, performance or achievement could differ materially from that anticipated or implied in the forward-looking statements.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## CUBESMART AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

|                                                                                                                                                                                 | September 30,<br>2016<br>(unaudited) | December 31,<br>2015 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|----------------------|
| <b>ASSETS</b>                                                                                                                                                                   |                                      |                      |
| Storage facilities                                                                                                                                                              | \$ 3,968,754                         | \$ 3,467,032         |
| Less: Accumulated depreciation                                                                                                                                                  | (685,771)                            | (594,049)            |
| Storage facilities, net (including VIE assets of \$194,167 and \$136,274, respectively)                                                                                         | 3,282,983                            | 2,872,983            |
| Cash and cash equivalents                                                                                                                                                       | 87,379                               | 62,869               |
| Restricted cash                                                                                                                                                                 | 8,052                                | 24,600               |
| Loan procurement costs, net of amortization                                                                                                                                     | 2,313                                | 2,800                |
| Investment in real estate ventures, at equity                                                                                                                                   | 97,405                               | 97,281               |
| Other assets, net                                                                                                                                                               | 41,067                               | 43,631               |
| Total assets                                                                                                                                                                    | \$ 3,519,199                         | \$ 3,104,164         |
| <b>LIABILITIES AND EQUITY</b>                                                                                                                                                   |                                      |                      |
| Unsecured senior notes, net                                                                                                                                                     | \$ 1,038,728                         | \$ 741,904           |
| Revolving credit facility                                                                                                                                                       | —                                    | —                    |
| Unsecured term loans, net                                                                                                                                                       | 398,608                              | 398,183              |
| Mortgage loans and notes payable, net                                                                                                                                           | 115,393                              | 111,455              |
| Accounts payable, accrued expenses and other liabilities                                                                                                                        | 93,854                               | 85,034               |
| Distributions payable                                                                                                                                                           | 39,781                               | 38,685               |
| Deferred revenue                                                                                                                                                                | 20,141                               | 17,519               |
| Security deposits                                                                                                                                                               | 420                                  | 403                  |
| Total liabilities                                                                                                                                                               | 1,706,925                            | 1,393,183            |
| Noncontrolling interests in the Operating Partnership                                                                                                                           | 60,541                               | 66,128               |
| Commitments and contingencies                                                                                                                                                   |                                      |                      |
| Equity                                                                                                                                                                          |                                      |                      |
| 7.75% Series A Preferred shares \$.01 par value, 3,220,000 shares authorized, 3,100,000 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively | 31                                   | 31                   |

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Common shares \$.01 par value, 400,000,000 shares authorized, 179,858,650 and 174,667,870 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively

|                                          |              |              |
|------------------------------------------|--------------|--------------|
|                                          | 1,799        | 1,747        |
| Additional paid-in capital               | 2,381,836    | 2,231,181    |
| Accumulated other comprehensive loss     | (3,247)      | (4,978)      |
| Accumulated deficit                      | (634,248)    | (584,654)    |
| Total CubeSmart shareholders' equity     | 1,746,171    | 1,643,327    |
| Noncontrolling interests in subsidiaries | 5,562        | 1,526        |
| Total equity                             | 1,751,733    | 1,644,853    |
| Total liabilities and equity             | \$ 3,519,199 | \$ 3,104,164 |

See accompanying notes to the unaudited consolidated financial statements.

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## CUBESMART AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

|                                                                   | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|-------------------------------------------------------------------|-------------------------------------|------------|------------------------------------|------------|
|                                                                   | 2016                                | 2015       | 2016                               | 2015       |
| REVENUES                                                          |                                     |            |                                    |            |
| Rental income                                                     | \$ 116,416                          | \$ 102,385 | \$ 332,951                         | \$ 290,744 |
| Other property related income                                     | 13,007                              | 11,827     | 37,413                             | 33,755     |
| Property management fee income                                    | 2,673                               | 1,758      | 7,129                              | 5,030      |
| Total revenues                                                    | 132,096                             | 115,970    | 377,493                            | 329,529    |
| OPERATING EXPENSES                                                |                                     |            |                                    |            |
| Property operating expenses                                       | 41,805                              | 39,297     | 123,631                            | 114,938    |
| Depreciation and amortization                                     | 41,827                              | 38,744     | 122,631                            | 114,725    |
| General and administrative                                        | 8,065                               | 7,002      | 24,184                             | 21,289     |
| Acquisition related costs                                         | 888                                 | 1,222      | 5,793                              | 2,485      |
| Total operating expenses                                          | 92,585                              | 86,265     | 276,239                            | 253,437    |
| OPERATING INCOME                                                  | 39,511                              | 29,705     | 101,254                            | 76,092     |
| OTHER (EXPENSE) INCOME                                            |                                     |            |                                    |            |
| Interest:                                                         |                                     |            |                                    |            |
| Interest expense on loans                                         | (12,787)                            | (10,399)   | (37,071)                           | (32,324)   |
| Loan procurement amortization expense                             | (655)                               | (537)      | (1,871)                            | (1,742)    |
| Equity in (losses) earnings of real estate ventures               | (581)                               | 139        | (1,817)                            | (199)      |
| Other                                                             | (397)                               | (288)      | 834                                | (812)      |
| Total other expense                                               | (14,420)                            | (11,085)   | (39,925)                           | (35,077)   |
| NET INCOME                                                        | 25,091                              | 18,620     | 61,329                             | 41,015     |
| NET (INCOME) LOSS ATTRIBUTABLE TO<br>NONCONTROLLING INTERESTS     |                                     |            |                                    |            |
| Noncontrolling interests in the Operating Partnership             | (283)                               | (223)      | (682)                              | (475)      |
| Noncontrolling interest in subsidiaries                           | 76                                  | 41         | 411                                | 56         |
| NET INCOME ATTRIBUTABLE TO THE COMPANY                            | 24,884                              | 18,438     | 61,058                             | 40,596     |
| Distribution to preferred shareholders                            | (1,502)                             | (1,502)    | (4,506)                            | (4,506)    |
| NET INCOME ATTRIBUTABLE TO THE COMPANY'S<br>COMMON SHAREHOLDERS   | \$ 23,382                           | \$ 16,936  | \$ 56,552                          | \$ 36,090  |
| Basic earnings per share attributable to common<br>shareholders   | \$ 0.13                             | \$ 0.10    | \$ 0.32                            | \$ 0.22    |
| Diluted earnings per share attributable to common<br>shareholders | \$ 0.13                             | \$ 0.10    | \$ 0.32                            | \$ 0.21    |

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|                                             |         |         |         |         |
|---------------------------------------------|---------|---------|---------|---------|
| Weighted-average basic shares outstanding   | 179,223 | 169,304 | 177,639 | 167,177 |
| Weighted-average diluted shares outstanding | 180,478 | 170,901 | 178,937 | 168,705 |

See accompanying notes to the unaudited consolidated financial statements.

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## CUBESMART AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(unaudited)

|                                                                                            | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |           |
|--------------------------------------------------------------------------------------------|-------------------------------------|----------|------------------------------------|-----------|
|                                                                                            | 2016                                | 2015     | 2016                               | 2015      |
| NET INCOME                                                                                 | \$ 25,091                           | \$18,620 | \$ 61,329                          | \$ 41,015 |
| Other comprehensive income (loss):                                                         |                                     |          |                                    |           |
| Unrealized gains (losses) on interest rate swaps                                           | 458                                 | (1,821)  | (1,777)                            | (4,507)   |
| Reclassification of realized losses on interest rate swaps                                 | 935                                 | 1,576    | 3,529                              | 4,713     |
| Unrealized loss on foreign currency translation                                            | —                                   | (215)    | —                                  | (284)     |
| OTHER COMPREHENSIVE INCOME (LOSS)                                                          | 1,393                               | (460)    | 1,752                              | (78)      |
| COMPREHENSIVE INCOME                                                                       | 26,484                              | 18,160   | 63,081                             | 40,937    |
| Comprehensive income attributable to noncontrolling interests in the Operating Partnership | (300)                               | (217)    | (703)                              | (473)     |
| Comprehensive loss attributable to noncontrolling interest in subsidiaries                 | 76                                  | 49       | 411                                | 67        |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO THE COMPANY                                           | \$ 26,260                           | \$17,992 | \$ 62,789                          | \$ 40,531 |

See accompanying notes to the unaudited consolidated financial statements.

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## CUBESMART AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF EQUITY

(in thousands)

(unaudited)

| Common Shares<br>Number | Shares<br>Amount | Preferred Shares<br>Number | Shares<br>Amount | Additional<br>Paid in<br>Capital | Accumulated<br>Comprehensive<br>(Loss) Income | Other<br>Accumulated<br>Deficit | Total<br>Shareholders'<br>Equity | Noncontrolling<br>Interest in<br>Subsidiaries | Total<br>Equity |
|-------------------------|------------------|----------------------------|------------------|----------------------------------|-----------------------------------------------|---------------------------------|----------------------------------|-----------------------------------------------|-----------------|
| 174,668                 | \$ 1,747         | 3,100                      | \$ 31            | \$ 2,231,181                     | \$ (4,978)                                    | \$ (584,654)                    | \$ 1,643,327                     | \$ 1,526                                      | \$ 1,644,853    |
|                         |                  |                            |                  |                                  |                                               |                                 |                                  | 4,447                                         | 4,447           |
| 4,408                   | 44               |                            |                  | 136,106                          |                                               |                                 | 136,150                          |                                               | 136,150         |
| 123                     | 1                |                            |                  |                                  |                                               |                                 | 1                                |                                               | 1               |
| 660                     | 7                |                            |                  | 12,566                           |                                               |                                 | 12,573                           |                                               | 12,573          |
|                         |                  |                            |                  | 1,041                            |                                               |                                 | 1,041                            |                                               | 1,041           |
|                         |                  |                            |                  | 942                              |                                               |                                 | 942                              |                                               | 942             |
|                         |                  |                            |                  |                                  |                                               | 6,404                           | 6,404                            |                                               | 6,404           |
|                         |                  |                            |                  |                                  |                                               | 61,058                          | 61,058                           | (411)                                         | 60,647          |
|                         |                  |                            |                  |                                  | 1,731                                         |                                 | 1,731                            |                                               | 1,731           |
|                         |                  |                            |                  |                                  |                                               | (4,506)                         | (4,506)                          |                                               | (4,506)         |
|                         |                  |                            |                  |                                  |                                               | (112,550)                       | (112,550)                        |                                               | (112,550)       |
| 179,859                 | \$ 1,799         | 3,100                      | \$ 31            | \$ 2,381,836                     | \$ (3,247)                                    | \$ (634,248)                    | \$ 1,746,171                     | \$ 5,562                                      | \$ 1,751,733    |



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| Common Shares<br>Number | Common Shares<br>Amount | Preferred Shares<br>Number | Preferred Shares<br>Amount | Additional<br>Paid in<br>Capital | Accumulated<br>Comprehensive<br>Loss | Other<br>Accumulated<br>Deficit | Total<br>Shareholders'<br>Equity | Noncontrolling<br>Interest in<br>Subsidiaries | Total<br>Equity |
|-------------------------|-------------------------|----------------------------|----------------------------|----------------------------------|--------------------------------------|---------------------------------|----------------------------------|-----------------------------------------------|-----------------|
| 163,957                 | \$ 1,639                | 3,100                      | \$ 31                      | \$ 1,974,308                     | \$ (8,759)                           | \$ (519,193)                    | \$ 1,448,026                     | \$ 1,592                                      | \$ 1,449,618    |
|                         |                         |                            |                            |                                  |                                      |                                 |                                  | 178                                           | 178             |
| 5,515                   | 56                      |                            |                            | 136,606                          |                                      |                                 | 136,662                          |                                               | 136,662         |
| 161                     | 1                       |                            |                            |                                  |                                      |                                 | 1                                |                                               | 1               |
| 66                      | 1                       |                            |                            | 1,704                            |                                      |                                 | 1,705                            |                                               | 1,705           |
| 1,228                   | 12                      |                            |                            | 13,384                           |                                      |                                 | 13,396                           |                                               | 13,396          |
|                         |                         |                            |                            | 509                              |                                      |                                 | 509                              |                                               | 509             |
|                         |                         |                            |                            | 741                              |                                      |                                 | 741                              |                                               | 741             |
|                         |                         |                            |                            |                                  |                                      | (12,166)                        | (12,166)                         |                                               | (12,166)        |
|                         |                         |                            |                            |                                  |                                      | 40,596                          | 40,596                           | (56)                                          | 40,540          |
|                         |                         |                            |                            |                                  | (65)                                 |                                 | (65)                             | (11)                                          | (76)            |
|                         |                         |                            |                            |                                  |                                      | (4,506)                         | (4,506)                          |                                               | (4,506)         |
|                         |                         |                            |                            |                                  |                                      | (80,817)                        | (80,817)                         |                                               | (80,817)        |
| 170,927                 | \$ 1,709                | 3,100                      | \$ 31                      | \$ 2,127,252                     | \$ (8,824)                           | \$ (576,086)                    | \$ 1,544,082                     | \$ 1,703                                      | \$ 1,545,785    |

See accompanying notes to the unaudited consolidated financial statements.



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## CUBESMART AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

|                                                                                        | Nine Months Ended September 30,<br>2016 | 2015       |
|----------------------------------------------------------------------------------------|-----------------------------------------|------------|
| Operating Activities                                                                   |                                         |            |
| Net income                                                                             | \$ 61,329                               | \$ 41,015  |
| Adjustments to<br>reconcile net income to<br>cash provided by<br>operating activities: |                                         |            |
| Depreciation and<br>amortization                                                       | 124,502                                 | 116,467    |
| Equity in losses of real<br>estate ventures                                            | 1,817                                   | 199        |
| Equity compensation<br>expense                                                         | 1,983                                   | 1,250      |
| Accretion of fair market<br>value adjustment of debt                                   | (913)                                   | (1,173)    |
| Changes in other<br>operating accounts:                                                |                                         |            |
| Restricted cash                                                                        | 404                                     | 507        |
| Other assets                                                                           | (6,833)                                 | (3,277)    |
| Accounts payable and<br>accrued expenses                                               | 17,561                                  | 6,086      |
| Other liabilities                                                                      | 1,571                                   | 1,417      |
| Net cash provided by<br>operating activities                                           | \$ 201,421                              | \$ 162,491 |
| Investing Activities                                                                   |                                         |            |
| Acquisitions of storage<br>facilities                                                  | (313,954)                               | (161,852)  |
| Additions and<br>improvements to storage<br>facilities                                 | (23,072)                                | (18,336)   |
| Development costs                                                                      | (134,136)                               | (58,399)   |
| Investment in real estate<br>ventures, at equity                                       | (7,911)                                 | —          |
| Cash distributed from<br>real estate ventures                                          | 5,970                                   | 4,685      |
| Fundings of notes<br>receivable                                                        | —                                       | (4,100)    |

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|                                                                         |              |              |
|-------------------------------------------------------------------------|--------------|--------------|
| Change in restricted cash                                               | 970          | 99           |
| Net cash used in investing activities                                   | \$ (472,133) | \$ (237,903) |
| Financing Activities                                                    |              |              |
| Proceeds from:                                                          |              |              |
| Unsecured senior notes                                                  | 298,512      | —            |
| Revolving credit facility                                               | 830,000      | 671,800      |
| Principal payments on:                                                  |              |              |
| Revolving credit facility                                               | (830,000)    | (582,000)    |
| Mortgage loans and notes payable                                        | (36,648)     | (76,929)     |
| Loan procurement costs                                                  | (2,467)      | (2,283)      |
| Proceeds from issuance of common shares, net                            | 136,151      | 136,663      |
| Exercise of stock options                                               | 12,573       | 13,396       |
| Contributions from noncontrolling interests in subsidiaries             | 4,447        | 178          |
| Distributions paid to common shareholders                               | (111,466)    | (79,706)     |
| Distributions paid to preferred shareholders                            | (4,506)      | (4,506)      |
| Distributions paid to noncontrolling interests in Operating Partnership | (1,374)      | (1,084)      |
| Net cash provided by financing activities                               | \$ 295,222   | \$ 75,529    |
| Change in cash and cash equivalents                                     | 24,510       | 117          |
| Cash and cash equivalents at beginning of period                        | 62,869       | 2,901        |
| Cash and cash equivalents at end of period                              | \$ 87,379    | \$ 3,018     |
| Supplemental Cash Flow and Noncash Information                          |              |              |
| Cash paid for interest, net of interest capitalized                     | \$ 38,110    | \$ 35,567    |
| Supplemental disclosure of noncash activities:                          |              |              |
| Restricted cash - acquisition of storage facilities                     | \$ (22,019)  | \$ —         |
| Accretion of liability                                                  | \$ 23,393    | \$ 11,421    |
| Derivative valuation adjustment                                         | \$ 1,752     | \$ 206       |

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|                                                |    |        |    |       |
|------------------------------------------------|----|--------|----|-------|
| Foreign currency translation adjustment        | \$ | —      | \$ | (284) |
| Discount on issuance of unsecured senior notes | \$ | 1,488  | \$ | —     |
| Mortgage loan assumptions                      | \$ | 41,513 | \$ | 2,695 |

See accompanying notes to the unaudited consolidated financial statements.

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## CUBESMART, L.P. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(in thousands)

|                                                                                         | September 30,<br>2016<br>(unaudited) | December 31,<br>2015 |
|-----------------------------------------------------------------------------------------|--------------------------------------|----------------------|
| <b>ASSETS</b>                                                                           |                                      |                      |
| Storage facilities                                                                      | \$ 3,968,754                         | \$ 3,467,032         |
| Less: Accumulated depreciation                                                          | (685,771)                            | (594,049)            |
| Storage facilities, net (including VIE assets of \$194,167 and \$136,274, respectively) | 3,282,983                            | 2,872,983            |
| Cash and cash equivalents                                                               | 87,379                               | 62,869               |
| Restricted cash                                                                         | 8,052                                | 24,600               |
| Loan procurement costs, net of amortization                                             | 2,313                                | 2,800                |
| Investment in real estate ventures, at equity                                           | 97,405                               | 97,281               |
| Other assets, net                                                                       | 41,067                               | 43,631               |
| Total assets                                                                            | \$ 3,519,199                         | \$ 3,104,164         |
| <b>LIABILITIES AND CAPITAL</b>                                                          |                                      |                      |
| Unsecured senior notes, net                                                             | \$ 1,038,728                         | \$ 741,904           |
| Revolving credit facility                                                               | —                                    | —                    |
| Unsecured term loans, net                                                               | 398,608                              | 398,183              |
| Mortgage loans and notes payable, net                                                   | 115,393                              | 111,455              |
| Accounts payable, accrued expenses and other liabilities                                | 93,854                               | 85,034               |
| Distributions payable                                                                   | 39,781                               | 38,685               |
| Deferred revenue                                                                        | 20,141                               | 17,519               |
| Security deposits                                                                       | 420                                  | 403                  |
| Total liabilities                                                                       | 1,706,925                            | 1,393,183            |
| Limited Partnership interests of third parties                                          | 60,541                               | 66,128               |
| Commitments and contingencies                                                           |                                      |                      |
| <b>Capital</b>                                                                          |                                      |                      |
| Operating Partner                                                                       | 1,749,418                            | 1,648,305            |
| Accumulated other comprehensive loss                                                    | (3,247)                              | (4,978)              |
| Total CubeSmart, L.P. capital                                                           | 1,746,171                            | 1,643,327            |
| Noncontrolling interests in subsidiaries                                                | 5,562                                | 1,526                |
| Total capital                                                                           | 1,751,733                            | 1,644,853            |
| Total liabilities and capital                                                           | \$ 3,519,199                         | \$ 3,104,164         |

See accompanying notes to the unaudited consolidated financial statements.



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## CUBESMART, L.P. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per common unit data)

(unaudited)

|                                                               | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|---------------------------------------------------------------|-------------------------------------|------------|------------------------------------|------------|
|                                                               | 2016                                | 2015       | 2016                               | 2015       |
| REVENUES                                                      |                                     |            |                                    |            |
| Rental income                                                 | \$ 116,416                          | \$ 102,385 | \$ 332,951                         | \$ 290,744 |
| Other property related income                                 | 13,007                              | 11,827     | 37,413                             | 33,755     |
| Property management fee income                                | 2,673                               | 1,758      | 7,129                              | 5,030      |
| Total revenues                                                | 132,096                             | 115,970    | 377,493                            | 329,529    |
| OPERATING EXPENSES                                            |                                     |            |                                    |            |
| Property operating expenses                                   | 41,805                              | 39,297     | 123,631                            | 114,938    |
| Depreciation and amortization                                 | 41,827                              | 38,744     | 122,631                            | 114,725    |
| General and administrative                                    | 8,065                               | 7,002      | 24,184                             | 21,289     |
| Acquisition related costs                                     | 888                                 | 1,222      | 5,793                              | 2,485      |
| Total operating expenses                                      | 92,585                              | 86,265     | 276,239                            | 253,437    |
| OPERATING INCOME                                              | 39,511                              | 29,705     | 101,254                            | 76,092     |
| OTHER (EXPENSE) INCOME                                        |                                     |            |                                    |            |
| Interest:                                                     |                                     |            |                                    |            |
| Interest expense on loans                                     | (12,787)                            | (10,399)   | (37,071)                           | (32,324)   |
| Loan procurement amortization expense                         | (655)                               | (537)      | (1,871)                            | (1,742)    |
| Equity in (losses) earnings of real estate ventures           | (581)                               | 139        | (1,817)                            | (199)      |
| Other                                                         | (397)                               | (288)      | 834                                | (812)      |
| Total other expense                                           | (14,420)                            | (11,085)   | (39,925)                           | (35,077)   |
| NET INCOME                                                    | 25,091                              | 18,620     | 61,329                             | 41,015     |
| NET LOSS (INCOME) ATTRIBUTABLE TO<br>NONCONTROLLING INTERESTS |                                     |            |                                    |            |
| Noncontrolling interest in subsidiaries                       | 76                                  | 41         | 411                                | 56         |
| NET INCOME ATTRIBUTABLE TO CUBESMART<br>L.P.                  | 25,167                              | 18,661     | 61,740                             | 41,071     |
| Operating Partnership interests of third parties              | (283)                               | (223)      | (682)                              | (475)      |
| NET INCOME ATTRIBUTABLE TO OPERATING<br>PARTNER               | 24,884                              | 18,438     | 61,058                             | 40,596     |
| Distribution to preferred unitholders                         | (1,502)                             | (1,502)    | (4,506)                            | (4,506)    |
| NET INCOME ATTRIBUTABLE TO COMMON<br>UNITHOLDERS              | \$ 23,382                           | \$ 16,936  | \$ 56,552                          | \$ 36,090  |
| Basic earnings per unit attributable to common<br>unitholders | \$ 0.13                             | \$ 0.10    | \$ 0.32                            | \$ 0.22    |



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|                                                              |         |         |         |         |
|--------------------------------------------------------------|---------|---------|---------|---------|
| Diluted earnings per unit attributable to common unitholders | \$ 0.13 | \$ 0.10 | \$ 0.32 | \$ 0.21 |
| Weighted-average basic units outstanding                     | 179,223 | 169,304 | 177,639 | 167,177 |
| Weighted-average diluted units outstanding                   | 180,478 | 170,901 | 178,937 | 168,705 |

See accompanying notes to the unaudited consolidated financial statements.

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## CUBESMART, L.P. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(unaudited)

|                                                                                       | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|---------------------------------------------------------------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
|                                                                                       | 2016                                | 2015      | 2016                               | 2015      |
| NET INCOME                                                                            | \$ 25,091                           | \$ 18,620 | \$ 61,329                          | \$ 41,015 |
| Other comprehensive income (loss):                                                    |                                     |           |                                    |           |
| Unrealized gains (losses) on interest rate swaps                                      | 458                                 | (1,821)   | (1,777)                            | (4,507)   |
| Reclassification of realized losses on interest rate swaps                            | 935                                 | 1,576     | 3,529                              | 4,713     |
| Unrealized loss on foreign currency translation                                       | —                                   | (215)     | —                                  | (284)     |
| OTHER COMPREHENSIVE INCOME (LOSS)                                                     | 1,393                               | (460)     | 1,752                              | (78)      |
| COMPREHENSIVE INCOME                                                                  | 26,484                              | 18,160    | 63,081                             | 40,937    |
| Comprehensive income attributable to Operating Partnership interests of third parties | (300)                               | (217)     | (703)                              | (473)     |
| Comprehensive loss attributable to noncontrolling interest in subsidiaries            | 76                                  | 49        | 411                                | 67        |
| COMPREHENSIVE INCOME ATTRIBUTABLE TO OPERATING PARTNER                                | \$ 26,260                           | \$ 17,992 | \$ 62,789                          | \$ 40,531 |

See accompanying notes to the unaudited consolidated financial statements.

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## CUBESMART, L.P. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CAPITAL

(in thousands)

(unaudited)

|                                                                       | Number of OP Units<br>Outstanding |       | Operating<br>Partner | Accumulated<br>Comprehensive<br>(Loss) Income | CubeSmart<br>LP<br>Capital | Noncontrolling<br>Interests in Total<br>Subsidiaries | Capital      |    |
|-----------------------------------------------------------------------|-----------------------------------|-------|----------------------|-----------------------------------------------|----------------------------|------------------------------------------------------|--------------|----|
| Common                                                                | Preferred                         |       |                      |                                               |                            |                                                      |              |    |
| Balance at<br>December 31, 2015                                       | 174,668                           | 3,100 | \$ 1,648,305         | \$ (4,978)                                    | \$ 1,643,327               | \$ 1,526                                             | \$ 1,644,853 | \$ |
| Contributions from<br>noncontrolling<br>interests in<br>subsidiaries  |                                   |       |                      |                                               |                            | 4,447                                                | 4,447        |    |
| Issuance of common<br>OP units                                        | 4,408                             |       | 136,150              |                                               | 136,150                    |                                                      | 136,150      |    |
| Issuance of<br>restricted OP units                                    | 123                               |       | 1                    |                                               | 1                          |                                                      | 1            |    |
| Issuance of OP<br>Units                                               |                                   |       |                      |                                               |                            |                                                      |              |    |
| Exercise of OP unit<br>options                                        | 660                               |       | 12,573               |                                               | 12,573                     |                                                      | 12,573       |    |
| Amortization of<br>restricted OP units                                |                                   |       | 1,041                |                                               | 1,041                      |                                                      | 1,041        |    |
| OP unit<br>compensation<br>expense                                    |                                   |       | 942                  |                                               | 942                        |                                                      | 942          |    |
| Adjustment for<br>Limited Partnership<br>interest of third<br>parties |                                   |       | 6,404                |                                               | 6,404                      |                                                      | 6,404        |    |
| Net income (loss)                                                     |                                   |       | 61,058               |                                               | 61,058                     | (411)                                                | 60,647       |    |
| Other<br>comprehensive<br>income, net                                 |                                   |       |                      | 1,731                                         | 1,731                      |                                                      | 1,731        |    |
| Preferred OP unit<br>distributions                                    |                                   |       | (4,506)              |                                               | (4,506)                    |                                                      | (4,506)      |    |
| Common OP unit<br>distributions                                       |                                   |       | (112,550)            |                                               | (112,550)                  |                                                      | (112,550)    |    |
| Balance at<br>September 30, 2016                                      | 179,859                           | 3,100 | \$ 1,749,418         | \$ (3,247)                                    | \$ 1,746,171               | \$ 5,562                                             | \$ 1,751,733 | \$ |

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|                                                                         | Number of OP Units    |           | Operating<br>Partner | Accumulated<br>Comprehensive<br>Loss | Total<br>CubeSmart<br>LeP.<br>Capital | Noncontrolling<br>Interests in Total<br>Subsidiaries |              | C<br>P<br>I<br>o |
|-------------------------------------------------------------------------|-----------------------|-----------|----------------------|--------------------------------------|---------------------------------------|------------------------------------------------------|--------------|------------------|
|                                                                         | Outstanding<br>Common | Preferred |                      |                                      |                                       | Capital                                              | Capital      |                  |
| Balance at<br>December 31, 2014                                         | 163,957               | 3,100     | \$ 1,456,785         | \$ (8,759)                           | \$ 1,448,026                          | \$ 1,592                                             | \$ 1,449,618 | \$               |
| Contributions from<br>noncontrolling<br>interests in<br>subsidiaries    |                       |           |                      |                                      |                                       | 178                                                  | 178          |                  |
| Issuance of common<br>OP units                                          | 5,515                 |           | 136,662              |                                      | 136,662                               |                                                      | 136,662      |                  |
| Issuance of<br>restricted OP units                                      | 161                   |           | 1                    |                                      | 1                                     |                                                      | 1            |                  |
| Issuance of OP units<br>Conversion from<br>units to shares              | 66                    |           | 1,705                |                                      | 1,705                                 |                                                      | 1,705        |                  |
| Exercise of OP unit<br>options                                          | 1,228                 |           | 13,396               |                                      | 13,396                                |                                                      | 13,396       |                  |
| Amortization of<br>restricted OP units                                  |                       |           | 509                  |                                      | 509                                   |                                                      | 509          |                  |
| OP unit<br>compensation<br>expense                                      |                       |           | 741                  |                                      | 741                                   |                                                      | 741          |                  |
| Adjustment for<br>Operating<br>Partnership interest<br>of third parties |                       |           | (12,166)             |                                      | (12,166)                              |                                                      | (12,166)     |                  |
| Net income (loss)                                                       |                       |           | 40,596               |                                      | 40,596                                | (56)                                                 | 40,540       |                  |
| Other<br>comprehensive loss,<br>net                                     |                       |           |                      | (65)                                 | (65)                                  | (11)                                                 | (76)         |                  |
| Preferred OP unit<br>distributions                                      |                       |           | (4,506)              |                                      | (4,506)                               |                                                      | (4,506)      |                  |
| Common OP unit<br>distributions                                         |                       |           | (80,817)             |                                      | (80,817)                              |                                                      | (80,817)     |                  |
| Balance at<br>September 30, 2015                                        | 170,927               | 3,100     | \$ 1,552,906         | \$ (8,824)                           | \$ 1,544,082                          | \$ 1,703                                             | \$ 1,545,785 | \$               |

See accompanying notes to the unaudited consolidated financial statements.

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## CUBESMART, L.P. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

|                                                                               | Nine Months Ended September 30,<br>2016 | 2015       |
|-------------------------------------------------------------------------------|-----------------------------------------|------------|
| Operating Activities                                                          |                                         |            |
| Net income                                                                    | \$ 61,329                               | \$ 41,015  |
| Adjustments to reconcile net income to cash provided by operating activities: |                                         |            |
| Depreciation and amortization                                                 | 124,502                                 | 116,467    |
| Equity in losses of real estate ventures                                      | 1,817                                   | 199        |
| Equity compensation expense                                                   | 1,983                                   | 1,250      |
| Accretion of fair market value adjustment of debt                             | (913)                                   | (1,173)    |
| Changes in other operating accounts:                                          |                                         |            |
| Restricted cash                                                               | 404                                     | 507        |
| Other assets                                                                  | (6,833)                                 | (3,277)    |
| Accounts payable and accrued expenses                                         | 17,561                                  | 6,086      |
| Other liabilities                                                             | 1,571                                   | 1,417      |
| Net cash provided by operating activities                                     | \$ 201,421                              | \$ 162,491 |
| Investing Activities                                                          |                                         |            |
| Acquisitions of storage facilities                                            | (313,954)                               | (161,852)  |
| Additions and improvements to storage facilities                              | (23,072)                                | (18,336)   |
| Development costs                                                             | (134,136)                               | (58,399)   |
| Investment in real estate ventures, at equity                                 | (7,911)                                 | —          |
| Cash distributed from real estate ventures                                    | 5,970                                   | 4,685      |
| Fundings of notes receivable                                                  | —                                       | (4,100)    |

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|                                                             |              |              |
|-------------------------------------------------------------|--------------|--------------|
| Change in restricted cash                                   | 970          | 99           |
| Net cash used in investing activities                       | \$ (472,133) | \$ (237,903) |
| Financing Activities                                        |              |              |
| Proceeds from:                                              |              |              |
| Unsecured senior notes                                      | 298,512      | —            |
| Revolving credit facility                                   | 830,000      | 671,800      |
| Principal payments on:                                      |              |              |
| Revolving credit facility                                   | (830,000)    | (582,000)    |
| Mortgage loans and notes payable                            | (36,648)     | (76,929)     |
| Loan procurement costs                                      | (2,467)      | (2,283)      |
| Proceeds from issuance of common OP units                   | 136,151      | 136,663      |
| Exercise of OP unit options                                 | 12,573       | 13,396       |
| Contributions from noncontrolling interests in subsidiaries | 4,447        | 178          |
| Distributions paid to common OP unitholders                 | (112,840)    | (80,790)     |
| Distributions paid to preferred OP unitholders              | (4,506)      | (4,506)      |
| Net cash provided by financing activities                   | \$ 295,222   | \$ 75,529    |
| Change in cash and cash equivalents                         | 24,510       | 117          |
| Cash and cash equivalents at beginning of period            | 62,869       | 2,901        |
| Cash and cash equivalents at end of period                  | \$ 87,379    | \$ 3,018     |
| Supplemental Cash Flow and Noncash Information              |              |              |
| Cash paid for interest, net of interest capitalized         | \$ 38,110    | \$ 35,567    |
| Supplemental disclosure of noncash activities:              |              |              |
| Restricted cash - acquisition of storage facilities         | \$ (22,019)  | \$ —         |
| Accretion of liability                                      | \$ 23,393    | \$ 11,421    |
| Derivative valuation adjustment                             | \$ 1,752     | \$ 206       |
| Foreign currency translation adjustment                     | \$ —         | \$ (284)     |
|                                                             | \$ 1,488     | \$ —         |

Discount on issuance of  
unsecured senior notes

Mortgage loan

assumptions

\$ 41,513

\$ 2,695

See accompanying notes to the unaudited consolidated financial statements.

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CUBESMART AND CUBESMART, L.P.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND NATURE OF OPERATIONS

CubeSmart (the “Parent Company”) operates as a self-managed and self-administered real estate investment trust (“REIT”) with its operations conducted solely through CubeSmart, L.P. and its subsidiaries. CubeSmart, L.P., a Delaware limited partnership (the “Operating Partnership”), operates through an umbrella partnership structure, with the Parent Company, a Maryland REIT, as its sole general partner. In the notes to the consolidated financial statements, we use the terms “the Company”, “we” or “our” to refer to the Parent Company and the Operating Partnership together, unless the context indicates otherwise. As of September 30, 2016, the Company owned self-storage facilities located in 23 states throughout the United States and the District of Columbia that are presented under one reportable segment: the Company owns, operates, develops, manages and acquires self-storage facilities.

As of September 30, 2016, the Parent Company owned approximately 98.8% of the partnership interests (“OP Units”) of the Operating Partnership. The remaining OP Units, consisting exclusively of limited partner interests, are held by persons who contributed their interests in facilities to the Operating Partnership in exchange for OP Units. Under the partnership agreement, these persons have the right to tender their OP Units for redemption to the Operating Partnership at any time for cash equal to the fair value of an equivalent number of common shares of the Parent Company. In lieu of delivering cash, however, the Parent Company, as the Operating Partnership’s general partner, may, at its option, choose to acquire any OP Units so tendered by issuing common shares in exchange for the tendered OP Units. If the Parent Company so chooses, its common shares will be exchanged for OP Units on a one-for-one basis. This one-for-one exchange ratio is subject to adjustment to prevent dilution. With each such exchange or redemption, the Parent Company’s percentage ownership in the Operating Partnership will increase. In addition, whenever the Parent Company issues common or other classes of its shares, it contributes the net proceeds it receives from the issuance to the Operating Partnership and the Operating Partnership issues to the Parent Company an equal number of OP Units or other partnership interests having preferences and rights that mirror the preferences and rights of the shares issued. This structure is commonly referred to as an umbrella partnership REIT or “UPREIT”.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the SEC regarding interim financial reporting and, in the opinion of each of the Parent Company’s and Operating Partnership’s respective management, include all adjustments (consisting of normal recurring adjustments)



necessary for a fair presentation of financial position, results of operations and cash flows for each respective company for the interim periods presented in accordance with generally accepted accounting principles in the United States (“GAAP”). Accordingly, readers of this Quarterly Report on Form 10-Q should refer to the Parent Company’s and the Operating Partnership’s audited financial statements prepared in accordance with GAAP, and the related notes thereto, for the year ended December 31, 2015, which are included in the Parent Company’s and the Operating Partnership’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015. The results of operations for the three and nine months ended September 30, 2016 and 2015 are not necessarily indicative of the results of operations to be expected for any future period or the full year.

The Company adopted Accounting Standard Update (“ASU”) No. 2015-02, Consolidation – Amendments to the Consolidation Analysis, as of January 1, 2016. The Company evaluated the application of this guidance and concluded that there were no changes to any previous conclusions with respect to consolidation accounting for any of its interests in less than wholly owned joint ventures. However, the Operating Partnership now meets the criteria as a variable interest entity. The Parent Company’s sole significant asset is its investment in the Operating Partnership. As a result, substantially all of the Parent Company’s assets and liabilities represent those assets and liabilities of the Operating Partnership. All of the Parent Company’s debt is an obligation of the Operating Partnership.

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### Reclassifications

During the first quarter of 2016, the Company adopted ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires the Company to reclassify debt financing costs, which were previously included in loan procurement costs, net of amortization on the Company's consolidated balance sheets, and present them as a direct deduction from the carrying amount of the related debt liability. Net costs of \$10.7 million have been reclassified in the December 31, 2015 consolidated balance sheets from the loan procurement costs line and netted against the related debt liability. See Recent Accounting Pronouncements below for revisions to the accounting guidance for debt issuance costs.

### Recent Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-15 – Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The eight items that the ASU provides classification guidance on include (1) debt prepayment and extinguishment costs, (2) settlement of zero-coupon debt instruments, (3) contingent consideration payments made after a business combination, (4) proceeds from the settlement of insurance claims, (5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, (6) distributions received from equity method investments, (7) beneficial interests in securitization transactions, and (8) separately identifiable cash flows and application of the predominance principle. The standard is effective on January 1, 2018, however early adoption is permitted. The standard requires the use of the retrospective transition method. The Company is in the process of evaluating the impact of this new guidance.

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which is intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. The new guidance allows for entities to make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. In addition, the guidance allows employers to withhold shares to satisfy minimum statutory tax withholding requirements up to the employees' maximum individual tax rate without causing the award to be classified as a liability. The guidance also stipulates that cash paid by an employer to a taxing authority when directly withholding shares for tax-withholding purposes should be classified as a financing activity on the statement of cash flows. The standard is effective on January 1, 2017, however early adoption is permitted. The Company is currently assessing the impact of the adoption of ASU No. 2016-09 on the Company's consolidated financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02 - Leases (Topic 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either financing or operating leases

based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The standard is effective on January 1, 2019, however early adoption is permitted. The Company is currently assessing the impact of the adoption of ASU No. 2016-02 on the Company's consolidated financial statements and related disclosures.

In September 2015, the FASB issued ASU No. 2015-16, Simplifying the Accounting for Measurement-Period Adjustments, which amends the current business combination guidance to require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined, as opposed to having to revise prior period information. The standard also requires additional disclosure about the impact on current-period income statement line items of adjustments that would have been recognized in prior periods if prior period information had been revised. The new standard became effective for the

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Company on January 1, 2016. The adoption of this guidance did not have a material impact on the Company's consolidated financial position or results of operations as there have been no measurement-period adjustments recorded.

In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, an update to the accounting standard relating to the presentation of debt issuance costs. Under the new guidance, debt issuance costs related to a recognized debt liability will be presented on the balance sheet as a direct deduction from the debt liability. In the event that there is not an associated debt liability recorded in the consolidated financial statements, the debt issuance costs will continue to be recorded on the consolidated balance sheet as an asset until the debt liability is recorded. The new standard became effective for the Company on January 1, 2016. The adoption of this guidance did not have a material impact on the Company's consolidated financial position or results of operations as the update only related to changes in financial statement presentation as discussed in note 7 and in "Reclassifications" above.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation – Amendments to the Consolidation Analysis, which amends the current consolidation guidance affecting both the variable interest entity ("VIE") and voting interest entity ("VOE") consolidation models. The standard does not add or remove any of the characteristics in determining if an entity is a VIE or VOE, but rather enhances the way the Company assesses some of these characteristics. The new standard became effective for the Company on January 1, 2016. As discussed under Basis of Presentation above, the adoption of this guidance did not have a material impact on the Company's consolidated financial position or results of operations as none of its existing consolidation conclusions were changed.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance under GAAP when it becomes effective. The new standard will be effective for the Company beginning on January 1, 2018, however early application beginning on January 1, 2017 is permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company has not yet selected a transition method. The Company is currently assessing the impact of the adoption of ASU No. 2014-09 on the Company's consolidated financial statements and related disclosures.

### 3. STORAGE FACILITIES

The book value of the Company's real estate assets is summarized as follows:

|                       |                      |
|-----------------------|----------------------|
| September 30,<br>2016 | December 31,<br>2015 |
|-----------------------|----------------------|

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|                               | (in thousands) |              |
|-------------------------------|----------------|--------------|
| Land                          | \$ 658,077     | \$ 588,503   |
| Buildings and improvements    | 2,850,974      | 2,534,193    |
| Equipment                     | 269,829        | 243,442      |
| Construction in progress      | 189,874        | 100,894      |
| Storage facilities            | 3,968,754      | 3,467,032    |
| Less Accumulated depreciation | (685,771)      | (594,049)    |
| Storage facilities, net       | \$ 3,282,983   | \$ 2,872,983 |

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The following table summarizes the Company's acquisition and disposition activity from the period beginning on January 1, 2015 through September 30, 2016:

| Asset/Portfolio     | Market                  | Transaction Date | Number of Facilities | Purchase / Sale Price<br>(in thousands) |
|---------------------|-------------------------|------------------|----------------------|-----------------------------------------|
| 2016 Acquisitions:  |                         |                  |                      |                                         |
| Metro DC Asset      | Baltimore / DC          | January 2016     | 1                    | \$ 21,000                               |
| Texas Assets        | Texas Markets - Major   | January 2016     | 2                    | 24,800                                  |
|                     | New York / Northern     |                  |                      |                                         |
| New York Asset      | NJ                      | January 2016     | 1                    | 48,500                                  |
| Texas Asset         | Texas Markets - Major   | January 2016     | 1                    | 11,600                                  |
| Connecticut Asset   | Connecticut             | February 2016    | 1                    | 19,000                                  |
| Texas Asset         | Texas Markets - Major   | March 2016       | 1                    | 11,600                                  |
| Florida Assets      | Florida Markets - Other | March 2016       | 3                    | 47,925                                  |
| Colorado Asset      | Denver                  | April 2016       | 1                    | 11,350                                  |
| Texas Asset         | Texas Markets - Major   | April 2016       | 1                    | 11,600                                  |
| Texas Asset         | Texas Markets - Major   | May 2016         | 1                    | 10,100                                  |
| Texas Asset         | Texas Markets - Major   | May 2016         | 1                    | 10,800                                  |
| Illinois Asset      | Chicago                 | May 2016         | 1                    | 12,350                                  |
| Illinois Asset      | Chicago                 | May 2016         | 1                    | 16,000                                  |
| Massachusetts Asset | Massachusetts           | June 2016        | 1                    | 14,300                                  |
| Nevada Assets       | Las Vegas               | July 2016        | 2                    | 23,200                                  |
| Arizona Asset       | Phoenix                 | August 2016      | 1                    | 14,525                                  |
| Minnesota Asset     | Minneapolis             | August 2016      | 1                    | 15,150                                  |
| Colorado Asset      | Denver                  | August 2016      | 1                    | 15,600                                  |
| Texas Asset         | Texas Markets - Major   | September 2016   | 1                    | 6,100                                   |
| Texas Asset         | Texas Markets - Major   | September 2016   | 1                    | 5,300                                   |
|                     |                         |                  | 24                   | \$ 350,800                              |
| 2015 Acquisitions:  |                         |                  |                      |                                         |
| Texas Asset         | Texas Markets - Major   | February 2015    | 1                    | \$ 7,295                                |
| HSRE Assets         | Chicago                 | March 2015       | 4                    | 27,500                                  |
| Arizona Asset       | Arizona / Las Vegas     | March 2015       | 1                    | 7,900                                   |
| Tennessee Asset     | Tennessee               | March 2015       | 1                    | 6,575                                   |
| Texas Asset         | Texas Markets - Major   | April 2015       | 1                    | 15,795                                  |
| Florida Asset       | Florida Markets - Other | May 2015         | 1                    | 7,300                                   |
| Arizona Asset       | Arizona / Las Vegas     | June 2015        | 1                    | 10,100                                  |
| Florida Asset       | Florida Markets - Other | June 2015        | 1                    | 10,500                                  |
| Texas Asset         | Texas Markets - Major   | July 2015        | 1                    | 14,200                                  |
| Maryland Asset      | Baltimore / DC          | July 2015        | 1                    | 17,000                                  |
| Maryland Asset      | Baltimore / DC          | July 2015        | 1                    | 19,200                                  |

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|                            |                        |               |    |            |
|----------------------------|------------------------|---------------|----|------------|
| New York/New Jersey Assets | New York / Northern NJ | August 2015   | 2  | 24,823     |
| New Jersey Asset           | New York / Northern NJ | December 2015 | 1  | 14,350     |
| PSI Assets                 | Various (see note 4)   | December 2015 | 12 | 109,824    |
|                            |                        |               | 29 | \$ 292,362 |

### 2015 Dispositions:

|               |                         |              |   |           |
|---------------|-------------------------|--------------|---|-----------|
| Texas Assets  | Texas Markets - Major   | October 2015 | 7 | \$ 28,000 |
| Florida Asset | Florida Markets - Other | October 2015 | 1 | 9,800     |
|               |                         |              | 8 | \$ 37,800 |

## 4. INVESTMENT ACTIVITY

### 2016 Acquisitions

During the nine months ended September 30, 2016, the Company acquired 24 self-storage facilities, including three facilities upon completion of construction and the issuance of a certificate of occupancy, located throughout the United States for an aggregate purchase price of approximately \$350.8 million. In connection with these acquisitions, the Company allocated a portion of the purchase price to the intangible value of in-place leases, which totaled \$15.0 million at the time of the acquisition and prior to any amortization of such amounts. The estimated life of these in-place leases was 12 months, and the amortization expense that was recognized during the nine months ended September 30, 2016 was approximately \$6.1 million. In connection with one of the acquired facilities, the Company assumed mortgage debt that was recorded at a fair value of \$6.5 million, which fair value includes an outstanding principal balance totaling \$6.3 million and a net premium of \$0.2 million to reflect the estimated fair value of the debt at the time of assumption.





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As final information regarding fair value of the assets acquired and liabilities assumed is received and estimates are refined, appropriate adjustments, if necessary, will be made to the purchase price allocation, in no case later than twelve months of the acquisition date. There have been no adjustments made to the purchase price allocation of assets acquired and liabilities assumed during 2015 and 2016.

As of September 30, 2016, the Company was under contract and had made aggregate deposits of \$1.5 million associated with three facilities under construction for a total purchase price of \$43.3 million. In connection with one of the facilities, the Company provided a \$4.1 million loan, which was repaid to the Company in full in December 2015, for the purpose of acquiring the premises on which the facility will be built. The deposits are reflected in Other assets, net on the Company's consolidated balance sheets. The purchase of these three facilities is expected to occur by the fourth quarter of 2017 after the completion of construction and the issuance of a certificate of occupancy. These acquisitions are subject to due diligence and other customary closing conditions and no assurance can be provided that these acquisitions will be completed on the terms described, or at all.

### 2015 Acquisitions

On December 15, 2015, the Company acquired all of the issued and outstanding uncertificated shares of common stock of a privately held self-storage REIT ("PSI") for \$115.8 million. As of the date of the acquisition, PSI owned real property consisting of 12 fully operational self-storage facilities which were acquired for \$109.8 million, and one self-storage facility that remains under construction, which was acquired for \$6.0 million (the "PSI Assets"). The PSI Assets are located in Arizona, Florida, Georgia, Massachusetts, New York, North Carolina, Tennessee, and Texas. In connection with this acquisition, the Company allocated a portion of the purchase price to the intangible value of in-place leases, which totaled \$6.7 million at the time of the acquisition and prior to any amortization of such amounts. The estimated life of these in-place leases was 12 months, and the amortization expense that was recognized during the nine months ended September 30, 2016 was approximately \$5.0 million.

During 2014, the Operating Partnership entered into an Agreement for Purchase and Sale with certain limited liability companies controlled by HSRE REIT I and HSRE REIT II, both Maryland real estate investment trusts, to acquire (the "HSRE Acquisition") 26 self-storage facilities for an aggregate purchase price of \$223.0 million plus customary closing costs. During 2014, the Company closed on the first tranche of 22 facilities comprising the HSRE Acquisition for an aggregate purchase price of \$195.5 million. On March 18, 2015, the Company closed on the second tranche of the remaining four self-storage facilities comprising the HSRE Acquisition, for an aggregate purchase price of \$27.5 million. The four facilities purchased in the second tranche are located in Illinois. In connection with this acquisition, the Company allocated a portion of the purchase price to the intangible value of in-place leases, which aggregated to \$2.7 million at the time of the acquisition and prior to any amortization of such amounts. The estimated life of these in-place leases was 12 months, and the amortization expense that was recognized during the nine months ended September 30, 2016 was approximately \$0.7 million.

During the year ended December 31, 2015, the Company acquired 13 additional self-storage facilities, including one facility upon completion of construction and the issuance of a certificate of occupancy, located throughout the United States for an aggregate purchase price of approximately \$155.0 million. In connection with these acquisitions, the Company allocated a portion of the purchase price to the tangible and intangible assets acquired based on fair value. Intangible assets consist of in-place leases, which aggregated \$10.7 million at the time of the acquisitions and prior to any amortization of such amounts. The estimated life of these in-place leases was 12 months, and the amortization expense that was recognized during the nine months ended September 30, 2016 was approximately \$5.8 million. In connection with one of the acquired facilities, the Company assumed mortgage debt that was recorded at a fair value of \$2.7 million, which fair value includes an outstanding principal balance totaling \$2.5 million and a net premium of \$0.2 million to reflect the estimated fair value of the debt at the time of assumption.

#### 2015 Dispositions

On October 8, 2015, the Company sold seven assets in Texas and one asset in Florida for an aggregate sales price of approximately \$37.8 million. In connection with these sales, the Company recorded gains that totaled \$14.4 million. The

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proceeds from these sales were held in escrow to fund future acquisitions under a tax free like kind exchange. The total net proceeds of \$36.4 million were subsequently applied to three separate acquisitions, of which one closed in December 2015 and two closed in January 2016.

On October 2, 2015, USIFB, LLP (“USIFB”), a consolidated real estate joint venture in which the Company owned a 97% interest, sold its remaining asset in London, England, for an aggregate sales price of £6.5 million (approximately \$9.9 million). In connection with the sale, the Company recorded a gain of \$3.0 million net of a foreign currency translation loss of \$1.2 million.

## Development

As of September 30, 2016, the Company had five contracts through joint ventures for the construction of five self-storage facilities located in New York (see note 12). As part of the acquisition of the PSI Assets, the Company also acquired a self-storage facility that is under construction in North Palm Beach, FL. Additionally, during the second quarter of 2016, the Company issued 61,224 OP Units, valued at approximately \$1.5 million, to pay the remaining consideration on its self-storage facility that is under construction in Washington, D.C. and was previously owned by a joint venture. Construction for all projects is expected to be completed by the fourth quarter of 2018. As of September 30, 2016, development costs for these projects totaled \$161.3 million. Total construction costs for these projects are expected to be \$312.4 million. These costs are capitalized to construction in progress while the projects are under development and are reflected in Storage facilities on the Company’s consolidated balance sheets.

During the second quarter of 2016, the Company, through a joint venture in which the Company owned a 51% interest, completed the construction, and opened for operation, a self-storage facility located in Bronx, NY. Total costs for this project were \$32.2 million. These costs are capitalized to land, building, and improvements as well as equipment and are reflected in Storage facilities on the Company’s consolidated balance sheets. On August 12, 2016, the noncontrolling member put its 49% ownership interest in the venture to the Company for \$17.0 million.

During the first quarter of 2016, the Company, through a joint venture in which the Company owned a 51% interest, completed the construction, and opened for operation, a self-storage facility located in Queens, NY. Total costs for this project were \$31.8 million. These costs are capitalized to land, building, and improvements as well as equipment and are reflected in Storage facilities on the Company’s consolidated balance sheets. On April 5, 2016, the noncontrolling member put its 49% ownership interest in the venture to the Company for \$12.5 million.

During the fourth quarter of 2015, the Company, through two separate joint ventures in which the Company owns a 90% interest in each, completed the construction of two self-storage facilities located in Brooklyn, NY and the facilities opened for operation. Total costs for these projects were \$32.2 million in aggregate. These costs are capitalized to land, building, and improvements as well as equipment and are reflected in Storage facilities on the

Company's consolidated balance sheets.

During the second quarter of 2015, the Company, through a joint venture in which the Company owns a 90% interest, completed the construction, and opened for operation, a self-storage facility located in Arlington, VA. Total costs for this project were \$17.1 million. These costs are capitalized to land, building, and improvements as well as equipment and are reflected in Storage facilities on the Company's consolidated balance sheets.

The following table summarizes the Company's revenue and earnings associated with the 2016 and 2015 acquisitions from the respective acquisition dates, included in the consolidated statements of operations for the three and nine months ended September 30, 2016 and 2015:

|               | Three Months Ended<br>September 30,<br>2016 |          | Nine Months Ended<br>September 30,<br>2016 |          |
|---------------|---------------------------------------------|----------|--------------------------------------------|----------|
|               | 2015                                        |          | 2015                                       |          |
|               | (in thousands)                              |          |                                            |          |
| Total revenue | \$ 4,765                                    | \$ 3,157 | \$ 9,163                                   | \$ 4,901 |
| Net loss      | (3,354)                                     | (2,048)  | (7,330)                                    | (3,172)  |

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## 5. INVESTMENT IN UNCONSOLIDATED REAL ESTATE VENTURES

During the fourth quarter of 2015, the Company invested a 10% ownership interest in a newly-formed joint venture (“HVP”) that agreed to acquire a property portfolio comprised of 37 self-storage facilities located in Michigan (17), Tennessee (10), Massachusetts (7), and Florida (3). HVP paid \$242.5 million for these 37 facilities, of which \$18.9 million was allocated to the value of the in-place lease intangible. HVP acquired 30 of the facilities on December 8, 2015 for \$193.7 million, one of the facilities on January 26, 2016 for \$5.7 million, five of the facilities on April 21, 2016 for \$36.1 million, and one of the facilities on June 15, 2016 for \$7.0 million. In connection with six of the acquired facilities, HVP assumed mortgage debt that was recorded at a fair value of \$25.3 million, which includes an outstanding principal balance totaling \$23.7 million and a net premium of \$1.6 million to reflect the estimated fair value of the debt at the time of assumption. The remainder of the purchase price was funded through advances totaling \$116.0 million on the venture’s \$122.0 million loan facility and amounts contributed pro-rata by the Company and its unaffiliated joint venture partner. The Company’s total contribution to HVP related to this portfolio acquisition was \$10.7 million. The loan facility bears interest at LIBOR plus 2.00% per annum and matures on December 7, 2018 with options to extend the maturity date through December 7, 2020, subject to satisfaction of certain conditions and payment of the extension fees as stipulated in the loan agreement.

During the first quarter of 2016, HVP agreed to acquire a property portfolio comprised of 31 self-storage facilities located in South Carolina (22), Georgia (5), and North Carolina (4) that were previously managed by the Company for \$115.5 million. HVP acquired 30 of the facilities on March 30, 2016 for \$112.8 million, of which \$10.3 million was allocated to the value of the in-place lease intangible. The remaining property is under contract to be acquired subsequent to September 30, 2016. In conjunction with the acquisition, HVP refinanced its existing loan facility by entering into an increased amended and restated loan facility not to exceed \$185.5 million. The acquisition was funded primarily through an advance totaling \$61.8 million on the venture’s amended and restated loan facility. The remainder of the purchase price was contributed pro-rata by the Company and its unaffiliated joint venture partner. The Company’s total contribution to HVP related to this portfolio acquisition was \$5.3 million, bringing its total investment in HVP to \$16.0 million as of September 30, 2016. The amended and restated loan facility bears interest at LIBOR plus 2.00% per annum. The initial maturity date was extended to March 30, 2019 with options to extend through March 30, 2021, subject to satisfaction of certain conditions and payment of the extension fees as stipulated in the amended and restated loan agreement.

On December 10, 2013, the Company invested a 50% ownership interest in a newly-formed joint venture (“HHF”) that acquired 35 self-storage facilities located in Texas (34) and North Carolina (1). HHF paid \$315.7 million for these facilities, of which \$12.1 million was allocated to the value of the in-place lease intangible. The Company and the unaffiliated joint venture partner, collectively the “HHF Partners”, each contributed cash equal to 50% of the capital required to fund the acquisition. On May 1, 2014, HHF obtained a \$100.0 million loan secured by the 34 self-storage facilities located in Texas that are owned by the venture. There is no recourse to the Company, subject to customary exceptions to non-recourse provisions. The loan bears interest at 3.59% per annum and matures on April 30, 2021. This financing completed the planned capital structure of HHF and proceeds (net of closing costs) of \$99.2 million were distributed proportionately to the partners.

Based upon the facts and circumstances at formation of HVP and HHF, the Company determined that neither entity is a VIE in accordance with the accounting standard for the consolidation of VIEs. As a result, the Company used the voting interest model under the accounting standard for consolidation in order to determine whether to consolidate HVP and HHF. Based upon each member's substantive participating rights over the activities of each entity as stipulated in the operating agreements, HVP and HHF are not consolidated by the Company and are accounted for under the equity method of accounting. The Company's investments in HVP and HHF are included in Investment in real estate ventures, at equity on the Company's consolidated balance sheets and the Company's earnings from its investments in HVP and HHF are presented in Equity in losses of real estate ventures on the Company's consolidated statements of operations.

The amounts reflected in the following table are based on the historical financial information of the real estate ventures.

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The following is a summary of the financial position of the HVP and HHF ventures as of September 30, 2016 and December 31, 2015 (in thousands):

|                              | September 30,<br>2016 | December 31,<br>2015 |
|------------------------------|-----------------------|----------------------|
| Assets                       |                       |                      |
| Storage facilities, net      | \$ 589,182            | \$ 456,452           |
| Other assets                 | 18,829                | 17,536               |
| Total assets                 | \$ 608,011            | \$ 473,988           |
| Liabilities and equity       |                       |                      |
| Other liabilities            | \$ 8,406              | \$ 4,470             |
| Debt                         | 300,006               | 210,525              |
| Equity                       |                       |                      |
| CubeSmart                    | 97,405                | 97,281               |
| Joint venture partners       | 202,194               | 161,712              |
| Total liabilities and equity | \$ 608,011            | \$ 473,988           |

The following is a summary of results of operations of HVP and HHF for the three and nine months ended September 30, 2016 and 2015 (in thousands):

|                                      | Three Months Ended<br>September 30,<br>2016      2015 |          | Nine Months Ended<br>September 30,<br>2016      2015 |           |
|--------------------------------------|-------------------------------------------------------|----------|------------------------------------------------------|-----------|
| Total revenues                       | \$ 17,919                                             | \$ 7,821 | \$ 46,902                                            | \$ 22,346 |
| Operating expenses                   | 7,098                                                 | 3,045    | 20,958                                               | 9,272     |
| Interest expense, net                | 2,506                                                 | 931      | 6,831                                                | 2,793     |
| Depreciation and amortization        | 14,960                                                | 3,567    | 39,147                                               | 10,679    |
| Net (loss) income                    | \$ (6,645)                                            | \$ 278   | \$ (20,034)                                          | \$ (398)  |
| Company's share of net (loss) income | \$ (581)                                              | \$ 139   | \$ (1,817)                                           | \$ (199)  |

## 6. UNSECURED SENIOR NOTES

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The Company's unsecured senior notes are summarized as follows (collectively referred to as the "Senior Notes"):

| Unsecured Senior Notes                                    | September 30,<br>2016<br>(in thousands) | December 31,<br>2015 | Effective<br>Interest Rate | Issuance<br>Date | Maturity<br>Date |
|-----------------------------------------------------------|-----------------------------------------|----------------------|----------------------------|------------------|------------------|
| \$250M 4.800% Guaranteed Notes due 2022                   | \$ 250,000                              | \$ 250,000           | 4.82                       | % Jun-12         | Jul-22           |
| \$250M 4.375% Guaranteed Notes due 2023                   | 250,000                                 | 250,000              | 4.50                       | % Dec-13         | Dec-23           |
| \$250M 4.000% Guaranteed Notes due 2025                   | 250,000                                 | 250,000              | 4.03                       | % Oct-15         | Nov-25           |
| \$300M 3.125% Guaranteed Notes due 2026                   | 300,000                                 | —                    | 3.18                       | % Aug-16         | Sep-26           |
| Principal balance outstanding                             | 1,050,000                               | 750,000              |                            |                  |                  |
| Less: Discount on issuance of unsecured senior notes, net | (4,099)                                 | (2,888)              |                            |                  |                  |
| Less: Loan procurement costs, net                         | (7,173)                                 | (5,208)              |                            |                  |                  |
| Total unsecured senior notes, net                         | \$ 1,038,728                            | \$ 741,904           |                            |                  |                  |

The indenture under which the Senior Notes were issued restricts the ability of the Operating Partnership and its subsidiaries to incur debt unless the Operating Partnership and its consolidated subsidiaries comply with a leverage ratio not to exceed 60% and an interest coverage ratio of more than 1.5:1 after giving effect to the incurrence of the debt. The indenture also restricts the ability of the Operating Partnership and its subsidiaries to incur secured debt unless the Operating Partnership and its consolidated subsidiaries comply with a secured debt leverage ratio not to exceed 40% after giving effect to the incurrence of the debt. The indenture also contains other financial and customary covenants, including a covenant not to own unencumbered assets with a value less than 150% of the unsecured indebtedness of the



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Operating Partnership and its consolidated subsidiaries. As of September 30, 2016, the Operating Partnership was in compliance with all of the financial covenants under the Senior Notes.

7. REVOLVING CREDIT FACILITY AND UNSECURED TERM LOANS

On June 20, 2011, the Company entered into an unsecured term loan agreement (the “Term Loan Facility”) which consisted of a \$100.0 million term loan with a five-year maturity (“Term Loan A”) and a \$100.0 million term loan with a seven-year maturity (“Term Loan B”). On December 9, 2011, the Company entered into a credit facility (the “Credit Facility”) comprised of a \$100.0 million unsecured term loan maturing in December 2014 (“Term Loan C”); a \$200.0 million unsecured term loan maturing in March 2017 (“Term Loan D”); and a \$300.0 million unsecured revolving facility maturing in December 2015 (“Revolver”).

On June 18, 2013, the Company amended both the Term Loan Facility and Credit Facility. With respect to the Term Loan Facility, among other things, the amendment extended the maturity date to June 2018 and decreased the pricing of Term Loan A, while Term Loan B remained unchanged by the amendment. With respect to the Credit Facility, among other things, the amendment extended the maturity date to January 2019 and decreased the pricing of Term Loan D. On August 5, 2014, the Company further amended the Term Loan Facility to extend the maturity date to January 2020 and decrease the pricing of Term Loan B. On December 17, 2013, the Company repaid the \$100.0 million balance under Term Loan C that was scheduled to mature in December 2014.

Pricing on the Term Loan Facility depends on the Company’s unsecured debt credit ratings. At the Company’s current Baa2/BBB level, amounts drawn under Term Loan A are priced at 1.30% over LIBOR, while amounts drawn under Term Loan B are priced at 1.15% over LIBOR.

On April 22, 2015, the Company further amended its Credit Facility with respect to the Revolver. Among other things, the amendment increased the aggregate amount of the Revolver from \$300.0 million to \$500.0 million, decreased the facility fee from 0.20% to 0.15% and extended the maturity date to April 22, 2020.

Pricing on the Credit Facility depends on the Company’s unsecured debt credit ratings. At the Company’s current Baa2/BBB level, amounts drawn under the Revolver are priced at 1.25% over LIBOR, inclusive of a facility fee of 0.15%, while amounts drawn under Term Loan D are priced at 1.30% over LIBOR.

The Company incurred costs of \$2.3 million in 2015 in connection with amending the Credit Facility and capitalized such costs as a component of loan procurement costs, net of amortization on the consolidated balance sheets. Additionally, in connection with the amendment, \$0.1 million of unamortized costs were written-off. All

remaining unamortized costs, along with costs incurred in connection with the amendment, are amortized as an adjustment to interest expense over the remaining term of the modified facilities.

During the first quarter of 2016, the Company adopted ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which requires the Company to reclassify debt financing costs, which were previously included in loan procurement costs, net of amortization on the Company's consolidated balance sheets, and present them as a direct deduction from the carrying amount of the related debt liability. As of September 30, 2016 and December 31, 2015, unsecured term loans are presented net of unamortized loan procurement costs of \$1.4 million and \$1.8 million, respectively, on the consolidated balance sheets. Deferred financing costs associated with the Revolver remain in loan procurement costs, net of amortization on the Company's consolidated balance sheets.

As of September 30, 2016, \$200.0 million of unsecured term loan borrowings were outstanding under the Term Loan Facility, \$200.0 million of unsecured term loan borrowings were outstanding under the Credit Facility, and \$499.3 million was available for borrowing under the unsecured revolving portion of the Credit Facility. The available balance under the unsecured revolving portion of the Credit Facility is reduced by an outstanding letter of credit of \$0.7 million. In connection with a portion of the unsecured borrowings, the Company had interest rate swaps as of September 30, 2016 that fix 30-day LIBOR (see note 10). As of September 30, 2016, borrowings under the Credit Facility and Term Loan Facility, as amended and after giving effect to the interest rate swaps, had an effective weighted average interest rate of 2.68%.

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The Term Loan Facility and the term loan under the Credit Facility were fully drawn at September 30, 2016 and no further borrowings may be made under the term loans. The Company's ability to borrow under the revolving portion of the Credit Facility is subject to ongoing compliance with certain financial covenants which include:

- Maximum total indebtedness to total asset value of 60.0% at any time;
- Minimum fixed charge coverage ratio of 1.50:1.00; and
- Minimum tangible net worth of \$821,211,200 plus 75% of net proceeds from equity issuances after June 30, 2010.

Further, under the Credit Facility and Term Loan Facility, the Company is restricted from paying distributions on the Parent Company's common shares in excess of the greater of (i) 95% of funds from operations, and (ii) such amount as may be necessary to maintain the Parent Company's REIT status.

As of September 30, 2016, the Company was in compliance with all of its financial covenants and anticipates being in compliance with all of its financial covenants through the terms of the Credit Facility and Term Loan Facility.

## 8. MORTGAGE LOANS AND NOTES PAYABLE

The Company's mortgage loans and notes payable are summarized as follows:

| Mortgage Loans and Notes Payable | Carrying Value as of: |                   | Effective Interest Rate | Maturity Date |
|----------------------------------|-----------------------|-------------------|-------------------------|---------------|
|                                  | September 30, 2016    | December 31, 2015 |                         |               |
|                                  | (in thousands)        |                   |                         |               |
| YSI 59                           | \$ —                  | \$ 9,012          | 4.82                    | % Mar-16      |
| YSI 60                           | —                     | 3,546             | 5.04                    | % Aug-16      |
| YSI 51                           | —                     | 6,984             | 5.15                    | % Sep-16      |
| YSI 64                           | —                     | 7,781             | 3.54                    | % Oct-16      |
| YSI 62                           | —                     | 7,835             | 3.54                    | % Dec-16      |
| YSI 67                           | 6,254                 | —                 | 2.55                    | % Mar-17      |
| YSI 33                           | 9,935                 | 10,154            | 6.42                    | % Jul-19      |
| YSI 26                           | 8,470                 | 8,606             | 4.56                    | % Nov-20      |

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|                                             |            |            |      |   |        |
|---------------------------------------------|------------|------------|------|---|--------|
| YSI 57                                      | 2,974      | 3,021      | 4.61 | % | Nov-20 |
| YSI 55                                      | 23,060     | 23,369     | 4.85 | % | Jun-21 |
| YSI 24                                      | 26,650     | 27,185     | 4.64 | % | Jun-21 |
| YSI 65                                      | 2,468      | 2,500      | 3.85 | % | Jun-23 |
| YSI 66                                      | 32,386     | —          | 3.51 | % | Jun-23 |
| Principal balance outstanding               | 112,197    | 109,993    |      |   |        |
| Plus: Unamortized fair value adjustment     | 3,967      | 2,219      |      |   |        |
| Less: Loan procurement costs, net           | (771)      | (757)      |      |   |        |
| Total mortgage loans and notes payable, net | \$ 115,393 | \$ 111,455 |      |   |        |

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As of September 30, 2016 and December 31, 2015, the Company's mortgage loans payable were secured by certain of its self-storage facilities with net book values of approximately \$209.5 million and \$195.4 million, respectively. The following table represents the future principal payment requirements on the outstanding mortgage loans and notes payable as of September 30, 2016 (in thousands):

|                                         |            |
|-----------------------------------------|------------|
| 2016                                    | \$ 612     |
| 2017                                    | 8,576      |
| 2018                                    | 2,490      |
| 2019                                    | 11,485     |
| 2020                                    | 12,615     |
| 2021 and thereafter                     | 76,419     |
| Total mortgage payments                 | 112,197    |
| Plus: Unamortized fair value adjustment | 3,967      |
| Less: Loan procurement costs, net       | (771)      |
| Total mortgage indebtedness             | \$ 115,393 |

## 9. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table summarizes the changes in accumulated other comprehensive loss by component for the nine months ended September 30, 2016 (in thousands):

|                                                                | Unrealized losses<br>on interest rate<br>swaps |
|----------------------------------------------------------------|------------------------------------------------|
| Other comprehensive loss before reclassifications              | \$ (1,755)                                     |
| Amounts reclassified from accumulated other comprehensive loss | 3,486                                          |
| Net current-period other comprehensive income                  | 1,731                                          |
| Balance at December 31, 2015                                   | (4,978)                                        |
| Balance at September 30, 2016                                  | \$ (3,247)                                     |

(a) See note 10 for additional information about the effects of the amounts reclassified.

## 10. RISK MANAGEMENT AND USE OF FINANCIAL INSTRUMENTS

The Company's use of derivative instruments is limited to the utilization of interest rate swap agreements or other instruments to manage interest rate risk exposures and not for speculative purposes. The principal objective of such arrangements is to minimize the risks and/or costs associated with the Company's operating and financial structure, as well as to hedge specific transactions. The counterparties to these arrangements are major financial institutions with which the Company and its subsidiaries may also have other financial relationships. The Company is potentially exposed to credit loss in the event of non-performance by these counterparties. However, because of the high credit ratings of the counterparties, the Company does not anticipate that any of the counterparties will fail to meet these obligations as they come due. The Company does not hedge credit or property value market risks.

The Company has entered into interest rate swap agreements that qualify and are designated as cash flow hedges designed to reduce the impact of interest rate changes on its variable rate debt. Therefore, the interest rate swaps are recorded in the consolidated balance sheet at fair value and the related gains or losses are deferred in shareholders' equity as accumulated other comprehensive loss. These deferred gains and losses are amortized into interest expense during the period or periods in which the related interest payments affect earnings. However, to the extent that the interest rate swaps are not perfectly effective in offsetting the change in value of the interest payments being hedged, the ineffective portion of these contracts is recognized in earnings immediately.

The Company formally assesses, both at inception of a hedge and on an on-going basis, whether each derivative is highly-effective in offsetting changes in cash flows of the hedged item. If management determines that a derivative is

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highly-effective as a hedge, then the Company accounts for the derivative using hedge accounting, pursuant to which gains or losses inherent in the derivative do not impact the Company's results of operations. If management determines that a derivative is not highly-effective as a hedge or if a derivative ceases to be a highly-effective hedge, the Company will discontinue hedge accounting prospectively and will reflect in its statement of operations realized and unrealized gains and losses in respect of the derivative.

The following table summarizes the terms and fair values of the Company's derivative financial instruments as of September 30, 2016 and December 31, 2015, respectively (dollars in thousands):

| Hedge Product | Hedge Type (a) | Notional Amount    |                   |          | Effective Date | Maturity  | Fair Value         |                   |
|---------------|----------------|--------------------|-------------------|----------|----------------|-----------|--------------------|-------------------|
|               |                | September 30, 2016 | December 31, 2015 | Strike   |                |           | September 30, 2016 | December 31, 2015 |
| Swap          | Cash flow      | \$ —               | \$ 40,000         | 1.8025 % | 6/20/2011      | 6/20/2016 | \$ —               | \$ (243)          |
| Swap          | Cash flow      | —                  | 40,000            | 1.8025 % | 6/20/2011      | 6/20/2016 | —                  | (243)             |
| Swap          | Cash flow      | —                  | 20,000            | 1.8025 % | 6/20/2011      | 6/20/2016 | —                  | (122)             |
| Swap          | Cash flow      | 75,000             | 75,000            | 1.3360 % | 12/30/2011     | 3/31/2017 | (273)              | (540)             |
| Swap          | Cash flow      | 50,000             | 50,000            | 1.3360 % | 12/30/2011     | 3/31/2017 | (182)              | (360)             |
| Swap          | Cash flow      | 50,000             | 50,000            | 1.3360 % | 12/30/2011     | 3/31/2017 | (182)              | (360)             |
| Swap          | Cash flow      | 25,000             | 25,000            | 1.3375 % | 12/30/2011     | 3/31/2017 | (91)               | (180)             |
| Swap          | Cash flow      | 40,000             | 40,000            | 2.4590 % | 6/20/2011      | 6/20/2018 | (1,180)            | (1,350)           |
| Swap          | Cash flow      | 40,000             | 40,000            | 2.4725 % | 6/20/2011      | 6/20/2018 | (1,189)            | (1,364)           |
| Swap          | Cash flow      | 20,000             | 20,000            | 2.4750 % | 6/20/2011      | 6/20/2018 | (596)              | (683)             |
|               |                | \$ 300,000         | \$ 400,000        |          |                |           | \$ (3,693)         | \$ (5,445)        |

(a) Hedging unsecured variable rate debt by fixing 30-day LIBOR.

The Company measures its derivative instruments at fair value and records them in the balance sheet as either an asset or liability. As of September 30, 2016 and December 31, 2015, all derivative instruments were included in accounts payable, accrued expenses and other liabilities in the accompanying consolidated balance sheets. The effective portions of changes in the fair value of the derivatives are reported in accumulated other comprehensive income (loss). Amounts reported in accumulated other comprehensive income (loss) related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. The change in unrealized loss on interest rate swap reflects a reclassification of \$3.5 million of unrealized losses from accumulated other

comprehensive loss as an increase to interest expense during the nine months ended September 30, 2016. The Company estimates that \$2.5 million will be reclassified as an increase to interest expense within the next 12 months.

## 11. FAIR VALUE MEASUREMENTS

The Company applies the methods of determining fair value as described in authoritative guidance, to value its financial assets and liabilities. As defined in the guidance, fair value is based on the price that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, the guidance establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.



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In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs, to the extent possible, as well as considering counterparty credit risk in its assessment of fair value.

Financial assets and liabilities carried at fair value as of September 30, 2016 are classified in the table below in one of the three categories described above (in thousands):

|                                           | Level 1 | Level 2  | Level 3 |
|-------------------------------------------|---------|----------|---------|
| Interest Rate Swap Derivative Liabilities | \$ —    | \$ 3,693 | \$ —    |
| Total liabilities at fair value           | \$ —    | \$ 3,693 | \$ —    |

Financial assets and liabilities carried at fair value as of December 31, 2015 are classified in the table below in one of the three categories described above (in thousands):

|                                           | Level 1 | Level 2  | Level 3 |
|-------------------------------------------|---------|----------|---------|
| Interest Rate Swap Derivative Liabilities | \$ —    | \$ 5,445 | \$ —    |
| Total liabilities at fair value           | \$ —    | \$ 5,445 | \$ —    |

Financial assets and liabilities carried at fair value were classified as Level 2 inputs. For financial liabilities that utilize Level 2 inputs, the Company utilizes both direct and indirect observable price quotes, including LIBOR yield curves, bank price quotes for forward starting swaps, NYMEX futures pricing and common stock price quotes. Below is a summary of valuation techniques for Level 2 financial liabilities:

- Interest rate swap derivative assets and liabilities – valued using LIBOR yield curves at the reporting date. Counterparties to these contracts are most often highly rated financial institutions, none of which experienced any significant downgrades in 2016 that would reduce the amount owed by the Company. Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with the Company's derivatives utilize Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by the Company and the counterparties. However, as of September 30, 2016, the Company has assessed the significance of the effect of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

The fair values of financial instruments, including cash and cash equivalents, restricted cash, accounts receivable and accounts payable approximate their respective carrying values at September 30, 2016 and December 31, 2015. The aggregate carrying value of the Company's debt was \$1.6 billion and \$1.3 billion at September 30, 2016 and December 31, 2015, respectively. The estimated fair value of the Company's debt was \$1.7 billion and \$1.3 billion at September 30, 2016 and December 31, 2015, respectively. These estimates were based on a discounted cash flow analysis assuming market interest rates for comparable obligations at September 30, 2016 and December 31, 2015. The Company estimates the fair value of its fixed rate debt and the credit spreads over variable market rates on its variable rate debt by discounting the future cash flows of each instrument at estimated market rates or credit spreads consistent with the maturity of the debt obligation with similar credit policies, which is classified within level 2 of the fair value hierarchy. Rates and credit spreads take into consideration general market conditions and maturity.

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## 12. NONCONTROLLING INTERESTS

## Interests in Consolidated Real Estate Joint Ventures

Noncontrolling interests in subsidiaries represent the ownership interests of third parties in the Company's consolidated real estate ventures. The Company has determined that these ventures are variable interest entities, and that the Company is the primary beneficiary. Accordingly, the Company consolidates the assets, liabilities, and results of operations of the real estate ventures in the table below (dollars in thousands):

| Development Ventures                          | Number of<br>Facilities | Location      | Date<br>Opened /<br>Estimated<br>Opening | CubeSmart<br>Ownership<br>Interest | September 30, 2016<br>Total<br>Assets | Total<br>Liabilities |
|-----------------------------------------------|-------------------------|---------------|------------------------------------------|------------------------------------|---------------------------------------|----------------------|
| 2225 46th St, LLC ("46th St") (1)             | 1                       | Queens, NY    | Q4 2018<br>(est.)                        | 51%                                | \$ 13,617                             | \$ 267               |
| CS SJM E 92nd Street, LLC ("92nd St")         | 1                       | New York, NY  | Q2 2018<br>(est.)                        | 90%                                | 182                                   | 81                   |
| 2880 Exterior St, LLC ("Exterior St") (1)     | 1                       | Bronx, NY     | Q2 2018<br>(est.)                        | 51%                                | 30,402                                | 10,636               |
| 444 55th Street Holdings, LLC ("55th St") (2) | 1                       | New York, NY  | Q1 2018<br>(est.)                        | 90%                                | 77,038                                | 35,024               |
| 3068 Cropsey Avenue, LLC ("Cropsey Ave") (1)  | 1                       | Brooklyn, NY  | Q4 2017<br>(est.)                        | 51%                                | 19,565                                | 9,743                |
| CS SNL New York Ave, LLC ("SNL I") (3)        | 1                       | Brooklyn, NY  | Q4 2015                                  | 90%                                | 13,779                                | 9,437                |
| 186 Jamaica Avenue, LLC ("SNL II") (3)        | 1                       | Brooklyn, NY  | Q4 2015                                  | 90%                                | 18,088                                | 12,196               |
| Shirlington Rd, LLC ("SRLLC") (3)             | 1                       | Arlington, VA | Q2 2015                                  | 90%                                | 16,309                                | 12,887               |
|                                               | 8                       |               |                                          |                                    | \$ 188,980                            | \$ 90,271            |

- (1) The noncontrolling members of 46th St, Cropsey Ave, and Exterior St have the option to put their ownership interest in the ventures to the Company for \$14.2 million, \$20.4 million and \$37.8 million, respectively, within the one-year period after construction of each facility is substantially complete. Additionally, the Company has a one-year option to call the ownership interest of the noncontrolling members of 46th St, Cropsey Ave, and Exterior St for \$14.2 million, \$20.4 million and \$37.8 million, respectively, beginning on the second anniversary of the facilities' construction being substantially complete. The Company is accreting the respective liabilities during the development periods and, as of September 30, 2016, has accrued \$0.3 million, \$9.0 million and \$10.5 million related to 46th St, Cropsey Ave, and Exterior St, respectively.

- (2) In connection with the acquired property, 55th St assumed mortgage debt that was recorded at a fair value of \$35.0 million, which fair value includes an outstanding principal balance totaling \$32.5 million and a net premium of \$2.5 million to reflect the estimated fair value of the debt at the time of assumption. The loan accrues interest at a fixed rate of 4.68%, matures on June 7, 2023, and is fully guaranteed by the Company.
- (3) The Company has a related party loan commitment to these ventures to fund all or a portion of the construction costs. As of September 30, 2016, the Company has provided \$9.2 million of a total \$9.8 million loan commitment to SNL I, \$11.7 million of a total \$12.8 million loan commitment to SNL II, and \$12.9 million of a total \$14.6 million loan commitment to SRLLC, which are included in the total liability amounts within the table above. These loans and related interest were eliminated during consolidation.

USIFB, LLP (“USIFB”) was formed to own, operate, acquire and develop self-storage facilities in England. The Company owned a 97% interest in the USIFB through a wholly-owned subsidiary and USIFB commenced operations at two facilities in London, England during 2008. The Company determined that USIFB is a variable interest entity, and that the Company is the primary beneficiary. Accordingly, the Company consolidated the assets, liabilities and results of operations of USIFB. On December 31, 2013, the Company provided a \$6.8 million (£4.1 million) loan secured by a mortgage on real estate assets of USIFB. On June 30, 2014, one of the assets was sold for net proceeds of \$7.0 million and the loan was repaid with proceeds from the sale. The loan and any related interest were eliminated during consolidation. On October 2, 2015, USIFB sold its remaining asset in London, England, for an aggregate sales price of £6.5 million (approximately \$9.9 million as of the date of the sale). In connection with the sale during the fourth quarter of 2015, the Company recorded a gain of \$3.0 million net of a foreign currency translation loss of \$1.2 million.

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Operating Partnership Ownership

The Company follows guidance regarding the classification and measurement of redeemable securities. Under this guidance, securities that are redeemable for cash or other assets, at the option of the holder and not solely within the control of the issuer, must be classified outside of permanent equity/capital. This classification results in certain outside ownership interests being included as redeemable noncontrolling interests outside of permanent equity/capital in the consolidated balance sheets. The Company makes this determination based on terms in applicable agreements, specifically in relation to redemption provisions.

Additionally, with respect to redeemable ownership interests in the Operating Partnership held by third parties for which CubeSmart has a choice to settle the redemption by delivery of its own shares, the Operating Partnership considered the guidance regarding accounting for derivative financial instruments indexed to, and potentially settled in, a company's own shares, to evaluate whether CubeSmart controls the actions or events necessary to presume share settlement. The guidance also requires that noncontrolling interests classified outside of permanent capital be adjusted each period to the greater of the carrying value based on the accumulation of historical cost or the redemption value.

Approximately 1.2% of the outstanding OP Units as of September 30, 2016 and December 31, 2015, were not owned by CubeSmart, the sole general partner. The interests in the Operating Partnership represented by these OP Units were a component of the consideration that the Operating Partnership paid to acquire certain self-storage facilities. The holders of the OP Units are limited partners in the Operating Partnership and have the right to require CubeSmart to redeem all or part of their OP Units for, at the general partner's option, an equivalent number of common shares of CubeSmart or cash based upon the fair value of an equivalent number of common shares of CubeSmart. However, the partnership agreement contains certain provisions that could result in a settlement outside the control of CubeSmart and the Operating Partnership, as CubeSmart does not have the ability to settle in unregistered shares. Accordingly, consistent with the guidance, the Operating Partnership will record the OP Units owned by third parties outside of permanent capital in the consolidated balance sheets. Net income or loss related to the OP Units owned by third parties is excluded from net income or loss attributable to Operating Partner in the consolidated statements of operations.

On May 14, 2015, the Company closed on the acquisition of real property that will be developed into a self-storage facility in Washington, D.C. In conjunction with the closing, the Company issued 20,408 OP Units, valued at approximately \$0.5 million to pay a portion of the consideration. On April 18, 2016, upon the completion of certain milestones, the Company issued 61,224 additional OP Units, valued at approximately \$1.5 million, to pay the remaining consideration. The facility is expected to commence operations during 2016.

As of September 30, 2016 and December 31, 2015, 2,220,874 and 2,159,650 OP units, respectively, were held by third parties. The per unit cash redemption amount of the outstanding OP units was calculated based upon the average of the closing prices of the common shares of CubeSmart on the New York Stock Exchange for the final 10 trading days of the quarter. Based on the Company's evaluation of the redemption value of the redeemable noncontrolling

interest, the Company has reflected these interests at their redemption value at September 30, 2016 and December 31, 2015, as the estimated redemption value exceeded their carrying value. As of September 30, 2016, the Operating Partnership recorded an increase to OP Units owned by third parties and a corresponding increase to capital of \$6.4 million. As of December 31, 2015, the Operating Partnership recorded an increase to OP Units owned by third parties and a corresponding decrease to capital of \$19.6 million.

### 13. RELATED PARTY TRANSACTIONS

#### Affiliated Real Estate Investments

The Company provides management services to certain joint ventures and other related party facilities. Management agreements provide generally for management fees of between 5-6% of cash collections at the managed facilities. Total management fees for unconsolidated joint ventures or other entities in which the Company held an ownership interest for the three and nine months ended September 30, 2016 totaled \$0.8 million and \$2.0 million, respectively. Total management fees for unconsolidated joint ventures or other entities in which the Company held an ownership interest for the three and nine months ended September 30, 2015 totaled \$0.2 million and \$0.7 million, respectively.

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The management agreements for certain joint ventures, other related parties and third-party facilities provide for the reimbursement to the Company for certain expenses incurred to manage the facilities. These amounts consist of amounts due for management fees, payroll, and other expenses incurred on behalf of the facilities. The amounts due to the Company were \$2.7 million and \$1.9 million as of September 30, 2016 and December 31, 2015, respectively, and are reflected in Other assets, net on the Company's consolidated balance sheets. Additionally, as discussed in note 12, the Company has outstanding mortgage loans receivable from consolidated joint ventures of \$33.8 million and \$29.6 million as of September 30, 2016 and December 31, 2015, respectively, which are eliminated for consolidation purposes. The Company believes that all of these related-party receivables are fully collectible.

The HVP operating agreement provides for an acquisition fee payable from HVP to the Company in an amount equal to 0.5% of the purchase price upon the closing of an acquisition by HVP or any of its subsidiaries. During the nine months ended September 30, 2016, the Company recognized \$1.8 million in acquisition fees in conjunction with HVP's acquisition of 67 self storage facilities, which are included in Other income on the consolidated statements of operations. The Company did not recognize any acquisition fees during the three months ended September 30, 2016.

## 14. PRO FORMA FINANCIAL INFORMATION

During the nine months ended September 30, 2016 and the year ended December 31, 2015, the Company acquired 24 self-storage facilities for an aggregate purchase price of approximately \$350.8 million (see note 4) and 29 self-storage facilities for an aggregate purchase price of approximately \$292.4 million, respectively.

The condensed consolidated pro forma financial information set forth below reflects adjustments to the Company's historical financial data to give effect to each of the acquisitions and related financing activity (including the issuance of common shares) that occurred during 2016 and 2015 as if each had occurred as of January 1, 2015 and 2014, respectively. The unaudited pro forma information presented below does not purport to represent what the Company's actual results of operations would have been for the periods indicated, nor does it purport to represent the Company's future results of operations.

The following table summarizes, on a pro forma basis, the Company's consolidated results of operations for the nine months ended September 30, 2016 and 2015 based on the assumptions described above:

|                   | Nine Months Ended September 30,       |            |
|-------------------|---------------------------------------|------------|
|                   | 2016                                  | 2015       |
|                   | (in thousands, except per share data) |            |
| Pro forma revenue | \$ 384,515                            | \$ 359,402 |

|                            |           |           |
|----------------------------|-----------|-----------|
| Pro forma net income       | \$ 85,419 | \$ 51,058 |
| Earnings per common share: |           |           |
| Basic - as reported        | \$ 0.32   | \$ 0.22   |
| Diluted - as reported      | \$ 0.32   | \$ 0.21   |
| Basic - as pro forma       | \$ 0.45   | \$ 0.28   |
| Diluted - as pro forma     | \$ 0.45   | \$ 0.27   |

## 15. SUBSEQUENT EVENTS

Subsequent to September 30, 2016, the Company acquired one self-storage facility in Nevada for a purchase price of approximately \$13.3 million.

On September 2, 2016, the Company announced that it will redeem all of the 3.1 million outstanding shares of its 7.75% Series A Cumulative Redeemable Preferred Shares (the “Preferred Shares”) with a par value of \$77.5 million on November 2, 2016. The Preferred Shares will be redeemed at a redemption price of \$25.00 per share, plus accumulated and unpaid dividends up to and including the redemption date of \$0.17374 per share. In connection with the redemption of the Preferred Shares, in accordance with EITF D-42, the Company expects to recognize a charge of approximately \$2.8 million in the fourth quarter related to excess redemption costs over the original net issuance proceeds.



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ITEM 2. 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. Some of the statements we make in this section are forward-looking statements within the meaning of the federal securities laws. For a discussion of forward-looking statements, see the section in this Report entitled "Forward-Looking Statements". Certain risk factors may cause actual results, performance or achievements to differ materially from those expressed or implied by the following discussion. For a complete discussion of such risk factors, see the section entitled "Risk Factors" in the Parent Company's and Operating Partnership's combined Annual Report on Form 10-K for the year ended December 31, 2015.

Overview

We are an integrated self-storage real estate company, and as such we have in-house capabilities in the operation, design, development, leasing, management and acquisition of self-storage facilities. The Parent Company's operations are conducted solely through the Operating Partnership and its subsidiaries. The Parent Company has elected to be taxed as a REIT for U.S. federal income tax purposes. As of September 30, 2016 and December 31, 2015, we owned 471 and 445 self-storage facilities, respectively, totaling approximately 32.5 million and 30.4 million rentable square feet, respectively. As of September 30, 2016, we owned facilities in the District of Columbia and the following 23 states: Arizona, California, Colorado, Connecticut, Florida, Georgia, Illinois, Indiana, Maryland, Massachusetts, Minnesota, Nevada, New Jersey, New Mexico, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, Tennessee, Texas, Utah and Virginia. In addition, as of September 30, 2016, we managed 291 facilities for third parties (including 35 facilities containing an aggregate of approximately 2.4 million rentable square feet as part of an unconsolidated real estate venture in which we own a 50% interest, and 67 facilities containing an aggregate of approximately 3.6 million rentable square feet as part of a separate unconsolidated real estate venture in which we own a 10% interest) bringing the total number of facilities which we owned and/or managed to 762. As of September 30, 2016, we managed facilities for third parties in the following 25 states: Alabama, Arizona, California, Colorado, Connecticut, Florida, Georgia, Illinois, Louisiana, Maryland, Massachusetts, Michigan, Mississippi, Missouri, Nevada, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas and Virginia.

We derive revenues principally from rents received from customers who rent cubes at our self-storage facilities under month-to-month leases. Therefore, our operating results depend materially on our ability to retain our existing customers and lease our available self-storage cubes to new customers while maintaining and, where possible, increasing our pricing levels. In addition, our operating results depend on the ability of our customers to make required rental payments to us. Our approach to the management and operation of our facilities combines centralized marketing, revenue management and other operational support with local operations teams that provide market-level oversight and control. We believe this approach allows us to respond quickly and effectively to changes in local market conditions, and to maximize revenues by managing rental rates and occupancy levels.

We typically experience seasonal fluctuations in the occupancy levels of our facilities, which are generally slightly higher during the summer months due to increased moving activity.

Our results of operations may be sensitive to changes in overall economic conditions that impact consumer spending, including discretionary spending, as well as to increased bad debts due to recessionary pressures. Adverse economic conditions affecting disposable consumer income, such as employment levels, business conditions, interest rates, tax rates, fuel and energy costs, and other matters could reduce consumer spending or cause consumers to shift their spending to other products and services. A general reduction in the level of discretionary spending or shifts in consumer discretionary spending could adversely affect our growth and profitability.

We continue our focus on maximizing internal growth opportunities and selectively pursuing targeted acquisitions and developments of self-storage facilities.

We have one reportable segment: we own, operate, develop, manage and acquire self-storage facilities.

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Our self-storage facilities are located in major metropolitan and suburban areas and have numerous customers per facility. No single customer represents a significant concentration of our revenues. Our facilities in Florida, New York, Texas and California provided approximately 17%, 16%, 10% and 8%, respectively, of total revenues for the nine months ended September 30, 2016.

## Summary of Critical Accounting Policies and Estimates

Set forth below is a summary of the accounting policies and estimates that management believes are critical to the preparation of the unaudited consolidated financial statements included in this Report. Certain of the accounting policies used in the preparation of these consolidated financial statements are particularly important for an understanding of the financial position and results of operations presented in the historical consolidated financial statements included in this Report. A summary of significant accounting policies is also provided in the aforementioned notes to our consolidated financial statements (see note 2 to the unaudited consolidated financial statements). These policies require the application of judgment and assumptions by management and, as a result, are subject to a degree of uncertainty. Due to this uncertainty, actual results could differ materially from estimates calculated and utilized by management.

## Basis of Presentation

The accompanying consolidated financial statements include all of the accounts of the Company, and its majority-owned and/or controlled subsidiaries. The portion of these entities not owned by the Company is presented as noncontrolling interests as of and during the periods presented. All significant intercompany accounts and transactions have been eliminated in consolidation.

When the Company obtains an economic interest in an entity, the Company evaluates the entity to determine if the entity is deemed a variable interest entity (“VIE”), and if the Company is deemed to be the primary beneficiary, in accordance with authoritative guidance issued by the Financial Accounting Standards Board (“FASB”) on the consolidation of VIEs. When an entity is not deemed to be a VIE, the Company considers the provisions of additional FASB guidance to determine whether a general partner, or the general partners as a group, controls a limited partnership or similar entity when the limited partners have certain rights. The Company consolidates (i) entities that are VIEs and of which the Company is deemed to be the primary beneficiary and (ii) entities that are non-VIEs which the Company controls and in which the limited partners do not have substantive participating rights, or the ability to dissolve the entity or remove the Company without cause.

## Self-Storage Facilities

The Company records self-storage facilities at cost less accumulated depreciation. Depreciation on the buildings and equipment is recorded on a straight-line basis over their estimated useful lives, which range from five to 39 years. Expenditures for significant renovations or improvements that extend the useful life of assets are capitalized. Repairs and maintenance costs are expensed as incurred.

When facilities are acquired, the purchase price is allocated to the tangible and intangible assets acquired and liabilities assumed based on estimated fair values. When a portfolio of facilities is acquired, the purchase price is allocated to the individual facilities based upon an income approach or a cash flow analysis using appropriate risk adjusted capitalization rates, which take into account the relative size, age and location of the individual facility along with current and projected occupancy and rental rate levels or appraised values, if available. Allocations to the individual assets and liabilities are based upon their respective fair values as estimated by management.

In allocating the purchase price for an acquisition, the Company determines whether the acquisition includes intangible assets or liabilities. The Company allocates a portion of the purchase price to an intangible asset attributable to the value of in-place leases. This intangible asset is generally amortized to expense over the expected remaining term of the respective leases. Substantially all of the leases in place at acquired facilities are at market rates, as the majority of the leases are month-to-month contracts. Accordingly, to date no portion of the purchase price for an acquired property has been allocated to above- or below-market lease intangibles. To date, no intangible asset has been recorded for the value of customer relationships, because the Company does not have any concentrations of significant customers and the average customer turnover is fairly frequent.

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Long-lived assets classified as “held for use” are reviewed for impairment when events and circumstances such as declines in occupancy and operating results indicate that there may be an impairment. The carrying value of these long-lived assets is compared to the undiscounted future net operating cash flows, plus a terminal value, attributable to the assets to determine if the facility’s basis is recoverable. If a facility’s basis is not considered recoverable, an impairment loss is recorded to the extent the net carrying value of the asset exceeds the fair value. The impairment loss recognized equals the excess of net carrying value over the related fair value of the asset. There were no impairment losses recognized in accordance with these procedures during the nine months ended September 30, 2016 and 2015.

The Company considers long-lived assets to be “held for sale” upon satisfaction of the following criteria:

(a) management commits to a plan to sell a facility (or group of facilities), (b) the facility is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such facilities, (c) an active program to locate a buyer and other actions required to complete the plan to sell the facility have been initiated, (d) the sale of the facility is probable and transfer of the asset is expected to be completed within one year, (e) the facility is being actively marketed for sale at a price that is reasonable in relation to its current fair value and (f) actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Typically these criteria are all met when the relevant asset is under contract, significant non-refundable deposits have been made by the potential buyer, the assets are immediately available for transfer and there are no contingencies related to the sale that may prevent the transaction from closing. However, each potential transaction is evaluated based on its separate facts and circumstances. Facilities classified as held for sale are reported at the lesser of carrying value or fair value less estimated costs to sell.

## Revenue Recognition

Management has determined that all of our leases with customers are operating leases. Rental income is recognized in accordance with the terms of the lease agreements or contracts, which generally are month-to-month.

The Company recognizes gains from disposition of facilities only upon closing in accordance with the guidance on sales of real estate. Payments received from purchasers prior to closing are recorded as deposits. Profit on real estate sold is recognized using the full accrual method upon closing when the collectability of the sales price is reasonably assured and the Company is not obligated to perform significant activities after the sale. Profit may be deferred in whole or part until the sale meets the requirements of profit recognition on sales under this guidance.

## Share-Based Payments

We apply the fair value method of accounting for contingently issued shares and share options issued under our equity incentive plans. The share compensation expense is recorded ratably over the vesting period relating to such contingently issued shares and options. The Company has elected to recognize compensation expense on a straight-line method over the requisite service period.

#### Noncontrolling Interests

Noncontrolling interests are the portion of equity (net assets) in a subsidiary not attributable, directly or indirectly, to a parent. The ownership interests in the subsidiary that are held by owners other than the parent are noncontrolling interests. In accordance with authoritative guidance issued on noncontrolling interests in consolidated financial statements, such noncontrolling interests are reported on the consolidated balance sheets within equity/capital, separately from the Parent Company's equity/capital. The guidance also requires that noncontrolling interests are adjusted each period so that the carrying value equals the greater of its carrying value based on the accumulation of historical cost or its redemption value. On the consolidated statements of operations, revenues, expenses and net income or loss from less-than-wholly-owned subsidiaries are reported at the consolidated amounts, including both the amounts attributable to the Parent Company and noncontrolling interests. Presentation of consolidated equity/capital activity is included for both quarterly and annual financial statements, including beginning balances, activity for the period and ending balances for shareholders' equity/capital, noncontrolling interests and total equity/capital.

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### Investments in Unconsolidated Real Estate Ventures

The Company accounts for its investments in unconsolidated real estate ventures under the equity method of accounting. Under the equity method, investments in unconsolidated joint ventures are recorded initially at cost, as investments in real estate entities, and subsequently adjusted for equity in earnings (losses), cash contributions, less distributions and impairments. On a periodic basis, management also assesses whether there are any indicators that the carrying value of the Company's investments in unconsolidated real estate entities may be other than temporarily impaired. An investment is impaired only if the fair value of the investment, as estimated by management, is less than the carrying value of the investment and the decline is other than temporary. To the extent impairment has occurred, the loss shall be measured as the excess of the carrying amount of the investment over the fair value of the investment, as estimated by management. The determination as to whether impairment exists requires significant management judgment about the fair value of its ownership interest. Fair value is determined through various valuation techniques, including but not limited to, discounted cash flow models, quoted market values and third party appraisals. There were no impairment losses related to the Company's investments in unconsolidated real estate ventures recognized during the nine months ended September 30, 2016 and 2015.

### Recent Accounting Pronouncements

In August 2016, the FASB issued Accounting Standard Update ("ASU") No. 2016-15 – Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The eight items that the ASU provides classification guidance on include (1) debt prepayment and extinguishment costs, (2) settlement of zero-coupon debt instruments, (3) contingent consideration payments made after a business combination, (4) proceeds from the settlement of insurance claims, (5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, (6) distributions received from equity method investments, (7) beneficial interests in securitization transactions, and (8) separately identifiable cash flows and application of the predominance principle. The standard is effective on January 1, 2018, however early adoption is permitted. The standard requires the use of the retrospective transition method. The Company is in the process of evaluating the impact of this new guidance.

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which is intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. The new guidance allows for entities to make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. In addition, the guidance allows employers to withhold shares to satisfy minimum statutory tax withholding requirements up to the employees' maximum individual tax rate without causing the award to be classified as a liability. The guidance also stipulates that cash paid by an employer to a taxing authority when directly withholding shares for tax-withholding purposes should be classified as a financing activity on the statement of cash flows. The standard is effective on January 1, 2017, however early adoption is permitted. The Company is currently assessing the impact of the adoption of ASU No. 2016-09 on the Company's financial statements and related disclosures.

In February 2016, the FASB issued ASU No. 2016-02 - Leases (Topic 842), which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either financing or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The standard is effective on January 1, 2019, however early adoption is permitted. The Company is currently assessing the impact of the adoption of ASU No. 2016-02 on the Company's financial statements and related disclosures.

In September 2015, the FASB issued ASU No. 2015-16, Simplifying the Accounting for Measurement-Period Adjustments, which amends the current business combination guidance to require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts



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are determined, as opposed to having to revise prior period information. The standard also requires additional disclosure about the impact on current-period income statement line items of adjustments that would have been recognized in prior periods if prior period information had been revised. The new standard became effective for the Company on January 1, 2016. The adoption of this guidance did not have a material impact on the Company's consolidated financial position or results of operations as there have been no measurement-period adjustments recorded.

In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, an update to the accounting standard relating to the presentation of debt issuance costs. Under the new guidance, debt issuance costs related to a recognized debt liability will be presented on the balance sheet as a direct deduction from the debt liability. In the event that there is not an associated debt liability recorded in the consolidated financial statements, the debt issuance costs will continue to be recorded on the consolidated balance sheet as an asset until the debt liability is recorded. The new standard became effective for the Company on January 1, 2016. The adoption of this guidance did not have a material impact on the Company's consolidated financial position or results of operations as the update only related to changes in financial statement presentation.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation – Amendments to the Consolidation Analysis, which amends the current consolidation guidance affecting both the variable interest entity (“VIE”) and voting interest entity (“VOE”) consolidation models. The standard does not add or remove any of the characteristics in determining if an entity is a VIE or VOE, but rather enhances the way the Company assesses some of these characteristics. The new standard became effective for the Company on January 1, 2016. The adoption of this guidance did not have a material impact on the Company's consolidated financial position or results of operations as none of its existing consolidation conclusions were changed.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance under GAAP when it becomes effective. The new standard will be effective for the Company beginning on January 1, 2018, however early application beginning on January 1, 2017 is permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company has not yet selected a transition method. The Company is currently assessing the impact of the adoption of ASU No. 2014-09 on the Company's financial statements and related disclosures.

## Results of Operations

The following discussion of our results of operations should be read in conjunction with the consolidated financial statements and the accompanying notes thereto. Historical results set forth in the consolidated statements of operations reflect only the existing facilities and should not be taken as indicative of future operations. We consider our same-store portfolio to consist of only those facilities owned and operated on a stabilized basis at the beginning and at the end of the applicable periods presented. We consider a facility to be stabilized once it has achieved an

occupancy rate that we believe, based on our assessment of market-specific data, is representative of similar self-storage assets in the applicable market for a full year measured as of the most recent January 1 and has not been significantly damaged by natural disaster or undergone significant renovation. We believe that same-store results are useful to investors in evaluating our performance because they provide information relating to changes in facility-level operating performance without taking into account the effects of acquisitions, developments or dispositions. At September 30, 2016, we owned 407 same-store facilities and 64 non-same-store facilities. For analytical presentation, all percentages are calculated using the numbers presented in the financial statements contained in this Report.

#### Acquisition and Development Activities

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The comparability of our results of operations is affected by the timing of acquisition and disposition activities during the periods reported. At September 30, 2016 and 2015, we owned 471 and 438 self-storage facilities and related assets, respectively. The following table summarizes the change in number of owned self-storage facilities from January 1, 2015 through September 30, 2016:

|                        | 2016 | 2015 |
|------------------------|------|------|
| Balance - January 1    | 445  | 421  |
| Facilities acquired    | 10   | 7    |
| Facilities developed   | 1    | —    |
| Balance - March 31     | 456  | 428  |
| Facilities acquired    | 7    | 4    |
| Facilities developed   | 1    | 1    |
| Balance - June 30      | 464  | 433  |
| Facilities acquired    | 7    | 5    |
| Balance - September 30 | 471  | 438  |
| Facilities acquired    |      | 13   |
| Facilities developed   |      | 2    |
| Facilities sold        |      | (8)  |
| Balance - December 31  |      | 445  |

Comparison of the three months ended September 30, 2016 to the three months ended September 30, 2015 (in thousands)

|     | Store Property Portfolio |                         |             |   | Non Same-Store Properties |          | Other/<br>Eliminations |         | Total Portfolio |            |
|-----|--------------------------|-------------------------|-------------|---|---------------------------|----------|------------------------|---------|-----------------|------------|
|     | 2015                     | Increase/<br>(Decrease) | %<br>Change |   | 2016                      | 2015     | 2016                   | 2015    | 2016            | 2015       |
| 231 | \$ 96,934                | \$ 6,297                | 6.5         | % | \$ 13,185                 | \$ 5,451 | \$ —                   | \$ —    | \$ 116,416      | \$ 102,385 |
| 336 | 10,451                   | 385                     | 3.7         | % | 1,444                     | 674      | 727                    | 702     | 13,007          | 11,827     |
|     | —                        | —                       | 0.0         | % | —                         | —        | 2,673                  | 1,758   | 2,673           | 1,758      |
| 067 | 107,385                  | 6,682                   | 6.2         | % | 14,629                    | 6,125    | 3,400                  | 2,460   | 132,096         | 115,970    |
|     |                          |                         |             |   |                           |          |                        |         |                 |            |
| 71  | 32,149                   | (278)                   | (0.9)       | % | 5,657                     | 2,749    | 4,277                  | 4,399   | 41,805          | 39,297     |
| 96  | 75,236                   | 6,960                   | 9.3         | % | 8,972                     | 3,376    | (877)                  | (1,939) | 90,291          | 76,673     |
|     | 407                      |                         |             |   | 64                        | 31       |                        |         | 471             | 438        |

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|     |          |        |        |           |           |
|-----|----------|--------|--------|-----------|-----------|
| 310 | 27,810   | 4,679  | 2,088  | 32,489    | 29,898    |
| %   | 92.7 %   | 78.0 % | 80.6 % | 90.9 %    | 91.9      |
| 3   | %        | 93.4 % |        |           |           |
| 33  | \$ 14.93 |        |        |           |           |
|     |          |        |        | 41,827    | 38,744    |
|     |          |        |        | 8,065     | 7,002     |
|     |          |        |        | 888       | 1,222     |
|     |          |        |        | 50,780    | 46,968    |
|     |          |        |        | 39,511    | 29,705    |
|     |          |        |        |           |           |
|     |          |        |        | (12,787)  | (10,399)  |
|     |          |        |        | (655)     | (537)     |
|     |          |        |        | (581)     | 139       |
|     |          |        |        | (397)     | (288)     |
|     |          |        |        | (14,420)  | (11,085)  |
|     |          |        |        | 25,091    | 18,620    |
|     |          |        |        |           |           |
|     |          |        |        | (283)     | (223)     |
|     |          |        |        | 76        | 41        |
|     |          |        |        | \$ 24,884 | \$ 18,438 |
|     |          |        |        | (1,502)   | (1,502)   |
|     |          |        |        |           |           |
|     |          |        |        | \$ 23,382 | \$ 16,936 |

(1) Represents occupancy at September 30th of the respective period.

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(2) Represents the weighted average occupancy for the period.

(3) Realized annual rent per occupied square foot is computed by dividing rental income by the weighted average occupied square feet for the period.

Revenues

Rental income increased from \$102.4 million during the three months ended September 30, 2015 to \$116.4 million during the three months ended September 30, 2016, an increase of \$14.0 million, or 13.7%. The increase in same-store revenue was due primarily to an increase in average occupancy of 40 basis points and higher rental rates. Realized annual rent per square foot on our same-store portfolio increased 6.0% as a result of higher asking rates for new and existing customers and lower levels of promotional discounts for the three months ended September 30, 2016 as compared to the three months ended September 30, 2015. The remaining increase is primarily attributable to \$7.7 million of additional income from the facilities acquired in 2015 and 2016 included in our non-same store portfolio.

Other property related income increased from \$11.8 million during the three months ended September 30, 2015 to \$13.0 million during the three months ended September 30, 2016, an increase of \$1.2 million, or 10.0%. This increase is primarily attributable to \$0.7 million of increased tenant insurance commissions and \$0.4 million of increased fee income for the three months ended September 30, 2016 as compared to the three months ended September 30, 2015.

Property management fee income increased from \$1.8 million during the three months ended September 30, 2015 to \$2.7 million during the three months ended September 30, 2016, an increase of \$0.9 million, or 52.0%. This increase is attributable to an increase in management fees related to the third-party management business resulting from more stores under management and higher revenue at managed stores.

Operating Expenses

Property operating expenses increased from \$39.3 million during the three months ended September 30, 2015 to \$41.8 million during the three months ended September 30, 2016, an increase of \$2.5 million, or 6.4%. This increase is primarily attributable to \$2.9 million of increased expenses associated with newly acquired facilities offset by a \$0.3 million decrease, or 0.9%, in property operating expenses on the same-store portfolio primarily due to lower utility expenses.

Depreciation and amortization increased from \$38.7 million during the three months ended September 30, 2015 to \$41.8 million during the three months ended September 30, 2016, an increase of \$3.1 million, or 8.0%. This increase

is primarily attributable to depreciation and amortization expenses related to the 2015 and 2016 acquisitions.

General and administrative expenses increased from \$7.0 million during the three months ended September 30, 2015 to \$8.1 million, an increase of \$1.1 million, or 15.2%. The change is attributable to \$1.3 million of increased payroll expenses resulting from additional employee headcount to support our growth.

Acquisition-related costs decreased from \$1.2 million during the three months ended September 30, 2015 to \$0.9 million during the three months ended September 30, 2016, a decrease of \$0.3 million, or 27.3%. Acquisition costs are non-recurring and fluctuate based on quarterly investment activity.

#### Other (Expense) Income

Interest expense increased from \$10.4 million during the three months ended September 30, 2015 to \$12.8 million during the three months ended September 30, 2016, an increase of \$2.4 million, or 23.0%. The increase is attributable to a higher weighted average effective interest rate and a higher amount of outstanding debt during the three months ended September 30, 2016 as compared to the three months ended September 30, 2015. The weighted average effective interest rate of our outstanding debt increased from 3.67% for the three months ended September 30, 2015 to 3.73% for the three months ended September 30, 2016 as a result of the issuance of \$300.0 million in aggregate principal amount of 3.125% unsecured senior notes and repayment of the revolving portion of the Company's credit facility at an average effective interest rate of 1.74% during the third quarter of 2016. The average outstanding debt balance increased \$281.4

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million to \$1.5 billion during the three months ended September 30, 2016 as compared to \$1.2 billion during the three months ended September 30, 2015 as the result of borrowings to fund a portion of the Company's acquisition activity.

Equity in (losses) earnings of real estate ventures decreased \$0.7 million during the three months ended September 30, 2016 compared to the three months ended September 30, 2015. This decrease is mainly driven by our share of the losses attributable to HVP, a real estate venture in which we own a 10% interest. The loss incurred in 2016 was primarily the result of amortization expense associated with the in-place lease intangible that was recorded in connection with the venture's acquisition of 67 properties, which took place during the fourth quarter of 2015 and the first two quarters of 2016.

Comparison of the nine months ended September 30, 2016 to the nine months ended September 30, 2015 (in thousands)

|                                               | Same-Store Property Portfolio |            |                         |             |   | Non Same-Store Properties |           | Other/<br>Eliminations |
|-----------------------------------------------|-------------------------------|------------|-------------------------|-------------|---|---------------------------|-----------|------------------------|
|                                               | 2016                          | 2015       | Increase/<br>(Decrease) | %<br>Change |   | 2016                      | 2015      | 2016                   |
| REVENUES:                                     |                               |            |                         |             |   |                           |           |                        |
| Rental income                                 | \$ 300,290                    | \$ 278,818 | \$ 21,472               | 7.7         | % | \$ 32,661                 | \$ 11,926 | \$ —                   |
| Other property related income                 | 31,556                        | 30,110     | 1,446                   | 4.8         | % | 3,604                     | 1,489     | 2,253                  |
| Property management fee income                | —                             | —          | —                       | 0.0         | % | —                         | —         | 7,129                  |
| Total revenues                                | 331,846                       | 308,928    | 22,918                  | 7.4         | % | 36,265                    | 13,415    | 9,382                  |
| OPERATING EXPENSES:                           |                               |            |                         |             |   |                           |           |                        |
| Property operating expenses                   | 95,785                        | 96,222     | (437)                   | (0.5)       | % | 14,186                    | 5,947     | 13,660                 |
| NET OPERATING INCOME (LOSS):                  | 236,061                       | 212,706    | 23,355                  | 11.0        | % | 22,079                    | 7,468     | (4,278)                |
| Property count                                | 407                           | 407        |                         |             |   | 64                        | 31        |                        |
| Total square footage                          | 27,810                        | 27,810     |                         |             |   | 4,679                     | 2,088     |                        |
| Period End Occupancy (1)                      | 93.1 %                        | 92.7 %     |                         |             |   | 78.0 %                    | 80.6 %    |                        |
| Period Average Occupancy (2)                  | 93.1 %                        | 92.2 %     |                         |             |   |                           |           |                        |
| Realized annual rent per occupied sq. ft. (3) | \$ 15.46                      | \$ 14.50   |                         |             |   |                           |           |                        |



Depreciation and  
amortization  
General and  
administrative  
Acquisition related  
costs

Subtotal  
OPERATING  
INCOME

OTHER (EXPENSE)  
INCOME

Interest:  
Interest expense on  
loans  
Loan procurement  
amortization expense  
Equity in losses of real  
estate ventures  
Other  
Total other expense

NET INCOME  
NET (INCOME)  
LOSS  
ATTRIBUTABLE TO  
NONCONTROLLING  
INTERESTS

Noncontrolling  
interests in the  
Operating Partnership  
Noncontrolling  
interests in  
subsidiaries

NET INCOME  
ATTRIBUTABLE TO  
THE COMPANY

Distribution to  
preferred shareholders

NET INCOME  
ATTRIBUTABLE TO  
THE COMPANY'S  
COMMON  
SHAREHOLDERS

- 
- (1) Represents occupancy at September 30th of the respective period.  
 (2) Represents the weighted average occupancy for the period.  
 (3) Realized annual rent per occupied square foot is computed by dividing rental income by the weighted average occupied square feet for the period.



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Revenues

Rental income increased from \$290.7 million during the nine months ended September 30, 2015 to \$333.0 million during the nine months ended September 30, 2016, an increase of \$42.2 million, or 14.5%. The increase in same-store revenue was due primarily to an increase in average occupancy of 90 basis points and higher rental rates. Realized annual rent per square foot on our same-store portfolio increased 6.6% as a result of higher asking rates for new and existing customers and lower levels of promotional discounts for the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015. The remaining increase is primarily attributable to \$20.7 million of additional income from the facilities acquired in 2015 and 2016 included in our non-same store portfolio.

Other property related income increased from \$33.8 million during the nine months ended September 30, 2015 to \$37.4 million during the nine months ended September 30, 2016, an increase of \$3.7 million, or 10.8%. The increase is primarily attributable to \$2.3 million of increased tenant insurance commissions and \$1.1 million of increased fee income for the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015.

Property management fee income increased from \$5.0 million during the nine months ended September 30, 2015 to \$7.1 million during the nine months ended September 30, 2016, an increase of \$2.1 million, or 41.7%. This increase is attributable to an increase in management fees related to the third-party management business resulting from more stores under management and higher revenue at managed stores.

Operating Expenses

Property operating expenses increased from \$114.9 million during the nine months ended September 30, 2015 to \$123.6 million during the nine months ended September 30, 2016, an increase of \$8.7 million, or 7.6%. This increase is attributable to \$8.2 million of increased expenses associated with newly acquired facilities and \$0.9 million of increased costs to manage our portfolio and support our growth, offset by a \$0.4 million decrease in property operating expenses on the same-store portfolio primarily due to reduced utilities and snow removal costs.

Depreciation and amortization increased from \$114.7 million during the nine months ended September 30, 2015 to \$122.6 million during the nine months ended September 30, 2016, an increase of \$7.9 million, or 6.9%. This increase is primarily attributable to depreciation and amortization expenses related to the 2015 and 2016 acquisitions.

General and administrative expenses increased from \$21.3 million during the nine months ended September 30, 2015 to \$24.2 million during the nine months ended September 30, 2016, an increase of \$2.9 million, or 13.6%. The change is primarily attributable to \$2.8 million of increased payroll expenses resulting from additional employee headcount to

support our growth.

Acquisition-related costs increased from \$2.5 million during the nine months ended September 30, 2015 to \$5.8 million during the nine months ended September 30, 2016, an increase of \$3.3 million, or 133.1%. Acquisition costs are non-recurring and fluctuate based on quarterly investment activity.

#### Other (Expense) Income

Interest expense increased from \$32.3 million during the nine months ended September 30, 2015 to \$37.1 million during the nine months ended September 30, 2016, an increase of \$4.7 million, or 14.7%. The increase is primarily attributable to a higher amount of outstanding debt during the nine months ended September 30, 2016 as compared to the nine months ended September 30, 2015. The average debt balance increased \$197.0 million to \$1.4 billion during the nine months ended September 30, 2016 as compared to \$1.2 billion during the nine months ended September 30, 2015 as the result of borrowings to fund a portion of the Company's acquisition activity.

Equity in losses of real estate ventures decreased \$1.6 million during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015. The decrease is mainly driven by our share of the losses attributable to HVP, a real estate venture in which we own a 10% interest. The loss incurred in 2016 was the result of amortization expense associated with the in-place lease intangible that was recorded in connection with the venture's

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acquisition of 67 properties. The amortization expense did not exist in the 2015 period as the acquisitions took place during the fourth quarter of 2015 and the first two quarters of 2016.

Other (expense) income increased \$1.6 million from the nine months ended September 30, 2015 to the nine months ended September 30, 2016 due to acquisition fees earned in conjunction with HVP's acquisition of 67 self storage facilities.

Cash Flows

Comparison of the nine months ended September 30, 2016 to the nine months ended September 30, 2015

A comparison of cash flow from operating, investing and financing activities for the nine months ended September 30, 2016 and 2015 is as follows (in thousands):

| Net cash provided by (used in): | Nine Months Ended<br>September 30, |              | Change       |
|---------------------------------|------------------------------------|--------------|--------------|
|                                 | 2016                               | 2015         |              |
|                                 | (in thousands)                     |              |              |
| Operating activities            | \$ 201,421                         | \$ 162,491   | \$ 38,930    |
| Investing activities            | \$ (472,133)                       | \$ (237,903) | \$ (234,230) |
| Financing activities            | \$ 295,222                         | \$ 75,529    | \$ 219,693   |

Cash provided by operating activities for the nine months ended September 30, 2016 and 2015 was \$201.4 million and \$162.5 million, respectively, reflecting an increase of \$38.9 million. Our principal source of cash flow is from the operation of our facilities. During the nine months ended September 30, 2016, our increased cash flow from operating activities was primarily attributable to our 2016 and 2015 acquisitions and increased net operating income levels on the same-store portfolio in the 2016 period as compared to the 2015 period.

Cash used in investing activities increased from \$237.9 million for the nine months ended September 30, 2015 to \$472.1 million for the nine months ended September 30, 2016, reflecting an increase of \$234.2 million. The change is primarily driven by an increase in cash used for acquisitions of self-storage facilities. Cash used during the nine months ended September 30, 2016, relates to the acquisition of 24 facilities for an aggregate purchase price of \$350.8 million, inclusive of \$6.5 million of assumed debt, while cash used in investing activities during the nine months ended September 30, 2015 relates to the acquisition of 16 facilities for an aggregate purchase price of \$168.2 million,

inclusive of \$2.7 million of assumed debt. The change is also driven by a \$75.7 million increase in cash used for development costs, resulting primarily from the acquisition of a development property by a consolidated joint venture in the second quarter of 2016 for \$67.2 million, inclusive of \$35.0 million of assumed debt.

For the nine months ended September 30, 2016 and 2015, cash provided by financing activities was \$295.2 million and \$75.5 million, respectively, reflecting an increase of \$219.7 million. The increase is primarily a result of \$298.5 million in net proceeds received from our issuance of unsecured senior notes in August 2016 with no similar transaction during the nine months ended September 30, 2015, as well as a \$40.3 million decrease in principal payments on mortgage loans, resulting primarily from the repayment of five secured loans during the nine months ended September 30, 2016 for \$34.9 million compared to three repayments during the nine months ended September 30, 2015 for \$73.8 million. These increases were offset by an \$89.8 million net decrease in revolving credit facility borrowings during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 as well as a \$32.1 million increase in cash distributions paid to common shareholders, preferred shareholders and noncontrolling interests in the Operating Partnership during the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015, resulting from the increase in the common dividend per share and number of shares outstanding.

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### Liquidity and Capital Resources

#### Liquidity Overview

Our cash flow from operations has historically been one of our primary sources of liquidity used to fund debt service, distributions and capital expenditures. We derive substantially all of our revenue from customers who lease space from us at our facilities and fees earned from managing facilities. Therefore, our ability to generate cash from operations is dependent on the rents that we are able to charge and collect from our customers. We believe that the facilities in which we invest, self-storage facilities, are less sensitive than other real estate product types to near-term economic downturns. However, prolonged economic downturns will adversely affect our cash flows from operations.

In order to qualify as a REIT for federal income tax purposes, the Parent Company is required to distribute at least 90% of REIT taxable income, excluding capital gains, to its shareholders on an annual basis or pay federal income tax. The nature of our business, coupled with the requirement that we distribute a substantial portion of our income on an annual basis, will cause us to have substantial liquidity needs over both the short term and the long term.

Our short-term liquidity needs consist primarily of funds necessary to pay operating expenses associated with our facilities, refinancing of certain mortgage indebtedness, interest expense and scheduled principal payments on debt, expected distributions to limited partners and shareholders, capital expenditures and the development of new facilities. These funding requirements will vary from year to year, in some cases significantly. For the remainder of the 2016 fiscal year, we expect recurring capital expenditures to be approximately \$4.0 million to \$9.0 million, planned capital improvements and facility upgrades to be approximately \$2.0 million to \$5.0 million and costs associated with the development of new facilities to be approximately \$18.0 million to \$23.0 million. Our currently scheduled principal payments on debt, including borrowings outstanding on the Credit Facility and Term Loan Facility, are approximately \$0.6 million for the remainder of 2016.

Our most restrictive financial covenants limit the amount of additional leverage we can add; however, we believe cash flows from operations, access to equity financing, including through our “at the market” equity program, and available borrowings under our Credit Facility provide adequate sources of liquidity to enable us to execute our current business plan and remain in compliance with our covenants.

Our liquidity needs beyond 2016 consist primarily of contractual obligations which include repayments of indebtedness at maturity, as well as potential discretionary expenditures such as (i) non-recurring capital expenditures; (ii) redevelopment of operating facilities; (iii) acquisitions of additional facilities; and (iv) development of new facilities. We will have to satisfy the portion of our needs not covered by cash flow from operations through additional borrowings, including borrowings under our Credit Facility, sales of common or preferred shares of the Parent Company and common or preferred units of the Operating Partnership and/or cash generated through facility

dispositions and joint venture transactions.

We believe that, as a publicly traded REIT, we will have access to multiple sources of capital to fund our long-term liquidity requirements, including the incurrence of additional debt and the issuance of additional equity. However, we cannot provide any assurance that this will be the case. Our ability to incur additional debt will be dependent on a number of factors, including our degree of leverage, the value of our unencumbered assets and borrowing restrictions that may be imposed by lenders. In addition, dislocation in the United States debt markets may significantly reduce the availability and increase the cost of long-term debt capital, including conventional mortgage financing and commercial mortgage-backed securities financing. There can be no assurance that such capital will be readily available in the future. Our ability to access the equity capital markets will be dependent on a number of factors as well, including general market conditions for REITs and market perceptions about us.

As of September 30, 2016, we had approximately \$87.4 million in available cash and cash equivalents. In addition, we had approximately \$499.3 million of availability for borrowings under our Credit Facility.

#### Unsecured Senior Notes

Our unsecured senior notes are summarized as follows (collectively referred to as the “Senior Notes”):



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| Unsecured Senior Notes                                    | September 30,<br>2016<br>(in thousands) | December 31,<br>2015 | Effective<br>Interest Rate | Issuance<br>Date | Maturity<br>Date |
|-----------------------------------------------------------|-----------------------------------------|----------------------|----------------------------|------------------|------------------|
| \$250M 4.800% Guaranteed Notes due 2022                   | \$ 250,000                              | \$ 250,000           | 4.82                       | % Jun-12         | Jul-22           |
| \$250M 4.375% Guaranteed Notes due 2023                   | 250,000                                 | 250,000              | 4.50                       | % Dec-13         | Dec-23           |
| \$250M 4.000% Guaranteed Notes due 2025                   | 250,000                                 | 250,000              | 4.03                       | % Oct-15         | Nov-25           |
| \$300M 3.125% Guaranteed Notes due 2026                   | 300,000                                 | —                    | 3.18                       | % Aug-16         | Sep-26           |
| Principal balance outstanding                             | 1,050,000                               | 750,000              |                            |                  |                  |
| Less: Discount on issuance of unsecured senior notes, net | (4,099)                                 | (2,888)              |                            |                  |                  |
| Less: Loan procurement costs, net                         | (7,173)                                 | (5,208)              |                            |                  |                  |
| Total unsecured senior notes, net                         | \$ 1,038,728                            | \$ 741,904           |                            |                  |                  |

The indenture under which the Senior Notes were issued restricts the ability of the Operating Partnership and its subsidiaries to incur debt unless the Operating Partnership and its consolidated subsidiaries comply with a leverage ratio not to exceed 60% and an interest coverage ratio of more than 1.5:1 after giving effect to the incurrence of the debt. The indenture also restricts the ability of the Operating Partnership and its subsidiaries to incur secured debt unless the Operating Partnership and its consolidated subsidiaries comply with a secured debt leverage ratio not to exceed 40% after giving effect to the incurrence of the debt. The indenture also contains other financial and customary covenants, including a covenant not to own unencumbered assets with a value less than 150% of the unsecured indebtedness of the Operating Partnership and its consolidated subsidiaries. As of September 30, 2016, the Operating Partnership was in compliance with all of the financial covenants under the Senior Notes.

#### Revolving Credit Facility and Unsecured Term Loans

On June 20, 2011, we entered into an unsecured term loan agreement (the “Term Loan Facility”) which consisted of a \$100.0 million term loan with a five-year maturity (“Term Loan A”) and a \$100.0 million term loan with a seven-year maturity (“Term Loan B”). On December 9, 2011, we entered into a credit facility (the “Credit Facility”) comprised of a \$100.0 million unsecured term loan maturing in December 2014 (“Term Loan C”); a \$200.0 million unsecured term loan maturing in March 2017 (“Term Loan D”); and a \$300.0 million unsecured revolving facility maturing in December 2015 (“Revolver”).

On June 18, 2013, we amended both the Term Loan Facility and Credit Facility. With respect to the Term Loan Facility, among other things, the amendment extended the maturity date to June 2018 and decreased the pricing of Term Loan A, while Term Loan B remained unchanged by the amendment. With respect to the Credit Facility, among

other things, the amendment extended the maturity date to January 2019 and decreased the pricing of Term Loan D. On August 5, 2014, we further amended the Term Loan Facility to extend the maturity date to January 2020 and decrease the pricing of Term Loan B. On December 17, 2013, we repaid the \$100.0 million balance under Term Loan C that was scheduled to mature in December 2014.

Pricing on the Term Loan Facility depends on our unsecured debt credit ratings. At our current Baa2/BBB level, amounts drawn under Term Loan A are priced at 1.30% over LIBOR, while amounts drawn under Term Loan B are priced at 1.15% over LIBOR.

On April 22, 2015, we further amended the Credit Facility with respect to the Revolver. Among other things, the amendment increased the aggregate amount of the Revolver from \$300.0 million to \$500.0 million, decreased the facility fee from 0.20% to 0.15% and extended the maturity date from June 18, 2017 to April 22, 2020.

Pricing on the Credit Facility depends on our unsecured debt credit ratings. At our current Baa2/BBB level, amounts drawn under the Revolver are priced at 1.25% over LIBOR, inclusive of a facility fee of 0.15%, while amounts drawn under Term Loan D are priced at 1.30% over LIBOR.

We incurred costs of \$2.3 million in 2015 in connection with amending the Credit Facility and capitalized such costs as a component of loan procurement costs, net of amortization on the consolidated balance sheet. Additionally, in connection with the amendment, \$0.1 million of unamortized costs were written-off. All remaining unamortized costs,

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along with costs incurred in connection with the amendment, are amortized as an adjustment to interest expense over the remaining term of the modified facilities.

As of September 30, 2016, \$200.0 million of unsecured term loan borrowings were outstanding under the Term Loan Facility, \$200.0 million of unsecured term loan borrowings were outstanding under the Credit Facility, and \$499.3 million was available for borrowing under the unsecured revolving portion of the Credit Facility. The available balance under the unsecured revolving portion of the Credit Facility is reduced by an outstanding letter of credit of \$0.7 million. In connection with a portion of the unsecured borrowings, we had interest rate swaps as of September 30, 2016 that fix 30-day LIBOR (see note 10 to the unaudited consolidated financial statements). As of September 30, 2016, borrowings under the Credit Facility and Term Loan Facility, as amended and after giving effect to the interest rate swaps, had an effective weighted average interest rate of 2.68%.

The Term Loan Facility and the term loan under our Credit Facility were fully drawn at September 30, 2016 and no further borrowings may be made under the term loans. Our ability to borrow under the revolving portion of the Credit Facility is subject to ongoing compliance with certain financial covenants which include:

- Maximum total indebtedness to total asset value of 60.0% at any time;
- Minimum fixed charge coverage ratio of 1.50:1.00; and
- Minimum tangible net worth of \$821,211,200 plus 75% of net proceeds from equity issuances after June 30, 2010.

Further, under the Credit Facility and Term Loan Facility, we are restricted from paying distributions on the Parent Company's common shares in excess of the greater of (i) 95% of funds from operations, and (ii) such amount as may be necessary to maintain the Parent Company's REIT status.

As of September 30, 2016, we were in compliance with all of our financial covenants and anticipate being in compliance with all of our financial covenants through the terms of the Credit Facility and Term Loan Facility.

At The Market Equity Program

Pursuant to a previous sales agreement, we had an "at-the-market" equity program that enabled us to sell common shares through a sales agent. On May 7, 2013, we terminated the previous sales agreement with our previous sales agent and entered into separate equity distribution agreements (the "Equity Distribution Agreements") with a group of sales agents

(collectively, the “Sales Agents”). The Equity Distribution Agreements replaced the previous sale agreement and were amended on May 5, 2014, October 2, 2014, and December 30, 2015 to increase the number of common shares authorized for sale through “at-the-market” equity offerings. Pursuant to the Equity Distribution Agreements, as amended, we may sell, from time to time, up to 40.0 million common shares of beneficial interest through the Sales Agents.

During the nine months ended September 30, 2016, we sold a total of 4.4 million common shares under the Equity Distribution Agreements at an average sales price of \$31.25 per share, resulting in gross proceeds of \$137.7 million under the program. We incurred \$1.6 million of offering costs in conjunction with the 2016 sales. We used proceeds from the sales conducted during the nine months ended September 30, 2016 to fund acquisitions of storage facilities and for general corporate purposes. As of September 30, 2016, 5.8 million common shares remained available for issuance under the Equity Distribution Agreements.

#### Recent Developments

Subsequent to September 30, 2016, we acquired one self-storage facility in Nevada for a purchase price of approximately \$13.3 million.

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On September 2, 2016, we announced that we will redeem all of our 3.1 million outstanding shares of its 7.75% Series A Cumulative Redeemable Preferred Shares (the “Preferred Shares”) with a par value of \$77.5 million on November 2, 2016. The Preferred Shares will be redeemed at a redemption price of \$25.00 per share, plus accumulated and unpaid dividends up to and including the redemption date of \$0.17374 per share. In connection with the redemption of the Preferred Shares, in accordance with EITF D-42, we expect to recognize a charge of approximately \$2.8 million in the fourth quarter related to excess redemption costs over the original net issuance proceeds.

## Non-GAAP Financial Measures

### NOI

We define net operating income, which we refer to as “NOI”, as total continuing revenues less continuing property operating expenses. NOI also can be calculated by adding back to net income (loss): interest expense on loans, loan procurement amortization expense, loan procurement amortization expense — early repayment of debt, acquisition related costs, equity in losses of real estate ventures, other expense, depreciation and amortization expense, general and administrative expense, and deducting from net income (loss): gains from sale of real estate, net, other income, gains from remeasurement of investments in real estate ventures and interest income. NOI is not a measure of performance calculated in accordance with GAAP.

We use NOI as a measure of operating performance at each of our facilities, and for all of our facilities in the aggregate. NOI should not be considered as a substitute for operating income, net income, cash flows provided by operating, investing and financing activities, or other income statement or cash flow statement data prepared in accordance with GAAP.

We believe NOI is useful to investors in evaluating our operating performance because:

- it is one of the primary measures used by our management and our facility managers to evaluate the economic productivity of our facilities, including our ability to lease our facilities, increase pricing and occupancy and control our property operating expenses;
- it is widely used in the real estate industry and the self-storage industry to measure the performance and value of real estate assets without regard to various items included in net income that do not relate to or are not indicative of operating performance, such as depreciation and amortization, which can vary depending upon accounting methods and the book value of assets; and

- it helps our investors to meaningfully compare the results of our operating performance from period to period by removing the impact of our capital structure (primarily interest expense on our outstanding indebtedness) and depreciation of our basis in our assets from our operating results.

There are material limitations to using a measure such as NOI, including the difficulty associated with comparing results among more than one company and the inability to analyze certain significant items, including depreciation and interest expense, that directly affect our net income. We compensate for these limitations by considering the economic effect of the excluded expense items independently as well as in connection with our analysis of net income. NOI should be considered in addition to, but not as a substitute for, other measures of financial performance reported in accordance with GAAP, such as total revenues, operating income and net income.

#### FFO

Funds from operations (“FFO”) is a widely used performance measure for real estate companies and is provided here as a supplemental measure of operating performance. The April 2002 National Policy Bulletin of the National Association of Real Estate Investment Trusts (the “White Paper”), as amended, defines FFO as net income (computed in accordance with GAAP), excluding gains (or losses) from sales of real estate and related impairment charges, plus real estate depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures.

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Management uses FFO as a key performance indicator in evaluating the operations of our facilities. Given the nature of our business as a real estate owner and operator, we consider FFO a key measure of our operating performance that is not specifically defined by accounting principles generally accepted in the United States. We believe that FFO is useful to management and investors as a starting point in measuring our operational performance because FFO excludes various items included in net income that do not relate to or are not indicative of our operating performance such as gains (or losses) from sales of real estate, gains from remeasurement of investments in real estate ventures, impairments of depreciable assets, and depreciation, which can make periodic and peer analyses of operating performance more difficult. Our computation of FFO may not be comparable to FFO reported by other REITs or real estate companies.

FFO should not be considered as an alternative to net income (determined in accordance with GAAP) as an indication of our performance. FFO does not represent cash generated from operating activities determined in accordance with GAAP and is not a measure of liquidity or an indicator of our ability to make cash distributions. We believe that to further understand our performance, FFO should be compared with our reported net income and considered in addition to cash flows computed in accordance with GAAP, as presented in our Consolidated Financial Statements.

## FFO, as adjusted

FFO, as adjusted represents FFO as defined above, excluding the effects of acquisition related costs, gains or losses from early extinguishment of debt, and non-recurring items, which we believe are not indicative of the Company's operating results. We present FFO, as adjusted because we believe it is a helpful measure in understanding our results of operations insofar as we believe that the items noted above that are included in FFO, but excluded from FFO, as adjusted are not indicative of our ongoing operating results. We also believe that the analyst community considers our FFO, as adjusted (or similar measures using different terminology) when evaluating us. Because other REITs or real estate companies may not compute FFO, as adjusted in the same manner as we do, and may use different terminology, our computation of FFO, as adjusted may not be comparable to FFO, as adjusted reported by other REITs or real estate companies.

The following table presents a reconciliation of net income to FFO and FFO, as adjusted, for the three and nine months ended September 30, 2016 and 2015 (in thousands):

|                                                              | Three Months Ended<br>September 30,<br>2016 |           | Nine Months Ended<br>September 30,<br>2016 |           |
|--------------------------------------------------------------|---------------------------------------------|-----------|--------------------------------------------|-----------|
|                                                              | 2015                                        |           | 2015                                       |           |
| Net income attributable to the Company's common shareholders | \$ 23,382                                   | \$ 16,936 | \$ 56,552                                  | \$ 36,090 |

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Add:

Real estate depreciation and amortization:

|                                                            |           |           |            |            |
|------------------------------------------------------------|-----------|-----------|------------|------------|
| Real property                                              | 41,195    | 38,328    | 120,925    | 113,422    |
| Company's share of unconsolidated real estate ventures     | 2,905     | 1,784     | 8,148      | 5,340      |
| Noncontrolling interests in the Operating Partnership      | 283       | 223       | 682        | 475        |
| FFO attributable to common shareholders and OP unitholders | \$ 67,765 | \$ 57,271 | \$ 186,307 | \$ 155,327 |

Add:

|                                                                         |           |           |            |            |
|-------------------------------------------------------------------------|-----------|-----------|------------|------------|
| Acquisition related costs (1)                                           | 888       | 1,222     | 5,970      | 2,485      |
| FFO attributable to common shareholders and OP unitholders, as adjusted | \$ 68,653 | \$ 58,493 | \$ 192,277 | \$ 157,812 |
| Weighted-average diluted shares and units outstanding                   | 182,699   | 173,138   | 181,134    | 170,956    |

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- (1) Acquisition related costs for the nine months ended September 30, 2016 include \$0.2 million of acquisition related costs that are included in the Company's share of equity in losses of real estate ventures.

Off-Balance Sheet Arrangements

We do not have off-balance sheet arrangements, financings or other relationships with other unconsolidated entities (other than our co-investment partnerships) or other persons, also known as variable interest entities not previously discussed.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our future income, cash flows and fair values relevant to financial instruments depend upon prevailing market interest rates.

Market Risk

Our investment policy relating to cash and cash equivalents is to preserve principal and liquidity while maximizing the return through investment of available funds.

Effect of Changes in Interest Rates on our Outstanding Debt

Our interest rate risk objectives are to limit the impact of interest rate fluctuations on earnings and cash flows and to lower our overall borrowing costs. To achieve these objectives, we manage our exposure to fluctuations in market interest rates for a portion of our borrowings through the use of derivative financial instruments such as interest rate swaps or caps to mitigate our interest rate risk on a related financial instrument or to effectively lock the interest rate on a portion of our variable rate debt. The analysis below presents the sensitivity of the market value of our financial instruments to selected changes in market rates. The range of changes chosen reflects our view of changes which are reasonably possible over a one-year period. Market values are the present value of projected future cash flows based on the market rates chosen.

As of September 30, 2016, our consolidated debt consisted of \$1.5 billion of outstanding mortgages, unsecured senior notes and unsecured term loans that are subject to fixed rates, including variable rate debt that is effectively fixed through our use of interest rate swaps. Additionally, as of September 30, 2016, there were \$100.0 million of outstanding unsecured term loan borrowings, subject to floating rates. Changes in market interest rates have different

impacts on the fixed and variable rate portions of our debt portfolio. A change in market interest rates on the fixed portion of the debt portfolio impacts the net financial instrument position, but has no impact on interest incurred or cash flows. A change in market interest rates on the variable portion of the debt portfolio impacts the interest incurred and cash flows, but does not impact the net financial instrument position.

If market interest rates on our variable rate debt increase by 100 basis points, the increase in annual interest expense on our variable rate debt would decrease future earnings and cash flows by approximately \$1.0 million a year. If market interest rates on our variable rate debt decrease by 100 basis points, the decrease in interest expense on our variable rate debt would increase future earnings and cash flows by approximately \$1.0 million a year.

If market rates of interest increase by 100 basis points, the fair value of our outstanding fixed-rate mortgage debt, unsecured senior notes and unsecured term loans would decrease by approximately \$84.2 million. If market rates of interest decrease by 100 basis points, the fair value of our outstanding fixed-rate mortgage debt, unsecured senior notes and unsecured term loans would increase by approximately \$97.8 million.

#### ITEM 4. CONTROLS AND PROCEDURES

##### Controls and Procedures (Parent Company)

##### Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Report, the Parent Company carried out an evaluation, under the supervision and with the participation of its management, including its chief executive officer and chief financial officer,

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of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rules 13a-15(e) under the Exchange Act).

Based on that evaluation, the Parent Company's chief executive officer and chief financial officer have concluded that the Parent Company's disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information required to be disclosed by the Parent Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to the Parent Company's management, including its chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There has been no change in the Parent Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during its most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

Controls and Procedures (Operating Partnership)

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Report, the Operating Partnership carried out an evaluation, under the supervision and with the participation of its management, including the Operating Partnership's chief executive officer and chief financial officer, of the effectiveness of the design and operation of the Operating Partnership's disclosure controls and procedures (as defined in Rules 13a-15(e) under the Exchange Act).

Based on that evaluation, the Operating Partnership's chief executive officer and chief financial officer have concluded that the Operating Partnership's disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information required to be disclosed by the Operating Partnership in reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to the Operating Partnership's management, including the Operating Partnership's chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There has been no change in the Operating Partnership's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during its most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Operating Partnership's internal control over financial reporting.

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## PART II. OTHER INFORMATION

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

## Repurchases of Parent Company Common Shares

The following table provides information about repurchases of the Parent Company's common shares during the three months ended September 30, 2016:

|                            | Total<br>Number of<br>Shares<br>Purchased (1) | Average<br>Price Paid<br>Per Share | Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans or Programs | Maximum<br>Number of<br>Shares that<br>May Yet Be<br>Purchased<br>Under the<br>Plans or<br>Programs (2) |
|----------------------------|-----------------------------------------------|------------------------------------|-------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|
| July 1 - July 31           | 223                                           | \$ 30.37                           | N/A                                                                                                   | 3,000,000                                                                                               |
| August 1 - August 31       | 251                                           | \$ 28.16                           | N/A                                                                                                   | 3,000,000                                                                                               |
| September 1 - September 30 | 265                                           | \$ 27.31                           | N/A                                                                                                   | 3,000,000                                                                                               |
| Total                      | 739                                           | \$ 28.52                           | N/A                                                                                                   | 3,000,000                                                                                               |

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- (1) Represents common shares withheld by the Parent Company upon the vesting of restricted shares to cover employee tax obligations.
- (2) On September 27, 2007, the Parent Company announced that the Board of Trustees approved a share repurchase program for up to 3.0 million of the Parent Company's outstanding common shares. Unless terminated earlier by resolution of the Board of Trustees, the program will expire when the number of authorized shares has been repurchased. The Parent Company has made no repurchases under this program to date.

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ITEM 6. EXHIBITS

| Exhibit No. | Exhibit Description                                                                                                                                                                                                                                              |
|-------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.1         | Fourth Supplemental Indenture, dated as of August 15, 2016, among CubeSmart, CubeSmart, L.P. and U.S. Bank National Association (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on August 15, 2016).         |
| 4.2         | Form of \$300 million aggregate principal amount of 3.125% senior notes due September 1, 2026 (incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, filed on August 15, 2016).                                           |
| 4.3         | Form of CubeSmart Guarantee (incorporated herein by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K, filed on August 15, 2016).                                                                                                             |
| 10.1        | First Amendment to Executive Employment Agreement, dated as of September 30, 2016, by and between CubeSmart and Christopher P. Marr (incorporated herein by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K, filed on September 30, 2016). |
| 12.1        | Statement regarding Computation of Ratios of Earnings to Fixed Charges of CubeSmart. (filed herewith)                                                                                                                                                            |
| 12.2        | Statement regarding Computation of Ratios of Earnings to Fixed Charges of CubeSmart L.P. (filed herewith)                                                                                                                                                        |
| 31.1        | Certification of Chief Executive Officer of CubeSmart as required by Rule 13a-14(a)/15d-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (filed herewith)                                                     |
| 31.2        | Certification of Chief Financial Officer of CubeSmart as required by Rule 13a-14(a)/15d-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (filed herewith)                                                     |
| 31.3        | Certification of Chief Executive Officer of CubeSmart, L.P., as required by Rule 13a-14(a)/15d-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (filed herewith)                                              |
| 31.4        | Certification of Chief Financial Officer of CubeSmart, L.P., as required by Rule 13a-14(a)/15d-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. (filed herewith)                                              |
| 32.1        | Certification of Chief Executive Officer and Chief Financial Officer of CubeSmart pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (furnished herewith)                                                 |
| 32.2        |                                                                                                                                                                                                                                                                  |

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Certification of Chief Executive Officer and Chief Financial Officer of CubeSmart, L.P., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (furnished herewith)

- 101 The following CubeSmart and CubeSmart, L.P. financial information for the nine months ended September 30, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text. (filed herewith)

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SIGNATURES OF REGISTRANT

Pursuant to the requirements 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.

CUBESMART  
(Registrant)

Date: October 28, 2016 By: /s/ Christopher P. Marr  
Christopher P. Marr, Chief  
Executive Officer  
(Principal Executive  
Officer)

Date: October 28, 2016 By: /s/ Timothy M. Martin  
Timothy M. Martin, Chief  
Financial Officer  
(Principal Financial  
Officer)

SIGNATURES OF REGISTRANT

Pursuant to the requirements 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.

CUBESMART, L.P.  
(Registrant)

Date: October 28, 2016 By: /s/ Christopher P. Marr  
Christopher P. Marr, Chief  
Executive Officer  
(Principal Executive  
Officer)



Date: October 28, 2016 By: /s/ Timothy M. Martin  
Timothy M. Martin, Chief  
Financial Officer  
(Principal Financial  
Officer)

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EXHIBIT LIST

| Exhibit No. | Exhibit Description                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 12.1        | Statement regarding Computation of Ratios of Earnings to Fixed Charges of CubeSmart.                                                                                                                                                                                                                                                                                                                                                         |
| 12.2        | Statement regarding Computation of Ratios of Earnings to Fixed Charges of CubeSmart L.P.                                                                                                                                                                                                                                                                                                                                                     |
| 31.1        | Certification of Chief Executive Officer of CubeSmart as required by Rule 13a-14(a)/15d-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                  |
| 31.2        | Certification of Chief Financial Officer of CubeSmart as required by Rule 13a-14(a)/15d-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                  |
| 31.3        | Certification of Chief Executive Officer of CubeSmart, L.P., as required by Rule 13a-14(a)/15d-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                           |
| 31.4        | Certification of Chief Financial Officer of CubeSmart, L.P., as required by Rule 13a-14(a)/15d-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                           |
| 32.1        | Certification of Chief Executive Officer and Chief Financial Officer of CubeSmart pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                                  |
| 32.2        | Certification of Chief Executive Officer and Chief Financial Officer of CubeSmart, L.P., pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                                                                                                                                                                                                                           |
| 101         | The following CubeSmart and CubeSmart, L.P. financial information for the nine months ended September 30, 2016, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Cash Flows, and (iv) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text. |