

Section 1: 10-Q (10-Q)

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

FORM 10-Q

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

For the quarterly period ended March 31, 2020

or

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

For the transition period from _____ to _____.

Commission File Number: 001-33519

Public Storage

(Exact name of registrant as specified in its charter)

Maryland

95-3551121

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification Number)

701 Western Avenue, Glendale, California

91201-2349

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (818) 244-8080.

Former name, former address and former fiscal, if changed since last report: N/A

Securities registered pursuant to Section 12b of the Act:

Title of Class	Trading Symbol	Name of each exchange on which registered
Common Shares, \$0.10 par value	PSA	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 5.375% Cum Pref Share, Series V, \$0.01 par value	PSAPrV	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 5.200% Cum Pref Share, Series W, \$0.01 par value	PSAPrW	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 5.200% Cum Pref Share, Series X, \$0.01 par value	PSAPrX	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 5.400% Cum Pref Share, Series B, \$0.01 par value	PSAPrB	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 5.125% Cum Pref Share, Series C, \$0.01 par value	PSAPrC	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 4.950% Cum Pref Share, Series D, \$0.01 par value	PSAPrD	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 4.900% Cum Pref Share, Series E, \$0.01 par value	PSAPrE	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 5.150% Cum Pref Share, Series F, \$0.01 par value	PSAPrF	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 5.050% Cum Pref Share, Series G, \$0.01 par value	PSAPrG	New York Stock Exchange

Depository Shares Each Representing 1/1,000 of a 5.600% Cum Pref Share, Series H, \$0.01 par value	PSAPrH	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 4.875% Cum Pref Share, Series I, \$0.01 par value	PSAPrI	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 4.700% Cum Pref Share, Series J, \$0.01 par value	PSAPrJ	New York Stock Exchange
Depository Shares Each Representing 1/1,000 of a 4.750% Cum Pref Share, Series K, \$0.01 par value	PSAPrK	New York Stock Exchange
0.875% Senior Notes due 2032	PSA32	New York Stock Exchange

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

Yes No

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

Yes No

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

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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

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

Yes No

Indicate the number of the registrant’s outstanding common shares of beneficial interest, as of April 27, 2020:

Common Shares of beneficial interest, \$0.10 par value per share – 174,792,745 shares

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

	<u>March 31,</u> <u>2020</u> <u>(Unaudited)</u>	<u>December 31,</u> <u>2019</u>
<u>ASSETS</u>		
Cash and equivalents	\$ 718,427	\$ 409,743
Real estate facilities, at cost:		
Land	4,267,474	4,186,873
Buildings	<u>12,281,507</u>	<u>12,102,273</u>
	16,548,981	16,289,146
Accumulated depreciation	<u>(6,751,150)</u>	<u>(6,623,475)</u>
	9,797,831	9,665,671
Construction in process	<u>161,699</u>	<u>141,934</u>
	9,959,530	9,807,605
Investments in unconsolidated real estate entities	763,226	767,816
Goodwill and other intangible assets, net	209,440	205,936
Other assets	<u>175,298</u>	<u>174,344</u>
Total assets	<u>\$ 11,825,921</u>	<u>\$ 11,365,444</u>
<u>LIABILITIES AND EQUITY</u>		
Notes payable	\$ 2,438,668	\$ 1,902,493
Accrued and other liabilities	<u>357,045</u>	<u>383,284</u>
Total liabilities	2,795,713	2,285,777
Commitments and contingencies (Note 12)		
Equity:		
Public Storage shareholders' equity:		
Preferred Shares, \$0.01 par value, 100,000,000 shares authorized, 162,600 shares issued (in series) and outstanding, (162,600 at December 31, 2019), at liquidation preference	4,065,000	4,065,000
Common Shares, \$0.10 par value, 650,000,000 shares authorized, 174,475,022 shares issued and outstanding (174,418,615 shares at December 31, 2019)	17,448	17,442
Paid-in capital	5,709,861	5,710,934
Accumulated deficit	(701,226)	(665,575)
Accumulated other comprehensive loss	<u>(78,005)</u>	<u>(64,890)</u>
Total Public Storage shareholders' equity	9,013,078	9,062,911
Noncontrolling interests	<u>17,130</u>	<u>16,756</u>
Total equity	9,030,208	9,079,667
Total liabilities and equity	<u>\$ 11,825,921</u>	<u>\$ 11,365,444</u>

See accompanying notes.

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

	For the Three Months Ended March 31,	
	2020	2019
Revenues:		
Self-storage facilities	\$ 674,201	\$ 650,408
Ancillary operations	41,881	38,630
	716,082	689,038
Expenses:		
Self-storage cost of operations	207,925	193,656
Ancillary cost of operations	10,945	10,545
Depreciation and amortization	135,900	121,941
General and administrative	21,064	19,503
Interest expense	13,621	8,143
	389,455	353,788
Other increases to net income:		
Interest and other income	6,479	6,965
Equity in earnings of unconsolidated real estate entities	23,968	17,672
Foreign currency exchange gain	8,945	7,791
Gain on sale of real estate	1,117	-
Net income	367,136	367,678
Allocation to noncontrolling interests	(980)	(1,157)
Net income allocable to Public Storage shareholders	366,156	366,521
Allocation of net income to:		
Preferred shareholders - distributions	(52,005)	(55,012)
Preferred shareholders - redemptions (Note 8)	-	(8,533)
Restricted share units	(1,017)	(1,233)
Net income allocable to common shareholders	\$ 313,134	\$ 301,743
Net income per common share:		
Basic	\$ 1.80	\$ 1.73
Diluted	\$ 1.79	\$ 1.73
Basic weighted average common shares outstanding	174,446	174,177
Diluted weighted average common shares outstanding	174,616	174,376

See accompanying notes.

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

	For the Three Months Ended March 31,	
	2020	2019
Net income	\$ 367,136	\$ 367,678
Other comprehensive income (loss):		
Aggregate foreign currency exchange (loss) gain	(4,170)	5,880
Adjust for aggregate foreign currency exchange gain included in net income	(8,945)	(7,791)
Other comprehensive loss	(13,115)	(1,911)
Total comprehensive income	354,021	365,767
Allocation to noncontrolling interests	(980)	(1,157)
Comprehensive income allocable to Public Storage shareholders	\$ 353,041	\$ 364,610

See accompanying notes.

PUBLIC STORAGE
STATEMENT OF EQUITY
Three Months Ended March 31, 2020
(Amounts in thousands, except share and per share amounts)
(Unaudited)

	Cumulative			Accumulated	Accumulated	Total		Total
	Preferred	Common	Paid-in	Accumulated	Other	Public Storage	Noncontrolling	Total
	Shares	Shares	Capital	Deficit	Comprehensive	Shareholders'	Interests	Equity
					Loss	Equity		Equity
Balances at December 31, 2019	\$ 4,065,000	\$ 17,442	\$ 5,710,934	\$ (665,575)	\$ (64,890)	\$ 9,062,911	\$ 16,756	\$ 9,079,667
Issuance of common shares in connection with share-based compensation (56,407 shares) (Note 10)	-	6	1,757	-	-	1,763	-	1,763
Cash paid in lieu of common shares, net of share-based compensation expense (Note 10)	-	-	(2,830)	-	-	(2,830)	-	(2,830)
Contributions by noncontrolling interests	-	-	-	-	-	-	566	566
Net income	-	-	-	367,136	-	367,136	-	367,136
Net income allocated to noncontrolling interests	-	-	-	(980)	-	(980)	980	-
Distributions to:								
Preferred shareholders (Note 8)	-	-	-	(52,005)	-	(52,005)	-	(52,005)
Noncontrolling interests	-	-	-	-	-	-	(1,172)	(1,172)
Common shareholders and restricted share unitholders (\$2.00 per share)	-	-	-	(349,802)	-	(349,802)	-	(349,802)
Other comprehensive loss (Note 2)	-	-	-	-	(13,115)	(13,115)	-	(13,115)
Balances at March 31, 2020	<u>\$ 4,065,000</u>	<u>\$ 17,448</u>	<u>\$ 5,709,861</u>	<u>\$ (701,226)</u>	<u>\$ (78,005)</u>	<u>\$ 9,013,078</u>	<u>\$ 17,130</u>	<u>\$ 9,030,208</u>

See accompanying notes.

PUBLIC STORAGE
STATEMENT OF EQUITY
Three Months Ended March 31, 2019
(Amounts in thousands, except share and per share amounts)
(Unaudited)

	Cumulative			Accumulated	Total			
	Preferred	Common	Paid-in	Accumulated	Other	Public Storage	Noncontrolling	Total
	Shares	Shares	Capital	Deficit	Comprehensive	Shareholders'	Interests	Equity
					Loss	Equity		
Balances at December 31, 2018	\$ 4,025,000	\$ 17,413	\$ 5,718,485	\$ (577,360)	\$ (64,060)	\$ 9,119,478	\$ 25,250	\$ 9,144,728
Issuance of 11,400 preferred shares (Note 8)	285,000	-	(8,277)	-	-	276,723	-	276,723
Redemption of 11,400 preferred shares (Note 8)	(285,000)	-	-	-	-	(285,000)	-	(285,000)
Issuance of common shares in connection with share-based compensation (84,411 shares)	-	9	1,584	-	-	1,593	-	1,593
Cash paid in lieu of common shares, net of share-based compensation expense	-	-	(3,093)	-	-	(3,093)	-	(3,093)
Contributions by noncontrolling interests	-	-	-	-	-	-	196	196
Net income	-	-	-	367,678	-	367,678	-	367,678
Net income allocated to noncontrolling interests	-	-	-	(1,157)	-	(1,157)	1,157	-
Distributions to equity holders:								
Preferred shares (Note 8)	-	-	-	(55,012)	-	(55,012)	-	(55,012)
Noncontrolling interests	-	-	-	-	-	-	(1,803)	(1,803)
Common shares and restricted share units (\$2.00 per share)	-	-	-	(349,478)	-	(349,478)	-	(349,478)
Other comprehensive loss (Note 2)	-	-	-	-	(1,911)	(1,911)	-	(1,911)
Balances at March 31, 2019	<u>\$ 4,025,000</u>	<u>\$ 17,422</u>	<u>\$ 5,708,699</u>	<u>\$ (615,329)</u>	<u>\$ (65,971)</u>	<u>\$ 9,069,821</u>	<u>\$ 24,800</u>	<u>\$ 9,094,621</u>

See accompanying notes.

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

	For the Three Months Ended March 31,	
	2020	2019
Cash flows from operating activities:		
Net income	\$ 367,136	\$ 367,678
Adjustments to reconcile net income to net cash flows from operating activities:		
Gain on real estate investment sales	(1,117)	-
Depreciation and amortization	135,900	121,941
Equity in earnings of unconsolidated real estate entities	(23,968)	(17,672)
Distributions from cumulative equity in earnings of unconsolidated real estate entities	15,443	15,435
Foreign currency exchange gain	(8,945)	(7,791)
Share-based compensation expense	5,677	6,664
Other	(27,176)	(16,423)
Total adjustments	95,814	102,154
Net cash flows from operating activities	462,950	469,832
Cash flows from investing activities:		
Payments for capital expenditures to maintain real estate facilities for:		
Costs incurred during the period	(42,839)	(22,212)
Costs incurred in previous periods	(14,665)	(10,773)
Payments for development and expansion of real estate facilities for:		
Costs incurred during the period	(24,484)	(14,286)
Costs incurred in previous periods	(23,132)	(62,723)
Acquisition of real estate facilities and intangible assets	(186,183)	(79,499)
Proceeds from sale of real estate investments	1,399	-
Net cash flows used in investing activities	(289,904)	(189,493)
Cash flows from financing activities:		
Repayments on notes payable	(497)	(467)
Issuance of notes payable, net of issuance costs	545,151	-
Issuance of preferred shares	-	276,723
Issuance of common shares	1,763	1,593
Redemption of preferred shares	-	(285,000)
Cash paid upon vesting of restricted share units	(8,507)	(9,757)
Contributions by noncontrolling interests	566	196
Distributions paid to preferred shareholders, common shareholders and restricted share unitholders	(401,807)	(404,490)
Distributions paid to noncontrolling interests	(1,172)	(1,803)
Net cash flows from (used in) financing activities	135,497	(423,005)
Net cash flows from operating, investing, and financing activities	308,543	(142,666)
Net effect of foreign exchange translation	31	50
Increase (decrease) in cash and equivalents, including restricted cash	\$ 308,574	\$ (142,616)

See accompanying notes.

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

	For the Three Months Ended March 31,	
	2020	2019
Cash and equivalents, including restricted cash at beginning of the period:		
Cash and equivalents	\$ 409,743	\$ 361,218
Restricted cash included in other assets	23,811	22,801
	\$ 433,554	\$ 384,019
Cash and equivalents, including restricted cash at end of the period:		
Cash and equivalents	\$ 718,427	\$ 217,973
Restricted cash included in other assets	23,701	23,430
	\$ 742,128	\$ 241,403
 Supplemental schedule of non-cash investing and financing activities:		
Costs incurred during the period remaining unpaid at period end for:		
Capital expenditures to maintain real estate facilities	\$ (14,018)	\$ (7,993)
Construction or expansion of real estate facilities	(20,605)	(47,675)
Accrued and other liabilities	34,623	55,668
Real estate acquired in exchange for assumption of notes payable	-	(1,817)
Notes payable assumed in connection with acquisition of real estate	-	1,817
 Other disclosures:		
Foreign currency translation adjustment:		
Investments in unconsolidated real estate entities	\$ 13,115	\$ 1,911
Notes payable	(8,914)	(7,741)
Accumulated other comprehensive (loss) gain	(4,170)	5,880

See accompanying notes.

PUBLIC STORAGE
NOTES TO FINANCIAL STATEMENTS
March 31, 2020
(Unaudited)

1. Description of the Business

Public Storage (referred to herein as “the Company,” “we,” “us,” or “our”), a Maryland real estate investment trust (“REIT”), was organized in 1980. Our principal business activities include the ownership and operation of self-storage facilities which offer storage spaces for lease, generally on a month-to-month basis, for personal and business use, ancillary activities such as merchandise sales and tenant reinsurance to the tenants at our self-storage facilities, as well as the acquisition and development of additional self-storage space.

At March 31, 2020, we have direct and indirect equity interests in 2,492 self-storage facilities (with approximately 170 million net rentable square feet) located in 38 states in the United States (“U.S.”) operating under the “Public Storage” name, and 0.9 million net rentable square feet of commercial and retail space.

We own 31.3 million common shares (an approximate 35% interest) of Shurgard Self Storage SA (“Shurgard”) a public company traded on Euronext Brussels under the “SHUR” symbol, which owns 234 self-storage facilities (with approximately 13 million net rentable square feet) located in seven Western European countries, all operating under the “Shurgard” name. We also own an aggregate approximate 42% common equity interest in PS Business Parks, Inc. (“PSB”), a REIT traded on the New York Stock Exchange under the “PSB” symbol, which owns 27.5 million net rentable square feet of commercial properties, primarily multi-tenant industrial, flex, and office space, located in six states.

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

2. Summary of Significant Accounting Policies

Basis of Presentation

We have prepared the accompanying interim financial statements in accordance with U.S. generally accepted accounting principles (“GAAP”) as set forth in the Accounting Standards Codification of the Financial Accounting Standards Board (“FASB”), and in conformity with the rules and regulations of the Securities and Exchange Commission (“SEC”). In our opinion, the interim financial statements presented herein reflect all adjustments, primarily of a normal recurring nature, that are necessary to fairly present the interim financial statements. Because they do not include all of the disclosures required by GAAP for complete annual financial statements, these interim financial statements should be read together with the audited financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019.

Certain amounts previously reported in our March 31, 2019 financial statements have been reclassified to conform to the March 31, 2020 presentation.

Consolidation and Equity Method of Accounting

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

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consolidate, for the period in which the reference applies, are referred to collectively as the “Subsidiaries,” and we eliminate intercompany transactions and balances.

We account for our investments in entities that we do not consolidate but have significant influence over using the equity method of accounting. These entities, for the periods in which the reference applies, are referred to collectively as the “Unconsolidated Real Estate Entities,” eliminating intra-entity profits and losses and amortizing any differences between the cost of our investment and the underlying equity in net assets against equity in earnings as if the Unconsolidated Real Estate Entity were a consolidated subsidiary.

Equity in earnings of unconsolidated real estate entities presented on our income statements represents our pro-rata share of the earnings of the Unconsolidated Real Estate Entities. The dividends we receive from the Unconsolidated Real Estate Entities are reflected on our statements of cash flows as “distributions from cumulative equity in earnings of unconsolidated real estate entities” to the extent of our cumulative equity in earnings, with any excess classified as “distributions in excess of cumulative equity in earnings from unconsolidated real estate entities.”

When we begin consolidating an entity, we reflect our preexisting equity interest at book value. All changes in consolidation status are reflected prospectively.

Collectively, at March 31, 2020, the Company and the Subsidiaries own 2,492 self-storage facilities and four commercial facilities in the U.S. At March 31, 2020, the Unconsolidated Real Estate Entities are comprised of PSB and Shurgard.

Use of Estimates

The financial statements and accompanying notes reflect our estimates and assumptions. Actual results could differ from those estimates and assumptions.

Income Taxes

We have elected to be treated as a REIT, as defined in the Internal Revenue Code of 1986, as amended (the “Code”). As a REIT, we do not incur federal income tax if we distribute 100% of our REIT taxable income each year, and if we meet certain organizational and operational rules. We believe we have met these REIT requirements for all periods presented herein. Accordingly, we have recorded no federal income tax expense related to our REIT taxable income.

Our merchandise and tenant reinsurance operations are subject to corporate income tax and such taxes are included in ancillary cost of operations. We also incur income and other taxes in certain states, which are included in general and administrative expense.

We recognize tax benefits of uncertain income tax positions that are subject to audit only if we believe it is more likely than not that the position would ultimately be sustained assuming the relevant taxing authorities had full knowledge of the relevant facts and circumstances of our positions. As of March 31, 2020, we had no tax benefits that were not recognized.

Real Estate Facilities

Real estate facilities are recorded at cost. We capitalize all costs incurred to acquire, develop, construct, renovate and improve facilities, including interest and property taxes incurred during the construction period. We

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NOTES TO FINANCIAL STATEMENTS
March 31, 2020
(Unaudited)

allocate the net acquisition cost of acquired real estate facilities to the underlying land, buildings, and identified intangible assets based upon their respective individual estimated fair values.

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

When we sell a full or partial interest in a real estate facility without retaining a controlling interest following sale, we recognize a gain or loss on sale as if 100% of the property was sold at fair value. If we retain a controlling interest following the sale, we record a noncontrolling interest for the book value of the partial interest sold, and recognize additional paid-in capital for the difference between the consideration received and the partial interest at book value.

Other Assets

Other assets primarily consist of rents receivable from our tenants (net of an allowance for uncollectible amounts), prepaid expenses, restricted cash and right-to-use assets.

Accrued and Other Liabilities

Accrued and other liabilities consist primarily of rents prepaid by our tenants, trade payables, property tax accruals, accrued payroll, accrued tenant reinsurance losses, lease liabilities, and contingent loss accruals when probable and estimable. We believe the fair value of our accrued and other liabilities approximates book value, due primarily to the short period until repayment. We disclose the nature of significant unaccrued losses that are reasonably possible of occurring and, if estimable, a range of exposure.

Cash Equivalents, Restricted Cash, Marketable Securities and Other Financial Instruments

Cash equivalents represent highly liquid financial instruments such as money market funds with daily liquidity or short-term commercial paper or treasury securities maturing within three months of acquisition. Cash and equivalents which are restricted from general corporate use are included in other assets. We believe that the book value of all such financial instruments for all periods presented approximates fair value, due to the short period to maturity.

Fair Value

As used herein, the term “fair value” is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Our estimates of fair value involve considerable judgment and are not necessarily indicative of the amounts that could be realized in current market exchanges.

We estimate the fair value of our cash and equivalents, marketable securities, other assets, debt, and other liabilities by discounting the related future cash flows at a rate based upon quoted interest rates for securities that have similar characteristics such as credit quality and time to maturity. Such quoted interest rates are referred to generally as “Level 2” inputs.

We use significant judgment to estimate fair values of investments in real estate, goodwill, and other intangible assets. In estimating their values, we consider significant unobservable inputs such as market prices of land, market capitalization rates, expected returns, earnings multiples, projected levels of earnings, costs of construction, and functional depreciation. These inputs are referred to generally as “Level 3” inputs.

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NOTES TO FINANCIAL STATEMENTS
March 31, 2020
(Unaudited)

Currency and Credit Risk

Financial instruments that are exposed to credit risk consist primarily of cash and equivalents, certain portions of other assets including rents receivable from our tenants (net of an allowance for uncollectible receivables based upon expected losses in the portfolio) and restricted cash. Cash equivalents we invest in are either money market funds with a rating of at least AAA by Standard & Poor's, commercial paper that is rated A1 by Standard & Poor's or deposits with highly rated commercial banks.

At March 31, 2020, due primarily to our investment in Shurgard (Note 4) and our notes payable denominated in Euros (Note 6), our operating results and financial position are affected by fluctuations in currency exchange rates between the Euro, and to a lesser extent, other European currencies, against the U.S. Dollar.

Goodwill and Other Intangible Assets

Intangible assets are comprised of goodwill, the "Shurgard" trade name, and finite-lived assets.

Goodwill totaled \$174.6 million at March 31, 2020 and December 31, 2019. The "Shurgard" trade name, which is used by Shurgard pursuant to a fee-based licensing agreement, has a book value of \$18.8 million at March 31, 2020 and December 31, 2019. Goodwill and the "Shurgard" trade name have indefinite lives and are not amortized.

Our finite-lived assets are comprised primarily of acquired customers in place amortized relative to the benefit of the customers in place, with such amortization reflected as depreciation and amortization expense on our income statement; and property tax abatements amortized relative to the reduction in property tax paid, with such amortization reflected as self-storage cost of operations on our income statement. At March 31, 2020, these intangibles had a net book value of \$16.0 million (\$12.5 million at December 31, 2019). Accumulated amortization totaled \$29.4 million at March 31, 2020 (\$27.5 million at December 31, 2019), and amortization expense of \$4.7 million and \$3.9 million was recorded in the three months ended March 31, 2020 and 2019, respectively.

The estimated future amortization expense for our finite-lived intangible assets at March 31, 2020 is approximately \$7.6 million in the remainder of 2020, \$2.4 million in 2021 and \$6.0 million thereafter. During the three months ended March 31, 2020, intangibles increased \$8.2 million in connection with the acquisition of self-storage facilities (Note 3).

Evaluation of Asset Impairment

We evaluate our real estate and finite-lived intangible assets for impairment each quarter. If there are indicators of impairment and we determine that the asset is not recoverable from future undiscounted cash flows to be received through the asset's remaining life (or, if earlier, the expected disposal date), we record an impairment charge to the extent the carrying amount exceeds the asset's estimated fair value or net proceeds from expected disposal.

We evaluate our investments in unconsolidated real estate entities for impairment on a quarterly basis. We record an impairment charge to the extent the carrying amount exceeds estimated fair value, when we believe any such shortfall is other than temporary.

We evaluate goodwill for impairment annually and whenever relevant events, circumstances and other related factors indicate that fair value of the related reporting unit may be less than the carrying amount. If we determine that the fair value of the reporting unit exceeds the aggregate carrying amount, no impairment charge

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is recorded. Otherwise, we record an impairment charge to the extent the carrying amount of the goodwill exceeds the amount that would be allocated to goodwill if the reporting unit were acquired for estimated fair value.

We evaluate other indefinite-lived intangible assets, such as the “Shurgard” trade name for impairment at least annually and whenever relevant events, circumstances and other related factors indicate that the fair value is less than the carrying amount. When we conclude that it is likely that the asset is not impaired, we do not record an impairment charge and no further analysis is performed. Otherwise, we record an impairment charge to the extent the carrying amount exceeds the asset’s estimated fair value.

No impairments were recorded in any of our evaluations for any period presented herein.

Revenue and Expense Recognition

Revenues from self-storage facilities, which are primarily composed of rental income earned pursuant to month-to-month leases, as well as associated late charges and administrative fees, are recognized as earned. Promotional discounts reduce rental income over the promotional period, which is generally one month. Ancillary revenues and interest and other income are recognized when earned.

We accrue for property tax expense based upon actual amounts billed and, in some circumstances, estimates when bills or assessments have not been received from the taxing authorities. If these estimates are incorrect, the timing and amount of expense recognition could be incorrect. Cost of operations (including advertising expenditures), general and administrative expense, and interest expense are expensed as incurred.

Foreign Currency Exchange Translation

The local currency (primarily the Euro) is the functional currency for our interests in foreign operations. The related balance sheet amounts are translated into U.S. Dollars at the exchange rates at the respective financial statement date, while amounts on our statements of income are translated at the average exchange rates during the respective period. When financial instruments denominated in a currency other than the U.S. Dollar are expected to be settled in cash in the foreseeable future, the impact of changes in the U.S. Dollar equivalent are reflected in current earnings. The Euro was translated at exchange rates of approximately 1.100 U.S. Dollars per Euro at March 31, 2020 (1.122 at December 31, 2019), and average exchange rates of 1.103 and 1.136 for the three months ended March 31, 2020 and 2019, respectively. Cumulative translation adjustments, to the extent not included in cumulative net income, are included in equity as a component of accumulated other comprehensive income (loss).

Comprehensive Income

Total comprehensive income represents net income, adjusted for changes in other comprehensive income (loss) for the applicable period. The aggregate foreign currency exchange gains and losses reflected on our statements of comprehensive income are comprised primarily of foreign currency exchange gains and losses on our investment in Shurgard and our unsecured notes denominated in Euros.

Recent Accounting Pronouncements and Guidance

In June 2016, the FASB issued ASU 2016-13, *“Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.”* ASU 2016-13 changes how entities measure credit losses for most financial assets. This standard requires an entity to estimate its lifetime “expected credit loss” and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. In November 2018, the FASB issued ASU 2018-19, *“Codification Improvements to Topic 326, Financial Instruments - Credit Losses,”* which clarified

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that receivables arising from operating leases are within the scope of the leasing standard (ASU 2016-02), and not within the scope of ASU 2016-13. We adopted this new standard on its effective date for us of January 1, 2020. Adoption of this new standard did not have a material impact on our consolidated financial statements.

Net Income per Common Share

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

Basic and diluted net income per common share are each calculated based upon net income allocable to common shareholders presented on the face of our income statement, divided by (i) in the case of basic net income per common share, weighted average common shares, and (ii) in the case of diluted income per share, weighted average common shares adjusted for the impact, if dilutive, of stock options outstanding (Note 10). The following table reconciles from basic to diluted common shares outstanding (amounts in thousands):

	For the Three Months Ended March 31,	
	2020	2019
<u>Weighted average common shares and equivalents</u>		
<u>outstanding:</u>		
Basic weighted average common shares outstanding	174,446	174,177
Net effect of dilutive stock options - based on treasury stock method	170	199
Diluted weighted average common shares outstanding	174,616	174,376

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3. Real Estate Facilities

Activity in real estate facilities during the three months ended March 31, 2020 is as follows:

	Three Months Ended March 31, 2020
	(Amounts in thousands)
Operating facilities, at cost:	
Beginning balance	\$ 16,289,146
Costs incurred for capital expenditures to maintain real estate facilities	56,857
Acquisitions	177,936
Dispositions	(282)
Developed or expanded facilities opened for operation	25,324
Ending balance	16,548,981
Accumulated depreciation:	
Beginning balance	(6,623,475)
Depreciation expense	(127,675)
Ending balance	(6,751,150)
Construction in process:	
Beginning balance	141,934
Costs incurred for development and expansion of real estate facilities	45,089
Developed or expanded facilities opened for operation	(25,324)
Ending balance	161,699
Total real estate facilities at March 31, 2020	\$ 9,959,530

During the three months ended March 31, 2020, we acquired nine self-storage facilities (748,000 net rentable square feet of storage space), for a total cost of \$186.2 million in cash. Approximately \$8.2 million of the total cost was allocated to intangible assets. We completed redevelopment activities costing \$25.3 million during the three months ended March 31, 2020, adding 0.1 million net rentable square feet of self-storage space. Construction in process at March 31, 2020 consists of projects to develop new self-storage facilities and expand existing self-storage facilities.

During the three months ended March 31, 2020, we paid a total of \$47.6 million with respect to the development and expansion of real estate facilities, including \$23.1 million to repay amounts accrued at December 31, 2019 (\$77.0 million during the three months ended March 31, 2019, including \$62.7 million to repay amounts accrued at December 31, 2018). Of the \$45.1 million in costs incurred during the three months ended March 31, 2020, \$20.6 million remains unpaid at March 31, 2020.

During the three months ended March 31, 2020, we paid a total of \$57.5 million with respect to capital expenditures to maintain real estate facilities, including \$14.7 million to repay amounts accrued at December 31, 2019 (\$33.0 million during the three months ended March 31, 2019, including \$10.8 million to repay amounts accrued at December 31, 2018). Of the \$56.9 million in costs incurred during the three months ended March 31, 2020, \$14.0 million remains unpaid at March 31, 2020.

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4. Investments in Unconsolidated Real Estate Entities

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

	Investments in Unconsolidated Real Estate			
	Entities at			
	March 31, 2020		December 31, 2019	
PSB	\$	434,425	\$	427,875
Shurgard		328,801		339,941
Total	\$	<u>763,226</u>	\$	<u>767,816</u>
Equity in Earnings of Unconsolidated Real Estate Entities for the				
Three Months Ended March 31,				
		2020		2019
PSB	\$	21,737	\$	13,720
Shurgard		2,231		3,952
Total	\$	<u>23,968</u>	\$	<u>17,672</u>

Investment in PSB

Throughout all periods presented, we owned 7,158,354 shares of PSB's common stock and 7,305,355 limited partnership units in an operating partnership controlled by PSB, representing an aggregate approximately 42% common equity interest. The limited partnership units are convertible at our option, subject to certain conditions, on a one-for-one basis into PSB common stock.

Based upon the closing price at March 31, 2020 (\$135.52) per share of PSB common stock), the shares and units we owned had a market value of approximately \$2.0 billion.

Our equity in earnings of PSB is comprised of our equity share of PSB's net income, less amortization of the PSB Basis Differential (defined below).

During each of the three month periods ended March 31, 2020 and 2019, we received cash distributions from PSB totaling \$15.2 million.

At March 31, 2020, our pro-rata investment in PSB's real estate assets included in investment in unconsolidated real estate entities exceeds our pro-rata share of the underlying amounts on PSB's balance sheet by approximately \$4.0 million (\$4.2 million at December 31, 2019). This differential (the "PSB Basis Differential") is being amortized as a reduction to equity in earnings of the Unconsolidated Real Estate Entities. Such amortization totaled approximately \$0.2 million during each of the three month periods ended March 31, 2020 and 2019.

PSB is a publicly held entity traded on the New York Stock Exchange under the symbol "PSB".

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Investment in Shurgard

Throughout all periods presented, we effectively owned, directly and indirectly 31,268,459 Shurgard common shares, representing an approximate 35% equity interest in Shurgard.

Based upon the closing price at March 31, 2020 (€27.00 per share of SHUR common stock, at 1.100 exchange rate of US Dollars to the Euro), the shares we owned had a market value of approximately \$0.9 billion.

Our equity in earnings of Shurgard is comprised of our equity share of Shurgard's net income, plus \$0.3 million and \$0.2 million for the three months ended March 31, 2020 and 2019, respectively, representing our equity share of the trademark license fees that Shurgard pays to us for the use of the "Shurgard" trademark. We classify the remaining license fees we receive from Shurgard as interest and other income on our income statement.

Our equity share of trademark license fees collected from Shurgard are accounted for as dividends. Shurgard did not pay any dividends to its shareholders during either of the three month periods ended March 31, 2020 or 2019.

Changes in foreign currency exchange rates decreased our investment in Shurgard by approximately \$13.1 million and \$1.9 million in the three months ended March 31, 2020 and 2019, respectively.

Shurgard is a publicly held entity trading on Euronext Brussels under the symbol "SHUR".

5. Credit Facility

We have a revolving credit agreement (the "Credit Facility") with a \$500 million borrowing limit, which matures on April 19, 2024. Amounts drawn on the Credit Facility bear annual interest at rates ranging from LIBOR plus 0.7% to LIBOR plus 1.350% depending upon the ratio of our Total Indebtedness to Gross Asset Value (as defined in the Credit Facility) (LIBOR plus 0.7% at March 31, 2020). We are also required to pay a quarterly facility fee ranging from 0.07% per annum to 0.25% per annum depending upon the ratio of our Total Indebtedness to our Gross Asset Value (0.07% per annum at March 31, 2020). At March 31, 2020 and April 30, 2020, we had no outstanding borrowings under this Credit Facility. We had undrawn standby letters of credit, which reduce our borrowing capacity, totaling \$15.9 million at March 31, 2020 (\$15.9 million at December 31, 2019). The Credit Facility has various customary restrictive covenants, all of which we were in compliance with at March 31, 2020.

6. Notes Payable

Our notes payable are reflected net of costs of issuance, which are amortized as interest expense on the effective interest method over the term of each respective note. Our notes payable at March 31, 2020 and December 31, 2019 are set forth in the tables below:

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	Coupon Rate	Effective Rate	Amounts at March 31, 2020			
			Principal	Unamortized Costs	Book Value	Fair Value
(\$ amounts in thousands)						
<i>U.S. Dollar Denominated Unsecured Debt</i>						
Notes due September 15, 2022	2.370%	2.483%	\$ 500,000	\$ (1,287)	\$ 498,713	\$ 493,176
Notes due September 15, 2027	3.094%	3.218%	500,000	(3,944)	496,056	480,725
Notes due May 1, 2029	3.385%	3.459%	500,000	(2,799)	497,201	490,203
			<u>1,500,000</u>	<u>(8,030)</u>	<u>1,491,970</u>	<u>1,464,104</u>
<i>Euro Denominated Unsecured Debt</i>						
Notes due April 12, 2024	1.540%	1.540%	110,005	-	110,005	110,091
Notes due November 3, 2025	2.175%	2.175%	266,227	-	266,227	266,574
Notes due January 24, 2032	0.875%	0.978%	550,026	(6,332)	543,694	509,269
			<u>926,258</u>	<u>(6,332)</u>	<u>919,926</u>	<u>885,934</u>
<i>Mortgage Debt</i> , secured by 27 real estate facilities with a net book value of \$104.8 million						
	4.010%	3.984%	<u>26,772</u>	<u>-</u>	<u>26,772</u>	<u>27,128</u>
			<u>\$ 2,453,030</u>	<u>\$ (14,362)</u>	<u>\$ 2,438,668</u>	<u>\$ 2,377,166</u>

	Amounts at December 31, 2019	
	Book Value	Fair Value
(\$ amounts in thousands)		
<i>U.S. Dollar Denominated Unsecured Debt</i>		
Notes due September 15, 2022	\$ 498,581	\$ 505,639
Notes due September 15, 2027	495,924	520,694
Notes due May 1, 2029	497,124	531,911
	<u>1,491,629</u>	<u>1,558,244</u>
<i>Euro Denominated Unsecured Debt</i>		
Notes due April 12, 2024	112,156	115,932
Notes due November 3, 2025	271,433	298,398
Notes due January 24, 2032	-	-
	<u>383,589</u>	<u>414,330</u>
<i>Mortgage Debt</i>		
	<u>27,275</u>	<u>28,506</u>
	<u>\$ 1,902,493</u>	<u>\$ 2,001,080</u>

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U.S. Dollar Denominated Unsecured Notes

On September 18, 2017, we issued, in a public offering, two tranches each totaling \$500.0 million of U.S. Dollar denominated unsecured notes. In connection with the offering, we incurred a total of \$7.9 million in costs. Interest on such notes is payable semi-annually on March 15 and September 15 of each year.

On April 12, 2019, we completed a public offering of \$500 million in aggregate principal amount of senior notes bearing interest at an annual rate of 3.385% maturing on May 1, 2029. In connection with the offering, we incurred a total of \$3.1 million in costs. Interest on such notes is payable semi-annually on May 1 and November 1 of each year.

The notes issued on April 12, 2019 and on September 18, 2017 are referred to hereinafter as the “U.S. Dollar Notes.”

The U.S. Dollar Notes have various financial covenants, all of which we were in compliance with at March 31, 2020. Included in these covenants are (a) a maximum Debt to Total Assets of 65% (approximately 7% at March 31, 2020) and (b) a minimum ratio of Adjusted EBITDA to Interest Expense of 1.5x (approximately 42x for the twelve months ended March 31, 2020) as well as covenants limiting the amount we can encumber our properties with mortgage debt.

Euro Denominated Unsecured Notes

Our euro denominated unsecured notes (the “Euro Notes”) are payable to institutional investors. The Euro Notes consist of three tranches, (i) €42.0 million issued on November 3, 2015 for \$264.3 million in net proceeds upon converting the Euros to U.S. Dollars, (ii) €100.0 million issued on April 12, 2016 for \$113.6 million in net proceeds upon converting the Euros to U.S. Dollars, and (iii) €500.0 million issued on January 24, 2020 for \$545.2 million in net proceeds upon converting the Euros to U.S. Dollars. Interest is payable semi-annually on the notes issued November 3, 2015 and April 12, 2016, and annually on the notes issued January 24, 2020. The Euro Notes have financial covenants similar to those of the U.S. Dollar Notes.

We reflect changes in the U.S. Dollar equivalent of the amount payable, as a result of changes in foreign exchange rates as “foreign currency exchange gain” on our income statement (gains of \$8.9 million and \$7.8 million for the three months ended March 31, 2020 and 2019, respectively).

Mortgage Notes

Our non-recourse mortgage debt was assumed in connection with property acquisitions, and recorded at fair value with any premium or discount to the stated note balance amortized using the effective interest method.

At March 31, 2020, the related contractual interest rates are fixed, ranging between 3.2% and 7.1%, and mature between January 1, 2022 and July 1, 2030.

At March 31, 2020 approximate principal maturities of our Notes Payable are as follows (amounts in thousands):

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	Unsecured Debt	Mortgage Debt	Total
Remainder of 2020	\$ -	\$ 1,519	\$ 1,519
2021	-	1,865	1,865
2022	500,000	2,584	502,584
2023	-	19,219	19,219
2024	110,005	124	110,129
Thereafter	1,816,253	1,461	1,817,714
	<u>\$ 2,426,258</u>	<u>\$ 26,772</u>	<u>\$ 2,453,030</u>
Weighted average effective rate	<u>2.4%</u>	<u>4.0%</u>	<u>2.4%</u>

Cash paid for interest totaled \$14.1 million and \$9.1 million for the three months ended March 31, 2020 and 2019, respectively. Interest capitalized as real estate totaled \$0.9 million and \$1.2 million for the three months ended March 31, 2020 and 2019, respectively.

7. Noncontrolling Interests

At March 31, 2020, the noncontrolling interests represent (i) third-party equity interests in subsidiaries owning 18 operating self-storage facilities and eight self-storage facilities that are under construction and (ii) 231,978 partnership units held by third-parties in a subsidiary that are convertible on a one-for-one basis (subject to certain limitations) into common shares of the Company at the option of the unitholder (collectively, the “Noncontrolling Interests”). At March 31, 2020, the Noncontrolling Interests cannot require us to redeem their interests, other than pursuant to a liquidation of the subsidiary.

During the three months ended March 31, 2020 and 2019, we allocated a total of \$1.0 million and \$1.2 million, respectively, of income to these interests; and we paid \$1.2 million and \$1.8 million, respectively, in distributions to these interests.

During the three months ended March 31, 2020 and 2019, Noncontrolling Interests contributed \$0.6 million and \$0.2 million, respectively, to our subsidiaries.

8. Shareholders' Equity
Preferred Shares

At March 31, 2020 and December 31, 2019, we had the following series of Cumulative Preferred Shares (“Preferred Shares”) outstanding:

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Series	Earliest Redemption Date	Dividend Rate	Shares Outstanding	Liquidation Preference
(Dollar amounts in thousands)				
Series V	9/20/2017	5.375%	19,800	\$ 495,000
Series W	1/16/2018	5.200%	20,000	500,000
Series X	3/13/2018	5.200%	9,000	225,000
Series B	1/20/2021	5.400%	12,000	300,000
Series C	5/17/2021	5.125%	8,000	200,000
Series D	7/20/2021	4.950%	13,000	325,000
Series E	10/14/2021	4.900%	14,000	350,000
Series F	6/2/2022	5.150%	11,200	280,000
Series G	8/9/2022	5.050%	12,000	300,000
Series H	3/11/2024	5.600%	11,400	285,000
Series I	9/12/2024	4.875%	12,650	316,250
Series J	11/15/2024	4.700%	10,350	258,750
Series K	12/20/2024	4.750%	9,200	230,000
Total Preferred Shares			162,600	\$ 4,065,000

The holders of our Preferred Shares have general preference rights with respect to liquidation, quarterly distributions and any accumulated unpaid distributions. Except as noted below, holders of the Preferred Shares do not have voting rights. In the event of a cumulative arrearage equal to six quarterly dividends, holders of all outstanding series of preferred shares (voting as a single class without regard to series) will have the right to elect two additional members to serve on our board of trustees (our “Board”) until the arrearage has been cured. At March 31, 2020, there were no dividends in arrears. The affirmative vote of at least 66.67% of the outstanding shares of a series of Preferred Shares is required for any material and adverse amendment to the terms of such series. The affirmative vote of at least 66.67% of the outstanding shares of all of our Preferred Shares, voting as a single class, is required to issue shares ranking senior to our Preferred Shares.

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

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

On March 11, 2019, we issued 11.4 million depositary shares, each representing 0.001 of a share of our 5.600% Series H Preferred Shares, at an issuance price of \$25.00 per depositary share, for a total of \$285.0 million in gross proceeds, and we incurred \$8.3 million in issuance costs.

On March 28, 2019, we redeemed our 6.375% Series Y Preferred Shares, at par. We recorded an \$8.5 million allocation of income from our common shareholders to the holders of our Preferred Shares in the three months ended March 31, 2019 in connection with this redemption.

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Dividends

Common share dividends, including amounts paid to our restricted share unitholders, totaled \$349.8 million (\$2.00 per share) and \$349.5 million (\$2.00 per share) for the three months ended March 31, 2020 and 2019, respectively. Preferred share dividends totaled \$52.0 million and \$55.0 million for the three months ended March 31, 2020 and 2019, respectively.

9. Related Party Transactions

B. Wayne Hughes, our former Chairman, and his family, including his daughter Tamara Hughes Gustavson and his son B. Wayne Hughes, Jr., who are both members of our Board, collectively own approximately 14.1% of our common shares outstanding at March 31, 2020.

At March 31, 2020, Tamara Hughes Gustavson owned and controlled 63 self-storage facilities in Canada. These facilities operate under the “Public Storage” tradename, which we license to the owners of these facilities for use in Canada on a royalty-free, non-exclusive basis. We have no ownership interest in these facilities and we do not own or operate any facilities in Canada. If we chose to acquire or develop our own facilities in Canada, we would have to share the use of the “Public Storage” name in Canada. We have a right of first refusal, subject to limitations, to acquire the stock or assets of the corporation engaged in the operation of these facilities if their owners agree to sell them. Our subsidiaries reinsure risks relating to loss of goods stored by customers in these facilities, and have received approximately \$349,000 and \$323,000 for the three months ended March 31, 2020 and 2019, respectively. Our right to continue receiving these premiums may be qualified.

10. Share-Based Compensation

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

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

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

The Codification previously stipulated that grants to nonemployee service providers (other than to trustees, where equity method treatment was permitted) were accounted for on the liability method, with expenses adjusted each period based upon changes in fair value. Recent changes in the Codification allows such grants to be accounted for on the equity award method, with compensation expense based upon grant date fair value. While we have no such grants to any such individuals for any periods presented, we will account for any future grants to nonemployee service providers based upon the equity award method.

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

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

Stock Options

Stock options vest over 3 to 5 years, expire ten years after the grant date, and the exercise price is equal to the closing trading price of our common shares on the grant date. Employees cannot require the Company to settle their award in cash. We use the Black-Scholes option valuation model to estimate the fair value of our stock options.

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

For the three months ended March 31, 2020 and 2019, we recorded \$0.9 million and \$0.8 million, respectively, in compensation expense related to stock options.

During the three months ended March 31, 2020, 770,000 stock options were granted, 8,000 options were exercised and 12,000 options were forfeited. A total of 3,089,667 stock options were outstanding at March 31, 2020, (2,339,667 at December 31, 2019) and have an average exercise price of \$210.58.

Restricted Share Units

RSUs generally vest over 5 to 8 years from the grant date. The grantee receives dividends for each outstanding RSU equal to the per-share dividends received by our common shareholders. We expense any dividends previously paid upon forfeiture of the related RSU. Upon vesting, the grantee receives common shares equal to the number of vested RSUs, less common shares withheld in exchange for tax deposits made by the Company to satisfy the grantee’s statutory tax liabilities arising from the vesting.

The fair value of our RSUs is determined based upon the applicable closing trading price of our common shares.

During the three months ended March 31, 2020, 25,460 RSUs were granted, 12,095 RSUs were forfeited and 74,089 RSUs vested. This vesting resulted in the issuance of 48,407 common shares. In addition, tax deposits totaling \$8.5 million (\$9.8 million for the same period in 2019) were made on behalf of employees in exchange for 25,682 common shares withheld upon vesting. A total of 558,426 RSUs were outstanding at March 31, 2020 (619,150 at December 31, 2019).

A total of \$5.7 million and \$6.8 million in RSU expense was recorded for the three months ended March 31, 2020 and, 2019, respectively, which includes approximately \$1.1 million and \$1.0 million, respectively in employer taxes incurred upon vesting.

11. Segment Information

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

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Following is a description of and basis for presentation for each of our reportable segments.

Self-Storage Operations

The Self-Storage Operations segment reflects the rental operations from all self-storage facilities we own. Our CODM reviews the net operating income (“NOI”) of this segment, which represents the related revenues less cost of operations (prior to depreciation expense), in assessing performance and making resource allocation decisions. The presentation in the tables below sets forth the NOI of this segment, as well as the depreciation expense for this segment, which while reviewed by our CODM and included in net income, is not considered by the CODM in assessing performance and decision making. For all periods presented, substantially all of our real estate facilities, goodwill and other intangible assets, other assets, and accrued and other liabilities are associated with the Self-Storage Operations segment.

Ancillary Operations

The Ancillary Operations segment reflects the sale of merchandise and reinsurance of policies against losses to goods stored by our self-storage tenants, activities which are incidental to our primary self-storage rental activities. Our CODM reviews the NOI of these operations in assessing performance and making resource allocation decisions.

Investment in PSB

This segment represents our approximate 42% equity interest in PSB, a publicly-traded REIT that owns, operates, acquires and develops commercial properties, primarily multi-tenant flex, office, and industrial space. PSB has a separate management team and board of directors that makes its financing, capital allocation, and other significant decisions. In making resource allocation decisions with respect to our investment in PSB, the CODM reviews PSB’s net income, which is detailed in PSB’s periodic filings with the SEC. The segment presentation in the tables below includes our equity earnings from PSB.

Investment in Shurgard

This segment represents our approximate 35% equity interest in Shurgard, a publicly held company which owns and operates self-storage facilities located in seven countries in Western Europe. Shurgard has a separate management team and board of trustees that makes its financing, capital allocation, and other significant decisions. In making resource allocation decisions with respect to our investment in Shurgard, the CODM reviews Shurgard’s net income. The segment presentation below includes our equity earnings from Shurgard.

Presentation of Segment Information

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

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	For the Three Months Ended March 31,	
	2020	2019
<i>Self-Storage Segment</i>		
Revenue	\$ 674,201	\$ 650,408
Cost of operations	<u>(207,925)</u>	<u>(193,656)</u>
Net operating income	466,276	456,752
Depreciation and amortization	<u>(135,900)</u>	<u>(121,941)</u>
Net income	330,376	334,811
<i>Ancillary Segment</i>		
Revenue	41,881	38,630
Cost of operations	<u>(10,945)</u>	<u>(10,545)</u>
Net operating income	30,936	28,085
Investment in PSB Segment (a) - Equity in earnings of unconsolidated entities	21,737	13,720
Investment in Shurgard Segment (a) - Equity in earnings of unconsolidated entities	2,231	3,952
Total net income allocated to segments	<u>385,280</u>	<u>380,568</u>
<i>Other items not allocated to segments:</i>		
General and administrative	(21,064)	(19,503)
Interest and other income	6,479	6,965
Interest expense	(13,621)	(8,143)
Foreign currency exchange gain	8,945	7,791
Gain on sale of real estate	1,117	-
Net income	<u>\$ 367,136</u>	<u>\$ 367,678</u>

(a) See Note 4 for a reconciliation of these amounts to our total Equity in Earnings of Unconsolidated Real Estate Entities on our income statements.

12. Commitments and Contingencies

Contingent Losses

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

Insurance and Loss Exposure

We carry property, earthquake, general liability, employee medical insurance and workers compensation coverage through internationally recognized insurance carriers, subject to deductibles. Our deductible for general

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liability is \$2.0 million per occurrence. Our annual deductible for property loss is \$25.0 million per occurrence. This deductible decreases to \$5.0 million once we reach \$35.0 million in aggregate losses for occurrences that exceed \$5.0 million. Insurance carriers' aggregate limits on these policies of \$75.0 million for property losses and \$102.0 million for general liability losses are higher than estimates of maximum probable losses that could occur from individual catastrophic events determined in recent engineering and actuarial studies; however, in case of multiple catastrophic events, these limits could be exceeded.

We reinsure a program that provides insurance to our customers from an independent third-party insurer. This program covers customer claims for losses to goods stored at our facilities as a result of specific named perils (earthquakes are not covered by this program), up to a maximum limit of \$5,000 per storage unit. We reinsure all risks in this program, but purchase insurance to cover this exposure for a limit of \$15.0 million for losses in excess of \$5.0 million per occurrence. We are subject to licensing requirements and regulations in several states. Customers participate in the program at their option. At March 31, 2020, there were approximately 950,000 certificates held by our self-storage customers, representing aggregate coverage of approximately \$3.4 billion.

Construction Commitments

We have construction commitments representing future expected payments for construction under contract totaling \$103.0 million at March 31, 2020. We expect to pay approximately \$75.0 million in the remainder of 2020, \$23.0 million in 2021 and \$5.0 million in 2022 for these construction commitments.

13. Subsequent Events

Subsequent to March 31, 2020, we acquired or were under contract to acquire (subject to customary closing conditions) six self-storage facilities with 419,000 net rentable square feet, for \$66.8 million.

Subsequent to March 31, 2020, the global economy has continued to be severely impacted by the COVID-19 pandemic (the "COVID Pandemic"). We are actively monitoring the impact of the COVID Pandemic, which we anticipate will negatively impact our business and results of operations for our second fiscal quarter and likely beyond. The extent to which the COVID Pandemic will impact our operations will depend largely on future developments, which are highly uncertain and cannot be accurately predicted, including new information that may emerge concerning the severity and duration of the COVID pandemic and actions by government authorities to contain the COVID pandemic or treat its impact, among other factors.

ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

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

These forward-looking statements involve known and unknown risks and uncertainties, which may cause our actual results and performance to be materially different from those expressed or implied in the forward-looking statements. Factors and risks that may impact future results and performance include, but are not limited to, those described in Part 1, Item 1A, “Risk Factors” in our most recent Annual Report on Form 10-K for the year ended December 31, 2019 filed with the Securities and Exchange Commission (the “SEC”) on February 25, 2020 and in our other filings with the SEC including:

- general risks associated with the ownership and operation of real estate, including changes in demand, risk related to development, expansion, and acquisition of self-storage facilities, potential liability for environmental contamination, natural disasters and adverse changes in laws and regulations governing property tax, real estate and zoning;

- risks associated with downturns in the national and local economies in the markets in which we operate, including risks related to current economic conditions and the economic health of our customers;

- risks associated with the COVID-19 Pandemic (the “COVID Pandemic”) or similar events, including but not limited to illness or death of our employees or customers, negative impacts to the economic environment and to self-storage customers which could reduce the demand for self-storage or reduce our ability to collect rent, and/or potential regulatory actions to (i) close our facilities if we were determined not to be an “essential business” or for other reasons, (ii) limit our ability to increase rent or otherwise limit the rent we can charge or (iii) limit our ability to collect rent or evict delinquent tenants;

- risk that even after the initial restrictions due to the COVID Pandemic ease, they could be reinstated in case of future waves of infection or if additional pandemics occur;

- risk that we could experience a change in the move-out patterns of our long-term customers due to economic uncertainty and the significant increase in unemployment in the last 30 days. This could lead to lower occupancies and rent “roll down” as long-term customers are replaced with new customers at lower rates. We observed such a trend during the recessionary circumstances of 2009; however, to date we have not seen any material change in the move-out patterns of long-term customers;

- risk of negative impacts on the cost and availability of debt and equity capital as a result of the COVID Pandemic, which could have a material impact upon our capital and growth plans;

- the impact of competition from new and existing self-storage and commercial facilities and other storage alternatives;

- the risk that our existing self-storage facilities may be at a disadvantage in competing with newly developed facilities with more visual and customer appeal;

- risks related to increased reliance on Google as a customer acquisition channel;

difficulties in our ability to successfully evaluate, finance, integrate into our existing operations, and manage properties that we acquire directly or through the acquisition of entities that own and operate self-storage facilities;

- risks associated with international operations including, but not limited to, unfavorable foreign currency rate fluctuations, changes in tax laws, and local and global economic uncertainty that could adversely affect our earnings and cash flows;
- risks related to our participation in joint ventures;
- the impact of the legal and regulatory environment as well as national, state and local laws and regulations including, without limitation, those governing environmental issues, taxes, our tenant reinsurance business, and labor, including risks related to the impact of new laws and regulations;
- risks of increased tax expense associated either with a possible failure by us to qualify as a real estate investment trust (“REIT”), or with challenges to the determination of taxable income for our taxable REIT subsidiaries;
- risks due to a November 2020 California ballot initiative (or other equivalent actions) that could remove the protections of Proposition 13 with respect to our real estate and result in substantial increases in our assessed values and property tax bills in California;
- changes in United States (“U.S.”) federal or state tax laws related to the taxation of REITs and other corporations;
- security breaches or a failure of our networks, systems or technology could adversely impact our operations or our business, customer and employee relationships or result in fraudulent payments;
- risks associated with the self-insurance of certain business risks, including property and casualty insurance, employee health insurance and workers compensation liabilities;
- difficulties in raising capital at a reasonable cost;
- delays and cost overruns on our projects to develop new facilities or expand our existing facilities;
- ongoing litigation and other legal and regulatory actions which may divert management’s time and attention, require us to pay damages and expenses or restrict the operation of our business; and
- economic uncertainty due to the impact of war or terrorism.

These forward-looking statements speak only as of the date of this report or as of the dates indicated in the statements. All of our forward-looking statements, including those in this report, are qualified in their entirety by this statement. We expressly disclaim any obligation to update publicly or otherwise revise any forward-looking statements, whether because of new information, new estimates, or other factors, events or circumstances after the date of these forward looking statements, except when expressly required by law. Given these risks and uncertainties, you should not rely on any forward-looking statements in this report, or which management may make orally or in writing from time to time, neither as predictions of future events nor guarantees of future performance.

Critical Accounting Policies

Our MD&A discusses our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”), and are affected by our judgments, assumptions and estimates. The notes to our March 31, 2020 financial statements, primarily Note 2, summarize our significant accounting policies.

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

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

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

In addition, certain of our consolidated corporate subsidiaries have elected to be treated as “taxable REIT subsidiaries” for federal income tax purposes, which are taxable as regular corporations and subject to certain limitations on intercompany transactions. If tax authorities determine that amounts paid by our taxable REIT subsidiaries to us are not reasonable compared to similar arrangements among unrelated parties, we could be subject to a 100% penalty tax on the excess payments. Such a penalty tax could have a material adverse impact on our net income.

Impairment of Long-Lived Assets: The analysis of impairment of our long-lived assets involves identification of indicators of impairment, projections of future operating cash flows, and estimates of fair values, all of which require significant judgment and subjectivity. Others could come to materially different conclusions. In addition, we may not have identified all current facts and circumstances that may affect impairment. Any unidentified impairment loss, or change in conclusions, could have a material adverse impact on our net income.

Accrual for Uncertain and Contingent Liabilities: We accrue for certain contingent and other liabilities that have significant uncertain elements, such as property taxes, workers compensation claims, tenant reinsurance claims, as well as other legal claims and disputes involving customers, employees, governmental agencies and other third parties. We estimate such liabilities based upon many factors such as assumptions of past and future trends and our evaluation of likely outcomes. However, the estimates of known liabilities could be incorrect or we may not be aware of all such liabilities, in which case our accrued liabilities and net income could be misstated.

Allocating Purchase Price for Acquired Real Estate Facilities: We estimate the fair values of land and buildings for purposes of allocating the aggregate purchase price of acquired properties. The related estimation processes involve significant judgment. We estimate the fair value of acquired buildings by determining the current cost to build new purpose-built self-storage facilities in the same location, and adjusting those costs for the actual age, quality, condition, amenities, and configuration of the buildings acquired. We estimate the fair value of acquired land by considering the most directly comparable recently transacted land sales (“Land Comps”) and adjusting the transacted values for differentials to the acquired land such as location quality, parcel size, and date of sale, in order to derive the estimated value of the underlying acquired land. These adjustments to the Land Comps require significant judgment, particularly when there is a low volume of Land Comps or the available Land Comps lack similarity to the acquired property in proximity, date of sale, or location quality. Others could come to materially different conclusions as to the estimated fair values, which would result in different depreciation and amortization expense, gains and losses on sale of real estate assets, as well as the level of land and buildings on our balance sheet.

Overview

Impact of COVID-19

The COVID-19 pandemic (the “COVID Pandemic”) has resulted in cessation, severe curtailment, or impairment of business activities in most sectors of the economy in virtually all markets we operate in, due to governmental “stay at home” orders, risk mitigation procedures, closure of businesses not considered to be “essential,” as well as other direct and indirect impacts, including those that may not yet be identified. This has already resulted in a rapid and dramatic increase in unemployment in the U.S. We cannot estimate the extent of the COVID Pandemic’s future negative impacts or how long the negative impacts of the COVID Pandemic will persist. In addition, it is possible that, even after the initial restrictions due to the COVID Pandemic ease, they could be reinstated in case of future waves of infection or if additional pandemics occur.

Our self-storage facilities qualify as “essential” businesses under all applicable business closure orders, and thus remain open to allow customers to move-in, move-out, pay rent, and access their storage units as they would have before the COVID Pandemic. However, the COVID Pandemic has negatively impacted our operations due to (i) stay at home orders which have discouraged customer activity, in particular move-ins, (ii) increased absentee rates for on-site property managers as a result of childcare issues, illness, or other issues, resulting in properties not opening on time or at all on certain days, (iii) delays in the timing of our standard in person “auction” process under lien sale statutes for delinquent tenants due, among other factors, to logistical issues associated with social distancing and (iv) remote working at home by most corporate and call center employees in our Glendale, California and Gilbert, Arizona offices, potentially hampering efficiency and effectiveness, including negative effects to communications and coordination among and across teams.

To mitigate these operational issues, effective from April 1, 2020 to June 30, 2020, we have instituted a temporary \$3.00 hourly wage increase and enhancements of paid time off benefits to virtually all of our property managers, and will provide additional financial support to selected employees (principally, property managers) to enable them to continue working. We have also instituted the use of masks, gloves, and social distancing by property managers to ensure the safety of our personnel and customers. These measures will increase our operating expenses.

Since late March 2020, we have seen significant reductions in demand for self-storage space, and as a result, our move-in volumes, despite lower move-in rental rates, have also declined significantly, offset partially by lower move-out volumes. The reduction in move-out volumes may be temporary or even reverse, to the extent they are driven by short-term factors such as stay at home orders and delays in our auction process. We have also temporarily curtailed our existing tenant rate increase program. Because existing tenant rate increases have contributed the majority of our increase in rental income in recent years, curtailment of these increases will have a material adverse impact on our revenue growth. These curtailments will impact our revenue subsequent to March 31, 2020. It is possible that the COVID Pandemic could change consumer behavior, either due to economic recession, uncertainty, or dislocation, as well as other factors, which could increase customer sensitivity and propensity to move-out in response to rate increases, either in the short or longer term.

To date, we have observed no material degradation in rent collections. However, we believe that our bad debt losses (which are reflected as a reduction in revenues) could increase from historical levels of approximately 2% of rent, due to (i) cumulative stress on our customers’ financial capacity, (ii) reduced rent recoveries from auctioned units, due to the closure of venues that bidders typically use to resell the goods, and (iii) the continued delay of auctions, which began in March 2020, as a result of logistical difficulties due to social distancing and other considerations in the current environment. We are taking certain steps in order to augment our collection efforts, in anticipation of potential challenges in the near term in collecting rent, though there can be no assurance that such efforts will be successful in mitigating collection losses.

We may experience a change in the move-out patterns of our long-term customers due to economic uncertainty and the significant increase in unemployment in the last 30 days. This could lead to lower occupancies and rent “roll down” as long-term customers are replaced with new customers at lower rates. We observed such a trend during the recessionary circumstances of 2009; however, to date we have not seen any material change in the move-out patterns of long-term customers.

As a result of these actual and anticipated impacts of the COVID Pandemic and our responses, we believe it is likely that we will experience reductions in year-over-year same-store rental income and net operating income in the remainder of 2020.

The COVID Pandemic could delay the estimated timing of completion of our existing pipeline of development and expansion projects, because many jurisdictions have shut down or delayed entitlement activities, and “stay at home” orders could potentially delay construction activities. In addition, the COVID Pandemic could extend the timeframe for a newly developed facility to reach stabilized occupancies and cash flows. We continue to monitor our projects to ensure that they still meet our risk-adjusted yield expectations, and reduced project yield estimates due to the COVID Pandemic or other factors could result in the cancellation of existing projects in the future, or we may not pursue certain new projects that we would have otherwise sought.

We continue to seek to acquire additional self-storage facilities from third parties. Our acquisition volume was robust in the early part of 2020, with \$253.0 million in acquisitions during 2020 thus far including facilities currently under contract. However, we believe that in the short-term, acquisition volume may decline due to economic uncertainty resulting from the COVID Pandemic, resulting in some third party sellers delaying the sale of their properties. Volume in the latter part of 2020 could increase as the economy stabilizes and seller confidence returns, or leveraged owners of recently developed facilities are forced to sell. There can be no assurance as to the level of future acquisitions of facilities.

The COVID Pandemic has had negative impacts on the cost of debt and equity capital, and may continue to do so or such negative impacts may intensify. Based upon our substantial current liquidity relative to our capital requirements noted below, and our strong financial profile and credit ratings, we do not expect such capital market dislocations to have a material impact upon our expected capital and growth plans over the next 12 months. However, there can be no assurance that they would not in the future, if they were to persist for a long period or intensify. In addition, there can be no assurance, if significant additional opportunities to acquire facilities were to arise as a result of the COVID Pandemic or for other reasons, whether we would be able to raise capital at a reasonable cost to allow us to be able to take advantage of such opportunities.

General Overview

Our self-storage operations generate most of our net income, and we believe that our earnings growth is most impacted by the level of organic growth in our existing self-storage portfolio. Accordingly, a significant portion of management’s time is devoted to maximizing cash flows from our existing self-storage facilities.

Most of our facilities compete with other well-managed and well-located competitors within the local trade area, which is generally a three to five mile radius. In addition to local competition, we are subject to general economic conditions, particularly those that affect the spending habits of consumers and moving trends. We believe that our centralized information networks, national telephone and online reservation system, the brand name “Public Storage,” and our economies of scale enable us to meet such challenges effectively.

In the last three years, there has been a marked increase in development of new self-storage facilities in many of the markets where we operate, due to the favorable economics of developing new properties. These newly developed facilities compete with many of the facilities we own, negatively impacting our occupancies, rental rates, and rental growth. This increase in supply has been most notable in Atlanta, Austin, Charlotte, Chicago, Dallas, Denver, Houston, Miami, Minneapolis, New York, and Portland.

The quality of the new supply may also allow these new facilities to compete more effectively with existing self-storage assets. Much of this new supply, including our own, represents “fifth generation” facilities which often have a more fresh and vibrant appearance, more amenities such as climate control, more attractive office configurations, newer design elements, and a more imposing and attractive retail presence as compared to the existing stock of self-storage facilities which were built over the last 50 years.

In order to enhance the competitive position of certain of our facilities relative to local competitors (including newly developed “fifth generation” facilities), we have commenced a comprehensive program to rebrand our

properties, in order to develop more pronounced, attractive, and clearly identifiable color schemes and signage, as well as to upgrade the configuration and layout of the offices and other customer zones to improve the customer experience. This program has initially been concentrated in properties located in a limited number of markets. The extent to which we continue this program in additional markets, and the relative scope of work, will depend in part upon the results of the initial implementation of the program.

In addition to managing our existing facilities for organic growth, we plan on growing through the acquisition and development of new facilities and expanding our existing self-storage facilities. Since the beginning of 2013 through March 31, 2020, we acquired a total of 349 facilities with 24.5 million net rentable square feet from third parties for approximately \$3.3 billion, and we opened newly developed and expanded self-storage space for a total cost of \$1.6 billion, adding approximately 15.3 million net rentable square feet.

Subsequent to March 31, 2020, we acquired or were under contract to acquire (subject to customary closing conditions) six self-storage facilities, with approximately 0.4 million net rentable square feet, for \$66.8 million. We will continue to seek to acquire properties; however, there is significant competition to acquire existing facilities and there can be no assurance as to the number of facilities we may acquire.

At March 31, 2020, we had a development pipeline to develop twelve new self-storage facilities and expand 36 existing self-storage facilities, which will add approximately 4.3 million net rentable square feet at a cost of \$634.5 million. We expect to continue to seek additional development projects; however, the level of such activity may be limited due to various constraints such as difficulty in finding available sites that meet our risk-adjusted yield expectations, as well as challenges in obtaining building permits for self-storage activities in certain municipalities. In addition, as noted above, the COVID Pandemic may cause the delay or cancellation of projects in our pipeline, and could limit the level of additional development projects that we may seek in the future.

We believe that our development and redevelopment activities generate favorable risk-adjusted returns over the long run. However, in the short run, our earnings are diluted during the construction and stabilization period due to the cost of capital to fund the development cost, as well as the related construction and development overhead expenses included in general and administrative expense. We believe the level of dilution incurred in 2019 and the first quarter of 2020 will continue at similar levels in the remainder of 2020.

As of March 31, 2020, we expect capital resources over the next year of approximately \$1.4 billion, which exceeds our currently identified capital needs of approximately \$539.6 million. Our expected capital resources include: (i) \$718.4 million of cash as of March 31, 2020, (ii) \$484.1 million of available borrowing capacity on our revolving line of credit and (iii) approximately \$200 million of expected retained operating cash flow in the next year. Retained operating cash flow represents our expected cash flow provided by operating activities, less shareholder distributions and capital expenditures to maintain our real estate facilities.

Our currently identified capital needs consist primarily of \$66.8 million in property acquisitions currently under contract and \$472.8 million of remaining spending on our current development pipeline, which will be incurred primarily in the next 18 to 24 months. We have no substantial principal payments on debt until 2022. We expect our capital needs to increase over the next year as we add projects to our development pipeline and acquire additional properties. Additional potential capital needs could result from various activities including the redemption of outstanding preferred securities, repurchases of common stock, or mergers and acquisition activities; however, there can be no assurance of any such activities transpiring in the near or longer term. In addition, the COVID Pandemic could result in increases or decreases to our capital needs as we continue to adjust our acquisition and development of self-storage facilities in light of potential returns, execution issues, cost and availability of capital, and other factors.

See *Liquidity and Capital Resources* for further information regarding our capital requirements and anticipated sources of capital to fund such requirements.

Operating Results for the Three Months Ended March 31, 2020

For the three months ended March 31, 2020, net income allocable to our common shareholders was \$313.1 million or \$1.79 per diluted common share, compared to \$301.7 million or \$1.73 per diluted common share in 2019 representing an increase of \$11.4 million or \$0.06 per diluted common share. The increase is due primarily to (i) a \$9.5 million increase in self-storage net operating income (described below), (ii) a \$8.5 million allocation to our preferred shareholders associated with our preferred share redemption activities in the three months ended March 31, 2019, and (iii) our \$8.1 million equity share of a gain on sale of real estate recorded by PS Business Parks in the three months ended March 31, 2020, offset partially by (iv) a \$14.0 million increase in depreciation and amortization expense.

The \$9.5 million increase in self-storage net operating income is a result of a \$0.3 million increase in our Same Store Facilities (as defined below) and a \$9.2 million increase in our non-Same Store Facilities (as defined below). Revenues for the Same Store Facilities increased 1.2% or \$7.2 million in the three months ended March 31, 2020 as compared to 2019, due primarily to higher realized annual rent per occupied square foot. Cost of operations for the Same Store Facilities increased by 4.0% or \$7.0 million in the three months ended March 31, 2020 as compared to 2019, due primarily to a 58.8% (\$5.3 million) increase in marketing expenses and increased property tax expense. The increase in net operating income of \$9.2 million for the non-Same Store Facilities is due primarily to the impact of facilities acquired in 2019 and 2020 and the fill-up of recently developed and expanded facilities.

Funds from Operations and Core Funds from Operations

Funds from Operations (“FFO”) and FFO per share are non-GAAP measures defined by the National Association of Real Estate Investment Trusts and are considered helpful measures of REIT performance by REITs and many REIT analysts. FFO represents GAAP net income before depreciation and amortization, which is excluded because it is based upon historical costs and assumes that building values diminish ratably over time, while we believe that real estate values fluctuate due to market conditions. FFO also excludes gains or losses on sale of real estate assets and real estate impairment charges, which are also based upon historical costs and are impacted by historical depreciation. FFO and FFO per share are not a substitute for net income or earnings per share. FFO is not a substitute for GAAP net cash flow in evaluating our liquidity or ability to pay dividends, because it excludes investing and financing activities presented on our statements of cash flows. In addition, other REITs may compute these measures differently, so comparisons among REITs may not be helpful.

For the three months ended March 31, 2020, FFO was \$2.61 per diluted common share, as compared to \$2.52 per diluted common share for the same period in 2019, representing an increase of 3.6%, or \$0.09 per diluted common share.

The following tables reconcile diluted earnings per share to FFO per share and set forth the computation of FFO per share:

	Three Months Ended	
	March 31,	
	2020	2019
	(Amounts in thousands, except per share data)	
<u>Reconciliation of Diluted Earnings per Share to FFO per Share:</u>		
Diluted Earnings per Share	\$ 1.79	\$ 1.73
Eliminate amounts per share excluded from FFO:		
Depreciation and amortization	0.87	0.79
Gains on sale of real estate investments, including our equity share from investments	(0.05)	-
FFO per share	<u>\$ 2.61</u>	<u>\$ 2.52</u>
<u>Computation of FFO per Share:</u>		
Net income allocable to common shareholders	\$ 313,134	\$ 301,743
Eliminate items excluded from FFO:		
Depreciation and amortization	135,137	121,941
Depreciation from unconsolidated real estate investments	18,243	17,514
Depreciation allocated to noncontrolling interests and restricted share unitholders	(961)	(1,198)
Gains on sale of real estate investments, including our equity share from investments and other	(9,241)	-
FFO allocable to common shares	<u>\$ 456,312</u>	<u>\$ 440,000</u>
Diluted weighted average common shares	<u>174,616</u>	<u>174,376</u>
FFO per share	<u>\$ 2.61</u>	<u>\$ 2.52</u>

We also present “Core FFO per share,” a non-GAAP measure that represents FFO per share excluding the impact of (i) foreign currency exchange gains and losses, (ii) EITF D-42 charges related to the redemption of preferred securities, and (iii) certain other non-cash and/or nonrecurring income or expense items primarily representing, with respect to the periods presented below, casualty losses, due diligence costs incurred in strategic transactions, and contingency resolutions. We review Core FFO per share to evaluate our ongoing operating performance and we believe it is used by investors and REIT analysts in a similar manner. However, Core FFO per share is not a substitute for net income per share. Because other REITs may not compute Core FFO per share in the same manner as we do, may not use the same terminology or may not present such a measure, Core FFO per share may not be comparable among REITs.

The following table reconciles FFO per share to Core FFO per share:

	Three Months Ended March 31,		
	2020	2019	Percentage Change
FFO per share	\$ 2.61	\$ 2.52	3.6%
Eliminate the per share impact of items excluded from Core FFO, including our equity share from investments:			
Foreign currency exchange gain	(0.05)	(0.04)	
Application of EITF D-42	-	0.05	
Other items	0.02	-	
Core FFO per share	<u>\$ 2.58</u>	<u>\$ 2.53</u>	<u>2.0%</u>

Analysis of Net Income by Reportable Segment

The following discussion and analysis is presented and organized in accordance with Note 11 to our March 31, 2020 financial statements, "Segment Information." Accordingly, refer to the table presented in Note 11 in order to reconcile such amounts to our total net income and for further information on our reportable segments.

Self-Storage Operations

Our self-storage operations are analyzed in four groups: (i) the 2,224 facilities that we have owned and operated on a stabilized basis since January 1, 2018 (the "Same Store Facilities"), (ii) 78 facilities we acquired after December 31, 2017 (the "Acquired facilities"), (iii) 145 facilities that have been newly developed or expanded, or that we expect to commence expansion by December 31, 2020 (the "Newly developed and expanded facilities") and (iv) 45 other facilities, which are otherwise not stabilized with respect to occupancies or rental rates since January 1, 2018 (the "Other non-same store facilities"). See Note 11 to our March 31, 2020 financial statements "Segment Information," for a reconciliation of the amounts in the tables below to our total net income.

**Self-Storage Operations
Summary**

	Three Months Ended March 31,		
	2020	2019	Percentage Change
	(Dollar amounts and square footage in thousands)		
Revenues:			
Same Store facilities	\$ 609,535	\$ 602,297	1.2%
Acquired facilities	11,869	3,921	202.7%
Newly developed and expanded facilities	42,285	33,715	25.4%
Other non-same store facilities	<u>10,512</u>	<u>10,475</u>	<u>0.4%</u>
	<u>674,201</u>	<u>650,408</u>	<u>3.7%</u>
Cost of operations:			
Same Store facilities	180,281	173,324	4.0%
Acquired facilities	5,512	2,114	160.7%
Newly developed and expanded facilities	18,348	14,446	27.0%
Other non-same store facilities	<u>3,784</u>	<u>3,772</u>	<u>0.3%</u>
	<u>207,925</u>	<u>193,656</u>	<u>7.4%</u>
Net operating income (a):			
Same Store facilities	429,254	428,973	0.1%
Acquired facilities	6,357	1,807	251.8%
Newly developed and expanded facilities	23,937	19,269	24.2%
Other non-same store facilities	<u>6,728</u>	<u>6,703</u>	<u>0.4%</u>
Total net operating income	<u>466,276</u>	<u>456,752</u>	<u>2.1%</u>
Depreciation and amortization expense:			
Same Store facilities	(104,369)	(100,355)	4.0%
Acquired facilities	(9,522)	(3,692)	157.9%
Newly developed and expanded facilities	(15,110)	(11,955)	26.4%
Other non-same store facilities	<u>(6,899)</u>	<u>(5,939)</u>	<u>16.2%</u>
Total depreciation and amortization expense	<u>(135,900)</u>	<u>(121,941)</u>	<u>11.4%</u>
Net income:			
Same Store facilities	324,885	328,618	(1.1)%
Acquired facilities	(3,165)	(1,885)	67.9%
Newly developed and expanded facilities	8,827	7,314	20.7%
Other non-same store facilities	<u>(171)</u>	<u>764</u>	<u>(122.4)%</u>
Total net income	<u>\$ 330,376</u>	<u>\$ 334,811</u>	<u>(1.3)%</u>
Number of facilities at period end:			
Same Store facilities	2,224	2,224	-
Acquired facilities	78	37	110.8%
Newly developed and expanded facilities	145	138	5.1%
Other non-same store facilities	<u>45</u>	<u>45</u>	<u>0.0%</u>
	<u>2,492</u>	<u>2,444</u>	<u>2.0%</u>
Net rentable square footage at period end:			
Same Store facilities	143,890	143,890	-
Acquired facilities	5,522	2,397	130.4%
Newly developed and expanded facilities	16,775	14,477	15.9%
Other non-same store facilities	<u>3,586</u>	<u>3,593</u>	<u>(0.2)%</u>
	<u>169,773</u>	<u>164,357</u>	<u>3.3%</u>

(a) Net operating income or “NOI” is a non-GAAP financial measure that excludes the impact of depreciation and amortization expense, which is based upon historical real estate costs and assumes that building values diminish ratably over time, while we believe that real estate values fluctuate due to market conditions. We utilize NOI in determining current property values, evaluating property performance, and in evaluating property operating trends. We believe that investors and analysts utilize NOI in a similar manner. NOI is not a substitute for net income, operating cash flow, or other related GAAP financial measures, in evaluating our operating results. See Note 11 to our March 31, 2020 financial statements for a reconciliation of NOI to our total net income for all periods presented.

Net operating income from our self-storage operations has increased 2.1% in the three months ended March 31, 2020, respectively, as compared to the same period in 2019. The increase is due primarily to the acquisition and development of new facilities and the fill-up of unstabilized facilities.

Same Store Facilities

The Same Store Facilities consist of facilities that have been owned and operated on a stabilized level of occupancy, revenues and cost of operations since January 1, 2018. Our Same Store Facilities increased from 2,159 facilities at December 31, 2019 to 2,224 at March 31, 2020. The composition of our Same Store Facilities allows us to more effectively evaluate the ongoing performance of our self-storage portfolio in 2018, 2019, and 2020 and exclude the impact of fill-up of unstabilized facilities, which can significantly affect operating trends. We believe the Same Store information is used by investors and REIT analysts in a similar manner.

The following table summarizes the historical operating results of these 2,224 facilities (143.9 million net rentable square feet) that represent approximately 85% of the aggregate net rentable square feet of our U.S. consolidated self-storage portfolio at March 31, 2020.

Selected Operating Data for the Same Store Facilities (2,224 facilities)

	Three Months Ended March 31,		Percentage Change
	2020	2019	
	(Dollar amounts in thousands, except weighted average amounts)		
Revenues:			
Rental income	\$ 583,732	\$ 575,562	1.4%
Late charges and administrative fees	25,803	26,735	(3.5)%
Total revenues (a)	609,535	602,297	1.2%
Cost of operations:			
Property taxes	70,187	66,827	5.0%
On-site property manager payroll	32,054	31,035	3.3%
Supervisory payroll	10,813	10,051	7.6%
Repairs and maintenance	12,395	13,758	(9.9)%
Utilities	10,430	11,296	(7.7)%
Marketing	14,296	9,001	58.8%
Other direct property costs	16,452	16,844	(2.3)%
Allocated overhead	13,654	14,512	(5.9)%
Total cost of operations (a)	180,281	173,324	4.0%
Net operating income	429,254	428,973	0.1%
Depreciation and amortization expense	(104,369)	(100,355)	4.0%
Net income	\$ 324,885	\$ 328,618	(1.1)%
Gross margin (before depreciation and amortization expense)	70.4%	71.2%	(1.1)%
Weighted average for the period:			
Square foot occupancy	93.1%	92.5%	0.6%
Realized annual rental income per (b):			
Occupied square foot	\$ 17.43	\$ 17.30	0.8%
Available square foot	\$ 16.23	\$ 16.00	1.4%
At March 31:			
Square foot occupancy (c)	92.7%	92.1%	0.7%
Annual contract rent per occupied square foot (d)	\$ 17.99	\$ 17.83	0.9%

(a) Revenues and cost of operations do not include tenant reinsurance and merchandise sale revenues and expenses generated at the facilities. See “Ancillary Operations” below for more information.

(b) Realized annual rent per occupied square foot is computed by dividing rental income, before late charges and administrative fees, by the weighted average occupied square feet for the period. Realized annual rent per available square foot (“REVPAF”) is computed by dividing rental income, before late charges and administrative fees, by the total available net rentable square feet for the period. These measures exclude late charges and administrative fees in order to provide a better measure of our ongoing level of revenue. Late charges are dependent upon the level of delinquency and administrative fees are dependent upon the level of move-ins. In addition, the rates charged for late charges and administrative fees can vary independently from rental rates. These measures take into consideration promotional discounts, which reduce rental income.

(c) Occupancy levels at March 31, 2020 include delinquent tenants for whom an auction was delayed, as noted below under “Same Store Revenue.” Had customary auction timelines been followed, these tenants would have been evicted by March 31, 2020, and our square foot occupancy at March 31, 2020 would have been 92.4% rather than 92.7%.

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

Analysis of Same Store Revenue

Revenues generated by our Same Store Facilities increased by 1.2% in the three months ended March 31, 2020 as compared to the same period in 2019, due primarily to an increase of 0.8% realized annual rent per occupied square foot for the three months ended March 31, 2020, as compared to the same period in 2019.

Same Store revenue growth is lower than long-term historical averages due to softness in demand for our storage space, which has led to lower move-in rental rates for new tenants (see below). We attribute some of this softness to local economic conditions and, in some markets most notably Atlanta, Austin, Charlotte, Chicago, Dallas, Denver, Houston, Miami, Minneapolis, New York and Portland, increased supply of newly constructed self-storage facilities.

Same Store weighted average square foot occupancy remained strong at 93.1% and 92.5% in the three months ended March 31, 2020 and 2019, respectively.

We believe that high occupancies help maximize our rental income. We seek to maintain a weighted average square foot occupancy level of at least 90%, by regularly adjusting the rental rates and promotions offered to attract new tenants as well as adjusting our marketing efforts on the Internet and other channels in order to generate sufficient move-in volume to replace tenants that vacate.

Average annual contract rent per foot for customers moving in was \$12.98 and \$13.55 in the three months ended March 31, 2020 and 2019, respectively, and the related square footage for the space they moved into was 25.3 million, and 24.9 million, respectively. Average annual contract rent per foot for customers moving out was \$15.88 and \$15.96 in the three months ended March 31, 2020 and 2019, respectively, and the related square footage for the space they moved out of was 23.9 million and 23.7 million, respectively.

In order to stimulate move-in volume, we often give promotional discounts, generally in the form of a “\$1.00 rent for the first month” offer. Promotional discounts, based upon the move-in contractual rates for the related promotional period, totaled \$20.1 million and \$20.5 million for the three months ended March 31, 2020 and 2019, respectively.

Demand is higher in the summer months than in the winter months and, as a result, rental rates charged to new tenants are typically higher in the summer months than in the winter months. Demand fluctuates due to various local and regional factors, including the overall economy. Demand into our system is also impacted by new supply of self-storage space as well as alternatives to self-storage. It is possible that the COVID Pandemic could impact current seasonal demand trends in the short or long term, due to changes in certain factors impacting moving trends,

such as potentially fewer college students living on-campus in favor of online learning or an increase in working from home reducing the necessity of moving for employment reasons.

We typically increase rental rates to our long-term tenants (generally, those that have been with us for at least a year) once per year. As a result, the number of long-term tenants we have in our facilities is an important factor in our revenue growth. The level of rate increases to long-term tenants is based upon balancing the additional revenue from the increase against the negative impact of incremental move-outs, by considering the customer's in-place rent and prevailing market rents, among other factors. It is possible that in the short-term or long-term, the COVID Pandemic could change customer sensitivity and propensity to move out in response to rate increases, either due to economic recession, uncertainty, or dislocation, as well as other factors.

Throughout 2019 and the first three months of 2020, we have had an increased average length of stay. The increased average length of stay contributed to an increased beneficial effect of rent increases to existing tenants, due to more long-term customers that were eligible for rate increases. However, this was offset partially by the impact of lower move-in rates and resulting increased "rent roll down" for new tenants relative to existing tenants that moved out.

We believe that the COVID Pandemic, and its impact upon the confidence and financial strength of the consumer, will have a negative impact upon our revenue trends in the remainder of 2020. Year over year demand and move-in volumes have declined materially from April 1, 2020 through April 30, 2020, despite reductions in average move-in rates. While year over year move-outs also declined during this period, such decreases were lower than the move-in volume decline, and such reductions may not be sustainable or may even reverse to the extent they are driven by temporary factors such as stay-at-home orders or delays in our auction process.

We may experience a change in the move-out patterns of our long-term customers due to economic uncertainty and the significant increase in unemployment in the last 30 days. This could lead to lower occupancies and rent "roll down" as long-term customers are replaced with new customers at lower rates. We observed such a trend during the recessionary circumstances of 2009; however, to date we have not seen any material change in the move-out patterns of long-term customers.

To date, we have observed no material degradation in rent collections. However, we believe that our bad debt losses (which are reflected as a reduction in revenues) could increase from historical levels of approximately 2% of rent, due to (i) cumulative stress on our customers' financial capacity, (ii) reduced rent recoveries from auctioned units, due to the closure of venues that bidders typically use to resell the goods, and (iii) the continued delay of auctions, which began in March 2020, as a result of logistical difficulties due to social distancing and other considerations in the current environment. We are taking certain steps in order to augment our collection efforts, in anticipation of potential challenges in the near term in collecting rent, though there can be no assurance that such efforts will be successful in mitigating collection losses.

Our Same Store revenue growth in recent years has come primarily from increases in rates to existing tenants. In addition, we have delayed and reduced existing tenant rent increases previously scheduled to take effect on April 1, 2020 and May 1, 2020. We have not determined when we resume our existing tenant rate increase program. In addition, it is not possible at this time to determine the impact that the COVID Pandemic may have on existing customer sensitivity to rate increases, as noted above.

Based upon present trends and our current expectations with respect to tenant rate increases, move-ins, collections, and rates, we believe that it is likely that our revenue will decline on a year over year basis in the remainder of 2020. There can be no assurance when the direct impacts of the COVID Pandemic, such as stay at home orders and direct curtailment of business activity by governmental authorities, may abate, or whether following abatement there may be continued sustained indirect impacts such as recession, job loss, and changes to consumer behavior that may affect demand for self-storage space; accordingly, there can be no assurance how quickly we can return to revenue growth after 2020.

We are continuing to take a number of actions to improve demand into our system, including increasing marketing spend on the Internet, offering lower rental rates to new customers and increasing the level of move-in discounts.

Analysis of Same Store Cost of Operations

Cost of operations (excluding depreciation and amortization) increased 4.0% in the three months ended March 31, 2020 as compared to the same period in 2019, due primarily to increased property tax and marketing expense.

Property tax expense increased 5.0% in the three months ended March 31, 2020 as compared to the same period in 2019. We expect property tax expense growth of approximately 5.0% in the remainder of 2020 due primarily to higher assessed values (excluding the potential impact of the California initiative noted below) and, to a lesser extent, increased tax rates.

As a result of Proposition 13, which limits increases in assessed values to 2% per year, the assessed value and property taxes we pay in California is less than it would be if the properties were assessed at current values. An initiative on California's November 2020 statewide ballot, if approved by voters, could result in the reassessment of our California properties and substantially increase our property tax expense. It is uncertain (i) whether an initiative will pass, and (ii) if it does pass, what the timing and level of the reassessment and related property tax increases would be. See "Risk Factors – We have exposure to increased property tax in California" in our December 31, 2019 Form 10-K for further information such as our aggregate net operating income and property tax expense in California.

On-site property manager payroll expense increased 3.3% in the three months ended March 31, 2020 as compared to the same period in 2019. This increase was due primarily to higher wage rates. We have been impacted by a tight labor market across the country, as well as increases in minimum wages in certain jurisdictions. In response to the COVID Pandemic, effective from April 1, 2020 to June 30, 2020, we have instituted a temporary \$3.00 hourly wage increase and enhancements of paid time off benefits to virtually all of our property managers, and will provide additional financial support to selected employees (principally, property managers) to enable them to continue working. These measures will result in an approximately 30% increase in on-site property manager payroll for the three months ended June 30, 2020 as compared to the same period in 2019. While these measures are currently scheduled to end June 30, 2020, they could be extended. Once these measures are suspended, we expect continued inflationary increases in on-site property manager payroll expense.

Supervisory payroll expense, which represents compensation paid to the management personnel who directly and indirectly supervise the on-site property managers, increased 7.6% in the three months ended March 31, 2020 as compared to the same period in 2019, due to increased headcount and higher wages. We expect similar increases in the remainder of 2020.

Repairs and maintenance expense decreased 9.9% in the three months ended March 31, 2020 as compared to the same period in 2019. Repair and maintenance costs include snow removal expense totaling \$1.9 million and \$2.9 million in the three months ended March 31, 2020 and 2019, respectively. Excluding snow removal costs, repairs and maintenance decreased 3.8% in the three months ended March 31, 2020 as compared to the same period in 2019.

Repairs and maintenance expense levels are dependent upon many factors such as (i) sporadic occurrences such as accidents, damage, and equipment malfunctions, (ii) short-term local supply and demand factors for material and labor, and (iii) weather conditions, which can impact costs such as snow removal, roof repairs, and HVAC maintenance and repairs. Accordingly, it is difficult to estimate future repairs and maintenance expense.

Our utility expenses are comprised primarily of electricity costs, which are dependent upon energy prices and usage levels. Changes in usage levels are driven primarily by weather and temperature. Utility expense decreased 7.7% in the three months ended March 31, 2020 as compared to the same period in 2019. It is difficult to estimate future utility costs, because weather, temperature, and energy prices are volatile and not predictable. We are making investments in energy saving technology such as solar power and LED lights which should generate favorable returns on investment in the form of lower utility usage. However, the actual reduction expected to be experienced in the remainder of 2020 will be relatively modest, based upon the expected level of and timing of such investments.

Marketing expense is comprised principally of Internet advertising and the operating costs of our telephone reservation center. Internet advertising expense, comprised primarily of keyword search fees assessed on a “per click” basis, varies based upon demand for self-storage space, the quantity of people inquiring about self-storage through online search, occupancy levels, the number and aggressiveness of bidding competitors and other factors. These factors are volatile; accordingly, Internet advertising can increase or decrease significantly in the short-term. Marketing expense increased 58.8% in the three months ended March 31, 2020 as compared to the same period in 2019. The year over year increase is due primarily to higher traditional “per click” advertising on paid search platforms as we have sought to attract more customers for our space, and cost per click for keyword search terms increased due to more keyword bidding competition from existing self-storage owners and operators, including owners of newly developed facilities and nontraditional storage providers. To a lesser extent, the increase reflects additional spending on social media outlets as well as aggregator websites, as we believe these channels provide exposure to incremental customers at a favorable cost. We expect continued increases in marketing expense in the remainder of 2020, and may intensify our efforts in this area to mitigate the aforementioned impact of the COVID Pandemic on customer demand.

Other direct property costs include administrative expenses specific to each self-storage facility, such as property insurance, telephone and data communication lines, business license costs, bank charges related to processing the facilities’ cash receipts, tenant mailings, credit card fees, and the cost of operating each property’s rental office. These costs decreased 2.3% in in the three months ended March 31, 2020 as compared to the same period in 2019. We continue to experience increased credit card fees due to a long-term trend of more customers paying with credit cards rather than cash, checks, or other methods of payment with lower transaction costs. We expect inflationary increases in other direct property costs in the remainder of 2020.

Allocated overhead represents administrative expenses for shared general corporate functions to the extent their efforts are devoted to self-storage operations. Such functions include information technology support, hardware, and software, as well as centralized administration of payroll, benefits, training, repairs and maintenance, customer service, pricing and marketing, operational accounting and finance, and legal costs. These amounts also include the costs of senior executives responsible for these processes (other than our Chief Executive Officer and Chief Financial Officer, which are included in general and administrative expense). Allocated overhead decreased 5.9% in in the three months ended March 31, 2020 as compared to the same period in 2019, due primarily to the impact of an annual national leadership and sales conference which occurred in the three months ended March 31, 2019, and is not expected to occur in 2020. We expect minimal increases in allocated overhead in the remainder of 2020.

Analysis of Same Store Depreciation and Amortization

Depreciation and amortization for Same Store Facilities increased 4.0% in the three months ended March 31, 2020 as compared to the same period in 2019, due primarily to elevated capital expenditures. We expect modest increases in depreciation expense in the remainder of the remainder of 2020.

Quarterly Financial Data

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

	For the Quarter Ended				Entire Year
	March 31	June 30	September 30	December 31	
	(Amounts in thousands, except for per square foot amounts)				
Total revenues:					
2020	\$ 609,535				
2019	\$ 602,297	\$ 616,055	\$ 628,573	\$ 615,268	\$ 2,462,193
Total cost of operations:					
2020	\$ 180,281				
2019	\$ 173,324	\$ 171,881	\$ 175,983	\$ 140,306	\$ 661,494
Property taxes:					
2020	\$ 70,187				
2019	\$ 66,827	\$ 67,550	\$ 67,353	\$ 38,904	\$ 240,634
Repairs and maintenance:					
2020	\$ 12,395				
2019	\$ 13,758	\$ 12,068	\$ 13,166	\$ 12,572	\$ 51,564
Marketing:					
2020	\$ 14,296				
2019	\$ 9,001	\$ 12,426	\$ 14,345	\$ 13,230	\$ 49,002
REVPAF:					
2020	\$ 16.23				
2019	\$ 16.00	\$ 16.40	\$ 16.71	\$ 16.37	\$ 16.37
Weighted average realized annual rent per occupied square foot:					
2020	\$ 17.43				
2019	\$ 17.30	\$ 17.45	\$ 17.74	\$ 17.59	\$ 17.52
Weighted average occupancy levels for the period:					
2020	93.1%				
2019	92.5%	94.0%	94.2%	93.1%	93.4%

Analysis of Market Trends

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

Same Store Facilities Operating Trends by Market

	Three Months Ended March 31,		Change
	2020	2019	
Market (number of facilities, square footage in millions)	(Amounts in thousands, except for weighted average data)		
Revenues:			
Los Angeles (212, 14.9)	\$ 95,200	\$ 92,758	2.6%
San Francisco (128, 7.9)	50,556	49,439	2.3%
New York (89, 6.2)	38,792	38,377	1.1%
Seattle-Tacoma (86, 5.8)	28,467	27,855	2.2%
Washington DC (89, 5.5)	28,148	27,727	1.5%
Miami (81, 5.7)	27,609	27,791	(0.7)%
Atlanta (99, 6.5)	21,187	21,564	(1.7)%
Chicago (129, 8.1)	29,584	28,987	2.1%
Dallas-Ft. Worth (102, 6.5)	21,200	21,162	0.2%
Houston (84, 5.8)	18,103	18,633	(2.8)%
Orlando-Daytona (72, 4.5)	15,412	15,397	0.1%
Philadelphia (56, 3.5)	14,730	14,304	3.0%
West Palm Beach (38, 2.5)	11,627	11,470	1.4%
Tampa (52, 3.5)	11,690	11,766	(0.6)%
Charlotte (50, 3.8)	10,285	10,297	(0.1)%
All other markets (857, 53.2)	186,945	184,770	1.2%
Total revenues	<u>\$ 609,535</u>	<u>\$ 602,297</u>	<u>1.2%</u>
Net operating income:			
Los Angeles	\$ 77,151	\$ 75,578	2.1%
San Francisco	39,942	39,478	1.2%
New York	25,678	25,673	0.0%
Seattle-Tacoma	21,347	21,232	0.5%
Washington DC	20,003	19,937	0.3%
Miami	19,002	19,635	(3.2)%
Atlanta	15,202	15,774	(3.6)%
Chicago	13,995	13,265	5.5%
Dallas-Ft. Worth	13,623	13,853	(1.7)%
Houston	11,262	11,823	(4.7)%
Orlando-Daytona	10,668	10,875	(1.9)%
Philadelphia	10,075	9,999	0.8%
West Palm Beach	8,372	8,418	(0.5)%
Tampa	7,720	8,096	(4.6)%
Charlotte	7,463	7,517	(0.7)%
All other markets	127,751	127,820	(0.1)%
Total net operating income	<u>\$ 429,254</u>	<u>\$ 428,973</u>	<u>0.1%</u>

Same Store Facilities Operating Trends by Market (Continued)

	Three Months Ended March 31,		
	2020	2019	Change
Weighted average square foot occupancy:			
Los Angeles	95.3%	94.8%	0.5%
San Francisco	94.0%	93.7%	0.3%
New York	93.6%	93.3%	0.3%
Seattle-Tacoma	92.6%	91.8%	0.9%
Washington DC	92.7%	91.8%	1.0%
Miami	92.6%	92.1%	0.5%
Atlanta	91.9%	92.6%	(0.8)%
Chicago	91.6%	89.5%	2.3%
Dallas-Ft. Worth	91.9%	91.0%	1.0%
Houston	91.5%	88.9%	2.9%
Orlando-Daytona	93.6%	93.8%	(0.2)%
Philadelphia	94.9%	94.6%	0.3%
West Palm Beach	94.4%	93.2%	1.3%
Tampa	91.8%	91.9%	(0.1)%
Charlotte	91.3%	91.1%	0.2%
All other markets	93.2%	92.6%	0.6%
Total weighted average square foot occupancy	93.1%	92.5%	0.6%
Realized annual rent per occupied square foot:			
Los Angeles	\$ 26.00	\$ 25.40	2.4%
San Francisco	26.66	26.10	2.1%
New York	25.92	25.65	1.1%
Seattle-Tacoma	20.38	20.08	1.5%
Washington DC	21.26	21.10	0.8%
Miami	20.09	20.30	(1.0)%
Atlanta	13.31	13.36	(0.4)%
Chicago	15.16	15.16	0.0%
Dallas-Ft. Worth	13.49	13.56	(0.5)%
Houston	12.99	13.72	(5.3)%
Orlando-Daytona	13.70	13.64	0.4%
Philadelphia	16.67	16.19	3.0%
West Palm Beach	18.69	18.52	0.9%
Tampa	13.95	14.00	(0.4)%
Charlotte	11.20	11.22	(0.2)%
All other markets	14.36	14.26	0.7%
Total realized rent per occupied square foot	\$ 17.43	\$ 17.30	0.8%

Same Store Facilities Operating Trends by Market (Continued)

	Three Months Ended March 31,		
	2020	2019	Change
REVPAF:			
Los Angeles	\$ 24.77	\$ 24.08	2.9%
San Francisco	25.05	24.45	2.5%
New York	24.26	23.92	1.4%
Seattle-Tacoma	18.87	18.43	2.4%
Washington DC	19.70	19.37	1.7%
Miami	18.61	18.68	(0.4)%
Atlanta	12.23	12.38	(1.2)%
Chicago	13.88	13.57	2.3%
Dallas-Ft. Worth	12.40	12.34	0.5%
Houston	11.88	12.20	(2.6)%
Orlando-Daytona	12.83	12.80	0.2%
Philadelphia	15.82	15.32	3.3%
West Palm Beach	17.63	17.26	2.1%
Tampa	12.81	12.87	(0.5)%
Charlotte	10.23	10.22	0.1%
All other markets	13.39	13.20	1.4%
Total REVPAF	<u>\$ 16.23</u>	<u>\$ 16.00</u>	<u>1.4%</u>

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

Acquired Facilities

The Acquired Facilities represent 78 facilities that we acquired in 2018, 2019, and the first three months of 2020. As a result of the stabilization process and timing of when these facilities were acquired, year-over-year changes can be significant.

The following table summarizes operating data with respect to the Acquired Facilities:

ACQUIRED FACILITIES

	Three Months Ended March 31,		
	2020	2019	Change (a)
	(\$ amounts in thousands, except for per square foot amounts)		
Revenues (b):			
2018 Acquisitions	\$ 4,126	\$ 3,724	\$ 402
2019 Acquisitions	7,061	197	6,864
2020 Acquisitions	682	-	682
Total revenues	<u>11,869</u>	<u>3,921</u>	<u>7,948</u>
Cost of operations (b):			
2018 Acquisitions	1,869	2,054	(185)
2019 Acquisitions	3,313	60	3,253
2020 Acquisitions	330	-	330
Total cost of operations	<u>5,512</u>	<u>2,114</u>	<u>3,398</u>
Net operating income:			
2018 Acquisitions	2,257	1,670	587
2019 Acquisitions	3,748	137	3,611
2020 Acquisitions	352	-	352
Net operating income	<u>6,357</u>	<u>1,807</u>	<u>4,550</u>
Depreciation and amortization expense	(9,522)	(3,692)	(5,830)
Net income (loss)	<u>\$ (3,165)</u>	<u>\$ (1,885)</u>	<u>\$ (1,280)</u>
At March 31:			
Square foot occupancy:			
2018 Acquisitions	88.4%	82.3%	7.4%
2019 Acquisitions	81.1%	79.2%	2.4%
2020 Acquisitions	49.4%	-	-
	<u>78.9%</u>	<u>81.3%</u>	<u>(3.0)%</u>
Annual contract rent per occupied square foot:			
2018 Acquisitions	\$ 11.65	\$ 11.33	2.8%
2019 Acquisitions	11.64	11.06	5.2%
2020 Acquisitions	15.09	-	-
	<u>\$ 11.94</u>	<u>\$ 11.25</u>	<u>6.1%</u>
Number of facilities:			
2018 Acquisitions	25	25	-
2019 Acquisitions	44	12	32
2020 Acquisitions	9	-	9
	<u>78</u>	<u>37</u>	<u>41</u>
Net rentable square feet (in thousands):			
2018 Acquisitions	1,629	1,629	-
2019 Acquisitions	3,145	768	2,377
2020 Acquisitions	748	-	748
	<u>5,522</u>	<u>2,397</u>	<u>3,125</u>

ACQUIRED FACILITIES (Continued)

	As of March 31, 2020
Costs to acquire (in thousands):	
2018 Acquisitions	\$ 181,020
2019 Acquisitions	429,850
2020 Acquisitions	<u>186,183</u>
	<u>\$ 797,053</u>

(a) Represents the percentage change with respect to square foot occupancy and annual contract rent per occupied square foot, and the absolute nominal change with respect to all other items.

(b) Revenues and cost of operations do not include tenant reinsurance and merchandise sale revenues and expenses generated at the facilities. See “Ancillary Operations” below for more information.

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

The Acquired Facilities have an aggregate of approximately 5.5 million net rentable square feet, including 0.8 million in Virginia, 0.5 million in Texas, 0.4 million in each of Florida, Georgia, Indiana, Minnesota and Nebraska, 0.3 million in each of Massachusetts, South Carolina and Tennessee and 1.3 million in other states.

For the three months ended March 31, 2020, the weighted average annualized yield on cost, based upon net operating income, for the 25 facilities acquired in 2018 was 5.0%. The yield for the facilities acquired in the three months ended March 31, 2020 is not meaningful due to our limited ownership period, and the yield for the facilities acquired in 2019 is not meaningful due to the presence of unstabilized facilities.

Subsequent to March 31, 2020 we acquired or were under contract to acquire six self-storage facilities (four in Ohio and one each in California and Florida) with 0.4 million net rentable square feet, for \$66.8 million.

We continue to seek to acquire additional self-storage facilities from third parties. Our acquisition volume was robust in the early part of 2020, with \$253.0 million in acquisitions during 2020 thus far including facilities currently under contract. However, we believe that in the short-term, acquisition volume may decline due to economic uncertainty resulting from the COVID Pandemic, resulting in some third party sellers delaying the sale of their properties. Volume in the latter part of 2020 could increase as the economy stabilizes and seller confidence returns, or leveraged owners of recently developed facilities are forced to sell. There can be no assurance as to the level of future acquisitions of facilities.

Analysis of Depreciation and Amortization of Acquired Facilities

Depreciation and amortization with respect to the Acquired Facilities for the three months ended March 31, 2020 and 2019 totaled \$9.5 million and \$3.7 million, respectively. These amounts include (i) depreciation of the acquired buildings, which is recorded generally on a straight line basis over a 25 year period, and (ii) amortization of cost allocated to the tenants in place upon acquisition of a facility, which is recorded based upon the benefit of such existing tenants to each period and thus is highest when the facility is first acquired and declines as such tenants vacate. With respect to the Acquired Facilities owned at March 31, 2020, depreciation of buildings and amortization of tenant intangibles is expected to aggregate approximately \$36.4 million in the year ending December 31, 2020. There will be additional depreciation and amortization of tenant intangibles with respect to new buildings that are acquired in the remainder of 2020.

Developed and Expanded Facilities

The developed and expanded facilities include 74 facilities that were developed on new sites since January 1, 2015, and 71 facilities subject to expansion of their net rentable square footage. Of these expansions, 20 were completed at January 1, 2019, 31 were completed in the 15 months ended March 31, 2020, and 20 are currently in process or are expected to commence renovation in 2020.

The following table summarizes operating data with respect to the Developed and Expanded Facilities:

DEVELOPED AND EXPANDED FACILITIES

	Three Months Ended March 31,		
	2020	2019	Change (a)
	(\$ amounts in thousands, except for per square foot amounts)		
Revenues (b):			
Developed in 2015	\$ 4,511	\$ 4,236	\$ 275
Developed in 2016 - 2018	16,371	12,262	4,109
Developed in 2019	1,075	10	1,065
Expansions completed before 2019	8,062	6,617	1,445
Expansions completed in 2019 or 2020	6,717	4,701	2,016
Expansions in process	5,549	5,889	(340)
Total revenues	<u>42,285</u>	<u>33,715</u>	<u>8,570</u>
Cost of operations (b):			
Developed in 2015	1,583	1,401	182
Developed in 2016 - 2018	7,530	6,891	639
Developed in 2019	1,071	85	986
Expansions completed before 2019	2,826	2,375	451
Expansions completed in 2019 or 2020	3,787	2,132	1,655
Expansions in process	1,551	1,562	(11)
Total cost of operations	<u>18,348</u>	<u>14,446</u>	<u>3,902</u>
Net operating income:			
Developed in 2015	2,928	2,835	93
Developed in 2016 - 2018	8,841	5,371	3,470
Developed in 2019	4	(75)	79
Expansions completed before 2019	5,236	4,242	994
Expansions completed in 2019 or 2020	2,930	2,569	361
Expansions in process	3,998	4,327	(329)
Net operating income	<u>23,937</u>	<u>19,269</u>	<u>4,668</u>
Depreciation and amortization expense	(15,110)	(11,955)	(3,155)
Net income	<u>\$ 8,827</u>	<u>\$ 7,314</u>	<u>\$ 1,513</u>
At March 31:			
Square foot occupancy:			
Developed in 2015	91.6%	90.2%	1.6%
Developed in 2016 - 2018	79.8%	67.6%	18.0%
Developed in 2019	51.0%	8.1%	529.6%
Expansions completed before 2019	79.8%	66.0%	20.9%
Expansions completed in 2019 or 2020	62.7%	51.7%	21.3%
Expansions in process	88.3%	89.3%	(1.1)%
	<u>75.1%</u>	<u>66.4%</u>	<u>13.1%</u>

**DEVELOPED AND EXPANDED
FACILITIES (Continued)**

	Three Months Ended March 31,		
	2020	2019	Change (a)
	(Amounts in thousands, except for number of facilities)		
Annual contract rent per occupied square foot:			
Developed in 2015	\$ 15.66	\$ 14.74	6.2%
Developed in 2016 - 2018	13.15	11.88	10.7%
Developed in 2019	9.46	7.46	26.8%
Expansions completed before 2019	14.64	15.12	(3.2)%
Expansions completed in 2019 or 2020	10.21	13.94	(26.8)%
Expansions in process	20.27	20.16	0.5%
	<u>\$ 13.46</u>	<u>\$ 14.04</u>	<u>(4.1)%</u>
Number of facilities:			
Developed in 2015	13	13	-
Developed in 2016 - 2018	50	50	-
Developed in 2019	11	4	7
Expansions completed before 2019	20	20	-
Expansions completed in 2019 or 2020	31	31	-
Expansions in process	20	20	-
	<u>145</u>	<u>138</u>	<u>7</u>
Net rentable square feet (c):			
Developed in 2015	1,242	1,242	-
Developed in 2016 - 2018	6,250	6,250	-
Developed in 2019	1,057	444	613
Expansions completed before 2019	2,755	2,689	66
Expansions completed in 2019 or 2020	4,248	2,596	1,652
Expansions in process	1,223	1,256	(33)
	<u>16,775</u>	<u>14,477</u>	<u>2,298</u>
	<u>As of</u>		
	<u>March 31,</u>		
	<u>2020</u>		
Costs to develop:			
Developed in 2015	\$ 119,258		
Developed in 2016 - 2018	759,643		
Developed in 2019	150,387		
Expansions completed before 2019 (d)	159,217		
Expansions completed in 2019 or 2020 (d)	248,047		
	<u>\$ 1,436,552</u>		

- (a) Represents the percentage change with respect to square foot occupancy and annual contract rent per occupied square foot, and the absolute nominal change with respect to all other items.
- (b) Revenues and cost of operations do not include tenant reinsurance and merchandise sale revenues and expenses generated at the facilities. See “Ancillary Operations” below for more information.
- (c) The facilities included above have an aggregate of approximately 16.8 million net rentable square feet at March 31, 2020, including 6.5 million in Texas, 2.3 million in California, 1.8 million in Florida, 1.5 million in Colorado, 1.0 million in Minnesota, 0.8 million in North Carolina, 0.7 million in Washington, 0.3 million in each of Arizona, Georgia, Michigan and South Carolina and 1.0 million in other states.
- (d) These amounts only include the direct cost incurred to expand and renovate these facilities, and do not include (i) the original cost to develop or acquire the facility or (ii) the lost revenue on space demolished during the construction and fill-up period.

It typically takes at least three to four years for a newly developed or expanded self-storage facility to stabilize with respect to revenues. Physical occupancy can be achieved as early as two to three years following completion of the development or expansion, through offering lower rental rates during fill-up. As a result, even after achieving high occupancy, there can still be a period of elevated revenue growth as the tenant base matures and higher rental rates are achieved. Our earnings are diluted during the construction and stabilization period due to the cost of capital to fund the development cost, as well as the related construction and development overhead expenses in general and administrative expense. Despite this short-term dilution, we believe that our development and expansion activities generate favorable risk-adjusted returns over the long run.

The COVID Pandemic could delay the estimated timing of completion of our existing pipeline of development and expansion projects, because many jurisdictions have shut down or delayed entitlement activities, and “stay at home” orders could potentially delay construction activities. In addition, the COVID Pandemic could extend the timeframe for a newly developed facility to reach stabilized occupancies and cash flows. We continue to monitor our projects to ensure that they still meet our risk-adjusted yield expectations, and reduced project yield estimates due to the COVID Pandemic or other factors could result in the cancellation of existing projects in the future, or we may not pursue certain new projects that we would have otherwise sought.

Newly Developed Facilities

The facilities included under “Developed in 2015” had high occupancies at December 31, 2018. Nonetheless, they generated 6.5% year over year rent growth in the three months ended March 31, 2020, representing maturity of the existing tenant base following attainment of high occupancy, illustrating the latter stage of the stabilization process noted above. The annualized yield on cost for these facilities, based upon the net operating income for the three months ended March 31, 2020, was 9.8%.

The facilities included under “Developed in 2016 - 2018” and “Developed in 2019” continue to be, on average, in the occupancy stabilization phase. We expect continued growth in these facilities throughout the remainder of 2020 and beyond as they continue to stabilize. The annualized yields that may be achieved on these facilities upon stabilization will depend on many factors, including local and current market conditions in the vicinity of each property, the level of new and existing supply, as well as the impact of the COVID Pandemic. Accordingly, the 9.8% yield achieved on the facilities under “Developed in 2015” may not be indicative of the yield on cost to be achieved on these facilities.

We have twelve additional newly developed facilities in process, which will have a total of 1.4 million net rentable square feet of storage space and have an aggregate development cost totaling approximately \$228.8 million. We expect these facilities to open over the next 18 to 24 months.

Expansions of Existing Facilities

The expansion of an existing facility involves the construction of new space on an existing facility, either on existing unused land or through the demolition of existing buildings in order to facilitate densification. The construction costs for an expanded facility may include, in addition to adding space, adding amenities such as climate control to existing space, improving the visual appeal of the facility, and to a much lesser extent, the replacement of existing doors, roofs, and HVAC.

The return profile on the expansion of existing facilities differs from a new facility, due to a lack of land cost, and there can be less cash flow risk because we have more direct knowledge of the local demand for space on the site as compared to a new facility. However, many expansions involve the demolition of existing revenue-generating space with the loss of the related revenues during the construction and fill-up period.

The facilities under “completed expansions” represent those facilities where the expansions have been completed at March 31, 2020. We incurred a total of \$407.3 million in direct cost to expand these facilities, demolished a total of 1.0 million net rentable square feet of storage space, and built a total of 4.5 million net rentable square feet of new storage space.

The facilities under “expansions in process” represent those facilities where development is in process at March 31, 2020 or which will commence construction by December 31, 2020. We have a pipeline to add a total of 2.9 million net rentable square feet of storage space by expanding existing self-storage facilities for an aggregate direct development cost of \$405.7 million. We have already demolished 0.1 million net rentable square feet of space in connection with our expansion projects, and expect to demolish an additional 0.3 million net rentable square feet.

Analysis of Depreciation and Amortization of Developed and Expanded Facilities

Depreciation and amortization with respect to the Developed and Expanded Facilities totaled \$15.1 million and \$12.0 million for the three months ended March 31, 2020 and 2019, respectively. These amounts represent depreciation of the developed buildings and, in the case of the expanded facilities, the legacy depreciation on the existing buildings. With respect to the Developed and Expanded Facilities completed at March 31, 2020, depreciation of buildings is expected to aggregate approximately \$61.5 million in the year ending December 31, 2020. There will be additional depreciation of new buildings that are developed or expanded in the remainder of 2020.

Other non-same store facilities

The “other non-same store facilities” represent facilities which, while not newly acquired, developed, or expanded, are not fully stabilized since January 1, 2018, due primarily to casualty events such as hurricanes, floods, and fires, as well as facilities acquired from third parties prior to January 1, 2018 that were recently developed or expanded by the previous owner.

The other non-same store facilities have an aggregate of 3.6 million net rentable square feet, including 0.7 million in Texas, 0.5 million in each of Ohio and Oklahoma, 0.4 million in each of New York and South Carolina and 1.1 million in other states.

The net operating income for these facilities was \$6.7 million in each of the three month periods ended March 31, 2020 and 2019. During the three months ended March 31, 2020 and 2019, the average occupancy for these facilities was 85.0%, and 85.4%, respectively.

Over the longer term, we expect the growth in operations of these facilities to be similar to that of our Same Store facilities. However, in the short run, year over year comparisons will vary due to the impact of the underlying events which resulted in these facilities being classified as non-same store.

Depreciation and amortization with respect to the other non-same store facilities totaled \$6.9 million and \$5.9 million for the three months ended March 31, 2020 and 2019, respectively. We expect that depreciation for each

of the remaining three months periods in 2020 will approximate the level experienced in the three months ended March 31, 2020.

Ancillary Operations

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

	Three Months Ended March 31,		
	2020	2019	Change
	(Amounts in thousands)		
Revenues:			
Tenant reinsurance premiums	\$ 34,696	\$ 31,593	\$ 3,103
Merchandise	7,185	7,037	148
Total revenues	<u>41,881</u>	<u>38,630</u>	<u>3,251</u>
Cost of Operations:			
Tenant reinsurance	6,782	6,251	531
Merchandise	4,163	4,294	(131)
Total cost of operations	<u>10,945</u>	<u>10,545</u>	<u>400</u>
Net operating income			
Tenant reinsurance	27,914	25,342	2,572
Merchandise	<u>3,022</u>	<u>2,743</u>	<u>279</u>
Total net operating income	<u>\$ 30,936</u>	<u>\$ 28,085</u>	<u>\$ 2,851</u>

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

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

Tenant reinsurance revenue increased \$3.1 million or 9.8% from \$31.6 million in the three months ended March 31, 2019 to \$34.7 million in the three months ended March 31, 2020. The increase is due to higher average premiums and an increase in our tenant base with respect to acquired, newly developed, and expanded facilities. Tenant reinsurance revenue with respect to the Same Store Facilities increased \$1.5 million or 5.3% from \$28.0 million in the three months ended March 31, 2019 to \$29.5 million in the three months ended March 31, 2020.

We expect future growth will come primarily from customers of newly acquired and developed facilities, as well as additional tenants at our existing unstabilized self-storage facilities. However, tenant reinsurance revenues could be negatively impacted by lower occupancies and move-in volume resulting from the COVID Pandemic.

Cost of operations primarily includes claims paid that are not covered by our outside third-party insurers, as well as claims adjustment expenses. Claims expenses vary based upon the number of insured tenants and the volume of events which drive covered customer losses, such as burglary, as well as catastrophic weather events affecting

multiple properties such as hurricanes and floods. Cost of operations were \$6.8 million and \$6.3 million in the three months ended March 31, 2020 and 2019, respectively.

Merchandise sales: We sell locks, boxes, and packing supplies at our self-storage facilities and the level of sales of these items is primarily impacted by the level of move-ins and other customer traffic at our self-storage facilities. We do not expect any significant changes in revenues or profitability from our merchandise sales in the remainder of 2020.

Equity in earnings of unconsolidated real estate entities

For all periods presented, we have equity investments in PSB and Shurgard, which we account for on the equity method and record our pro-rata share of the net income of these entities. The following table, and the discussion below, sets forth our equity in earnings of unconsolidated real estate entities:

	Three Months Ended March 31,		
	2020	2019	Change
	(Amounts in thousands)		
Equity in earnings:			
PSB	\$ 21,737	\$ 13,720	\$ 8,017
Shurgard	2,231	3,952	(1,721)
Total equity in earnings	\$ 23,968	\$ 17,672	\$ 6,296

Investment in PSB: Throughout all periods presented, we owned 7,158,354 shares of PS Business Parks, Inc. (“PSB”) common stock and 7,305,355 limited partnership units in an operating partnership controlled by PSB, representing an aggregate approximately 42% common equity interest. The limited partnership units are convertible at our option, subject to certain conditions, on a one-for-one basis into PSB common stock.

At March 31, 2020, PSB wholly-owned approximately 27.5 million rentable square feet of commercial space and had a 95% interest in a 395-unit apartment complex. PSB also manages commercial space that we own pursuant to property management agreements.

Equity in earnings from PSB totaled \$21.7 million and \$13.7 million for the three months ended March 31, 2020 and 2019, respectively. Included in the amount for three months ended March 31, 2020 is our equity share of gains on sale of real estate totaling \$8.1 million.

Equity in earnings from PSB, excluding the aforementioned real estate gains, decreased \$0.1 million in the three months ended March 31, 2020, as compared to the same period in 2019 due primarily to increased depreciation. See Note 4 to our March 31, 2020 financial statements for further discussion regarding PSB. PSB’s filings and selected financial information, including discussion of impacts from the COVID Pandemic, can be accessed through the SEC, and on PSB’s website, www.psbusinessparks.com. Information on this website is not incorporated by reference herein and is not a part of this Quarterly Report on Form 10-Q.

Investment in Shurgard: Throughout all periods presented, we effectively owned, directly and indirectly, 31,268,459 Shurgard common shares, representing an approximate 35% equity interest in Shurgard. Shurgard’s common shares trade on Euronext Brussels under the “SHUR” symbol.

At March 31, 2020, Shurgard owned 234 self-storage facilities with approximately 13 million net rentable square feet. Shurgard pays us license fees for use of the “Shurgard” trademark, as described in more detail in Note 4 to our March 31, 2020 financial statements.

In the three months ended March 31, 2020, Shurgard acquired two facilities for an aggregate cost of \$24.5 million (none in the same period in 2019).

Our equity in earnings from Shurgard totaled \$2.2 million and \$4.0 million for the three months ended March 31, 2020 and 2019, respectively. The decrease is due primarily to our (i) \$3.5 million equity share of a casualty loss incurred by Shurgard with respect to a facility destroyed by fire in the three months ended March 31, 2020, offset partially by (ii) an increase as a result of our \$1.4 million equity share of Shurgard's resolution of a contingency in the three months ended March 31, 2020.

Our future earnings from Shurgard will also be affected by (i) the operating results of its existing facilities, (ii) the level of development and acquisition activities, (iii) the income tax rates applicable in the various European jurisdictions in which Shurgard operates, and (iv) the exchange rate between the U.S. Dollar and currencies in the countries in which Shurgard conducts its business (principally the Euro).

Shurgard's public filings and publicly reported information, including discussion of the impacts from the COVID Pandemic, can be obtained on its website, <https://corporate.shurgard.eu> and on the website of the Luxembourg Stock Exchange, <http://www.bourse.lu>. Information on these websites is not incorporated by reference herein and is not a part of this Quarterly Report on Form 10-Q.

For purposes of recording our equity in earnings from Shurgard, the Euro was translated at average exchange rates of 1.103 and 1.136 for the three months ended March 31, 2020 and 2019, respectively.

Analysis of items not allocated to segments

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

	Three Months Ended March 31,		
	2020	2019	Change
	(Amounts in thousands)		
Share-based compensation expense	\$ 6,607	\$ 7,594	\$ (987)
Costs of senior executives	1,640	1,328	312
Development and acquisition costs	2,444	2,067	377
Tax compliance costs and taxes paid	1,713	1,433	280
Legal costs	2,432	3,704	(1,272)
Public company costs	1,386	1,512	(126)
Other costs	4,842	1,865	2,977
Total	<u>\$ 21,064</u>	<u>\$ 19,503</u>	<u>\$ 1,561</u>

Share-based compensation expense includes the amortization of restricted share units and stock options granted to employees and trustees, as well as related employer taxes. Share-based compensation expense varies based upon the level of grants and their related vesting and amortization periods, forfeitures, as well as the Company's common share price on the date of grant. See Note 10 to our March 31, 2020 financial statements for further information on our share-based compensation.

Our share-based compensation plans were revised after March 31, 2020 to allow vesting ("Retirement Vesting"), rather than forfeiture, of all unvested share-based grants upon termination of service, for employees that meet certain requirements, such as minimum age, minimum years of service, notice, and who cooperate as needed in a transition plan. This change is expected to increase share-based compensation expense in the remainder of 2020, due primarily to accelerated amortization of share-based grants that are expected to be eligible for Retirement Vesting at an earlier date than the original vesting date. In addition, 770,000 stock options were granted in the three months ended March 31, 2020, which will also result in an increase in share-based compensation expense during the remainder of 2020.

Costs of senior executives represent the cash compensation paid to our CEO and CFO.

Development and acquisition costs primarily represent internal and external expenses related to our development and acquisition of real estate facilities and varies primarily based upon the level of activities. The amounts in the above table are net of \$3.1 million for each of the three month periods ended March 31, 2020 and 2019, in development costs that were capitalized to newly developed and redeveloped self-storage facilities. Development and acquisition costs are expected to remain stable in the remainder of 2020. However, the COVID Pandemic could decrease the proportion of overhead capitalized in the remainder of 2020, due to delays in construction and entitlement activities.

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

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

Public company costs represent the incremental costs of operating as a publicly-traded company, such as internal and external investor relations expenses, stock listing and transfer agent fees, board of trustees' (our "Board") costs, and costs associated with maintaining compliance with applicable laws and regulations, including the Dodd-Frank Wall Street Reform and Consumer Protection Act and Sarbanes-Oxley Act of 2002.

Other costs represent certain professional and consulting fees, payroll, and overhead that are not attributable to our property operations. Such costs include nonrecurring and variable items, including \$1.6 million in due diligence costs incurred in the three months ended March 31, 2020 in connection with our non-binding proposal, which we did not proceed with, to acquire 100% of the stapled securities of National Storage REIT. The level of these costs depend upon corporate activities and initiatives and, as a result, such costs are not predictable.

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

Interest and other income: Interest and other income is comprised primarily of the net income from our commercial operations, our property management operation, interest earned on cash balances, and trademark license fees received from Shurgard, as well as sundry other income items that are received from time to time in varying amounts. Excluding amounts attributable to the aggregate of our commercial operations and property management operations totaling \$2.6 million, and \$2.7 million in the three months ended March 31, 2020 and 2019, respectively, interest and other income decreased in the three months ended March 31, 2020 due primarily to a decline in average interest rates, offset partially by an increased level of uninvested cash balances. We do not expect any significant changes in income from commercial and property management operations in the remainder of 2020; however, the COVID Pandemic could result in difficulties in collecting commercial rent or leasing space. The level of other interest and income items in the remainder of 2020 will be dependent upon the level of cash balances we retain, interest rates, and the level of sundry other income items.

Interest expense: For the three months ended March 31, 2020 and 2019, we incurred \$14.6 million, and \$9.3 million, respectively, of interest on our outstanding debt. In determining interest expense, these amounts were offset by capitalized interest of \$0.9 million and \$1.2 million during the three months ended March 31, 2020 and 2019, respectively, associated with our development activities. The increase in the three months ended March 31, 2020, as compared to the same period in 2019, is due to our issuances on (i) April 12, 2019 of \$500 million in senior notes bearing interest at an annual rate of 3.385% and on (ii) January 24, 2020 of €500 million (\$551.6 million) aggregate principal amount of senior notes bearing interest at an annual rate of 0.875%. At March 31, 2020, we had \$2.5 billion of debt outstanding, with an average interest rate of 2.4%.

Future interest expense will be dependent upon the level of outstanding debt and the amount of in-process development costs.

Foreign Exchange Gain: For the three months ended March 31, 2020 and 2019, we recorded foreign currency translation gains of \$8.9 million and \$7.8 million, respectively, representing the changes in the U.S. Dollar equivalent of our Euro-denominated unsecured notes due to fluctuations in exchange rates. The Euro was translated at exchange rates of approximately 1.100 U.S. Dollars per Euro at March 31, 2020, 1.122 at December 31, 2019, 1.122 at March 31, 2019 and 1.144 at December 31, 2018. Future gains and losses on foreign currency translation will be dependent upon changes in the relative value of the Euro to the U.S. Dollar, and the level of Euro-denominated debt outstanding.

Gain on Real Estate Investment Sales: In the three months ended March 31, 2020, we recorded \$1.1 million (none in the same period in 2019) in gains, primarily in connection with the partial sale of real estate facilities pursuant to eminent domain proceedings.

Net Income Allocable to Preferred Shareholders: Net income allocable to preferred shareholders based upon distributions decreased from \$55.0 million in the three months ended March 31, 2019 to \$52.0 million in the same period in 2020, due primarily to lower average coupon rates due to redemptions of preferred shares with the proceeds from the issuance of new series with lower market coupon rates. We also allocated \$8.5 million of income from our common shareholders to the holders of our preferred shares in the three months ended March 31, 2019 in connection with the redemption of our Series Y Preferred Shares. Based upon our preferred shares outstanding at March 31, 2020, our quarterly distribution to our preferred shareholders is expected to be approximately \$52.0 million.

Liquidity and Capital Resources

While being a REIT allows us to minimize the payment of federal income tax expense, we are required to distribute 100% of our taxable income to our shareholders. This requirement limits cash flow from operations that can be retained and reinvested in the business, increasing our reliance upon raising capital to fund growth.

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

While we must distribute our taxable income, we are nonetheless able to retain operating cash flow to the extent that our tax depreciation exceeds our maintenance capital expenditures. In recent years, we have retained approximately \$200 million to \$300 million per year in cash flow.

Capital needs in excess of retained cash flow are met with: (i) preferred equity, (ii) medium and long-term debt, and (iii) common equity. We select among these sources of capital based upon relative cost, availability, the desire for leverage, and considering potential constraints caused by certain features of capital sources, such as debt covenants. We view our line of credit, as well as short-term bank loans, as bridge financing.

We have a \$500.0 million revolving line of credit which we occasionally use as temporary "bridge" financing until we are able to raise longer term capital. As of March 31, 2020 and April 30, 2020, there were no borrowings outstanding on the revolving line of credit, however, we do have approximately \$15.9 million of outstanding letters of credit which limits our borrowing capacity to \$484.1 million. Our line of credit matures on April 19, 2024.

The COVID Pandemic has had negative impacts on the cost of debt and equity capital, and may continue to do so or such negative impacts could intensify. Based upon our substantial current liquidity relative to our capital requirements noted below, and our strong financial profile and credit ratings, we do not expect such capital market dislocations to have a material impact upon our expected capital and growth plans over the next 12 months. However, there can be no assurance that they would not in the future, if they were to persist for a long period of time or intensify.

Liquidity and Capital Resource Analysis: We believe that our net cash provided by our operating activities will continue to be sufficient to enable us to meet our ongoing requirements for principal payments on debt, maintenance capital expenditures and distributions to our shareholders over the next 12 months.

As of March 31, 2020, we expect capital resources over the next year of approximately \$1.4 billion, which exceeds our currently identified capital needs of approximately \$539.6 million. Our expected capital resources include: (i) \$718.4 million of cash as of March 31, 2020, (ii) \$484.1 million of available borrowing capacity on our revolving line of credit and (iii) approximately \$200 million of expected retained operating cash flow in the next year. Retained operating cash flow represents our expected cash flow provided by operating activities, less shareholder distributions and capital expenditures to maintain our real estate facilities.

Our currently identified capital needs consist primarily of \$66.8 million in property acquisitions currently under contract and \$472.8 million of remaining spending on our current development pipeline, which will be incurred primarily in the next 18 to 24 months. We have no substantial principal payments on debt until 2022. We expect our capital needs to increase over the next year as we add projects to our development pipeline and acquire additional properties. Additional potential capital needs could result from various activities including the redemption of outstanding preferred securities, repurchases of common stock, or mergers and acquisition activities; however, there can be no assurance of any such activities transpiring in the near or longer term. In addition, the COVID Pandemic could result in increases or decreases to our capital needs as we continue to adjust our acquisition and development of self-storage facilities in light of potential returns, execution issues, the cost and availability of capital, and other factors.

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

Required Debt Repayments: As of March 31, 2020, the principal outstanding on our debt totaled approximately \$2.5 billion, consisting of \$26.8 million of secured debt, \$926.3 million of Euro-denominated unsecured debt and \$1.5 billion of U.S. Dollar denominated unsecured debt. Approximate principal maturities are as follows (amounts in thousands):

Remainder of 2020	\$	1,519
2021		1,865
2022		502,584
2023		19,219
2024		110,129
Thereafter		1,817,714
	\$	<u>2,453,030</u>

The remaining maturities on our debt over at the next two years are nominal. Our debt is well-laddered, with material debt maturities at least 18 months apart, which moderates refinancing risk.

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

Capital expenditures totaled \$56.9 million in the first three months of 2020, and are expected to approximate \$175 million in the year ending December 31, 2020. Our capital expenditures for 2020 include certain projects that are upgrades and not traditional like-for-like replacements of existing components, and in certain circumstances replace existing components before the end of their functional lives. Such projects include installation of LED lighting, replacing existing planting configurations with more drought tolerant and low maintenance configurations, installation of solar panels, improvements to office and customer zone configurations to provide a more customer-friendly experience, and improvements to outdoor facades and color schemes. Such incremental investments improve customer satisfaction, the attractiveness and competitiveness of our facilities to new and existing customers, or reduce operating costs. The \$175 million in capital expenditures expected for the year ending December 31, 2020, as well as

the \$192.5 million incurred in 2019, represent a substantial increase from the amounts incurred of \$139.4 million, \$124.8 million and \$86.0 million in 2018, 2017, and 2016, respectively. We expect continued elevated capital expenditures beyond 2020; however, the level and persistence of this elevation is uncertain at this time.

As noted above, the COVID Pandemic may impact our capital expenditures, due to “stay at home” orders and business shutdowns which in many jurisdictions has shut down or delayed certain capital expenditure projects. The estimate of \$175 million noted above represents our best estimate at this time; however, there is no assurance our capital expenditure amounts will not change as we continue to monitor the impact of the COVID Pandemic on our ability to execute on capital expenditure work.

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

On April 21, 2020, our Board declared a quarterly cash dividend of \$2.00 per common share totaling approximately \$350 million, which will be paid at the end of June 2020. Our consistent, long-term dividend policy has been to distribute only our taxable income. Future quarterly distributions with respect to the common shares will continue to be determined based upon our REIT distribution requirements after taking into consideration distributions to the preferred shareholders and will be funded with cash flows from operating activities.

We estimate the annual distribution requirements with respect to our Preferred Shares outstanding at March 31, 2020, to be approximately \$208.0 million per year.

We estimate we will pay approximately \$5.0 million per year in distributions to noncontrolling interests outstanding at March 31, 2020.

Real Estate Investment Activities: We continue to seek to acquire additional self-storage facilities from third parties. Our acquisition volume was robust in the early part of 2020, with \$253.0 million in acquisitions during 2020 thus far including facilities currently under contract. However, we believe that in the short-term, acquisition volume may decline due to economic uncertainty resulting from the COVID Pandemic, resulting in some third party sellers delaying the sale of their properties. Volume in the latter part of 2020 could increase as the economy stabilizes and seller confidence returns, or leveraged owners of recently developed facilities are forced to sell. There can be no assurance as to the level of future acquisitions of facilities.

In addition, there can be no assurance, if significant additional opportunities to acquire facilities were to arise as a result of the COVID Pandemic or for other reasons, whether we would be able to raise capital at a reasonable cost to allow us to be able to take advantage of such opportunities.

As of March 31, 2020 we had development and expansion projects at a total cost of approximately \$634.5 million. Costs incurred through March 31, 2020 were \$161.7 million, with the remaining cost to complete of \$472.8 million expected to be incurred primarily in the next 18 to 24 months.

Some of these projects are subject to significant contingencies such as entitlement approval. We expect to continue to seek additional projects; however, the level of future development and redevelopment may be limited due to various constraints such as difficulty in finding projects that meet our risk-adjusted yield expectations and challenges in obtaining building permits for self-storage activities in certain municipalities.

The COVID Pandemic could delay the estimated timing of completion of our existing pipeline of development and expansion projects, because many jurisdictions have shut down or delayed entitlement activities, and “stay at home” orders could potentially delay construction activities. In addition, the COVID Pandemic could extend the timeframe for a newly developed facility to reach stabilized occupancies and cash flows. We continue to monitor our projects to ensure that they still meet our risk-adjusted yield expectations, and reduced project yield

estimates due to the COVID Pandemic or other factors could result in the cancellation of existing projects in the future, or we may not pursue certain new projects that we would have otherwise sought.

Redemption of Preferred Securities: Historically, we have taken advantage of refinancing higher coupon preferred securities with lower coupon preferred securities. In the future, we may also elect to finance the redemption of preferred securities with proceeds from the issuance of debt. As of April 30, 2020, we have the following series of preferred securities that are eligible for redemption, at our option and with 30 days' notice; our 5.375% Series V Preferred Shares (\$495 million), our 5.200% Series W Preferred Shares (\$500 million), and our 5.200% Series X Preferred Shares (\$225 million). See Note 8 to our March 31, 2020 financial statements for the redemption dates of our other series of preferred shares. Redemption of such preferred shares will depend upon many factors, including the rate at which we could issue replacement preferred securities. None of our preferred securities are redeemable at the option of the holders.

Repurchases of Common Shares: Our Board has authorized management to repurchase up to 35,000,000 of our common shares on the open market or in privately negotiated transactions. During the three months ended March 31, 2020, we did not repurchase any of our common shares. From the inception of the repurchase program through April 30, 2020, we have repurchased a total of 23,721,916 common shares at an aggregate cost of approximately \$679.1 million. Future levels of common share repurchases will be dependent upon our available capital, investment alternatives and the trading price of our common shares.

Contractual Obligations

Our significant contractual obligations at March 31, 2020 and their impact on our cash flows and liquidity are summarized below for the years ending December 31 (amounts in thousands):

	Total	Remainder of 2020	2021	2022	2023	2024	Thereafter
Interest and principal payments on debt (1)	\$ 2,850,849	\$ 44,814	\$ 59,501	\$ 556,670	\$ 64,392	\$ 153,419	1,972,053
Leases and other commitments (2)	76,010	3,328	4,395	3,745	3,522	3,541	57,479
Construction commitments (3)	103,001	75,013	23,037	4,951	-	-	-
Total	\$ 3,029,860	\$ 123,155	\$ 86,933	\$ 565,366	\$ 67,914	\$ 156,960	2,029,532

(1) Represents contractual principal and interest payments. Amounts with respect to certain Euro-denominated debt are based upon exchange rates at March 31, 2020. See Note 6 to our March 31, 2020 financial statements for further information.

(2) Represents future contractual payments on land, equipment and office space under various leases and other commitments.

(3) Represents future expected payments for construction under contract at March 31, 2020.

We estimate the annual distribution requirements with respect to our Preferred Shares outstanding at March 31, 2020 to be approximately \$208.0 million per year. Dividends are paid when and if declared by our Board and accumulate if not paid.

Off-Balance Sheet Arrangements: At March 31, 2020, we had no material off-balance sheet arrangements as defined under Regulation S-K 303(a)(4) and the instructions thereto.

ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

To limit our exposure to market risk, we are capitalized primarily with preferred and common equity. Our preferred shares are redeemable at our option generally five years after issuance, but the holder has no redemption

option. Our debt is our only market-risk sensitive portion of our capital structure, which totals approximately \$2.4 billion and represents 27.1% of the book value of our equity at March 31, 2020.

We have foreign currency exposure at March 31, 2020 related to (i) our investment in Shurgard, with a book value of \$328.8 million and (ii) €842.0 million (\$926.3 million) of Euro-denominated unsecured notes payable.

The fair value of our fixed rate debt at March 31, 2020 is approximately \$2.4 billion. The table below summarizes the annual maturities of our fixed rate debt, which had a weighted average effective rate of 2.4% at March 31, 2020. See Note 6 to our March 31, 2020 financial statements for further information regarding our fixed rate debt (amounts in thousands).

	Remainder of						Total
	2020	2021	2022	2023	2024	Thereafter	
Fixed rate debt	\$ 1,519	\$ 1,865	\$ 502,584	\$ 19,219	\$ 110,129	\$ 1,817,714	2,453,030

ITEM 4. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

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

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

Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. OTHER INFORMATION

ITEM 1. Legal Proceedings

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

ITEM 1A. Risk Factors

In addition to the other information in this Quarterly Report on Form 10-Q, you should carefully consider the risks described in our Annual Report on Form 10-K filed for the year ended December 31, 2019, in Part I, Item 1A, Risk Factors, and in our other filings with the SEC. These factors may materially affect our business, financial condition and operating results. Except as described below, there have been no material changes to the risk factors relating to the Company disclosed in our Form 10-K for the year ended December 31, 2019.

In addition, in considering the forward-looking statements contained in this Form 10-Q and elsewhere, you should refer to the qualifications and limitations on our forward-looking statements that are described in Forward Looking Statements at the beginning of Part I, Item 2 of this Form 10-Q.

We are subject to risks from the COVID Pandemic and we may in the future be subject to risks from other public health crises.

Since being reported in December 2019, the COVID Pandemic has spread globally, including to every state in the United States, adversely affecting public health and economic activity. Our business is subject to risks from the COVID Pandemic, including, among others:

- risks associated with the COVID Pandemic or similar events, including but not limited to illness or death of our employees or customers, negative impacts to the economic environment and to self-storage customers which could reduce the demand for self-storage or reduce our ability to collect rent, and/or potential regulatory actions to (i) close our facilities if we were determined not to be an “essential business” or for other reasons, (ii) limit our ability to increase rent or otherwise limit the rent we can charge or (iii) limit our ability to collect rent or evict delinquent tenants;

- risk that even after the initial restrictions due to the COVID Pandemic ease, they could be reinstated in case of future waves of infection or if additional pandemics occur;

- risk that we could experience a change in the move-out patterns of our long-term customers due to economic uncertainty and the significant increase in unemployment in the last 30 days. This could lead to lower occupancies and rent “roll down” as long-term customers are replaced with new customers at lower rates. We observed such a trend during the recessionary circumstances of 2009; however, to date we have not seen any material change in the move-out patterns of long-term customers; and

- risk of negative impacts on the cost and availability of debt and equity capital as a result of the COVID Pandemic, which could have a material impact upon our capital and growth plans.

We believe that the degree to which the COVID Pandemic adversely impacts our business, operating results, cash flows and/or financial condition will be driven primarily by the duration, spread and severity of the pandemic itself, as well as the duration of indirect economic impacts such as recession, dislocation in capital markets, and job loss, as well as potential longer term changes in consumer behavior, all of which are uncertain and difficult to predict. As a result, we are not able at this time to estimate the effect of these factors on our business, but the adverse impact on our business, results of operations, financial condition and cash flows could be material. Future pandemics or public health crises could have similar impacts.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

Common Share Repurchases

Our Board has authorized management to repurchase up to 35,000,000 of our common shares on the open market or in privately negotiated transactions. From the inception of the repurchase program through April 30, 2020, we have repurchased a total of 23,721,916 common shares (all purchased prior to 2010) at an aggregate cost of approximately \$679.1 million. Our common share repurchase program does not have an expiration date and there are 11,278,084 common shares that may yet be repurchased under our repurchase program as of March 31, 2020. We have no current plans to repurchase shares; however, future levels of common share repurchases will be dependent upon our available capital, investment alternatives, and the trading price of our common shares.

Preferred Share Redemptions

We had no preferred redemptions during the three months ended March 31, 2020.

ITEM 6. Exhibits

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

PUBLIC STORAGE

INDEX TO EXHIBITS (1)

(Items 15(a)(3) and 15(c))

10.1*	Form of 2016 Plan and 2007 Plan Restated Employee Stock Unit Agreement. Filed herewith.
10.2*	Form of 2016 Plan Employee Stock Unit Agreement. Filed herewith.
10.3*	Form of 2016 Plan and 2007 Plan Restated Employee Non-Qualified Stock Option Agreement. Filed herewith.
10.4*	Form of 2016 Plan Employee Non-Qualified Stock Option Agreement. Filed herewith.
10.5*	Form of 2016 Plan Performance-Based Non-Qualified Stock Option Agreement. Filed herewith.
31.1	Rule 13a – 14(a) Certification. Filed herewith.
31.2	Rule 13a – 14(a) Certification. Filed herewith.
32	Section 1350 Certifications. Filed herewith.
101 .INS	Inline XBRL Instance Document. Filed herewith.
101 .SCH	Inline XBRL Taxonomy Extension Schema. Filed herewith.
101 .CAL	Inline XBRL Taxonomy Extension Calculation Linkbase. Filed herewith.
101 .DEF	Inline XBRL Taxonomy Extension Definition Linkbase. Filed herewith.
101 .LAB	Inline XBRL Taxonomy Extension Label Linkbase. Filed herewith.
101 .PRE	Inline XBRL Taxonomy Extension Presentation Link. Filed herewith.
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)
_ (1) SEC	File No. 001-33519 unless otherwise indicated.

* Denotes management compensatory plan agreement or arrangement.

SIGNATURES

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

DATED: April 30, 2020

PUBLIC STORAGE

By: /s/ H. Thomas Boyle

H. Thomas Boyle

Senior Vice President & Chief Financial Officer

(Principal financial officer and duly authorized officer)

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Section 2: EX-10.1 (EX-10.1)

Exhibit 10.1

PUBLIC STORAGE

[plan#year] EQUITY AND PERFORMANCE-BASED INCENTIVE COMPENSATION PLAN

RESTATED STOCK UNIT AGREEMENT

THIS RESTATED STOCK UNIT AGREEMENT (the “**Agreement**”) is made as of January 1, 2020 (the “**Restatement Date**”), by and between Public Storage (the “**Company**”) and [Participant#Name] (the “**Participant**”). Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Company’s [plan#year] Equity and Performance-Based Incentive Compensation Plan (as amended and/or restated from time to time, the “**Plan**”).

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

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

WHEREAS, the Company and the Participant have now determined to amend and restate certain terms of the Participant’s grant.

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

1. GRANT OF STOCK UNITS.

Subject to and pursuant to the terms of the Plan (the terms of which are incorporated by reference herein), on [Grant#Date] (the “**Grant Date**”), the Company granted to the Participant [No#of#RSUs#Granted] Stock Units, on the terms and subject to the conditions set forth in this Agreement.

2. VESTING OF STOCK UNITS.

2.1. Generally.

Subject to the Participant’s continued Service from the Grant Date through each applicable Vesting Date, rights in respect of [Yearly#%] of the number of Stock Units shall vest on each of the first [five#eight] anniversaries of the Grant Date (each, a “**Vesting Date**”). Any resulting fractional shares shall be rounded to the nearest whole share and shall be rounded up or down as necessary as of the last Vesting Date; provided, in all cases, the Participant cannot vest in more than the number of Stock Units subject to this Agreement. No Stock Units shall vest after the Participant’s Service has terminated for any reason.

2.2. Special Vesting Provisions. Notwithstanding anything to the contrary in Section 2.1:

2.2.1. **Death or Disability.** Upon the Participant’s death or Disability, all Stock Units granted to the Participant pursuant to this Agreement that have not previously vested shall immediately become vested.

2.2.2. **Retirement.** If the Participant’s Service is terminated by reason of such Participant’s Retirement, all Stock Units granted to the Participant pursuant to this Agreement that have not previously vested shall immediately become vested as of the Participant’s Retirement Date (or upon the Revocation

[Participant#Name]/[Employee#ID#No]
[Grant#Date]/[Grant#Code]
[five#eight] year vesting

Expiration Time, if applicable and later). For purposes of this Agreement, “**Retirement**” means the Participant’s termination of Service other than due to death, Disability, or Cause if:

- (a) by the Retirement Date the Participant is at least 55 years old and has provided at least 10 years of Service as defined in the Plan and applied by the Company’s HR department (generally including service with the Company, PS Business Parks, and their Affiliates);
- (b) by the Retirement Date the sum of the Participant’s age and total years of Service equals at least 80;
- (c) the Participant provided the Company written notice of the Participant’s intention to retire at least 12 months’ prior to the Retirement Date;
- (d) on or prior to the Retirement Date the Participant has entered into a separation agreement, in a form acceptable to the Company, which includes a full release of claims and certain restrictive covenants as of the date of Retirement, and if the execution of such separation agreement is subject to a revocation period by applicable law, the separation agreement has not been revoked and the applicable revocation period, which may not exceed 10 days, has expired (the “Revocation Expiration Time”); and
- (e) subject to the Participant’s continued Service through both the Certification Date and the Retirement Date, the Equity Awards Committee has taken separate action to establish a date of termination of Service for the Participant (the “**Retirement Date**”) and to approve such accelerated vesting for such Participant (the date of such action by that committee, the “**Certification Date**”); provided, however, that (i) the Participant shall have no right to such accelerated vesting if that committee does not take action to approve such accelerated vesting for such Participant or revokes its approval before the Retirement Date; and (ii) if the Participant’s Service is terminated for any reason other than death or Disability prior to such Retirement Date, any Stock Units held by the Participant that have not vested shall terminate immediately, and the Participant shall forfeit any rights with respect to such unvested Stock Units as of such termination of Service.

2.3. Restrictions on Transfer.

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

3. TERMINATION OF SERVICE.

Upon the termination of the Participant’s Service for any reason, other than by reason of death, Disability, or Retirement (pursuant to Section 2.2.2), any Stock Units held by the Participant that have not vested shall terminate immediately, and the Participant shall forfeit any rights with respect to such unvested Stock Units as of such termination of Service.

4. DELIVERY OF SHARES.

4.1. Delivery Dates.

Delivery of the shares of Stock represented by the Participant’s vested Stock Units shall be made as soon as administratively practicable following the date on which such Stock Units vest; provided, however, that such delivery shall occur no later than March 15th of the calendar year following the calendar year in which such Stock Units vested.

4.2. Issuance.

On or as promptly as is practicable after the respective delivery date(s), the Company will issue the shares of Stock registered in the name of the Participant, the Participant’s authorized assignee, or the Participant’s legal representative, as applicable. The Company may reasonably postpone the issuance of the shares of Stock until it receives satisfactory proof that the issuance of such shares of Stock will not

violate any of the provisions of the Securities Act or the Exchange Act, any rules or regulations of the Securities and Exchange Commission promulgated thereunder, or the requirements of applicable state or foreign law relating to authorization, issuance, or sale of securities, or until there has been compliance with the provisions of such acts or rules; provided that the delivery shall be made at the earliest date at which the Company reasonably anticipates that it will not cause such violation. The Company may also reasonably postpone the issuance of the shares of Stock in the event of the Participant's death until it receives such evidence as the Committee deems necessary to establish the validity of the issuance to the Participant's estate. Notwithstanding the provisions of this Section 4.2, the Company will not act in a manner as to cause the delivery of the shares of Stock to fail to be exempt from Section 409A or to comply with the requirements of Section 409A, as applicable. Upon the issuance of the shares, Participant's payment of the aggregate par value of the shares delivered to Participant will be deemed paid by Participant's past Services to the Company or its Affiliates.

5. DIVIDEND AND VOTING RIGHTS.

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

6. WITHHOLDING OF TAXES.

The Company and any Affiliates shall have the right to deduct from payments of any kind otherwise due to the Participant any federal, state, or local taxes of any kind required by law to be withheld with respect to the Stock Units. The Participant shall pay to the Company or its Affiliates any amount that the Company or its Affiliates may reasonably determine to be necessary to satisfy such withholding obligation. Subject to the prior approval of the Company, which may be withheld by the Company in its sole discretion, the Participant may elect to satisfy such obligations, in whole or in part, (a) by causing the Company to withhold shares of Stock otherwise deliverable or (b) by delivering to the Company shares of Stock already owned by the Participant. The shares of Stock so delivered or withheld shall have a Fair Market Value not exceeding the minimum amount of tax required to be withheld by applicable law. The Fair Market Value of the shares of Stock used to satisfy such withholding obligation shall be determined by the Company as of the date that the amount of tax to be withheld is to be determined. A Participant who has made an election pursuant to this Section 6 may satisfy his or her withholding obligation only with shares of Stock that are not subject to any repurchase, forfeiture, unfulfilled vesting, or other similar requirements.

7. DISCLAIMER OF RIGHTS.

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

8. DATA PRIVACY.

To administer the Plan, the Company and its Affiliates may process personal data about the Participant. Such data includes, but is not limited to, the information provided in this Agreement and any changes thereto, other appropriate personal and financial data about the Participant such as home address and business addresses and other contact information, and any other information that might be deemed appropriate by the Company to facilitate the administration of the Plan. By accepting this grant, the Participant hereby gives express consent to the Company and its Affiliates to process any such personal data. The Participant also gives express consent to the Company to transfer any such personal data outside the country in which Participant works, including, with respect to non-U.S. resident participants, to the

United States, to transferees who will include the Company and other persons who are designated by the Company to administer the Plan.

9. CONSENT TO ELECTRONIC DELIVERY OF MATERIALS.

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

10. INTERPRETATION OF THE AGREEMENT.

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

11. SECTION 409A.

The grant of Stock Units under this Agreement is intended to comply with Section 409A of the Code ("**Section 409A**") to the extent subject thereto, and, accordingly, to the maximum extent permitted, this Agreement will be interpreted and administered to be in compliance with Section 409A. The Company, however, will have no liability to the Participant if Section 409A is determined to apply and adversely affects the Participant. With respect to payments under this Agreement, for purposes of Section 409A, each payment (if there is more than one payment) will be considered one of a series of separate payments. If at the time of the Participant's separation from service, (a) the Participant is a "specified employee" (as defined in Section 409A and using the identification methodology selected by the Company from time to time), and (b) the Company makes a good faith determination that an amount payable on account of such separation from service to the Participant constitutes "deferred compensation" (within the meaning of Section 409A), payment to the specified employee may not be made before the date that is six months after the date of the Participant's separation from service from the Company or its Affiliates (or, if earlier, the date of the Participant's death).

With respect to any amount payable under this Agreement to the Participant that constitutes "deferred compensation" (within the meaning of Section 409A), payment under this Agreement may not be accelerated upon a Change in Control under the Plan, unless such Change in Control is also a "change in control" (as defined in Section 409A) or unless otherwise permitted by Section 409A. Upon a Change in Control under the Plan that is not a "change in control" (as defined in Section 409A), such payment shall be made on the next payment date permitted by Section 409A.

12. GOVERNING LAW.

This Agreement shall be governed by the laws of the State of Maryland, except that if Participant's principal place of employment is in California, then this Agreement will be governed by the laws of the State of California, in either case without giving effect to any choice or conflict of law provision or rule.

13. BINDING EFFECT.

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

14. CLAWBACK.

The Stock Units shall be subject to mandatory repayment by the Participant to the Company to the extent the Participant is, or in the future becomes, subject to (a) any Company "clawback" or recoupment

policy that is adopted to comply with the requirements of any applicable laws, or (b) any applicable laws which impose mandatory recoupment, under circumstances set forth in such applicable laws.

15. ENTIRE AGREEMENT.

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

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement, or caused this Agreement to be duly executed on their behalf, as of the Restatement Date.

PARTICIPANT:

PUBLIC STORAGE:

[Participant#Name]

By: _____
Name: [Officer#Name]
Title: [Officer#Title]

**ADDRESS FOR NOTICE TO
PARTICIPANT:**

[No#Street#Participant#Address]
[City#State#Zip#Participant#Address]

(RSUF01)

Signature Page to the Restated Stock Unit Agreement; [Grant#Code]

Merge fields:

<i>name of field:</i>	<i>example:</i>
[Participant#Name]	Peggy J. Smith
[Employee#ID#No]	000 111
[Grant#Date]	December 31, 2016
[Grant#Code]	RSU123
[plan#year]	2007 (or 2016)
[No#of#RSUs#Granted]	1,000
[Yearly#%]	20% (or 12.5%)
[five#eight]	five (or eight)
[No#Street#Participant#Address]	123 Main Street
[City#State#Zip#Participant#Address]	Los Angeles, CA 90010
[Officer#Name]	Joe Jones
[Officer#Title]	Vice President

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Section 3: EX-10.2 (EX-10.2)

Exhibit 10.2

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

THIS STOCK UNIT AGREEMENT (the “**Agreement**”) is made as of [Grant#Date] (the “**Grant Date**”), by and between Public Storage (the “**Company**”) and [Participant#Name] (the “**Participant**”). Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Company’s 2016 Equity and Performance-Based Incentive Compensation Plan (as amended and/or restated from time to time, the “**Plan**”).

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

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

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

1. GRANT OF STOCK UNITS.

Subject to and pursuant to the terms of the Plan (the terms of which are incorporated by reference herein), the Company hereby grants to the Participant [No#of#RSUs#Granted] Stock Units, on the terms and subject to the conditions set forth in this Agreement.

2. VESTING OF STOCK UNITS.

2.1. Generally.

Subject to the Participant’s continued Service from the Grant Date through each applicable Vesting Date, rights in respect of [Yearly#%] of the number of Stock Units shall vest on each of the first [five#eight] anniversaries of the Grant Date (each, a “**Vesting Date**”). Any resulting fractional shares shall be rounded to the nearest whole share and shall be rounded up or down as necessary as of the last Vesting Date; provided, in all cases, the Participant cannot vest in more than the number of Stock Units subject to this Agreement. No Stock Units shall vest after the Participant’s Service has terminated for any reason.

2.2. Special Vesting Provisions. Notwithstanding anything to the contrary in Section 2.1:

2.2.1. **Death or Disability.** Upon the Participant’s death or Disability, all Stock Units granted to the Participant pursuant to this Agreement that have not previously vested shall immediately become vested.

2.2.2. **Retirement.** If the Participant’s Service is terminated by reason of such Participant’s Retirement, all Stock Units granted to the Participant pursuant to this Agreement that have not previously vested shall immediately become vested as of the Participant’s Retirement Date (or upon the Revocation Expiration Time, if applicable and later). For purposes of this Agreement, “**Retirement**” means the Participant’s termination of Service other than due to death, Disability, or Cause if:

- (a) by the Retirement Date the Participant is at least 55 years old and has provided at least 10 years of Service as defined in the Plan and applied by the Company's HR department (generally including service with the Company, PS Business Parks, and their Affiliates);

[Participant#Name]/[Employee#ID#No]
[Grant#Date]/[Grant#Code]
[five#eight] year vesting

- (b) by the Retirement Date the sum of the Participant's age and total years of Service equals at least 80;
- (c) the Participant provided the Company written notice of the Participant's intention to retire at least 12 months' prior to the Retirement Date;
- (d) on or prior to the Retirement Date the Participant has entered into a separation agreement, in a form acceptable to the Company, which includes a full release of claims and certain restrictive covenants as of the date of Retirement, and if the execution of such separation agreement is subject to a revocation period by applicable law, the separation agreement has not been revoked and the applicable revocation period, which may not exceed 10 days, has expired (the "Revocation Expiration Time"); and
- (e) subject to the Participant's continued Service through both the Certification Date and the Retirement Date, the Equity Awards Committee has taken separate action to establish a date of termination of Service for the Participant (the "**Retirement Date**") and to approve such accelerated vesting for such Participant (the date of such action by that committee, the "**Certification Date**"); provided, however, that (i) the Participant shall have no right to such accelerated vesting if that committee does not take action to approve such accelerated vesting for such Participant or revokes its approval before the Retirement Date; and (ii) if the Participant's Service is terminated for any reason other than death or Disability prior to such Retirement Date, any Stock Units held by the Participant that have not vested shall terminate immediately, and the Participant shall forfeit any rights with respect to such unvested Stock Units as of such termination of Service.

2.3. Restrictions on Transfer.

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

3. TERMINATION OF SERVICE.

Upon the termination of the Participant's Service for any reason, other than by reason of death, Disability, or Retirement (pursuant to Section 2.2.2), any Stock Units held by the Participant that have not vested shall terminate immediately, and the Participant shall forfeit any rights with respect to such unvested Stock Units as of such termination of Service.

4. DELIVERY OF SHARES.

4.1. Delivery Dates.

Delivery of the shares of Stock represented by the Participant's vested Stock Units shall be made as soon as administratively practicable following the date on which such Stock Units vest; provided, however, that such delivery shall occur no later than March 15th of the calendar year following the calendar year in which such Stock Units vested.

4.2. Issuance.

On or as promptly as is practicable after the respective delivery date(s), the Company will issue the shares of Stock registered in the name of the Participant, the Participant's authorized assignee, or the Participant's legal representative, as applicable. The Company may reasonably postpone the issuance of the shares of Stock until it receives satisfactory proof that the issuance of such shares of Stock will not violate any of the provisions of the Securities Act or the Exchange Act, any rules or regulations of the Securities and Exchange Commission promulgated thereunder, or the requirements of applicable state or foreign law relating to authorization, issuance, or sale of securities, or until there has been compliance with the provisions of such acts or rules; provided that the delivery shall be made at the earliest date at which

the Company reasonably anticipates that it will not cause such violation. The Company may also reasonably postpone the issuance of the shares of Stock in the event of the Participant's death until it receives such evidence as the Committee deems necessary to establish the validity of the issuance to the Participant's estate. Notwithstanding the provisions of this Section 4.2, the Company will not act in a manner as to cause the delivery of the shares of Stock to fail to be exempt from Section 409A or to comply with the requirements of Section 409A, as applicable. Upon the issuance of the shares, Participant's payment of the aggregate par value of the shares delivered to Participant will be deemed paid by Participant's past Services to the Company or its Affiliates.

5. DIVIDEND AND VOTING RIGHTS.

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

6. WITHHOLDING OF TAXES.

The Company and any Affiliates shall have the right to deduct from payments of any kind otherwise due to the Participant any federal, state, or local taxes of any kind required by law to be withheld with respect to the Stock Units. The Participant shall pay to the Company or its Affiliates any amount that the Company or its Affiliates may reasonably determine to be necessary to satisfy such withholding obligation. Subject to the prior approval of the Company, which may be withheld by the Company in its sole discretion, the Participant may elect to satisfy such obligations, in whole or in part, (a) by causing the Company to withhold shares of Stock otherwise deliverable or (b) by delivering to the Company shares of Stock already owned by the Participant. The shares of Stock so delivered or withheld shall have a Fair Market Value not exceeding the minimum amount of tax required to be withheld by applicable law. The Fair Market Value of the shares of Stock used to satisfy such withholding obligation shall be determined by the Company as of the date that the amount of tax to be withheld is to be determined. A Participant who has made an election pursuant to this Section 6 may satisfy his or her withholding obligation only with shares of Stock that are not subject to any repurchase, forfeiture, unfulfilled vesting, or other similar requirements.

7. DISCLAIMER OF RIGHTS.

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

8. DATA PRIVACY.

To administer the Plan, the Company and its Affiliates may process personal data about the Participant. Such data includes, but is not limited to, the information provided in this Agreement and any changes thereto, other appropriate personal and financial data about the Participant such as home address and business addresses and other contact information, and any other information that might be deemed appropriate by the Company to facilitate the administration of the Plan. By accepting this grant, the Participant hereby gives express consent to the Company and its Affiliates to process any such personal data.

The Participant also gives express consent to the Company to transfer any such personal data outside the country in which Participant works, including, with respect to non-U.S. resident participants, to the United States, to transferees who will include the Company and other persons who are designated by the Company to administer the Plan.

9. CONSENT TO ELECTRONIC DELIVERY OF MATERIALS.

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

10. INTERPRETATION OF THE AGREEMENT.

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

11. SECTION 409A.

The grant of Stock Units under this Agreement is intended to comply with Section 409A of the Code ("**Section 409A**") to the extent subject thereto, and, accordingly, to the maximum extent permitted, this Agreement will be interpreted and administered to be in compliance with Section 409A. The Company, however, will have no liability to the Participant if Section 409A is determined to apply and adversely affects the Participant. With respect to payments under this Agreement, for purposes of Section 409A, each payment (if there is more than one payment) will be considered one of a series of separate payments. If at the time of the Participant's separation from service, (a) the Participant is a "specified employee" (as defined in Section 409A and using the identification methodology selected by the Company from time to time), and (b) the Company makes a good faith determination that an amount payable on account of such separation from service to the Participant constitutes "deferred compensation" (within the meaning of Section 409A), payment to the specified employee may not be made before the date that is six months after the date of the Participant's separation from service from the Company or its Affiliates (or, if earlier, the date of the Participant's death).

With respect to any amount payable under this Agreement to the Participant that constitutes "deferred compensation" (within the meaning of Section 409A), payment under this Agreement may not be accelerated upon a Change in Control under the Plan, unless such Change in Control is also a "change in control" (as defined in Section 409A) or unless otherwise permitted by Section 409A. Upon a Change in Control under the Plan that is not a "change in control" (as defined in Section 409A), such payment shall be made on the next payment date permitted by Section 409A.

12. GOVERNING LAW.

This Agreement shall be governed by the laws of the State of Maryland, except that if Participant's principal place of employment is in California, then this Agreement will be governed by the laws of the State of California, in either case without giving effect to any choice or conflict of law provision or rule.

13. BINDING EFFECT.

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

14. CLAWBACK.

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

15. ENTIRE AGREEMENT.

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

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement, or caused this Agreement to be duly executed on their behalf, as of the Grant Date.

PARTICIPANT:

PUBLIC STORAGE:

[Participant#Name]

By: _____
Name: [Officer#Name]
Title: [Officer#Title]

**ADDRESS FOR NOTICE TO
PARTICIPANT:**

[No#Street#Participant#Address]
[City#State#Zip#Participant#Address]

(RSUF02)

Signature Page to the Stock Unit Agreement; [Grant#Code]

Merge fields:

<i>name of field:</i>	<i>example:</i>
[Participant#Name]	Peggy J. Smith
[Employee#ID#No]	000 111
[Grant#Date]	December 31, 2016
[Grant#Code]	RSU123
[No#of#RSUs#Granted]	1,000
[Yearly#%]	20% (or 12.5%)
[five#eight]	five (or eight)
[No#Street#Participant#Address]	123 Main Street
[City#State#Zip#Participant#Address]	Los Angeles, CA 90010
[Officer#Name]	Joe Jones
[Officer#Title]	Vice President

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Section 4: EX-10.3 (EX-10.3)

Exhibit 10.3

PUBLIC STORAGE
[PLAN#YEAR] EQUITY AND PERFORMANCE-BASED INCENTIVE COMPENSATION
PLAN

RESTATED NON-QUALIFIED STOCK OPTION AGREEMENT

THIS RESTATED NON-QUALIFIED STOCK OPTION AGREEMENT (the “**Agreement**”) is made as of January 1, 2020 (the “**Restatement Date**”), by and between Public Storage (the “**Company**”) and [Participant#Name] (the “**Participant**”). Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Company’s [Plan#Year] Equity and Performance-Based Incentive Compensation Plan (as amended and/or restated from time to time, the “**Plan**”).

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

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

WHEREAS, the Company and the Participant have now determined to amend and restate certain terms of the Participant’s grant.

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, and each intending to be legally bound, the Company and the Participant hereby agree as follows:

1. GRANT OF OPTION.

Subject to and pursuant to the terms of the Plan (the terms of which are incorporated by reference herein), on [Grant#Date] (the “**Grant Date**”), the Company granted to the Participant an Option to purchase from the Company, on the terms and subject to the conditions set forth in this Agreement, [No#of#Options#Granted] shares of Stock. This Option shall not constitute an incentive stock option within the meaning of Section 422 of the Code.

2. OPTION PRICE.

The per share purchase price (the “**Option Price**”) of the shares of Stock subject to the Option evidenced by this Agreement shall be [Option#Price] (which is equal to the Fair Market Value per share on the Grant Date).

3. VESTING AND EXERCISE OF OPTION.

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

3.1. Vesting and Time of Exercise of Option.

The Option is exercisable only before it expires and then only with respect to the vested portion of the Option. Subject to the Participant's continued Service from the Grant Date through each applicable Vesting Date, rights to purchase [Yearly#%] of the number of shares of Stock covered by the Option shall vest on each of the first [five#eight] anniversaries of the Grant Date (each, a "**Vesting Date**"). Any resulting fractional shares shall be rounded to the nearest whole share and shall be rounded up or down as necessary as of the last applicable Vesting Date; provided, in all cases, the Participant cannot vest in more than the number of shares of Stock covered by the Option subject to this Agreement. To the extent not exercised,

[Participant#Name]/[Employee#ID#No]
[Grant#Date]/[Grant#Code]
[five#eight] year vesting

the vested portions of the Option shall accumulate and be exercisable, in whole or in part, at any time and from time to time, after becoming vested and exercisable and prior to the termination of the Option; provided, that no single exercise of the Option shall be for less than 100 shares, unless the number of shares purchased is the total number at the time available for purchase under the Option.

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

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

3.3. Term of Option.

Notwithstanding anything to the contrary, the Option will expire in any event at the close of business at Company headquarters on the day before the 10th anniversary of the Grant Date, subject to earlier termination in accordance with this Agreement or the terms of the Plan as determined by the Committee.

3.4. Limitations on Exercise of Option.

In no event may the Option be exercised, in whole or in part, after expiration of the term of the Option, or after the occurrence of an event which results in termination of the Option. In no event may the Option be exercised for a fractional share of Stock.

3.5. Termination of Service.

Subject to Sections 3.6, 3.7, and 3.8 hereof, upon the termination of the Participant's Service other than by reason of death, Disability, or Retirement (as defined below), the Participant shall have the right at any time within 30 days after such termination (but before the Option terminates pursuant to Sections 3.3 and 3.4 above), to exercise, in whole or in part, any vested Option held by such Participant at the date of such termination, to the extent such Option was exercisable as of such termination. Any unvested portion of the Option on the date of such termination of Service shall immediately terminate as of such termination, and any vested portion of the Option not exercised during such post-termination exercise window shall immediately terminate as of the end of such post-termination exercise window.

3.6. Rights in the Event of Death.

If the Participant dies while in Service, then (a) all Options granted to the Participant pursuant to this Agreement that have not previously vested shall immediately become vested as of such Participant's death, and (b) the executors or administrators or legatees or distributees of the Participant's estate shall have the right, at any time within one year after the date of the Participant's death (but before the Option terminates pursuant to Sections 3.3 and 3.4 above), to exercise the vested portion of the Option (after taking into account the vesting acceleration pursuant to this Agreement). Any vested portion of the Option not exercised during such post-termination exercise window shall immediately terminate as of the end of such post-termination exercise window.

3.7. Rights in the Event of Disability.

If the Participant's Service terminates by reason of the Participant's Disability, then (a) all Options granted to the Participant pursuant to this Agreement that have not previously vested shall immediately become vested as of such Participant's termination, and (b) the Participant shall have the right, at any time within one year after the date of such termination (but before the Option terminates pursuant to Sections 3.3 and 3.4 above), to exercise the vested portion of the Option (after taking into account the vesting acceleration pursuant to this Agreement). Any vested portion of the Option not exercised during such post-

termination exercise window shall immediately terminate as of the end of such post-termination exercise window.

3.8. Rights in the Event of Retirement.

If the Participant's Service terminates by reason of the Participant's Retirement, then (a) all Options granted to the Participant pursuant to this Agreement that have not previously vested shall immediately become vested as of such Participant's Retirement Date (or upon the Revocation Expiration Time, if applicable and later), and (b) the Participant shall have the right, at any time within one year after the date of such termination (but before the Option terminates pursuant to Sections 3.3 and 3.4 above), to exercise the vested portion of the Option (after taking into account the vesting acceleration pursuant to this Agreement).

Any vested portion of the Option not exercised during such post-termination exercise window shall immediately terminate as of the end of such post-termination exercise window. For purposes of this Agreement, "**Retirement**" means the Participant's termination of Service other than due to death, Disability, or Cause if:

- (a) by the Retirement Date the Participant is at least 55 years old and has provided at least 10 years of Service as defined in the Plan and applied by the Company's HR department (generally including service with the Company, PS Business Parks, and their Affiliates);
- (b) by the Retirement Date the sum of the Participant's age and total years of Service equals at least 80;
- (c) the Participant provided the Company written notice of the Participant's intention to retire at least 12 months' prior to the Retirement Date;
- (d) on or prior to the Retirement Date the Participant has entered into a separation agreement, in a form acceptable to the Company, which includes a full release of claims and certain restrictive covenants as of the date of Retirement, and if the execution of such separation agreement is subject to a revocation period by applicable law, the separation agreement has not been revoked and the applicable revocation period, which may not exceed 10 days, has expired (the "Revocation Expiration Time"); and
- (e) subject to the Participant's continued Service through both the Certification Date and the Retirement Date, the Equity Awards Committee has taken separate action to establish a date of termination of Service for the Participant (the "**Retirement Date**") and to approve such accelerated vesting for such Participant (the date of such action by that committee, the "**Certification Date**"); provided, however, that (i) the Participant shall have no right to such accelerated vesting if that committee does not take action to approve such accelerated vesting for such Participant or revokes its approval before the Retirement Date; and (ii) if the Participant's Service is terminated for any reason other than death or Disability prior to such Retirement Date, any unvested portion of the Option on the date of such termination of Service shall immediately terminate as of such termination, and any vested portion of the Option shall be subject to Section 3.5.

3.9. Reduction in Number of Shares Subject to Option.

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

4. METHOD OF EXERCISE OF OPTION.

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

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

5. LIMITATIONS ON TRANSFER.

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

6. RIGHTS AS SHAREHOLDER.

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

7. WITHHOLDING TAXES.

Upon the request of the Company, the Participant shall promptly pay to the Company, or make arrangements satisfactory to the Company regarding payment of, any federal, state, or local taxes of any kind required by law to be withheld in connection with the Option. The Company and its Affiliates shall have the right to deduct from payments of any kind otherwise due to the Participant any such taxes. The Participant shall make any such payments in cash or cash equivalents or, subject to the prior approval of the Committee, which may be withheld in the Committee's sole discretion, the Participant may elect to satisfy the withholding obligation, in whole or in part, (a) by causing the Company to withhold shares of Stock otherwise issuable to the Participant pursuant to the Option or (b) by delivering to the Company shares of Stock already owned by the Participant. The shares of Stock so delivered or withheld shall have an aggregate Fair Market Value not exceeding the minimum amount of tax required to be withheld by

applicable law. The Participant may deliver or have withheld only shares of Stock that are not subject to any repurchase, forfeiture, unfulfilled vesting, or other similar requirements.

8. DISCLAIMER OF RIGHTS.

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

9. DATA PRIVACY.

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

10. CONSENT TO ELECTRONIC DELIVERY OF MATERIALS.

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

11. INTERPRETATION OF THIS AGREEMENT.

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

12. GOVERNING LAW.

This Agreement shall be governed by the laws of the State of Maryland, except that if Participant's principal place of employment is in California, then this Agreement will be governed by the laws of the State of California, in either case without giving effect to any choice or conflict of law provision or rule.

13. BINDING EFFECT.

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

14. NOTICE.

Any notice hereunder by the Participant to the Company shall be in writing and shall be deemed duly given if mailed or delivered to the Company at its principal office, addressed to the attention of the Corporate Secretary, or if so mailed or delivered to such other address as the Company may hereafter

designate by notice to the Participant. Any notice hereunder by the Company to the Participant shall be in writing and shall be deemed duly given if mailed or delivered to the Participant at the address specified in the Company's records, or if so mailed or delivered to such other address as the Participant may hereafter designate by written notice given to the Company.

15. CLAWBACK.

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

16. ENTIRE AGREEMENT.

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

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement, or caused this Agreement to be duly executed on their behalf, as of the Restatement Date.

PARTICIPANT:

PUBLIC STORAGE

[Participant#Name]

By: _____

Name: [Officer#Name]

Title: [Officer#Title]

**ADDRESS FOR NOTICE TO
PARTICIPANT:**

[No#Street#Participant#Address]

[City#State#Zip#Participant#Address]

(SOPF01)

Signature Page to the Restated Non-Qualified Stock Option Agreement; [Grant#Code]

Merge fields:

<i>name of field:</i>	<i>example:</i>
[Participant#Name]	Peggy J. Smith
[Employee#ID#No]	000 111
[Grant#Date]	December 31, 2016
[Grant#Code]	NQ123
[Plan#Year]	2007 (or 2016)
[No#of#Options#Granted]	1,000
[Option#Price]	\$ 215.82
[Yearly#%]	20% (or 12.5%)
[five#eight]	five (or eight)
[No#Street#Participant#Address]	123 Main Street
[City#State#Zip#Participant#Address]	Los Angeles, CA 90010
[Officer#Name]	Joe Jones
[Officer#Title]	Vice President

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Section 5: EX-10.4 (EX-10.4)

Exhibit 10.4

PUBLIC STORAGE 2016 EQUITY AND PERFORMANCE-BASED INCENTIVE COMPENSATION PLAN

NON-QUALIFIED STOCK OPTION AGREEMENT

THIS NON-QUALIFIED STOCK OPTION AGREEMENT (the “**Agreement**”) is made as of [Grant#Date] (the “**Grant Date**”), by and between Public Storage (the “**Company**”) and [Participant#Name] (the “**Participant**”). Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Company’s 2016 Equity and Performance-Based Incentive Compensation Plan (as amended and/or restated from time to time, the “**Plan**”).

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

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

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, and each intending to be legally bound, the Company and the Participant hereby agree as follows:

1. GRANT OF OPTION.

Subject to and pursuant to the terms of the Plan (the terms of which are incorporated by reference herein), the Company hereby grants to the Participant an Option to purchase from the Company, on the terms and subject to the conditions set forth in this Agreement, [No#of#Options#Granted] shares of Stock. This Option shall not constitute an incentive stock option within the meaning of Section 422 of the Code.

2. OPTION PRICE.

The per share purchase price (the “**Option Price**”) of the shares of Stock subject to the Option evidenced by this Agreement shall be [Option#Price] (which is equal to the Fair Market Value per share on the Grant Date).

3. VESTING AND EXERCISE OF OPTION.

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

to vesting and exercise as follows:

3.1. Vesting and Time of Exercise of Option.

The Option is exercisable only before it expires and then only with respect to the vested portion of the Option. Subject to the Participant's continued Service from the Grant Date through each applicable Vesting Date, rights to purchase [Yearly#%] of the number of shares of Stock covered by the Option shall vest on each of the first [five#eight] anniversaries of the Grant Date (each, a "**Vesting Date**"). Any resulting fractional shares shall be rounded to the nearest whole share and shall be rounded up or down as necessary as of the last applicable Vesting Date; provided, in all cases, the Participant cannot vest in more than the

[Participant#Name]/[Employee#ID#No]
[Grant#Date]/[Grant#Code]
[five#eight] year vesting

number of shares of Stock covered by the Option subject to this Agreement. To the extent not exercised, the vested portions of the Option shall accumulate and be exercisable, in whole or in part, at any time and from time to time, after becoming vested and exercisable and prior to the termination of the Option; provided, that no single exercise of the Option shall be for less than 100 shares, unless the number of shares purchased is the total number at the time available for purchase under the Option.

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

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

3.3. Term of Option.

Notwithstanding anything to the contrary, the Option will expire in any event at the close of business at Company headquarters on the day before the 10th anniversary of the Grant Date, subject to earlier termination in accordance with this Agreement or the terms of the Plan as determined by the Committee.

3.4. Limitations on Exercise of Option.

In no event may the Option be exercised, in whole or in part, after expiration of the term of the Option, or after the occurrence of an event which results in termination of the Option. In no event may the Option be exercised for a fractional share of Stock.

3.5. Termination of Service.

Subject to Sections 3.6, 3.7, and 3.8 hereof, upon the termination of the Participant's Service other than by reason of death, Disability, or Retirement (as defined below), the Participant shall have the right at any time within 30 days after such termination (but before the Option terminates pursuant to Sections 3.3 and 3.4 above), to exercise, in whole or in part, any vested Option held by such Participant at the date of such termination, to the extent such Option was exercisable as of such termination. Any unvested portion of the Option on the date of such termination of Service shall immediately terminate as of such termination, and any vested portion of the Option not exercised during such post-termination exercise window shall immediately terminate as of the end of such post-termination exercise window.

3.6. Rights in the Event of Death.

If the Participant dies while in Service, then (a) all Options granted to the Participant pursuant to this Agreement that have not previously vested shall immediately become vested as of such Participant's death, and (b) the executors or administrators or legatees or distributees of the Participant's estate shall have the right, at any time within one year after the date of the Participant's death (but before the Option terminates pursuant to Sections 3.3 and 3.4 above), to exercise the vested portion of the Option (after taking into account the vesting acceleration pursuant to this Agreement). Any vested portion of the Option not exercised during such post-termination exercise window shall immediately terminate as of the end of such post-termination exercise window.

3.7. Rights in the Event of Disability.

If the Participant's Service terminates by reason of the Participant's Disability, then (a) all Options granted to the Participant pursuant to this Agreement that have not previously vested shall immediately become vested as of such Participant's termination, and (b) the Participant shall have the right, at any time within one year after the date of such termination (but before the Option terminates pursuant to Sections 3.3 and 3.4 above), to exercise the vested portion of the Option (after taking into account the vesting acceleration pursuant to this Agreement). Any vested portion of the Option not exercised during such post-termination exercise window shall immediately terminate as of the end of such post-termination exercise window.

3.8. Rights in the Event of Retirement.

If the Participant's Service terminates by reason of the Participant's Retirement, then (a) all Options granted to the Participant pursuant to this Agreement that have not previously vested shall immediately become vested as of such Participant's Retirement Date (or upon the Revocation Expiration Time, if applicable and later), and (b) the Participant shall have the right, at any time within one year after the date of such termination (but before the Option terminates pursuant to Sections 3.3 and 3.4 above), to exercise the vested portion of the Option (after taking into account the vesting acceleration pursuant to this Agreement).

Any vested portion of the Option not exercised during such post-termination exercise window shall immediately terminate as of the end of such post-termination exercise window. For purposes of this Agreement, "**Retirement**" means the Participant's termination of Service other than due to death, Disability, or Cause if:

- (a) by the Retirement Date the Participant is at least 55 years old and has provided at least 10 years of Service as defined in the Plan and applied by the Company's HR department (generally including service with the Company, PS Business Parks, and their Affiliates);
- (b) by the Retirement Date the sum of the Participant's age and total years of Service equals at least 80;
- (c) the Participant provided the Company written notice of the Participant's intention to retire at least 12 months' prior to the Retirement Date;
- (d) on or prior to the Retirement Date the Participant has entered into a separation agreement, in a form acceptable to the Company, which includes a full release of claims and certain restrictive covenants as of the date of Retirement, and if the execution of such separation agreement is subject to a revocation period by applicable law, the separation agreement has not been revoked and the applicable revocation period, which may not exceed 10 days, has expired (the "Revocation Expiration Time"); and
- (e) subject to the Participant's continued Service through both the Certification Date and the Retirement Date, the Equity Awards Committee has taken separate action to establish a date of termination of Service for the Participant (the "**Retirement Date**") and to approve such accelerated vesting for such Participant (the date of such action by that committee, the "**Certification Date**"); provided, however, that (i) the Participant shall have no right to such accelerated vesting if that committee does not take action to approve such accelerated vesting for such Participant or revokes its approval before the Retirement Date; and (ii) if the Participant's Service is terminated for any reason other than death or Disability prior to such Retirement Date, any unvested portion of the Option on the date of such termination of Service shall immediately terminate as of such termination, and any vested portion of the Option shall be subject to Section 3.5.

3.9. Reduction in Number of Shares Subject to Option.

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

4. METHOD OF EXERCISE OF OPTION.

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

5. LIMITATIONS ON TRANSFER.

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

6. RIGHTS AS SHAREHOLDER.

Neither the Participant, nor any executor, administrator, distributee, or legatee of the Participant's estate, nor any transferee hereof shall be, or have any of the rights or privileges of, a shareholder of the Company in respect of any shares of Stock issuable hereunder unless and until such shares have been fully paid and certificates representing such shares have been endorsed, transferred, and delivered, and the name of the Participant (or of such personal representative, administrator, distributee, or legatee of the

Participant's estate, or of such transferee) has been entered as the shareholder of record on the books of the Company.

7. WITHHOLDING TAXES.

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

8. DISCLAIMER OF RIGHTS.

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

9. DATA PRIVACY.

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

10. CONSENT TO ELECTRONIC DELIVERY OF MATERIALS.

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

11. INTERPRETATION OF THIS AGREEMENT.

All decisions and interpretations made by the Committee with regard to any question arising under the Plan or this Agreement shall be binding and conclusive on the Company and the Participant and any

other person entitled to exercise the Option as provided for herein. In the event that there is any inconsistency between the provisions of this Agreement and of the Plan, the provisions of the Plan shall govern.

12. GOVERNING LAW.

This Agreement shall be governed by the laws of the State of Maryland, except that if Participant's principal place of employment is in California, then this Agreement will be governed by the laws of the State of California, in either case without giving effect to any choice or conflict of law provision or rule.

13. BINDING EFFECT.

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

14. NOTICE.

Any notice hereunder by the Participant to the Company shall be in writing and shall be deemed duly given if mailed or delivered to the Company at its principal office, addressed to the attention of the Corporate Secretary, or if so mailed or delivered to such other address as the Company may hereafter designate by notice to the Participant. Any notice hereunder by the Company to the Participant shall be in writing and shall be deemed duly given if mailed or delivered to the Participant at the address specified in the Company's records, or if so mailed or delivered to such other address as the Participant may hereafter designate by written notice given to the Company.

15. CLAWBACK.

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

16. ENTIRE AGREEMENT.

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

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement, or caused this Agreement to be duly executed on their behalf, as of the Grant Date.

PARTICIPANT:

PUBLIC STORAGE

[Participant#Name]

By: _____

Name: [Officer#Name]

Title: [Officer#Title]

**ADDRESS FOR NOTICE TO
PARTICIPANT:**

[No#Street#Participant#Address]

[City#State#Zip#Participant#Address]

(SOPF02)

Signature Page to the Non-Qualified Stock Option Agreement; [Grant#Code]

Merge fields:

<i>name of field:</i>	<i>example:</i>
[Participant#Name]	Peggy J. Smith
[Employee#ID#No]	000 111
[Grant#Date]	December 31, 2016
[Grant#Code]	NQ123
[No#of#Options#Granted]	1,000
[Option#Price]	215.82
[Yearly#%]	20% (or 12.5%)
[five#eight]	five (or eight)
[No#Street#Participant#Address]	123 Main Street
[City#State#Zip#Participant#Address]	Los Angeles, CA 90010
[Officer#Name]	Joe Jones
[Officer#Title]	Vice President

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Section 6: EX-10.5 (EX-10.5)

Exhibit 10.5

PUBLIC STORAGE 2016 EQUITY AND PERFORMANCE-BASED INCENTIVE COMPENSATION PLAN

NON-QUALIFIED STOCK OPTION AGREEMENT

THIS NON-QUALIFIED STOCK OPTION AGREEMENT (the “**Agreement**”) is made as of [Grant#Date] (the “**Grant Date**”), by and between Public Storage (the “**Company**”) and [Participant#Name] (the “**Participant**”). Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Company’s 2016 Equity and Performance-Based Incentive Compensation Plan (as amended and/or restated from time to time, the “**Plan**”).

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

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

NOW, THEREFORE, in consideration of the mutual promises and covenants contained herein, and each intending to be legally bound, the Company and the Participant hereby agree as follows:

1. GRANT OF OPTION.

Subject to and pursuant to the terms of the Plan (the terms of which are incorporated by reference herein), the Company hereby grants to the Participant an Option to purchase from the Company, on the terms and subject to the conditions set forth in this Agreement, [No#of#Options#Granted] shares of Stock. This Option shall not constitute an incentive stock option within the meaning of Section 422 of the Code.

2. OPTION PRICE.

The per share purchase price (the “**Option Price**”) of the shares of Stock subject to the Option evidenced by this Agreement shall be [Option#Price] (which is equal to the Fair Market Value per share on the Grant Date).

3. VESTING AND EXERCISE OF OPTION.

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

3.1. Vesting and Time of Exercise of Option.

The Option is exercisable only before it expires and then only with respect to the vested portion of the Option. Subject to the achievement of specific Performance Targets (as defined in **Exhibit A**), at the conclusion of the three-year Performance Period (as defined in **Exhibit A**) rights to purchase, 60% of the number of shares of Stock covered by the Option shall vest on the third anniversary of the Grant Date, with a further 20% vesting on each of the fourth and fifth anniversaries of the Grant Date (each of the three dates, a “**Vesting Date**”). Any resulting fractional shares shall be rounded to the nearest whole share and shall be

[Participant#Name]/[Employee#ID#No]
[Grant#Date]/[Grant#Code]
Performance Vesting

rounded up or down as necessary as of the last applicable Vesting Date; provided, in all cases, the Participant cannot vest in more than the number of shares of Stock covered by the Option subject to this Agreement. To the extent not exercised, the vested portions of the Option shall accumulate and be exercisable, in whole or in part, at any time and from time to time, after becoming vested and exercisable and prior to the termination of the Option; provided, that no single exercise of the Option shall be for less than 100 shares, unless the number of shares purchased is the total number at the time available for purchase under the Option.

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

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

3.3. Term of Option.

Notwithstanding anything to the contrary, the Option will expire in any event at the close of business at Company headquarters on the day before the 10th anniversary of the Grant Date, subject to earlier termination in accordance with this Agreement or the terms of the Plan as determined by the Committee.

3.4. Limitations on Exercise of Option.

In no event may the Option be exercised, in whole or in part, after expiration of the term of the Option, or after the occurrence of an event which results in termination of the Option. In no event may the Option be exercised for a fractional share of Stock.

3.5. Termination of Service.

Subject to Sections 3.6, 3.7, and 3.8 hereof, upon the termination of the Participant's Service other than by reason of death, Disability, or Retirement (as defined below), the Participant shall have the right at any time within 30 days after such termination (but before the Option terminates pursuant to Sections 3.3 and 3.4 above), to exercise, in whole or in part, any vested Option held by such Participant at the date of such termination, to the extent such Option was exercisable as of such termination. Any unvested portion of the Option on the date of such termination of Service shall immediately terminate as of such termination, and any vested portion of the Option not exercised during such post-termination exercise window shall immediately terminate as of the end of such post-termination exercise window.

3.6. Rights in the Event of Death.

If the Participant dies while in Service, then (a) all Options granted to the Participant pursuant to this Agreement that have not previously vested shall immediately become vested as of such Participant's death either (i) at target level in the event of the Participant's death during the Performance Period or (ii) at the level actually achieved in the event of Participant's death following the end of the Performance Period, and (b) the executors or administrators or legatees or distributees of the Participant's estate shall have the right, at any time within one year after the date of the Participant's death (but before the Option terminates pursuant to Sections 3.3 and 3.4 above), to exercise the vested portion of the Option (after taking into account the vesting acceleration pursuant to this Agreement). Any vested portion of the Option not

exercised during such post-termination exercise window shall immediately terminate as of the end of such post-termination exercise window.

3.7. Rights in the Event of Disability.

If the Participant's Service terminates by reason of the Participant's Disability, then (a) all Options granted to the Participant pursuant to this Agreement that have not previously vested shall immediately become vested as of such Participant's termination either (i) at target level in the event of the Participant's Disability during the Performance Period or (ii) at the level actually achieved in the event of Participant's Disability following the end of the Performance Period, and (b) the Participant shall have the right, at any time within one year after the date of such termination (but before the Option terminates pursuant to Sections 3.3 and 3.4 above), to exercise the vested portion of the Option (after taking into account the vesting acceleration pursuant to this Agreement). Any vested portion of the Option not exercised during such post-termination exercise window shall immediately terminate as of the end of such post-termination exercise window.

3.8. Rights in the Event of Retirement.

If the Participant's Service terminates by reason of the Participant's Retirement, then (a) all Options granted to the Participant pursuant to this Agreement that have not previously vested shall immediately become vested as of such Participant's Retirement Date (or upon the Revocation Expiration Time, if applicable and later), either (i) at target level in the event of the Participant's Retirement during the Performance Period or (ii) at the level actually achieved in the event of Participant's Retirement following the end of the Performance Period, and (b) the Participant shall have the right, at any time within one year after the date of such termination (but before the Option terminates pursuant to Sections 3.3 and 3.4 above), to exercise the vested portion of the Option (after taking into account the vesting acceleration pursuant to this Agreement). Any vested portion of the Option not exercised during such post-termination exercise window shall immediately terminate as of the end of such post-termination exercise window. For purposes of this Agreement, "**Retirement**" means the Participant's termination of Service other than due to death, Disability, or Cause if:

- (a) by the Retirement Date the Participant is at least 55 years old and has provided at least 10 years of Service as defined in the Plan and applied by the Company's HR department (generally including service with the Company, PS Business Parks, and their Affiliates);
- (b) by the Retirement Date the sum of the Participant's age and total years of Service equals at least 80;
- (c) the Participant provided the Company written notice of the Participant's intention to retire at least 12 months prior to the Retirement Date;
- (d) on or prior to the Retirement Date the Participant has entered into a separation agreement, in a form acceptable to the Company, which includes a full release of claims and certain restrictive covenants as of the date of Retirement, and if the execution of such separation agreement is subject to a revocation period by applicable law, the separation agreement has not been revoked and the applicable revocation period, which may not exceed 10 days, has expired (the "Revocation Expiration Time"); and
- (e) subject to the Participant's continued Service through both the Certification Date and the Retirement Date, the Equity Awards Committee has taken separate action to establish a date of termination of Service for the Participant (the "**Retirement Date**") and to approve such accelerated vesting for such Participant (the date of such action by that committee, the "**Certification Date**"); provided, however, that (i) the Participant shall have no right to such accelerated vesting if that committee does not take action to approve such accelerated vesting for such Participant or revokes

its approval before the Retirement Date; and (ii) if the Participant's Service is terminated for any reason other than death or Disability prior to such Retirement Date, any unvested portion of the Option on the date of such termination of Service shall immediately terminate as of such termination, and any vested portion of the Option shall be subject to Section 3.5.

3.9. Reduction in Number of Shares Subject to Option.

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

4. METHOD OF EXERCISE OF OPTION.

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

5. LIMITATIONS ON TRANSFER.

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

6. RIGHTS AS SHAREHOLDER.

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

7. WITHHOLDING TAXES.

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

8. DISCLAIMER OF RIGHTS.

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

9. DATA PRIVACY.

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

10. CONSENT TO ELECTRONIC DELIVERY OF MATERIALS.

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

11. INTERPRETATION OF THIS AGREEMENT.

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

12. GOVERNING LAW.

This Agreement shall be governed by the laws of the State of Maryland, except that if Participant's principal place of employment is in California, then this Agreement will be governed by the laws of the State of California, in either case without giving effect to any choice or conflict of law provision or rule.

13. BINDING EFFECT.

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

14. NOTICE.

Any notice hereunder by the Participant to the Company shall be in writing and shall be deemed duly given if mailed or delivered to the Company at its principal office, addressed to the attention of the Corporate Secretary, or if so mailed or delivered to such other address as the Company may hereafter designate by notice to the Participant. Any notice hereunder by the Company to the Participant shall be in writing and shall be deemed duly given if mailed or delivered to the Participant at the address specified in the Company's records, or if so mailed or delivered to such other address as the Participant may hereafter designate by written notice given to the Company.

15. CLAWBACK.

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

16. ENTIRE AGREEMENT.

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

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement, or caused this Agreement to be duly executed on their behalf, as of the Grant Date.

PARTICIPANT:

PUBLIC STORAGE

[Participant#Name]

By: _____
Name: [Officer#Name]
Title: [Officer#Title]

**ADDRESS FOR NOTICE TO
PARTICIPANT:**

[No#Street#Participant#Address]
[City#State#Zip#Participant#Address]

Signature Page to the Non-Qualified Stock Option Agreement; [Grant#Code]

EXHIBIT A TO THE NON-QUALIFIED STOCK OPTION AGREEMENT

The Performance Period is a three-year performance measurement period. The first grant Performance Period will span 2020-2022. The Performance Period will change each year a grant is made under the plan.

The Company will measure Performance Targets on two metrics: (a) net asset value per share growth; and (b) total shareholder value growth. Performance thresholds for the 2020-2022 Performance Period are outlined in the following table:

Total Shareholder Value 2020-2022	Net Asset Value Growth 2020-2022	Percentage of Target Award
Below 14%	Below 3%	None
14-16%	3%- 5%	75%
16-18%	5%-7%	100%
>18%	Above 7%	125%

Merge fields:

<i>name of field:</i>	<i>example:</i>
[Participant#Name]	Peggy J. Smith
[Employee#ID#No]	000 111
[Grant#Date]	March 6, 2020
[Grant#Code]	NQ123
[No#of#Options#Granted]	1,000
[Option#Price]	215.82
[No#Street#Participant#Address]	123 Main Street
[City#State#Zip#Participant#Address]	Los Angeles, CA 90010
[Officer#Name]	Joe Jones
[Officer#Title]	Vice President

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Section 7: EX-31.1 (EX-31.1)

RULE 13A – 14(a) CERTIFICATION

I, Joseph D. Russell, Jr., certify that:

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

/s/ Joseph D. Russell, Jr.

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Section 8: EX-31.2 (EX-31.2)

RULE 13A – 14(a) CERTIFICATION

I, H. Thomas Boyle, certify that:

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

/s/ H. Thomas Boyle
Name: H. Thomas Boyle
Title: Chief Financial Officer
Date: April 30, 2020

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Section 9: EX-32 (EX-32)

SECTION 1350 CERTIFICATION

In connection with the Quarterly Report on Form 10-Q of Public Storage (the “Company”) for the quarter ended March 31, 2020, as filed with the Securities and Exchange Commission (the “SEC”) on the date hereof (the “Report”), Joseph D. Russell, Jr., as Chief Executive Officer and President of the Company and H. Thomas Boyle, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley”), that:

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

/s/ Joseph D. Russell, Jr.

Name: Joseph D. Russell, Jr.
Title: Chief Executive Officer and President
Date: April 30, 2020

/s/ H. Thomas Boyle

Name: H. Thomas Boyle
Title: Chief Financial Officer
Date: April 30, 2020

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

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

Exhibit 32

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