

Public Storage  
Form 10-K  
February 29, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10 K

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

For the fiscal year ended December 31, 2015.

or

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

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

Commission File Number: 001 33519

PUBLIC STORAGE

(Exact name of Registrant as specified in its charter)

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

701 Western Avenue, Glendale, California 91201-2349

(Address of principal executive offices) (Zip Code)

(818) 244 8080

(Registrant's telephone number, including area code)

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

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| Depository Shares Each Representing 1/1,000 of a 5.200% Cumulative Preferred Share, Series W<br>\$.01 par value | New York Stock<br>Exchange                         |
|-----------------------------------------------------------------------------------------------------------------|----------------------------------------------------|
| Title of each class                                                                                             | Name of each<br>exchange<br>on which<br>registered |
| Depository Shares Each Representing 1/1,000 of a 6.500% Cumulative Preferred Share, Series Q<br>\$.01 par value | New York Stock<br>Exchange                         |
| Depository Shares Each Representing 1/1,000 of a 6.350% Cumulative Preferred Share, Series R<br>\$.01 par value | New York Stock<br>Exchange                         |
| Depository Shares Each Representing 1/1,000 of a 5.900% Cumulative Preferred Share, Series S<br>\$.01 par value | New York Stock<br>Exchange                         |
| Depository Shares Each Representing 1/1,000 of a 5.750% Cumulative Preferred Share, Series T<br>\$.01 par value | New York Stock<br>Exchange                         |
| Depository Shares Each Representing 1/1,000 of a 5.625% Cumulative Preferred Share, Series U<br>\$.01 par value | New York Stock<br>Exchange                         |
| Depository Shares Each Representing 1/1,000 of a 5.375% Cumulative Preferred Share, Series V<br>\$.01 par value | New York Stock<br>Exchange                         |
| Depository Shares Each Representing 1/1,000 of a 5.200% Cumulative Preferred Share, Series W<br>\$.01 par value | New York Stock<br>Exchange                         |
| Depository Shares Each Representing 1/1,000 of a 5.200% Cumulative Preferred Share, Series X<br>\$.01 par value | New York Stock<br>Exchange                         |

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|                                                                                                                 |                            |
|-----------------------------------------------------------------------------------------------------------------|----------------------------|
| Depository Shares Each Representing 1/1,000 of a 6.375% Cumulative Preferred Share, Series Y<br>\$.01 par value | New York Stock<br>Exchange |
| Depository Shares Each Representing 1/1,000 of a 6.000% Cumulative Preferred Share, Series Z<br>\$.01 par value | New York Stock<br>Exchange |
| Depository Shares Each Representing 1/1,000 of a 5.875% Cumulative Preferred Share, Series A<br>\$.01 par value | New York Stock<br>Exchange |
| Depository Shares Each Representing 1/1,000 of a 5.400% Cumulative Preferred Share, Series B<br>\$.01 par value | New York Stock<br>Exchange |
| Common Shares, \$.10 par<br>value.....                                                                          | New York Stock<br>Exchange |

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

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

Yes  No

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

Yes  No

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

Yes  No

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

Yes  No

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

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

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

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

Yes [ ] No [X]

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The aggregate market value of the voting and non-voting common shares held by non-affiliates of the Registrant as of June 30, 2015:

Common Shares, \$0.10 Par Value Per Share – \$27,061,855,000 (computed on the basis of \$184.37 per share, which was the reported closing sale price of the Company's Common Shares on the New York Stock Exchange (the “NYSE”) on June 30, 2015).

As of February 24, 2016, there were 173,269,371 outstanding Common Shares, \$.10 par value per share.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement to be filed in connection with the Annual Meeting of Shareholders to be held in 2015 are incorporated by reference into Part III of this Annual Report on Form 10-K to the extent described therein.

## PART I

### ITEM 1. Business

#### Forward Looking Statements

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

These forward-looking statements are based on current expectations and assumptions that are subject to 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 our future results and performance include, but are not limited to, those described in Item 1A, "Risk Factors" and in our other filings with the Securities and Exchange Commission (the "SEC") including:

- general risks associated with the ownership and operation of real estate, including changes in demand, risks related to development of self-storage facilities, potential liability for environmental contamination, natural disasters and adverse changes in laws and regulations governing property tax, real estate and zoning;
- risks associated with downturns in the national and local economies in the markets in which we operate, including risks related to current economic conditions and the economic health of our customers;
- the impact of competition from new and existing self-storage and commercial facilities and other storage alternatives;
- difficulties in our ability to successfully evaluate, finance, integrate into our existing operations, and manage acquired and developed properties;
- risks associated with international operations including, but not limited to, unfavorable foreign currency rate fluctuations, changes in tax laws, and local and global economic uncertainty that could adversely affect our earnings and cash flows;
  - risks related to our participation in joint ventures;
- the impact of the regulatory environment as well as national, state, and local laws and regulations including, without limitation, those governing environmental, taxes, tenant insurance matters, labor, and real estate investment trusts ("REITs"), and risks related to the impact of new laws and regulations;
- risk of increased tax expense associated either with a possible failure by us to qualify as a REIT, or with challenges to intercompany transactions with our taxable REIT subsidiaries;
- changes in federal or state tax laws related to the taxation of REITs, which could impact our status as a REIT;
- disruptions or shutdowns of our automated processes, systems and the Internet or breaches of our data security;

- 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; and
- economic uncertainty due to the impact of terrorism or war.

These forward looking statements speak only as of the date of this report or as of the dates indicated in the statements. All of our forward-looking statements, including those in this report, are qualified in their entirety by this statement. We expressly disclaim any obligation to update publicly or otherwise revise any forward-looking statements, whether as a result of new information, new estimates, or other factors, events or circumstances after the date of these forward looking statements, except as required by law. Given these risks and uncertainties, you should not rely on any forward-looking statements in this report, or which management may make orally or in writing from time to time, as predictions of future events nor guarantees of future performance.

## General

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

At December 31, 2015, our principal business activities were as follows:

- Self-storage Operations:** We acquire, develop, own, and operate self-storage facilities which offer storage spaces for lease on a month-to-month basis, for personal and business use. We are the largest owner and operator of self-storage facilities in the United States (the “U.S.”). We have direct and indirect equity interests in 2,277 self-storage facilities (an aggregate of 148 million net rentable square feet of space) located in 38 states within the U.S. operating under the “Public Storage” brand name. We also own one self-storage facility in London, England which is managed by Shurgard Europe (defined below).
- Ancillary Operations:** We reinsure policies against losses to goods stored by customers in our self-storage facilities, and sell merchandise, primarily locks and cardboard boxes, at our self-storage facilities.
- Investment in PS Business Parks:** We have a 42% equity interest in PS Business Parks, Inc. (“PSB”), a publicly held REIT that owns, operates, acquires and develops commercial properties, primarily multi-tenant flex, office, and industrial parks. At December 31, 2015, PSB owns and operates 28.0 million rentable square feet of commercial space.
- Investment in Shurgard Europe:** We have a 49% equity interest in Shurgard Self Storage Europe Limited (“Shurgard Europe”) which owns 216 self-storage facilities (twelve million net rentable square feet) located in seven countries in Western Europe operated under the “Shurgard” brand name. We believe Shurgard Europe is the largest owner and operator of self-storage facilities in Western Europe.

We also manage approximately 29 self-storage facilities for third parties, own 1.0 million net rentable square feet of commercial space which is managed primarily by PSB, and have equity interests in and manage 12 additional self-storage facilities.

For all periods presented herein, we have elected to be treated as a REIT, as defined in the 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 (generally, net rents and gains from real property, dividends, and interest) each year (for this purpose, certain distributions paid in a subsequent year may be considered),

and if we meet certain organizational and operational rules. We believe we met these requirements in all periods presented herein, and we expect to continue to elect and qualify as a REIT.

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

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

## Competition

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

Ownership and operation of self-storage facilities is highly fragmented. As the largest owner of self-storage facilities, we believe that we own approximately 6% of the self-storage square footage in the U.S. and that collectively the five largest self-storage owners in the U.S. own approximately 12%, with the remaining 88% owned by numerous regional and local operators.

We generally focus our ownership of facilities in major markets. We believe that we have significant market share and concentration in major metropolitan centers, with approximately 71% of our 2015 same-store revenues generated in the 20 Metropolitan Statistical Areas (each, an "MSA", as defined by the U.S. Census Bureau) with the highest population levels. We believe this is a competitive advantage relative to other self-storage operators, which do not have our geographic concentration and market share.

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

## Business Attributes

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

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

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

- **Our Desktop and Mobile Websites:** The online marketing channel continues to grow in prominence, with approximately 63% of our move-ins in 2015 sourced through our websites, as compared to 36% in 2010. In addition, we believe that many of our customers who directly call our call center, or who move-in to a facility



without making a reservation, have already reviewed our pricing and space availability through our

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websites. We invest extensively in advertising on the Internet to attract potential customers, primarily through the use of search engines, and we regularly update our websites to enhance their productivity.

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

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

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

**Marketing and advertising efficiencies:** Our major-market concentration relative to the fragmented ownership and operation of the rest of the industry, combined with our well-recognized brand name, improves our prominence in unpaid search results for self-storage on major online search engines, and enhances the efficiency of our bidding for paid multiple-keyword advertising. We use television advertising, because our large number of facilities in major markets makes it cost-efficient on a per facility basis to do so. Most of our competitors cannot do so because they do not have a sufficient number of facilities.

#### Growth and Investment Strategies

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

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



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

**Acquire properties owned by others in the U.S.:** We seek to capitalize on the fragmentation of the self-storage business through acquiring attractively priced, well-located existing self-storage facilities. We believe our presence in and knowledge of substantially all of the major markets in the U.S. enhances our ability to identify attractive acquisition opportunities. Data on the rental rates and occupancy levels of our existing facilities provides us an advantage in evaluating the potential of acquisition opportunities. Self-storage owners decide whether to market their facilities for sale based upon many factors, including potential reinvestment returns, expectations of future growth, estimated value, the cost of debt financing, as well as personal considerations. Our aggressiveness in competing for particular marketed facilities depends upon many factors including our opinion as to the potential for future growth, the quality of construction and location, the cash flow we expect from the facility when operated on our platform, how well the facility fits into our current geographic footprint, as well as our yield expectations. During 2015, 2014 and 2013, we acquired 17, 44 and 121 facilities, respectively, from third parties for approximately \$169 million, \$431 million and \$1.2 billion, respectively, primarily through large portfolio acquisitions. We will continue to seek to acquire properties in 2016; however, there is significant competition to acquire existing facilities. As a result, there can be no assurance as to the level of facilities we may acquire.

**Develop new self-storage facilities and expansion of existing facilities:** The development of new self-storage locations and the expansion of existing facilities has been an important source of growth. Since the beginning of 2013, we have expanded our development efforts due in part to the significant increase in prices being paid for existing facilities, in many cases well above the cost of developing new facilities. At December 31, 2015, we had a development pipeline to develop new self-storage facilities and, to a lesser extent, expand existing self-storage facilities, which will add approximately 3.7 million net rentable square feet of self-storage space, at a total cost of \$486 million. Some of these projects are subject to significant contingencies such as entitlement approval. We expect to continue to seek additional development projects; however, the level of future development may be limited due to various constraints such as difficulty in finding projects that meet our risk-adjusted yield expectations, challenges in obtaining building permits for self-storage activities in certain municipalities, as well as challenges in sourcing quality construction materials, labor, and design elements.

**Participate in the growth of PS Business Parks, Inc.:** Our investment in PSB provides diversification into another asset type. PSB is a stand-alone public company traded on the NYSE. As of December 31, 2015, we have a 42% equity interest in PSB.

PSB seeks to grow its asset base in favorable markets as well as increase the cash flows from its existing portfolio. From 2010 through 2015, PSB has acquired an aggregate total of 11.3 million rentable square feet in key markets for an aggregate purchase price of approximately \$1.1 billion, and has disposed of an aggregate of 2.7 million rentable square feet in markets deemed non-strategic for an aggregate of \$282 million in net proceeds. As of December 31, 2015, PSB owned and operated approximately 28.0 million rentable square feet of commercial space, and had an enterprise value of approximately \$4.2 billion (based upon the trading price of PSB's common stock combined with the liquidation value of its debt and preferred stock as of December 31, 2015).

**Participate in the growth of Shurgard Europe:** We believe Shurgard Europe is the largest self-storage company in Western Europe. It owns and operates 216 self-storage facilities with approximately 12 million net rentable square feet in: France (principally Paris), Sweden (principally Stockholm), the United Kingdom (principally London), the Netherlands, Denmark (principally Copenhagen), Belgium and Germany. We own 49% of Shurgard Europe, with the other 51% owned by a large U.S. institutional investor.

Customer awareness and availability of self-storage is significantly lower in Europe than in the U.S. However, with more awareness and product supply, we believe there is potential for increased demand for storage space in Europe. In the long run, we believe Shurgard Europe could capitalize on

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potential increased demand through the development of new facilities or, to a lesser extent, acquiring existing facilities. In 2014 and 2015, Shurgard Europe acquired 27 facilities with 1.3 million net rentable square feet in Germany, the Netherlands, and the United Kingdom for an aggregate purchase price of approximately \$247 million. In addition, during 2015 Shurgard Europe opened three development properties in the United Kingdom containing 0.2 million net rentable square feet at a cost of \$38 million.

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

**Overview of financing strategy:** As a REIT, we generally distribute 100% of our taxable income to our shareholders, which relative to a taxable C corporation, limits the amount of cash flow from operations that we can retain for investments. As a result, in order to grow our asset base, access to capital is important. Historically we have primarily financed our investment activities with retained operating cash flow combined with proceeds from the issuance of preferred securities. Due to market inefficiency, volatility, and limited capital market breadth for preferred securities, as well as our increased scale and potential capital needs, we are seeking to diversify our capital sources by establishing medium and long-term debt as an alternative; see "Financing with Unsecured Debt" below. Over the long-term, we expect to continue to maintain a conservative, investment grade, financial profile and will fund our capital requirements with retained operating cash flow, the issuance of medium or long term debt, and proceeds from the issuance of common and preferred securities.

**Financing with common and preferred equity:** Rates and market conditions for the issuance of preferred securities can be volatile or inefficient from time to time, particularly so in the last few years. In 2013 and 2014, we issued preferred securities at fixed rates ranging from 5.200% to 6.375%. We believe that the market coupon rate of our preferred securities is influenced by long-term interest rates, as well as demand specifically from retail investors. Institutional investors are generally not buyers of our preferred securities.

Due to market conditions, we did not issue any preferred securities during 2015. However, we continue to view preferred equity as an important source of capital over the long-term. In early 2016, market conditions improved and on January 20, 2016, we issued \$300 million of our 5.40% Series B Preferred Shares.

We have historically been able to raise capital through the issuance of preferred securities at an attractive cost of capital relative to the issuance of our common shares and, as a result, issuances of common shares have been minimal. Future issuances of common shares will depend upon the relative cost of capital for the issuance of our common equity.

Notwithstanding our expectation of increasing debt as a capital source, we expect to remain conservatively capitalized and not subject ourselves to significant refinancing risk from the issuance of debt.

**Financing with unsecured debt:** We have broad powers to issue debt to fund our business. These powers are subject to a limitation on unsecured borrowings in our Bylaws described in "Limitations on Debt" below. Our corporate credit ratings are "A" by Standard and Poor's and "A2" by Moody's. We believe this high rating, combined with our low level of debt, could allow us to issue a significant amount of unsecured debt at lower interest rates than the coupon rates on preferred securities.

As noted above, we are seeking to position ourselves to issue medium and long-term debt in order to diversify our capital sources and enhance our financial flexibility. On November 3, 2015, through a private placement, we issued €242 million of Euro-denominated senior unsecured notes (the "Senior Notes") to an institutional investor. We may issue additional medium or long-term debt in 2016 in the private placement or public debt markets.

Bridge financing: We have a \$500 million revolving line of credit which we use as temporary “bridge” financing and have historically repaid such borrowings with permanent capital. We may also seek

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to obtain short-term loans from banks. In 2013, we borrowed \$700 million from a bank through an unsecured term loan, which we repaid in 2014, in part, through the issuance of preferred securities. See Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources” for more information.

**Assumption of Debt:** Substantially all of our mortgage debt outstanding was assumed in connection with real estate acquisitions. When we have assumed debt in the past, we did so because the nature of the loan terms did not allow prepayment, or a prepayment penalty made it economically disadvantageous to prepay.

**Issuance of securities in exchange for property:** We have issued both our common and preferred securities in exchange for real estate and other investments in the past. Future issuances will be dependent upon our financing needs and capital market conditions at the time, including the market prices of our equity securities.

**Joint Venture financing:** We have used joint ventures with institutional investors and we may form additional joint ventures in the future, primarily to buy or develop self-storage facilities.

**Disposition of properties:** Generally, we have disposed of self-storage facilities only when compelled to do so through condemnation proceedings. We do not presently intend to sell any significant number of self-storage facilities in the future, though there can be no assurance that we will not.

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

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

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

#### Facilities Owned by Unconsolidated Real Estate Entities

At December 31, 2015, we had ownership interests in entities that we do not control or consolidate. These entities include PSB, Shurgard Europe (each discussed above), and various limited partnerships that own an aggregate of 12 self-storage facilities. These entities are referred to collectively as the “Unconsolidated Real Estate Entities.”

PSB, which files financial statements with the SEC, and Shurgard Europe, have debt and other obligations that we do not consolidate in our financial statements. Such debt or other obligations are non-recourse to the Company. None of the other Unconsolidated Real Estate Entities have significant amounts



of debt or other obligations. See Note 4 to our December 31, 2015 financial statements for further disclosure regarding the assets, liabilities and operating results of PSB and Shurgard Europe.

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

At December 31, 2015, B. Wayne Hughes, our former Chairman and his daughter, Tamara Hughes Gustavson, a member of our Board of Trustees, owned and controlled 55 self-storage facilities in Canada. These facilities operate under the “Public Storage” tradename, which we license to the owners of these facilities for use in Canada on a royalty-free, non-exclusive basis. Our subsidiaries reinsure risks relating to loss of goods stored by customers in these facilities, and have received approximately \$0.5 million per year for each of the three years ended December 31, 2015. Our right to continue receiving these premiums may be qualified.

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

#### Limitations on Debt

Without the consent of holders of the various series of Preferred Shares, we may not take any action that would result in our “Debt Ratio” exceeding 50%. “Debt Ratio”, as defined in the related governing documents, represents generally the ratio of debt to total assets before accumulated depreciation and amortization on our balance sheet, in accordance with U.S. generally accepted accounting principles (“GAAP”). As of December 31, 2015, the Debt Ratio was approximately 2%.

Our revolving credit facility and senior unsecured debt agreements contain various customary financial covenants, including limitations on the level of indebtedness and the prohibition of the payment of dividends upon the occurrence of defined events of default. We believe we were in compliance with each of these covenants as of December 31, 2015.

#### Employees

We had approximately 5,300 employees in the U.S. at December 31, 2015 who are engaged primarily in property operations.

#### Seasonality

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

#### Insurance

We have historically carried customary property, earthquake, general liability, employee medical insurance and workers compensation coverage through internationally recognized insurance carriers, subject to deductibles. Deductibles for property and general liability are \$25 million and \$2 million, respectively, per occurrence. The aggregate limits on these policies of \$75 million for property losses and \$102 million for general liability losses are higher than estimates of maximum probable losses that could occur from individual catastrophic events determined in recent engineering and actuarial studies; however, in case of multiple catastrophic events, these

limits could be exceeded.

We reinsure a program that provides insurance to our customers from an independent third-party insurer. This program covers tenant claims for losses to goods stored at our facilities as a result of specific named perils (earthquakes are not covered by this program), up to a maximum limit of \$5,000 per storage

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unit. We reinsure all risks in this program. We are subject to licensing requirements and regulations in several states. At December 31, 2015, there were approximately 874,000 certificates held by our self-storage customers, representing aggregate coverage of approximately \$2.5 billion.

#### ITEM 1A. Risk Factors

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

We have significant exposure to real estate risk.

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

Natural disasters or terrorist attacks could cause damage to our facilities, resulting in increased costs and reduced revenues. Natural disasters, such as earthquakes, hurricanes and floods, or terrorist attacks could cause significant damage and require significant repair costs, and make facilities temporarily uninhabitable, reducing our revenues. Damage and business interruption losses could exceed the aggregate limits of our insurance coverage. In addition, because we self-insure a portion of our risks, losses below a certain level may not be covered by insurance. See Note 13 to our December 31, 2015 financial statements for a description of the risks of losses that are not covered by third-party insurance contracts. We may not have sufficient insurance coverage for losses caused by a terrorist attack, or such insurance may not be maintained, available or cost-effective. In addition, significant natural disasters, terrorist attacks, threats of future terrorist attacks, or resulting wider armed conflicts could have negative impacts on the U.S. economy, reducing storage demand and impairing our operating results.

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

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

Development of self-storage facilities can subject us to risks. At December 31, 2015, we have a pipeline of development projects totaling \$486 million (subject to contingencies), and we expect to continue to seek additional development projects. There are significant risks involved in developing self-storage facilities, such as delays or cost increases due to changes in or failure to meet government or regulatory requirements, weather issues, unforeseen site conditions, or personnel problems. Self-storage space is generally not pre-leased, and rent-up of newly developed space can be delayed or ongoing cash flow yields can be reduced due to competition, reductions in storage demand, or

other factors.

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There is significant competition among self-storage operators and from other storage alternatives. Our self-storage facilities generate most of our revenue and earnings. Competition in the local market areas in which many of our properties are located is significant and has affected our occupancy levels, rental rates and operating expenses. If development of self-storage facilities by other operators were to increase, due to increases in availability of funds for investment or other reasons, competition could intensify.

We may incur significant liabilities from environmental contamination or moisture infiltration. Existing or future laws impose or may impose liability on us to clean up environmental contamination on or around properties that we currently or previously owned or operated, even if we were not responsible for or aware of the environmental contamination or even if such environmental contamination occurred prior to our involvement with the property. We have conducted preliminary environmental assessments on most of our properties, which have not identified material liabilities. These assessments, commonly referred to as "Phase 1 Environmental Assessments," include an investigation (excluding soil or groundwater sampling or analysis) and a review of publicly available information regarding the site and other nearby properties.

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

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

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

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

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

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

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

We own a 49% equity interest in Shurgard Europe, with our investment having a \$388 million book value at December 31, 2015. As a result, we are exposed to additional risks related to international operations that may adversely impact our business and financial results, including the following:

- Currency risks: Currency fluctuations can impact the fair value of our equity investment in Shurgard Europe, as well as future repatriation of cash.



- Legislative, tax, and regulatory risks: We are subject to complex foreign laws and regulations related to permitting and land use, the environment, labor, and other areas, as well as income, property, sales, value added and employment tax laws. These laws can be difficult to apply or interpret and can vary in each country or locality, and are subject to unexpected changes in their form and application due to regional, national, or local political uncertainty and other factors. Such changes, or Shurgard's failure to comply with these laws, could subject it to penalties or other sanctions, adverse changes in business processes, as well as potentially adverse income tax, property tax, or other tax burdens.
- Impediments to capital repatriation could negatively impact the realization of our investment in Shurgard Europe: Laws in Europe and the U.S. may create, impede or increase our cost to repatriate capital or earnings from Shurgard Europe.
- Risks of collective bargaining and intellectual property: Collective bargaining, which is prevalent in certain areas in Europe, could negatively impact Shurgard Europe's labor costs or operations. Many of Shurgard Europe's employees participate in various national unions.
- Potential operating and individual country risks: Economic slowdowns or extraordinary political or social change in the countries in which it operates have posed, and could continue to pose, challenges or result in future reductions of Shurgard Europe's operating cash flows.
- Impediments of Shurgard Europe's joint venture structure: Shurgard Europe's significant decisions, involving activities such as borrowing money, capital contributions, raising capital from third parties, as well as selling or acquiring significant assets, require the consent of our joint venture partner. As a result, Shurgard Europe may be precluded from taking advantage of opportunities that we would find attractive. In addition, we could be unable to separately pursue such opportunities due to certain market exclusivity provisions of the Shurgard Europe joint venture agreement, and our 49% equity investment may not be easily sold or readily accepted as collateral by potential lenders to Public Storage due to the joint venture structure.
- Risks related to Shurgard Europe's Debt: Shurgard Europe has a total of €600.0 million in unsecured debt outstanding at December 31, 2015, of which €100.0 million is due annually in each of 2021, 2024 and 2026, €130.0 million is due in 2025, €110.0 million is due in 2027 and €60.0 million is due 2030. If Shurgard Europe is not able to refinance its debt when due or otherwise service its debt obligations due to a constrained credit market, negative operating trends or other reasons, our equity investment in Shurgard Europe could be negatively impacted.

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

At December 31, 2015, B. Wayne Hughes, our former Chairman and his family, which includes his daughter, Tamara Hughes Gustavson and his son, B. Wayne Hughes, Jr., who are both members of our Board of Trustees (collectively, the "Hughes Family"), owned approximately 14.4% of our aggregate outstanding common shares. Our declaration of trust permits the Hughes Family to own up to 35.66% of our outstanding common shares while it generally restricts the ownership by other persons and entities to 3% of our outstanding common shares. Consequently, the Hughes Family may significantly influence matters submitted to a vote of our shareholders, including electing trustees, amending our organizational documents, dissolving and approving other extraordinary transactions, such as a takeover attempt, resulting in an outcome that may not be favorable to other shareholders.

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

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

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

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

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

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

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

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



taxes on self-storage rent. While in most cases those taxes are paid by our customers, they increase the cost of self-storage rental to our customers and can negatively impact our revenues. Other local and state governments may impose self-storage rent taxes in the future.

We are exposed to ongoing litigation and other legal and regulatory actions, which may divert management's time and attention, require us to pay damages and expenses or restrict the operation of our business.

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

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

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

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

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

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

restatement of our financial statements and could also affect the marketability of our real estate facilities.

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

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

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

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

ITEM 1B.Unresolved Staff Comments

None.

## ITEM 2. Properties

At December 31, 2015, we had direct and indirect ownership interests in 2,277 self-storage facilities located in 38 states within the U.S. and 217 storage facilities located in seven Western European nations:

|                          | At December 31, 2015             |                                         |
|--------------------------|----------------------------------|-----------------------------------------|
|                          | Number of Storage Facilities (a) | Net Rentable Square Feet (in thousands) |
| U.S.:                    |                                  |                                         |
| California               |                                  |                                         |
| Southern                 | 246                              | 17,645                                  |
| Northern                 | 175                              | 10,712                                  |
| Florida                  | 274                              | 18,353                                  |
| Texas                    | 270                              | 18,182                                  |
| Illinois                 | 126                              | 7,952                                   |
| Georgia                  | 107                              | 7,029                                   |
| Washington               | 92                               | 6,179                                   |
| North Carolina           | 85                               | 5,894                                   |
| Virginia                 | 90                               | 5,468                                   |
| New York                 | 65                               | 4,527                                   |
| Colorado                 | 66                               | 4,240                                   |
| Maryland                 | 61                               | 3,699                                   |
| New Jersey               | 57                               | 3,630                                   |
| Minnesota                | 47                               | 3,313                                   |
| South Carolina           | 53                               | 2,916                                   |
| Arizona                  | 44                               | 2,816                                   |
| Michigan                 | 43                               | 2,755                                   |
| Missouri                 | 38                               | 2,236                                   |
| Oregon                   | 39                               | 2,040                                   |
| Pennsylvania             | 29                               | 1,993                                   |
| Indiana                  | 31                               | 1,926                                   |
| Ohio                     | 31                               | 1,922                                   |
| Nevada                   | 27                               | 1,818                                   |
| Massachusetts            | 25                               | 1,691                                   |
| Tennessee                | 27                               | 1,528                                   |
| Kansas                   | 21                               | 1,268                                   |
| Wisconsin                | 15                               | 968                                     |
| Other states (12 states) | 93                               | 5,352                                   |
| Total - U.S.             | 2,277                            | 148,052                                 |
| Europe (b):              |                                  |                                         |
| Netherlands              | 61                               | 3,110                                   |
| France                   | 55                               | 2,879                                   |
| Sweden                   | 30                               | 1,640                                   |
| Belgium                  | 21                               | 1,263                                   |
| United Kingdom           | 24                               | 1,259                                   |

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|                |       |         |
|----------------|-------|---------|
| Germany        | 16    | 889     |
| Denmark        | 10    | 572     |
| Total - Europe | 217   | 11,612  |
| Grand Total    | 2,494 | 159,664 |

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- (a) See Schedule III: Real Estate and Accumulated Depreciation in the Company's 2015 financials, for a summary of land, building, and accumulated depreciation by market.
- (b) The facilities located in Europe include one facility in the United Kingdom that we wholly own, as well as the facilities owned by Shurgard Europe.

We seek to maximize our facilities' cash flow through the regular review and adjustment of rents charged and promotions granted to our existing and new incoming customers, and controlling expenses. For the year ended December 31, 2015, the weighted average occupancy level and the average realized rent per occupied square foot for our self-storage facilities were approximately 94.0% and \$15.55, respectively, in the U.S. and 82.5% and \$21.81, respectively, in Europe.

At December 31, 2015, 32 of our U.S. facilities with a net book value of \$149 million were encumbered by an aggregate of \$55 million in secured notes payable.

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

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

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

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

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

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

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

We believe that self-storage facilities, upon achieving stabilized occupancy levels of approximately 90%, have attractive characteristics consisting of high profit margins, a broad tenant base and low levels of capital expenditures to maintain their condition and appearance. Historically, upon



reaching stabilization, our U.S. self-storage facilities have generally shown a high degree of stability in generating cash flows.

**Description of Commercial Properties:** We have an interest in PSB, which, as of December 31, 2015, owns and operates approximately 28.0 million rentable square feet of commercial space in six states. At December 31, 2015, the \$414.5 million book value and \$1.3 billion market value, respectively, of our investment in PSB represents approximately 4% and 13%, respectively, of our total assets. We also directly own 1.0 million net rentable square feet of commercial space managed primarily by PSB.

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

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

#### ITEM 3. Legal Proceedings

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

#### ITEM 4. Mine Safety Disclosures

Not applicable.



## PART II

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

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

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

| Year | Quarter | Range  |        |
|------|---------|--------|--------|
|      |         | High   | Low    |
| 2014 | 1st     | 172.11 | 148.04 |
|      | 2nd     | 176.72 | 167.41 |
|      | 3rd     | 178.26 | 162.34 |
|      | 4th     | 190.19 | 165.05 |
| 2015 | 1st     | 206.92 | 185.05 |
|      | 2nd     | 200.60 | 182.91 |
|      | 3rd     | 217.99 | 182.08 |
|      | 4th     | 253.93 | 210.87 |

As of February 24, 2016, there were approximately 14,328 holders of record of our Common Shares. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

## b. Dividends

We have continuously paid quarterly distributions to our shareholders since 1981, our first full year of operations. During 2015 we paid distributions to our common shareholders of \$1.40 per common share for the quarter ended March 31 and \$1.70 per common share for each of the quarters ended June 30, September 30 and December 31, representing an aggregate of \$1.122 billion or \$6.50 per share. During 2014 we paid distributions to our common shareholders of \$1.40 per common share for each of the quarters ended March 31, June 30, September 30 and December 31, representing an aggregate of \$964.6 million or \$5.60 per share. During 2013 we paid distributions to our common shareholders of \$1.25 per common share for each of the quarters ended March 31, June 30, and September 30 and \$1.40 per common share for the quarter ended December 31, representing an aggregate of \$884.2 million or \$5.15 per share.

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

For Federal income tax purposes, distributions to shareholders are treated as ordinary income, capital gains, return of capital or a combination thereof. For 2015, the dividends paid on common shares and preferred shares were classified as follows:



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|                             | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
|-----------------------------|-------------|-------------|-------------|-------------|
| Ordinary Income.....        | 100.0000%   | 100.0000%   | 98.4883%    | 100.0000%   |
| Long-term Capital Gain..... | 0.0000%     | 0.0000%     | 1.5117%     | 0.0000%     |
| Total.....                  | 100.0000%   | 100.0000%   | 100.0000%   | 100.0000%   |

For 2014, the dividends paid on common shares and preferred shares were classified as follows:

|                             | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
|-----------------------------|-------------|-------------|-------------|-------------|
| Ordinary Income.....        | 100.0000%   | 99.7805%    | 100.0000%   | 91.2039%    |
| Long-term Capital Gain..... | 0.0000%     | 0.2195%     | 0.0000%     | 8.7961%     |
| Total.....                  | 100.0000%   | 100.0000%   | 100.0000%   | 100.0000%   |

c. Equity Shares

We are authorized to issue 100,000,000 equity shares from time to time in one or more series and our Board has broad authority to fix the dividend and distribution rights, conversion and voting rights, redemption provisions and liquidation rights of each series of equity shares. We had no equity shares outstanding for any period in the years ended December 31, 2015 and 2014.

d. Common Share Repurchases

Our Board has authorized management to repurchase up to 35,000,000 of our common shares on the open market or in privately negotiated transactions. From the inception of the repurchase program through February 26, 2016, we have repurchased a total of 23,721,916 common shares (all purchased prior to 2010) at an aggregate cost of approximately \$679.1 million. Our common share repurchase program does not have an expiration date and there are 11,278,084 common shares that may yet be repurchased under our repurchase program as of December 31, 2015. We have no current plans to repurchase shares; however, future levels of common share repurchases will be dependent upon our available capital, investment alternatives, and the trading price of our common shares.

e. Preferred Share Redemptions

We redeemed, pursuant to our option to redeem such shares, 5,000,000 of our Series P preferred shares in October 2015 at \$25.00 per share. No other redemptions we made in the fourth quarter of 2015.

## ITEM 6. Selected Financial Data

|                                                           | For the year ended December 31,                         |              |              |              |              |
|-----------------------------------------------------------|---------------------------------------------------------|--------------|--------------|--------------|--------------|
|                                                           | 2015                                                    | 2014         | 2013         | 2012         | 2011         |
|                                                           | (Amounts in thousands, except share and per share data) |              |              |              |              |
| Revenues                                                  | \$ 2,381,696                                            | \$ 2,177,296 | \$ 1,964,942 | \$ 1,826,186 | \$ 1,718,818 |
| Expenses:                                                 |                                                         |              |              |              |              |
| Cost of operations                                        | 635,502                                                 | 613,324      | 559,759      | 550,805      | 554,814      |
| Depreciation and amortization                             | 426,008                                                 | 437,114      | 387,402      | 357,781      | 357,969      |
| General and administrative                                | 88,177                                                  | 71,459       | 66,679       | 56,837       | 52,410       |
| Asset impairment charges                                  | -                                                       | -            | -            | -            | 2,186        |
|                                                           | 1,149,687                                               | 1,121,897    | 1,013,840    | 965,423      | 967,379      |
| Operating income                                          | 1,232,009                                               | 1,055,399    | 951,102      | 860,763      | 751,439      |
| Interest and other income                                 | 16,544                                                  | 17,638       | 33,979       | 33,293       | 43,708       |
| Interest expense                                          | (610)                                                   | (6,781)      | (6,444)      | (19,813)     | (24,222)     |
| Equity in earnings of unconsolidated real estate entities | 50,937                                                  | 88,267       | 57,579       | 45,586       | 58,704       |
| Foreign currency exchange gain (loss)                     | 306                                                     | (7,047)      | 17,082       | 8,876        | (7,287)      |
| Gain on real estate sales and debt retirement             | 18,503                                                  | 2,479        | 4,233        | 1,456        | 10,801       |
| Income from continuing operations                         | 1,317,689                                               | 1,149,955    | 1,057,531    | 930,161      | 833,143      |
| Discontinued operations                                   | -                                                       | -            | -            | 12,874       | 3,316        |
| Net income                                                | 1,317,689                                               | 1,149,955    | 1,057,531    | 943,035      | 836,459      |
| Net income allocated to noncontrolling equity interests   | (6,445)                                                 | (5,751)      | (5,078)      | (3,777)      | (12,617)     |
| Net income allocable to Public Storage shareholders       | \$ 1,311,244                                            | \$ 1,144,204 | \$ 1,052,453 | \$ 939,258   | \$ 823,842   |
| Per Common Share:                                         |                                                         |              |              |              |              |
| Distributions                                             | \$6.50                                                  | \$5.60       | \$5.15       | \$4.40       | \$3.65       |
| Net income – Basic                                        | \$6.10                                                  | \$5.27       | \$4.92       | \$3.93       | \$3.31       |
| Net income – Diluted                                      | \$6.07                                                  | \$5.25       | \$4.89       | \$3.90       | \$3.29       |
| Weighted average common shares – Basic                    | 172,699                                                 | 172,251      | 171,640      | 170,562      | 169,657      |
| Weighted average common shares – Diluted                  | 173,510                                                 | 173,138      | 172,688      | 171,664      | 170,750      |

## Balance Sheet Data:

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|                                            |                |                |                |                |                |
|--------------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Total assets                               | \$ 9,778,232   | \$ 9,818,676   | \$ 9,876,266   | \$ 8,793,403   | \$ 8,932,562   |
| Total debt                                 | \$ 319,016     | \$ 64,364      | \$ 839,053     | \$ 468,828     | \$ 398,314     |
| Total preferred equity                     | \$ 4,055,000   | \$ 4,325,000   | \$ 3,562,500   | \$ 2,837,500   | \$ 3,111,271   |
| Public Storage shareholders' equity        | \$ 9,170,641   | \$ 9,480,796   | \$ 8,791,730   | \$ 8,093,756   | \$ 8,288,209   |
| Permanent noncontrolling interests' equity | \$ 26,997      | \$ 26,375      | \$ 27,125      | \$ 29,108      | \$ 22,718      |
| Net cash flow:                             |                |                |                |                |                |
| Provided by operating activities           | \$ 1,732,601   | \$ 1,592,093   | \$ 1,430,339   | \$ 1,285,659   | \$ 1,203,452   |
| Used in investing activities               | \$ (440,105)   | \$ (198,331)   | \$ (1,412,393) | \$ (290,465)   | \$ (81,355)    |
| Used in financing activities               | \$ (1,375,605) | \$ (1,225,415) | \$ (16,160)    | \$ (1,117,305) | \$ (1,438,546) |

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

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

### Critical Accounting Policies

Our MD&A discusses our financial statements, which have been prepared in accordance with United States ("U.S.") generally accepted accounting principles ("GAAP"). Our financial statements are affected by our judgments, assumptions and estimates. The notes to our December 31, 2015 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, our taxable REIT subsidiaries are taxable as regular corporations. To the extent that amounts paid to us by our taxable REIT subsidiaries are determined by the taxing authorities to not be reasonable when 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. Such liabilities we are aware of are estimated based upon many factors such as assumptions of past and future trends and our evaluation of likely outcomes. However, the estimates of known liabilities could be incorrect or we may not be aware of all such liabilities, in which case our accrued liabilities and net income could be misstated.

Accounting for acquired real estate facilities: We estimate the fair values of the land, buildings and intangible assets acquired for purposes of allocating the purchase price. Such estimates are based upon

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many assumptions and judgments, including (i) market rates of return and capitalization rates on real estate and intangible assets, (ii) building and material cost levels, (iii) comparisons of the acquired underlying land parcels to recent land transactions, and (iv) future cash flows from the real estate and the existing tenant base. Others could come to materially different conclusions as to the estimated fair values, which would result in different depreciation and amortization expense, gains and losses on sale of real estate assets, and real estate and intangible assets.

#### MD&A Overview

Our self-storage operations generated most of our net income for all periods presented. Accordingly, a significant portion of management's time is devoted to maximizing cash flows from our existing self-storage facilities, as well as seeking additional investments in self-storage facilities.

Most of our facilities compete with other well-managed and well-located competitors and we are subject to general economic conditions, particularly those that affect the spending habits of consumers and moving trends. We believe that our centralized information networks, national telephone and online reservation system, the brand name "Public Storage," and our economies of scale enable us to meet such challenges effectively.

During 2015, 2014 and 2013, we acquired 17, 44 and 121 facilities, respectively, from third parties for approximately \$169 million, \$431 million and \$1.2 billion, respectively. Subsequent to December 31, 2015, we acquired or were under contract to acquire 17 self-storage facilities with 1.2 million net rentable square feet for \$149 million. We will continue to seek to acquire properties; however, there is significant competition to acquire existing facilities and there can be no assurance as to the level of facilities we may acquire.

Since the beginning of 2013, we opened development and expansion projects with a total cost of \$307 million, adding approximately 3.1 million net rentable square feet. As of December 31, 2015, we had additional projects which will add approximately 3.7 million net rentable square feet of storage space at a total cost of approximately \$486 million. A total of \$219 million in costs were incurred through December 31, 2015 with respect to these projects, with the remaining costs expected to be incurred primarily in 2016. We expect to continue to seek additional development projects; however, the level of future development may be limited due to various constraints such as difficulty in finding available sites that meet our risk-adjusted yield expectations, as well as challenges in obtaining building permits for self-storage activities in certain municipalities.

We believe that our real estate development activities are beneficial to our business operations over the long run. However, in the short run, due to the three to four year period that it takes to fill up newly developed storage space and achieve a stabilized level of cash flows, our earnings are diluted because earnings from those newly developed and expanded facilities are less than the cost of the capital required in order to fund the development cost. We believe that this dilution will grow in 2016 and beyond due to the increasing level of development and unstabilized properties in our portfolio.

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

As of December 31, 2015, we have capital resources well in excess of our current planned capital needs over the next year totaling \$445 million. Our capital resources include: (i) \$104 million of cash as of December 31, 2015, (ii) \$485 million of available borrowing capacity on our revolving line of credit, (iii) \$250 million to \$300 million of expected retained operating cash flow for the next twelve months, and (iv) \$290 million of net proceeds from the issuance of preferred securities in January 2016. Retained operating cash flow represents our expected cash flow provided by operating activities, less shareholder distributions and capital expenditures to maintain real estate facilities. Our planned capital needs consist of (i) \$267 million of remaining spend on our current development pipeline, (ii)



\$149 million in property acquisitions currently under contract and (iii) \$29 million in principal repayments on existing debt. Our capital needs may increase significantly over the course of 2016; at our option we may redeem preferred

securities totaling \$862.5 million, we expect to increase our development pipeline, and we expect additional property acquisition opportunities.

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

## Results of Operations

### Operating results for 2015 as compared to 2014

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

The \$165.8 million increase in self-storage net operating income is a result of a \$114.1 million increase in our Same Store Facilities and a \$51.7 million increase in our Non Same Store Facilities. Revenues for the Same Store Facilities increased 6.5% or \$121.2 million in the year ended December 31, 2015 as compared to 2014, due primarily to higher realized annual rent per occupied square foot. Cost of operations for the Same Store Facilities increased by 1.4% or \$7.1 million in the year ended December 31, 2015 as compared to 2014, due primarily to increases in snow removal and property taxes, offset partially by lower advertising and selling expenses. The increase in net operating income for the Non Same Store Facilities is due primarily to the impact of the development and acquisition of 202 self-storage facilities since January 2013.

### Operating results for 2014 as compared to 2013

For the year ended December 31, 2014, net income allocable to our common shareholders was \$908.2 million or \$5.25 per diluted common share, compared to \$844.7 million or \$4.89 per diluted common share for the same period in 2013, representing an increase of \$63.5 million or \$0.36 per diluted common share. This increase is due primarily to (i) a \$157.2 million increase in self-storage net operating income and (ii) our \$36.5 million equity share of PSB's gain on sale of real estate included in our equity in earnings of real estate entities, offset partially by (iii) a \$49.7 million increase in depreciation and amortization expense associated with acquired facilities, (iv) a \$24.1 million reduction associated with foreign currency exchange gains and losses, (v) a \$28.3 million increase in earnings allocated to preferred shareholders due to the issuance of additional preferred shares, and (vi) a \$16.3 million decrease in interest and other income due primarily to the disposition of 51% of our loan receivable from Shurgard Europe.

The \$157.2 million increase in our self-storage net operating income is a result of an \$86.8 million increase for our Same Store Facilities and a \$70.4 million increase for our non-Same Store Facilities. Revenues for the Same Store Facilities increased 5.5% or \$96.1 million in the year ended December 31, 2014 as compared to the same period in 2013, due primarily to higher realized annual rent per occupied square foot. Cost of operations for the Same Store Facilities increased by 1.9% or \$9.3 million in the year ended December 31, 2014 as compared to the same period in 2013, due primarily to increases in property tax expense and snow removal costs, offset partially by lower on-site property manager payroll expense. The increase in net operating income for the non-Same Store Facilities is due primarily to the impact of the acquisition and development of 172 facilities in 2013 and 2014.



## Funds from Operations and Core Funds from Operations

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

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

For the year ended December 31, 2014, FFO was \$7.98 per diluted common share, as compared to \$7.53 for the same period in 2013, representing an increase of 6.0%, or \$0.45 per diluted common share.

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

|                                                                                                                                                                | Year Ended December 31,                       |         |         |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------|---------|---------|
|                                                                                                                                                                | 2015                                          | 2014    | 2013    |
|                                                                                                                                                                | (Amounts in thousands, except per share data) |         |         |
| Reconciliation of Diluted Earnings per Share to FFO per Share:                                                                                                 |                                               |         |         |
| Diluted Earnings per Share                                                                                                                                     | \$ 6.07                                       | \$ 5.25 | \$ 4.89 |
| Eliminate amounts per share excluded from FFO:                                                                                                                 |                                               |         |         |
| Depreciation and amortization, including amounts from investments and excluding amounts allocated to noncontrolling interests and restricted share unitholders | 2.89                                          | 2.96    | 2.66    |
| Gains on sale of real estate investments, including our equity share from investments, and other                                                               | (0.17)                                        | (0.23)  | (0.02)  |
| FFO per share                                                                                                                                                  | \$ 8.79                                       | \$ 7.98 | \$ 7.53 |

## Computation of FFO per Share:

|                                                          |              |            |            |
|----------------------------------------------------------|--------------|------------|------------|
| Net income allocable to common shareholders              | \$ 1,053,050 | \$ 908,176 | \$ 844,731 |
| Eliminate items excluded from FFO:                       |              |            |            |
| Depreciation and amortization                            | 426,008      | 437,114    | 387,402    |
| Depreciation from unconsolidated real estate investments | 78,985       | 79,413     | 75,458     |
| Depreciation allocated to noncontrolling                 |              |            |            |

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|                                                                                                        |              |              |              |
|--------------------------------------------------------------------------------------------------------|--------------|--------------|--------------|
| interests and restricted share unitholders                                                             | (3,519)      | (3,638)      | (3,976)      |
| Gains on sale of real estate investments,<br>including our equity share from<br>investments, and other | (29,721)     | (39,083)     | (4,104)      |
| FFO allocable to common shares                                                                         | \$ 1,524,803 | \$ 1,381,982 | \$ 1,299,511 |
| Diluted weighted average common shares                                                                 | 173,510      | 173,138      | 172,688      |
| FFO per share                                                                                          | \$ 8.79      | \$ 7.98      | \$ 7.53      |

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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, including amounts included in equity earnings, (ii) EITF D-42 charges related to the redemption of preferred securities, (iii) property acquisition costs incurred and (iv) certain other items. We believe Core FFO per share is a helpful measure used by investors and REIT analysts to understand our performance. However, Core FFO per share is not a substitute for net income per share. Because other REITs may not compute Core FFO per share in the same manner as we do, may not use the same terminology, or may not present such a measure, Core FFO per share may not be comparable among REITs.

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

|                                                                 | Year Ended December 31, |         |                   | Year Ended December 31, |         |                   |
|-----------------------------------------------------------------|-------------------------|---------|-------------------|-------------------------|---------|-------------------|
|                                                                 | 2015                    | 2014    | Percentage Change | 2014                    | 2013    | Percentage Change |
| FFO per share                                                   | \$ 8.79                 | \$ 7.98 | 10.2%             | \$ 7.98                 | \$ 7.53 | 6.0%              |
| Eliminate the per share impact of items excluded from Core FFO: |                         |         |                   |                         |         |                   |
| Foreign currency exchange loss (gain)                           | -                       | 0.04    |                   | 0.04                    | (0.10)  |                   |
| Application of EITF D-42                                        | 0.06                    | -       |                   | -                       | -       |                   |
| Property acquisition costs                                      | 0.04                    | 0.03    |                   | 0.03                    | 0.03    |                   |
| Other items                                                     | 0.01                    | 0.04    |                   | 0.04                    | (0.02)  |                   |
| Core FFO per share                                              | \$ 8.90                 | \$ 8.09 | 10.0%             | \$ 8.09                 | \$ 7.44 | 8.7%              |

#### Analysis of Net Income by Reportable Segment

Our MD&A is presented and organized in accordance with Note 11 to our December 31, 2015 financial statements, “Segment Information.” Accordingly, refer to the tables 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 two groups: (i) the Same Store Facilities, representing the facilities that we have owned and operated on a stabilized basis since January 1, 2013 (the “Same Store Facilities”), and (ii) all other facilities, which are newly acquired, newly developed, or recently expanded (the “Non Same Store Facilities”). See Note 11 to our December 31, 2015 financial statements “Segment Information,” for a reconciliation of the amounts in the tables below to our total net income.



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Self-Storage Operations  
Summary

|                                                           | Year Ended December 31, |              |                   | Year Ended December 31, |              |                   |
|-----------------------------------------------------------|-------------------------|--------------|-------------------|-------------------------|--------------|-------------------|
|                                                           | 2015                    | 2014         | Percentage Change | 2014                    | 2013         | Percentage Change |
| (Dollar amounts in thousands)                             |                         |              |                   |                         |              |                   |
| Revenues:                                                 |                         |              |                   |                         |              |                   |
| Same Store Facilities                                     | \$ 1,972,894            | \$ 1,851,669 | 6.5%              | \$ 1,851,669            | \$ 1,755,608 | 5.5%              |
| Non Same Store Facilities                                 | 262,631                 | 198,213      | 32.5%             | 198,213                 | 94,275       | 110.2%            |
|                                                           | 2,235,525               | 2,049,882    | 9.1%              | 2,049,882               | 1,849,883    | 10.8%             |
| Cost of operations:                                       |                         |              |                   |                         |              |                   |
| Same Store Facilities                                     | 509,542                 | 502,415      | 1.4%              | 502,415                 | 493,115      | 1.9%              |
| Non Same Store Facilities                                 | 77,154                  | 64,483       | 19.7%             | 64,483                  | 30,971       | 108.2%            |
|                                                           | 586,696                 | 566,898      | 3.5%              | 566,898                 | 524,086      | 8.2%              |
| Net operating income (a):                                 |                         |              |                   |                         |              |                   |
| Same Store Facilities                                     | 1,463,352               | 1,349,254    | 8.5%              | 1,349,254               | 1,262,493    | 6.9%              |
| Non Same Store Facilities                                 | 185,477                 | 133,730      | 38.7%             | 133,730                 | 63,304       | 111.3%            |
| Total net operating income                                | 1,648,829               | 1,482,984    | 11.2%             | 1,482,984               | 1,325,797    | 11.9%             |
| Depreciation and amortization expense:                    |                         |              |                   |                         |              |                   |
| Same Store Facilities                                     | (327,593)               | (328,203)    | (0.2)%            | (328,203)               | (330,990)    | (0.8)%            |
| Non Same Store Facilities                                 | (98,415)                | (108,911)    | (9.6)%            | (108,911)               | (56,412)     | 93.1%             |
| Total depreciation and amortization expense               | (426,008)               | (437,114)    | (2.5)%            | (437,114)               | (387,402)    | 12.8%             |
| Net income:                                               |                         |              |                   |                         |              |                   |
| Same Store Facilities                                     | 1,135,759               | 1,021,051    | 11.2%             | 1,021,051               | 931,503      | 9.6%              |
| Non Same Store Facilities                                 | 87,062                  | 24,819       | 250.8%            | 24,819                  | 6,892        | 260.1%            |
| Total net income                                          | \$ 1,222,821            | \$ 1,045,870 | 16.9%             | \$ 1,045,870            | \$ 938,395   | 11.5%             |
| Number of facilities at period end:                       |                         |              |                   |                         |              |                   |
| Same Store Facilities                                     | 1,990                   | 1,990        | -                 | 1,990                   | 1,990        | -                 |
| Non Same Store Facilities                                 | 276                     | 248          | 11.3%             | 248                     | 197          | 25.9%             |
| Net rentable square footage at period end (in thousands): |                         |              |                   |                         |              |                   |
| Same Store Facilities                                     | 126,347                 | 126,347      | -                 | 126,347                 | 126,347      | -                 |
| Non Same Store Facilities                                 | 21,015                  | 18,527       | 13.4%             | 18,527                  | 13,940       | 32.9%             |

(a) We believe net operating income or “NOI” is a meaningful measure of operating performance, because we utilize NOI in making decisions with respect to capital allocations, determining current property values, evaluating property performance and in comparing period-to-period and market-to-market property operating results. In addition, we believe the investment community utilizes NOI in determining operating performance and real estate values, and does not consider depreciation expense because it is based upon historical cost. NOI is not a substitute for net income, net operating cash flow, or other related GAAP financial measures, in evaluating our operating



results. See Note 11 to our December 31, 2015 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 11.2% in 2015 as compared to 2014 and 11.9% in 2014 as compared to 2013. These increases are due to higher revenues offset in part by modest expense growth in our Same Store Facilities, the acquisition of new facilities, and the fill-up of unstabilized facilities.

## Same Store Facilities

The Same Store Facilities represent those facilities that have been owned and operated on a stabilized basis since January 1, 2013 and therefore provide meaningful comparisons for 2013, 2014 and 2015. The following table summarizes the historical operating results of these 1,990 facilities (126.3 million net rentable square feet) that represent approximately 86% of the aggregate net rentable square feet of our U.S. consolidated self-storage portfolio at December 31, 2015.

## Selected Operating Data for the Same Store Facilities (1,990 facilities)

|                                       | Year Ended December 31,                                        |              |                   | Year Ended December 31, |              |                   |
|---------------------------------------|----------------------------------------------------------------|--------------|-------------------|-------------------------|--------------|-------------------|
|                                       | 2015                                                           | 2014         | Percentage Change | 2014                    | 2013         | Percentage Change |
|                                       | (Dollar amounts in thousands, except weighted average amounts) |              |                   |                         |              |                   |
| <b>Revenues:</b>                      |                                                                |              |                   |                         |              |                   |
| Rental income                         | \$ 1,881,154                                                   | \$ 1,762,601 | 6.7%              | \$ 1,762,601            | \$ 1,669,181 | 5.6%              |
| Late charges and administrative fees  | 91,740                                                         | 89,068       | 3.0%              | 89,068                  | 86,427       | 3.1%              |
| Total revenues (a)                    | 1,972,894                                                      | 1,851,669    | 6.5%              | 1,851,669               | 1,755,608    | 5.5%              |
| <b>Cost of operations:</b>            |                                                                |              |                   |                         |              |                   |
| Property taxes                        | 177,004                                                        | 170,010      | 4.1%              | 170,010                 | 164,498      | 3.4%              |
| On-site property manager payroll      | 99,899                                                         | 99,278       | 0.6%              | 99,278                  | 101,070      | (1.8)%            |
| Supervisory payroll                   | 34,840                                                         | 34,193       | 1.9%              | 34,193                  | 34,725       | (1.5)%            |
| Repairs and maintenance               | 45,193                                                         | 43,668       | 3.5%              | 43,668                  | 40,501       | 7.8%              |
| Utilities                             | 38,640                                                         | 39,691       | (2.6)%            | 39,691                  | 38,076       | 4.2%              |
| Advertising and selling expense       | 24,967                                                         | 26,911       | (7.2)%            | 26,911                  | 28,105       | (4.2)%            |
| Other direct property costs           | 51,906                                                         | 50,778       | 2.2%              | 50,778                  | 49,706       | 2.2%              |
| Allocated overhead                    | 37,093                                                         | 37,886       | (2.1)%            | 37,886                  | 36,434       | 4.0%              |
| Total cost of operations (a)          | 509,542                                                        | 502,415      | 1.4%              | 502,415                 | 493,115      | 1.9%              |
| Net operating income                  | 1,463,352                                                      | 1,349,254    | 8.5%              | 1,349,254               | 1,262,493    | 6.9%              |
| Depreciation and amortization expense | (327,593)                                                      | (328,203)    | (0.2)%            | (328,203)               | (330,990)    | (0.8)%            |
| Net income                            | \$ 1,135,759                                                   | \$ 1,021,051 | 11.2%             | \$ 1,021,051            | \$ 931,503   | 9.6%              |

Gross margin (before depreciation and amortization)

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|                                                      |          |          |      |          |          |      |
|------------------------------------------------------|----------|----------|------|----------|----------|------|
| expense)                                             | 74.2%    | 72.9%    | 1.8% | 72.9%    | 71.9%    | 1.4% |
| Weighted average for the period:                     |          |          |      |          |          |      |
| Square foot occupancy                                | 94.5%    | 93.9%    | 0.6% | 93.9%    | 93.3%    | 0.6% |
| Realized annual rental income per (b):               |          |          |      |          |          |      |
| Occupied square foot                                 | \$ 15.76 | \$ 14.86 | 6.1% | \$ 14.86 | \$ 14.17 | 4.9% |
| Available square foot                                | \$ 14.89 | \$ 13.95 | 6.7% | \$ 13.95 | \$ 13.21 | 5.6% |
| At December 31:                                      |          |          |      |          |          |      |
| Square foot occupancy                                | 92.8%    | 92.5%    | 0.3% | 92.5%    | 91.8%    | 0.8% |
| Annual contract rent per<br>occupied square foot (c) | \$ 16.75 | \$ 15.82 | 5.9% | \$ 15.82 | \$ 15.07 | 5.0% |

(a) Revenues and cost of operations do not include tenant reinsurance and merchandise sale revenues and expenses generated at the facilities.

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

#### Analysis of Same Store Revenue

Revenues generated by our Same Store Facilities increased by 6.5% in 2015 as compared to 2014 due primarily to a 6.1% increase in realized annual rental income per occupied square foot. Revenues generated by our Same Store Facilities increased by 5.5% in 2014 as compared to 2013 due primarily to a 4.9% increase in realized annual rental income per occupied square foot. The increase in realized annual rental income per occupied square foot were due primarily to annual rent increases given to existing tenants and, to a lesser extent, increased move-in rental rates.

Same Store weighted average square foot occupancy increased from 93.9% in 2014 to 94.5% in 2015, representing an increase of 0.6%. Same Store weighted average square foot occupancy increased from 93.3% in 2013 to 93.9% in 2014, representing an increase of 0.6%. At December 31, 2015, the year-over-year occupancy gap was 0.3%. We expect the year over year occupancy gap to narrow because we believe we are reaching limitations to occupancy levels inherent with approximately 5% to 7% of our tenant base vacating each month without notice.

We believe that high occupancies help maximize our rental income. We seek to maintain a weighted average square foot occupancy level of at least 90%, by regularly adjusting the rental rates and promotions offered to attract new tenants as well as adjusting our marketing efforts on both television and the Internet in order to generate sufficient move-in volume to replace tenants that vacate. Demand fluctuates due to various local and regional factors, including the overall economy. 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.

Increasing rental rates to existing tenants, generally on an annual basis, is a key component of our revenue growth. We determine the level of rental increases based upon our expectations regarding the impact of existing tenant rate increases on incremental move-outs. We expect to continue to pass similar rent increases to long-term tenants in 2016 as we did in 2015.

During 2015, 2014 and 2013, the average annualized contractual rates per occupied square foot for tenants that moved in were \$14.45, \$13.67 and \$13.04, respectively, and for tenants that vacated were \$15.08, \$14.38 and \$13.83, respectively. Realized annual rental income per occupied square foot has increased in 2015 and 2014, despite average move-in rates for tenants moving in being generally less than average rates for tenants that vacate, due primarily to rate increases to existing tenants.

Promotional discounts given, based upon the move-in contractual rates for the related promotional period, totaled \$84.7 million, \$82.0 million, and \$81.8 million for 2015, 2014, and 2013, respectively. These increases reflect a reduced proportion of new tenants receiving promotional discounts, offset partially by increased move-in contractual rates.

We believe rental growth in 2016 will need to come from continued annual rent increases to existing tenants and higher rental rates charged to new tenants. Our future rental growth will also be dependent upon many factors for

each market that we operate in, including demand for self-storage space, the level of new supply of self-storage space and the average length of stay of our tenants.

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We believe that the current trends in move-in, move-out, in place contractual rents and occupancy levels are consistent with our expectation of continued revenue growth in 2016. However, such trends, when viewed in the short-run, are volatile and not necessarily predictive of our revenues going forward because they are subject to many short-term factors. Such factors include initial move-in rates, seasonal factors, the unit size and geographical mix of the specific tenants moving in or moving out, the length of stay of the tenants moving in or moving out, changes in our pricing strategies, and the degree and timing of rate increases previously passed to existing tenants.

#### Analysis of Same Store Cost of Operations

Cost of operations (excluding depreciation and amortization) increased 1.4% in 2015 as compared to 2014 and 1.9% in 2014 as compared to 2013, due primarily to increased property tax and repairs and maintenance expense, primarily snow removal expense, offset partially by reduced costs of advertising and selling.

Property tax expense increased 4.1% in 2015 as compared to 2014 and 3.4% in 2014 as compared to 2013, due primarily to higher assessed values. We expect property tax expense growth of approximately 4.5% to 5% in 2016 due primarily to higher assessed values.

On-site property manager payroll expense increased 0.6% in 2015 as compared to 2014 and decreased 1.8% in 2014 as compared to 2013. The increase in 2015 was due primarily to higher health care expenses, offset partially by reduced workers compensation costs. The decrease in 2014 was due primarily to efficiencies which resulted in fewer hours worked, combined with reduced workers' compensation expenses. We expect on-site property manager payroll expense to increase modestly in 2016 due to inflationary wage increases.

Supervisory payroll expense, which represents compensation paid to the management personnel who directly and indirectly supervise the on-site property managers, increased 1.9% in 2015 as compared to 2014 due primarily to higher wage rates, and decreased 1.5% in 2014 as compared to 2013, due primarily to reduced headcount. We expect inflationary increases in compensation rates in 2016.

Repairs and maintenance expense increased 3.5% in 2015 as compared to 2014 and 7.8% in 2014 as compared to 2013. Repair and maintenance costs include snow removal expense totaling \$9.6 million, \$7.9 million and \$5.3 million in 2015, 2014 and 2013, respectively. Excluding snow removal costs, repairs and maintenance decreased 0.4% in 2015 as compared to 2014, and increased 1.7% in 2014 as compared to 2013.

Repairs and maintenance expense levels are dependent upon many factors such as weather conditions, which can impact repair and maintenance needs including snow removal, inflation in material and labor costs, and random events. We expect inflationary increases in repairs and maintenance expense in 2016, excluding snow removal expense, which is primarily weather dependent and not predictable.

Our utility expenses are comprised primarily of electricity costs, which are dependent upon energy prices and usage levels. Changes in usage levels are driven primarily by weather and temperature. Utility expense decreased 2.6% in 2015 as compared to 2014, and increased 4.2% in 2014 as compared to 2013. It is difficult to estimate future utility costs, because weather, temperature, and energy prices are volatile and not predictable. However, based upon current trends and expectations regarding commercial electricity rates, we expect inflationary increases in rates.

Advertising and selling expense is comprised principally of Internet advertising, television advertising and the operating costs of our telephone reservation center. Advertising and selling expense varies based upon demand, occupancy levels, and other factors; television and Internet advertising, in particular, can increase or decrease significantly in the short run in response to these factors. Advertising and selling expenses decreased 7.2% in 2015 as compared 2014, and 4.2% in 2014 as compared to 2013.



Based upon current trends in move-ins, move-outs, and occupancies, we expect advertising and selling expense to remain approximately flat in 2016.

Other direct property costs include administrative expenses incurred at the self-storage facilities, such as property insurance, business license costs, bank charges related to processing the facilities' cash receipts, credit card fees, and the cost of operating each property's rental office including supplies and telephone data communication lines. These costs increased 2.2% in 2015 as compared to 2014, as well as in 2014 as compared to 2013. The increases were due primarily to higher credit card fees, offset partially by lower property insurance costs. Credit card fees increased due to a higher proportion of collections being received from credit cards and higher revenues. We expect moderate increases in other direct property costs in 2016.

Allocated overhead represents administrative expenses for shared general corporate functions, which are allocated to self-storage property operations to the extent their efforts are devoted to self-storage operations. Such functions include data processing, human resources, operational accounting and finance, marketing, and costs of senior executives (other than the Chief Executive Officer and Chief Financial Officer, which are included in general and administrative expense). Allocated overhead decreased 2.1% in 2015 as compared to 2014, and increased 4.0% in 2014 as compared to 2013. The decrease in 2015 and increase in 2014 was due to an acceleration of the timing of our annual field staff meetings to the fourth quarter of 2014, which would normally have occurred during the first quarter of 2015. We expect inflationary growth in allocated overhead in 2016 as compared to 2015.

#### Analysis of Same Store Depreciation and Amortization

Depreciation and amortization for Same Store Facilities decreased 0.2% during 2015 as compared to 2014 and 0.8% during 2014 as compared to 2013. We expect depreciation to be flat in 2016 as compared to 2015.

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



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For the Quarter Ended

|  | March 31 | June 30 | September 30 | December 31 | Entire Year |
|--|----------|---------|--------------|-------------|-------------|
|--|----------|---------|--------------|-------------|-------------|

(Amounts in thousands, except for per square foot amounts)

Total revenues:

|      |            |            |            |            |              |
|------|------------|------------|------------|------------|--------------|
| 2015 | \$ 470,792 | \$ 487,206 | \$ 511,842 | \$ 503,054 | \$ 1,972,894 |
| 2014 | \$ 443,848 | \$ 456,203 | \$ 479,889 | \$ 471,729 | \$ 1,851,669 |
| 2013 | \$ 421,712 | \$ 433,037 | \$ 454,637 | \$ 446,222 | \$ 1,755,608 |

Total cost of operations:

|      |            |            |            |            |            |
|------|------------|------------|------------|------------|------------|
| 2015 | \$ 141,997 | \$ 129,073 | \$ 132,124 | \$ 106,348 | \$ 509,542 |
| 2014 | \$ 140,429 | \$ 127,717 | \$ 129,709 | \$ 104,560 | \$ 502,415 |
| 2013 | \$ 135,062 | \$ 126,211 | \$ 128,750 | \$ 103,092 | \$ 493,115 |

Property taxes:

|      |           |           |           |           |            |
|------|-----------|-----------|-----------|-----------|------------|
| 2015 | \$ 49,972 | \$ 49,821 | \$ 49,403 | \$ 27,808 | \$ 177,004 |
| 2014 | \$ 47,967 | \$ 47,452 | \$ 46,554 | \$ 28,037 | \$ 170,010 |
| 2013 | \$ 45,908 | \$ 45,388 | \$ 44,967 | \$ 28,235 | \$ 164,498 |

Repairs and maintenance:

|      |           |          |           |           |           |
|------|-----------|----------|-----------|-----------|-----------|
| 2015 | \$ 16,000 | \$ 8,935 | \$ 10,048 | \$ 10,210 | \$ 45,193 |
| 2014 | \$ 14,823 | \$ 9,510 | \$ 9,938  | \$ 9,397  | \$ 43,668 |
| 2013 | \$ 11,132 | \$ 9,337 | \$ 9,950  | \$ 10,082 | \$ 40,501 |

Advertising and selling expense:

|      |          |          |          |          |           |
|------|----------|----------|----------|----------|-----------|
| 2015 | \$ 6,163 | \$ 5,500 | \$ 6,906 | \$ 6,398 | \$ 24,967 |
| 2014 | \$ 6,544 | \$ 6,093 | \$ 7,844 | \$ 6,430 | \$ 26,911 |
| 2013 | \$ 7,755 | \$ 6,658 | \$ 8,686 | \$ 5,006 | \$ 28,105 |

REVPAF:

|      |          |          |          |          |          |
|------|----------|----------|----------|----------|----------|
| 2015 | \$ 14.21 | \$ 14.73 | \$ 15.43 | \$ 15.18 | \$ 14.89 |
| 2014 | \$ 13.35 | \$ 13.76 | \$ 14.46 | \$ 14.24 | \$ 13.95 |
| 2013 | \$ 12.68 | \$ 13.04 | \$ 13.68 | \$ 13.44 | \$ 13.21 |

Weighted average realized annual rent per occupied square foot:

|      |          |          |          |          |          |
|------|----------|----------|----------|----------|----------|
| 2015 | \$ 15.21 | \$ 15.44 | \$ 16.19 | \$ 16.18 | \$ 15.76 |
| 2014 | \$ 14.41 | \$ 14.53 | \$ 15.27 | \$ 15.23 | \$ 14.86 |
| 2013 | \$ 13.83 | \$ 13.89 | \$ 14.50 | \$ 14.46 | \$ 14.17 |

Weighted average occupancy levels for the period:

|      |       |       |       |       |       |
|------|-------|-------|-------|-------|-------|
| 2015 | 93.4% | 95.4% | 95.3% | 93.9% | 94.5% |
| 2014 | 92.6% | 94.7% | 94.7% | 93.5% | 93.9% |
| 2013 | 91.7% | 93.9% | 94.4% | 93.0% | 93.3% |



## Analysis of Market Trends

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

Same Store Facilities Operating  
Trends by Market

|                                                          | Year Ended December 31, |              |        | Year Ended December 31, |              |        |
|----------------------------------------------------------|-------------------------|--------------|--------|-------------------------|--------------|--------|
|                                                          | 2015                    | 2014         | Change | 2014                    | 2013         | Change |
| (Amounts in thousands, except for weighted average data) |                         |              |        |                         |              |        |
| Revenues:                                                |                         |              |        |                         |              |        |
| Los Angeles (205 facilities)                             | \$ 302,094              | \$ 279,455   | 8.1%   | \$ 279,455              | \$ 265,020   | 5.4%   |
| San Francisco (127 facilities)                           | 167,309                 | 154,417      | 8.3%   | 154,417                 | 144,425      | 6.9%   |
| New York (82 facilities)                                 | 129,289                 | 123,025      | 5.1%   | 123,025                 | 119,021      | 3.4%   |
| Chicago (128 facilities)                                 | 117,034                 | 113,107      | 3.5%   | 113,107                 | 108,011      | 4.7%   |
| Washington DC (75 facilities)                            | 90,893                  | 88,607       | 2.6%   | 88,607                  | 86,755       | 2.1%   |
| Seattle-Tacoma (83 facilities)                           | 92,925                  | 86,429       | 7.5%   | 86,429                  | 80,952       | 6.8%   |
| Miami (65 facilities)                                    | 87,106                  | 82,212       | 6.0%   | 82,212                  | 77,024       | 6.7%   |
| Dallas-Ft. Worth (97 facilities)                         | 78,142                  | 72,311       | 8.1%   | 72,311                  | 67,858       | 6.6%   |
| Houston (75 facilities)                                  | 68,976                  | 64,003       | 7.8%   | 64,003                  | 59,309       | 7.9%   |
| Atlanta (90 facilities)                                  | 67,258                  | 62,908       | 6.9%   | 62,908                  | 59,214       | 6.2%   |
| Philadelphia (55 facilities)                             | 48,563                  | 46,434       | 4.6%   | 46,434                  | 44,290       | 4.8%   |
| Denver (45 facilities)                                   | 45,872                  | 41,696       | 10.0%  | 41,696                  | 38,476       | 8.4%   |
| Minneapolis-St Paul<br>(41 facilities)                   | 37,031                  | 35,947       | 3.0%   | 35,947                  | 33,863       | 6.2%   |
| Portland (42 facilities)                                 | 36,406                  | 32,875       | 10.7%  | 32,875                  | 30,611       | 7.4%   |
| Orlando-Daytona (47 facilities)                          | 34,476                  | 31,845       | 8.3%   | 31,845                  | 30,255       | 5.3%   |
| All other markets<br>(733 facilities)                    | 569,520                 | 536,398      | 6.2%   | 536,398                 | 510,524      | 5.1%   |
| Total revenues                                           | \$ 1,972,894            | \$ 1,851,669 | 6.5%   | \$ 1,851,669            | \$ 1,755,608 | 5.5%   |
| Net operating income:                                    |                         |              |        |                         |              |        |
| Los Angeles                                              | \$ 247,625              | \$ 224,488   | 10.3%  | \$ 224,488              | \$ 209,441   | 7.2%   |
| San Francisco                                            | 136,541                 | 123,441      | 10.6%  | 123,441                 | 113,702      | 8.6%   |
| New York                                                 | 93,128                  | 87,894       | 6.0%   | 87,894                  | 83,593       | 5.1%   |
| Chicago                                                  | 68,042                  | 65,116       | 4.5%   | 65,116                  | 63,260       | 2.9%   |
| Washington DC                                            | 69,464                  | 67,946       | 2.2%   | 67,946                  | 66,493       | 2.2%   |
| Seattle-Tacoma                                           | 73,505                  | 67,238       | 9.3%   | 67,238                  | 61,550       | 9.2%   |
| Miami                                                    | 66,491                  | 62,163       | 7.0%   | 62,163                  | 57,254       | 8.6%   |
| Dallas-Ft. Worth                                         | 55,303                  | 50,599       | 9.3%   | 50,599                  | 46,357       | 9.2%   |
| Houston                                                  | 48,016                  | 42,967       | 11.8%  | 42,967                  | 38,957       | 10.3%  |
| Atlanta                                                  | 49,035                  | 44,984       | 9.0%   | 44,984                  | 41,737       | 7.8%   |
| Philadelphia                                             | 33,400                  | 31,423       | 6.3%   | 31,423                  | 29,634       | 6.0%   |
| Denver                                                   | 34,576                  | 30,714       | 12.6%  | 30,714                  | 27,792       | 10.5%  |
| Minneapolis-St. Paul                                     | 25,681                  | 23,933       | 7.3%   | 23,933                  | 21,979       | 8.9%   |

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|                            |              |              |       |              |              |      |
|----------------------------|--------------|--------------|-------|--------------|--------------|------|
| Portland                   | 28,340       | 24,626       | 15.1% | 24,626       | 22,836       | 7.8% |
| Orlando-Daytona            | 24,798       | 22,360       | 10.9% | 22,360       | 20,680       | 8.1% |
| All other markets          | 409,407      | 379,362      | 7.9%  | 379,362      | 357,228      | 6.2% |
| Total net operating income | \$ 1,463,352 | \$ 1,349,254 | 8.5%  | \$ 1,349,254 | \$ 1,262,493 | 6.9% |

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Same Store Facilities Operating  
Trends by Market (Continued)

|                                                | Year Ended December 31, |          |        | Year Ended December 31, |          |        |
|------------------------------------------------|-------------------------|----------|--------|-------------------------|----------|--------|
|                                                | 2015                    | 2014     | Change | 2014                    | 2013     | Change |
| Weighted average square foot occupancy:        |                         |          |        |                         |          |        |
| Los Angeles                                    | 95.6%                   | 94.2%    | 1.5%   | 94.2%                   | 93.4%    | 0.9%   |
| San Francisco                                  | 96.1%                   | 95.1%    | 1.1%   | 95.1%                   | 94.3%    | 0.8%   |
| New York                                       | 94.8%                   | 93.9%    | 1.0%   | 93.9%                   | 94.4%    | (0.5)% |
| Chicago                                        | 92.7%                   | 93.4%    | (0.7)% | 93.4%                   | 93.5%    | (0.1)% |
| Washington DC                                  | 93.0%                   | 92.5%    | 0.5%   | 92.5%                   | 93.0%    | (0.5)% |
| Seattle-Tacoma                                 | 95.2%                   | 94.0%    | 1.3%   | 94.0%                   | 93.0%    | 1.1%   |
| Miami                                          | 94.9%                   | 94.6%    | 0.3%   | 94.6%                   | 93.9%    | 0.7%   |
| Dallas-Ft. Worth                               | 95.0%                   | 94.2%    | 0.8%   | 94.2%                   | 93.5%    | 0.7%   |
| Houston                                        | 94.2%                   | 94.3%    | (0.1)% | 94.3%                   | 93.8%    | 0.5%   |
| Atlanta                                        | 94.6%                   | 93.5%    | 1.2%   | 93.5%                   | 91.8%    | 1.9%   |
| Philadelphia                                   | 93.8%                   | 93.5%    | 0.3%   | 93.5%                   | 92.8%    | 0.8%   |
| Denver                                         | 95.5%                   | 95.1%    | 0.4%   | 95.1%                   | 95.0%    | 0.1%   |
| Minneapolis-St. Paul                           | 92.6%                   | 93.2%    | (0.6)% | 93.2%                   | 93.2%    | 0.0%   |
| Portland                                       | 96.4%                   | 95.3%    | 1.2%   | 95.3%                   | 94.2%    | 1.2%   |
| Orlando-Daytona                                | 95.3%                   | 93.8%    | 1.6%   | 93.8%                   | 92.5%    | 1.4%   |
| All other markets                              | 94.2%                   | 93.6%    | 0.6%   | 93.6%                   | 92.9%    | 0.8%   |
| Total weighted average square foot occupancy   | 94.5%                   | 93.9%    | 0.6%   | 93.9%                   | 93.3%    | 0.6%   |
| Realized annual rent per occupied square foot: |                         |          |        |                         |          |        |
| Los Angeles                                    | \$ 21.65                | \$ 20.29 | 6.7%   | \$ 20.29                | \$ 19.38 | 4.7%   |
| San Francisco                                  | 22.97                   | 21.39    | 7.4%   | 21.39                   | 20.13    | 6.3%   |
| New York                                       | 23.49                   | 22.50    | 4.4%   | 22.50                   | 21.59    | 4.2%   |
| Chicago                                        | 14.98                   | 14.36    | 4.3%   | 14.36                   | 13.69    | 4.9%   |
| Washington DC                                  | 20.93                   | 20.64    | 1.4%   | 20.64                   | 20.19    | 2.2%   |
| Seattle-Tacoma                                 | 17.05                   | 16.03    | 6.4%   | 16.03                   | 15.15    | 5.8%   |
| Miami                                          | 18.78                   | 17.74    | 5.9%   | 17.74                   | 16.73    | 6.0%   |
| Dallas-Ft. Worth                               | 12.66                   | 11.77    | 7.6%   | 11.77                   | 11.10    | 6.0%   |
| Houston                                        | 13.34                   | 12.36    | 7.9%   | 12.36                   | 11.50    | 7.5%   |
| Atlanta                                        | 11.32                   | 10.68    | 6.0%   | 10.68                   | 10.22    | 4.5%   |
| Philadelphia                                   | 14.40                   | 13.79    | 4.4%   | 13.79                   | 13.17    | 4.7%   |
| Denver                                         | 15.67                   | 14.24    | 10.0%  | 14.24                   | 13.12    | 8.5%   |
| Minneapolis-St. Paul                           | 13.54                   | 13.05    | 3.8%   | 13.05                   | 12.26    | 6.4%   |
| Portland                                       | 16.49                   | 15.03    | 9.7%   | 15.03                   | 14.14    | 6.3%   |
| Orlando-Daytona                                | 12.04                   | 11.27    | 6.8%   | 11.27                   | 10.82    | 4.2%   |
| All other markets                              | 12.62                   | 11.94    | 5.7%   | 11.94                   | 11.45    | 4.3%   |
| Total realized rent per                        |                         |          |        |                         |          |        |

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|                      |          |          |      |          |          |      |
|----------------------|----------|----------|------|----------|----------|------|
| occupied square foot | \$ 15.76 | \$ 14.86 | 6.1% | \$ 14.86 | \$ 14.17 | 4.9% |
|----------------------|----------|----------|------|----------|----------|------|

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Same Store Facilities  
Operating Trends by  
Market (Continued)

|                      | Year Ended December 31, |          |        | Year Ended December 31, |          |        |
|----------------------|-------------------------|----------|--------|-------------------------|----------|--------|
|                      | 2015                    | 2014     | Change | 2014                    | 2013     | Change |
| REVPAF:              |                         |          |        |                         |          |        |
| Los Angeles          | \$ 20.70                | \$ 19.12 | 8.3%   | \$ 19.12                | \$ 18.10 | 5.6%   |
| San Francisco        | 22.07                   | 20.35    | 8.5%   | 20.35                   | 18.99    | 7.2%   |
| New York             | 22.26                   | 21.13    | 5.3%   | 21.13                   | 20.38    | 3.7%   |
| Chicago              | 13.89                   | 13.41    | 3.6%   | 13.41                   | 12.80    | 4.8%   |
| Washington DC        | 19.47                   | 19.10    | 1.9%   | 19.10                   | 18.77    | 1.8%   |
| Seattle-Tacoma       | 16.23                   | 15.07    | 7.7%   | 15.07                   | 14.10    | 6.9%   |
| Miami                | 17.82                   | 16.78    | 6.2%   | 16.78                   | 15.71    | 6.8%   |
| Dallas-Ft. Worth     | 12.02                   | 11.09    | 8.4%   | 11.09                   | 10.38    | 6.8%   |
| Houston              | 12.57                   | 11.66    | 7.8%   | 11.66                   | 10.78    | 8.2%   |
| Atlanta              | 10.71                   | 9.99     | 7.2%   | 9.99                    | 9.39     | 6.4%   |
| Philadelphia         | 13.51                   | 12.89    | 4.8%   | 12.89                   | 12.23    | 5.4%   |
| Denver               | 14.97                   | 13.55    | 10.5%  | 13.55                   | 12.47    | 8.7%   |
| Minneapolis-St. Paul | 12.54                   | 12.16    | 3.1%   | 12.16                   | 11.43    | 6.4%   |
| Portland             | 15.90                   | 14.33    | 11.0%  | 14.33                   | 13.32    | 7.6%   |
| Orlando-Daytona      | 11.47                   | 10.56    | 8.6%   | 10.56                   | 10.00    | 5.6%   |
| All other markets    | 11.89                   | 11.18    | 6.4%   | 11.18                   | 10.63    | 5.2%   |
| Total REVPAF         | \$ 14.89                | \$ 13.95 | 6.7%   | \$ 13.95                | \$ 13.21 | 5.6%   |

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

Non Same Store Facilities

The Non Same Store Facilities at December 31, 2015 represent 276 facilities that were not stabilized with respect to occupancies or rental rates since January 1, 2013, or that we did not own as of January 1, 2013. As a result of the stabilization process and timing of when the facilities were acquired, year-over-year changes can be significant.

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

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| NON SAME STORE<br>FACILITIES                              | Year Ended December 31, |           |           | Year Ended December 31, |          |           |
|-----------------------------------------------------------|-------------------------|-----------|-----------|-------------------------|----------|-----------|
|                                                           | 2015                    | 2014      | Change    | 2014                    | 2013     | Change    |
| (Dollar amounts in thousands, except square foot amounts) |                         |           |           |                         |          |           |
| Revenues:                                                 |                         |           |           |                         |          |           |
| 2015 acquisitions                                         | \$ 6,255                | \$ -      | \$ 6,255  | \$ -                    | \$ -     | \$ -      |
| 2014 acquisitions                                         | 41,972                  | 15,347    | 26,625    | 15,347                  | -        | 15,347    |
| 2013 acquisitions                                         | 110,603                 | 96,947    | 13,656    | 96,947                  | 19,309   | 77,638    |
| Other facilities                                          | 103,801                 | 85,919    | 17,882    | 85,919                  | 74,966   | 10,953    |
| Total revenues                                            | 262,631                 | 198,213   | 64,418    | 198,213                 | 94,275   | 103,938   |
| Cost of operations:                                       |                         |           |           |                         |          |           |
| 2015 acquisitions                                         | 2,067                   | -         | 2,067     | -                       | -        | -         |
| 2014 acquisitions                                         | 12,304                  | 4,566     | 7,738     | 4,566                   | -        | 4,566     |
| 2013 acquisitions                                         | 32,724                  | 32,917    | (193)     | 32,917                  | 7,574    | 25,343    |
| Other facilities                                          | 30,059                  | 27,000    | 3,059     | 27,000                  | 23,397   | 3,603     |
| Total cost of operations                                  | 77,154                  | 64,483    | 12,671    | 64,483                  | 30,971   | 33,512    |
| Net operating income:                                     |                         |           |           |                         |          |           |
| 2015 acquisitions                                         | 4,188                   | -         | 4,188     | -                       | -        | -         |
| 2014 acquisitions                                         | 29,668                  | 10,781    | 18,887    | 10,781                  | -        | 10,781    |
| 2013 acquisitions                                         | 77,879                  | 64,030    | 13,849    | 64,030                  | 11,735   | 52,295    |
| Other facilities                                          | 73,742                  | 58,919    | 14,823    | 58,919                  | 51,569   | 7,350     |
| Net operating income                                      | 185,477                 | 133,730   | 51,747    | 133,730                 | 63,304   | 70,426    |
| Depreciation and amortization<br>expense                  | (98,415)                | (108,911) | 10,496    | (108,911)               | (56,412) | (52,499)  |
| Net income                                                | \$ 87,062               | \$ 24,819 | \$ 62,243 | \$ 24,819               | \$ 6,892 | \$ 17,927 |
| At December 31:                                           |                         |           |           |                         |          |           |
| Square foot occupancy:                                    |                         |           |           |                         |          |           |
| 2015 acquisitions                                         | 85.3%                   | -         | -         | -                       | -        | -         |
| 2014 acquisitions                                         | 91.1%                   | 89.9%     | 1.3%      | 89.9%                   | -        | -         |
| 2013 acquisitions                                         | 92.5%                   | 90.4%     | 2.3%      | 90.4%                   | 82.6%    | 9.4%      |
| Other facilities                                          | 83.7%                   | 83.6%     | 0.1%      | 83.6%                   | 84.8%    | (1.4)%    |
|                                                           | 88.4%                   | 87.8%     | 0.7%      | 87.8%                   | 83.5%    | 5.1%      |
| Annual contract rent per<br>occupied square foot:         |                         |           |           |                         |          |           |
| 2015 acquisitions                                         | \$ 12.87                | \$ -      | -         | \$ -                    | \$ -     | -         |
| 2014 acquisitions                                         | 13.51                   | 12.15     | 11.2%     | 12.15                   | -        | -         |
| 2013 acquisitions                                         | 15.15                   | 13.99     | 8.3%      | 13.99                   | 13.56    | 3.2%      |
| Other facilities                                          | 16.05                   | 15.65     | 2.6%      | 15.65                   | 15.22    | 2.8%      |
|                                                           | \$ 15.06                | \$ 14.22  | 5.9%      | \$ 14.22                | \$ 14.25 | (0.2)%    |
| Number of facilities:                                     |                         |           |           |                         |          |           |
| 2015 acquisitions                                         | 17                      | -         | 17        | -                       | -        | -         |



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|                                          |        |        |       |        |        |       |
|------------------------------------------|--------|--------|-------|--------|--------|-------|
| 2014 acquisitions                        | 44     | 44     | -     | 44     | -      | 44    |
| 2013 acquisitions                        | 121    | 121    | -     | 121    | 121    | -     |
| Other facilities                         | 94     | 83     | 11    | 83     | 76     | 7     |
|                                          | 276    | 248    | 28    | 248    | 197    | 51    |
| Net rentable square feet (in thousands): |        |        |       |        |        |       |
| 2015 acquisitions                        | 1,285  | -      | 1,285 | -      | -      | -     |
| 2014 acquisitions                        | 3,457  | 3,442  | 15    | 3,442  | -      | 3,442 |
| 2013 acquisitions                        | 8,056  | 8,056  | -     | 8,056  | 8,036  | 20    |
| Other facilities                         | 8,217  | 7,029  | 1,188 | 7,029  | 5,904  | 1,125 |
|                                          | 21,015 | 18,527 | 2,488 | 18,527 | 13,940 | 4,587 |

The facilities included above under “2015 acquisitions,” “2014 acquisitions” and “2013 acquisitions,” were acquired at a cost of \$168.8 million, \$430.7 million, and \$1.16 billion, respectively.

For 2015, the weighted average annualized yield on cost, based upon net operating income, for the facilities acquired in each of 2014 and 2013 was 6.9% and 6.7%, respectively. The yields for the facilities acquired in 2015 were not meaningful due to our limited ownership period.

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

Since the beginning of 2013, we have opened development and expansion projects with a total cost of \$307 million. These expanded and newly developed facilities are included in “Other facilities” in the table above. We believe that our real estate development activities are beneficial to our business operations over the long run. However, in the short run, due to the three to four year period that it takes to fill up newly developed storage space and reach a stabilized level of cash flows, our earnings are diluted because of an increasing level of development and unstabilized properties in our portfolio.

We expect the Non Same Store Facilities to continue to provide increased net operating income in 2016 as these facilities approach stabilized occupancy levels and the earnings of the 2015 acquisitions are reflected in our operations for a longer period in 2016 as compared to 2015.

We also expect to increase the number of Non Same Store Facilities over at least the next 24 months through development of new self-storage facilities, expansions to existing facilities and acquisitions of facilities.

As of December 31, 2015, we had development and expansion projects which will add approximately 3.7 million net rentable square feet of storage space at a total cost of approximately \$486 million. A total of \$219 million of these costs were incurred through December 31, 2015, with the remaining costs expected to be incurred primarily in 2016. Some of these projects are subject to significant contingencies such as entitlement approval. We expect to continue to seek additional development projects; however, the level of future development may be limited due to various constraints such as difficulty in finding projects that meet our risk-adjusted yield expectations and challenges in obtaining building permits for self-storage activities in certain municipalities. We believe that the resulting dilution from our development activities will also grow in 2016 and beyond.

Subsequent to December 31, 2015, we acquired or were under contract to acquire 17 self-storage facilities (seven in Florida, eight in Ohio, and one each in Tennessee and South Carolina) with 1.2 million net rentable square feet for \$149 million. We will continue to seek to acquire facilities in 2016; however, there is significant competition to acquire existing facilities and there can be no assurance we will continue to be successful.

Depreciation and amortization with respect to the Non Same Store Facilities decreased \$10.5 million during 2015 as compared to 2014, and increased \$52.5 million in 2014 as compared to 2013. Included in depreciation and amortization for 2015, 2014, and 2013 is \$26.1 million, \$48.4 million, and \$24.1 million, respectively in amortization of intangible assets. Intangible assets represent the value of the tenants in place at the time the facilities are acquired and are amortized relative to the benefit of the tenants to each period. The decrease in 2015 was due primarily to reduced tenant intangible amortization, while the increase in 2014 includes increased intangible amortization and increased building depreciation. Based upon the facilities we own at December 31, 2015, amortization expense with respect to such intangibles is estimated at \$9.7 million for 2016. The level of future depreciation and amortization

will also depend upon the level of acquisitions of facilities, as well as the level of newly developed storage space.

## Ancillary Operations

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

|                             | Year Ended December 31, |           |           | Year Ended December 31, |           |           |
|-----------------------------|-------------------------|-----------|-----------|-------------------------|-----------|-----------|
|                             | 2015                    | 2014      | Change    | 2014                    | 2013      | Change    |
|                             | (Amounts in thousands)  |           |           |                         |           |           |
| Revenues:                   |                         |           |           |                         |           |           |
| Tenant reinsurance premiums | \$ 109,836              | \$ 95,056 | \$ 14,780 | \$ 95,056               | \$ 84,904 | \$ 10,152 |
| Merchandise                 | 36,335                  | 32,358    | 3,977     | 32,358                  | 30,155    | 2,203     |
| Total revenues              | 146,171                 | 127,414   | 18,757    | 127,414                 | 115,059   | 12,355    |
| Cost of Operations:         |                         |           |           |                         |           |           |
| Tenant reinsurance          | 25,997                  | 25,600    | 397       | 25,600                  | 17,067    | 8,533     |
| Merchandise                 | 22,809                  | 20,826    | 1,983     | 20,826                  | 18,606    | 2,220     |
| Total cost of operations    | 48,806                  | 46,426    | 2,380     | 46,426                  | 35,673    | 10,753    |
| Net income                  |                         |           |           |                         |           |           |
| Tenant reinsurance          | 83,839                  | 69,456    | 14,383    | 69,456                  | 67,837    | 1,619     |
| Merchandise                 | 13,526                  | 11,532    | 1,994     | 11,532                  | 11,549    | (17)      |
| Total net income            | \$ 97,365               | \$ 80,988 | \$ 16,377 | \$ 80,988               | \$ 79,386 | \$ 1,602  |

Tenant reinsurance operations: Our tenants have the option of purchasing insurance from a non-affiliated insurance company to cover certain losses to their goods stored at our facilities. A wholly-owned, consolidated subsidiary of Public Storage fully reinsures such policies, assuming all risk of losses under these policies. The subsidiary received reinsurance premiums substantially equal to the premiums collected from our tenants by 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 allow the insurance to be marketed to our customers. Such fees represent a substantial amount of the reinsurance premiums received by our subsidiary. These fees are eliminated in consolidation and are therefore not shown in the above table.

Tenant reinsurance revenue increased from \$84.9 million in 2013, to \$95.1 million in 2014, and to \$109.8 million in 2015, due to (i) increased average premiums per insured tenant resulting from higher average policy limits, (ii) a higher proportion of tenants having insurance, and (iii) a larger number of potential insurance customers due to higher occupancies and newly acquired facilities in 2014 and 2015.

We expect continued increases in tenant insurance revenues in 2016 due to the same factors noted above; however, we believe the growth rate in 2016 will be substantially less than year-over-year growth experienced in 2014 and 2015.

Cost of operations primarily includes claims paid that are not covered by our outside third-party insurers, as well as claims adjustment expenses. Tenant reinsurance cost of operations increased from \$17.1 million in 2013, to \$25.6 million in 2014, and to \$26.0 million in 2015. Tenant reinsurance cost of operations for 2014 includes a \$7.8 million accrual related to a legal settlement and a \$4.1 million reduction associated with the recognition of a deferred tax asset. The increase of \$4.1 million in ongoing cost of operations for 2015 as compared to 2014 is due primarily to an increase in exposure associated with more

insured tenants and losses incurred in connection with flooding in the Houston and South Carolina markets in the last six months of 2015. The increase of \$4.9 million in ongoing cost of operations for 2014 as compared to 2013 is due primarily to an increase in exposure associated with more insured tenants and, to a lesser extent, claims resulting from extreme weather conditions in early 2014.

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 2016.

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

At December 31, 2015, we have equity investments in PSB, Shurgard Europe and various limited partnerships. We account for such investments using the equity method and record our pro-rata share of the net income of these entities for each period. The following table, and the discussion below, sets forth the significant components of our equity in earnings of unconsolidated real estate entities:

|                          | Year Ended December 31, |           |             | Year Ended December 31, |           |           |
|--------------------------|-------------------------|-----------|-------------|-------------------------|-----------|-----------|
|                          | 2015                    | 2014      | Change      | 2014                    | 2013      | Change    |
|                          | (Amounts in thousands)  |           |             |                         |           |           |
| Equity in earnings:      |                         |           |             |                         |           |           |
| PSB                      | \$ 34,155               | \$ 56,280 | \$ (22,125) | \$ 56,280               | \$ 23,199 | \$ 33,081 |
| Shurgard Europe          | 14,272                  | 29,900    | (15,628)    | 29,900                  | 32,694    | (2,794)   |
| Other Investments        | 2,510                   | 2,087     | 423         | 2,087                   | 1,686     | 401       |
| Total equity in earnings | \$ 50,937               | \$ 88,267 | \$ (37,330) | \$ 88,267               | \$ 57,579 | \$ 30,688 |

Investment in PSB: At December 31, 2015 and 2014, we had approximately a 42% common equity interest in PSB, comprised of our ownership of 7,158,354 shares of PSB's common stock and 7,305,355 limited partnership units in an operating partnership controlled by PSB. The limited partnership units are convertible at our option, subject to certain conditions, on a one-for-one basis into PSB common stock.

At December 31, 2015, PSB owned and operated 28.0 million rentable square feet of commercial space located in six states. PSB also manages commercial space that we own pursuant to property management agreements.

Equity in earnings from PSB decreased to \$34.2 million for 2015 as compared to \$56.3 million for 2014, due primarily to a \$25.2 million reduction in our equity share of PSB's gains on disposal. Equity in earnings from PSB increased to \$56.3 million for 2014 as compared to \$23.2 million for 2013, due primarily to our \$36.5 million equity share of PSB's gain on sale of real estate in 2014. See Note 4 to our December 31, 2015 financial statements for selected financial information on PSB, as well as PSB's filings and selected financial information that can be accessed through the SEC, and on PSB's website, [www.psbusinessparks.com](http://www.psbusinessparks.com).

Investment in Shurgard Europe: We have a 49% equity share in Shurgard Europe's net income. At December 31, 2015, Shurgard Europe's operations are comprised of 216 wholly-owned facilities with 12 million net rentable square feet. See Note 4 to our December 31, 2015 financial statements for selected financial data on Shurgard Europe for 2015, 2014 and 2013. As described in more detail in Note 4, we receive trademark license fees from Shurgard Europe and, for certain periods, we received interest income from Shurgard Europe on a note payable to us.

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In July 2014, Shurgard Europe completed the following financing transactions: (i) increased bank borrowings from €82.9 million to €125.0 million, and (ii) issued €300.0 million (issued in three equal tranches of 7, 10 and 12 year maturities) of unsecured senior notes with an average interest rate of 3.0%,

and (iii) fully repaid its €311.0 million shareholder loan. As a result, we received a total of \$204.9 million for our 49% share of the shareholder loan.

On December 31, 2014, Shurgard Europe acquired five facilities in Germany (0.3 million net rentable square feet) for \$90 million (€72 million) payable in March 2015.

On June 30, 2015, Shurgard Europe acquired 21 facilities in the Netherlands (0.9 million net rentable square feet), for an aggregate of approximately \$146 million (€132 million).

In June 2015, Shurgard Europe issued €300.0 million of unsecured senior notes with maturities in 10, 12 and 15 years and an average interest rate of 2.7%. Shurgard Europe used a portion of these funds to acquire the Netherland facilities noted above and to repay all credit facility borrowings.

Our equity in earnings from Shurgard Europe decreased \$15.6 million to \$14.3 million for 2015 as compared to \$29.9 million for 2014. This decrease is due primarily to Shurgard's July 2014 repayment of its shareholder loan. This repayment eliminated \$10.7 million in interest paid to us in 2014, which was classified as equity in earnings (see Note 4 to our December 31, 2015 financial statements for further information). The decrease also included our \$2.7 million equity share of an increase in Shurgard Europe's income tax expense as well as a reduction of 16.5% in the average exchange rate between the U.S. Dollar and the Euro in 2015 as compared to 2014.

Our equity in earnings from Shurgard Europe decreased to \$29.9 million for 2014 as compared to \$32.7 million for 2013. The decrease is due primarily to our equity share of increased interest expense incurred in connection with Shurgard Europe's issuance of €300.0 million of debt in July 2014, costs associated with the facilities acquired in 2014, and a contingent loss incurred in 2014, offset partially by improved property operations.

For purposes of recording our equity in earnings from Shurgard Europe, the Euro was translated into U.S. Dollars based upon average exchange rates of 1.110 for 2015, 1.329 for 2014 and 1.328 for 2013.

Shurgard Europe had approximately €121 million in cash at December 31, 2015, with no investment prospects in the short-term for the funds. Accordingly, during the first three months of 2016, we expect to receive our 49% equity share of a €100 million dividend to be paid by Shurgard Europe.

Our future earnings from Shurgard Europe will be affected primarily by the operating results of its existing facilities, as well as the exchange rate between the U.S. Dollar and currencies in the countries in which Shurgard Europe conducts its business, principally the Euro, as well as the impact of income taxes.

Unlike our operations in the United States, Shurgard Europe operates as a taxable corporation in each of the countries in which it does business and incurs tax expense. Our equity share of such income tax expense has increased to approximately \$5.3 million, \$2.6 million, and \$1.3 million in 2015, 2014, and 2013, respectively. We expect continued increases in tax expense incurred by Shurgard Europe in 2016 and beyond, as its operations improve and its taxable income increases.

Analysis of items not allocated to segments

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



|  | Year Ended December 31, |      |        | Year Ended December 31, |      |        |
|--|-------------------------|------|--------|-------------------------|------|--------|
|  | 2015                    | 2014 | Change | 2014                    | 2013 | Change |

(Amounts in thousands)

|                                     |           |           |           |           |           |          |
|-------------------------------------|-----------|-----------|-----------|-----------|-----------|----------|
| Share-based compensation expense    | \$ 32,570 | \$ 29,541 | \$ 3,029  | \$ 29,541 | \$ 28,413 | \$ 1,128 |
| Costs of senior executives          | 5,552     | 5,558     | (6)       | 5,558     | 5,309     | 249      |
| Development and acquisition costs   | 10,006    | 10,614    | (608)     | 10,614    | 10,475    | 139      |
| Tax compliance costs and taxes paid | 5,372     | 4,858     | 514       | 4,858     | 4,704     | 154      |
| Legal costs                         | 18,366    | 5,080     | 13,286    | 5,080     | 3,550     | 1,530    |
| Public company costs                | 3,632     | 3,465     | 167       | 3,465     | 3,069     | 396      |
| Other costs                         | 12,679    | 12,343    | 336       | 12,343    | 11,159    | 1,184    |
| Total                               | \$ 88,177 | \$ 71,459 | \$ 16,718 | \$ 71,459 | \$ 66,679 | \$ 4,780 |

Share-based compensation expense includes the amortization of restricted share units and stock options granted to employees, as well as related employer taxes. The level of share-based compensation expense varies based upon the level of grants and forfeitures as well as the Company's stock price on the date of grant. The increase in share-based compensation costs in 2015 as compared to 2014 is due primarily to additional share-based grants and a higher average grant-date fair value per share. We expect similar increases in share-based compensation in 2016 as was experienced in 2015. See Note 10 to our December 31, 2015 financial statements for further information on our share-based compensation.

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

Development and acquisition costs represent internal and external expenses related to our acquisition and development activities and varies primarily based upon the level of development and acquisition activities undertaken. During 2015, 2014 and 2013, we incurred incremental legal, transfer tax, and other related costs of approximately \$1.3 million, \$3.4 million and \$5.0 million, respectively, in connection with the acquisition of self-storage facilities in each period. The level of such costs to be incurred in 2016 will depend upon the level of acquisition activities, which is not determinable. The amounts above are net of \$8.1 million, \$5.0 million, and \$3.1 million in development costs that were capitalized in 2015, 2014, and 2013, respectively, to newly developed and expanded self-storage facilities. The remaining increase in each period is due to the expansion of our real estate development activities in recent years, and such expenses are expected to increase modestly in 2016.

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

Legal costs include internal personnel as well as fees paid to legal firms and other third parties with respect to general corporate legal matters and risk management, and varies based upon the level of litigation. The increase of \$13.3 million in legal costs in 2015 as compared to 2014 is due primarily to legal fees and expenses associated with certain litigated matters, as well as \$3.5 million accrued in connection with the settlement of a legal matter. The future level of legal costs is not determinable.

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

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

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

**Interest and other income:** Interest and other income is comprised primarily of the net income from our commercial operations and property management operations. Amounts attributable to these activities totaled \$12.0 million, \$12.7 million and \$11.4 million in 2015, 2014 and 2013, respectively. We do not expect any significant changes in these activities in 2016. For 2014 and 2013, interest and other income included \$1.5 million and \$19.3 million, respectively, in interest received on a loan receivable from Shurgard Europe which was extinguished in 2014, as described more fully in Note 5 to our December 31, 2015 financial statements.

The remainder of our interest and other income is comprised primarily of interest earned on cash balances, trademark license fees received from Shurgard Europe, as well as sundry other income items that are received from time to time in varying amounts. Interest income on cash balances has been minimal, because rates have been at historic lows of 0.1% or less, and we expect this trend to continue in the foreseeable future. Future earnings from sundry other income items are not predictable.

**Interest expense:** Interest expense was \$0.6 million, \$6.8 million, and \$6.4 million in 2015, 2014 and 2013, respectively. During 2015, 2014 and 2013, we capitalized interest of \$2.7 million, \$1.6 million and \$2.9 million, respectively, associated with our development activities. Interest expense incurred decreased in 2015, as compared to 2014, due to reduced outstanding debt. During 2014 and 2013, we incurred \$4.7 million and \$1.2 million, respectively, in interest expense on short-term borrowings, all of which were repaid in 2014. On November 3, 2015, we issued €242 million of Euro-denominated senior unsecured notes (the "Senior Notes"), bearing interest at a fixed rate of 2.175% and maturing in 2025. See Note 6 to our December 31, 2015 financial statements for a schedule of our debt balances, principal repayment requirements and average interest rates at December 31, 2015. Future interest expense will be dependent upon the level of outstanding debt and the amount of in-process development costs.

**Foreign Exchange Gain (Loss):** We recorded a foreign currency translation gain of \$0.3 million for 2015, representing primarily the change in the U.S. Dollar equivalent of our Senior Notes which were issued on November 3, 2015. We had a foreign currency translation loss of \$7.0 million for 2014 and a foreign currency translation gain of \$17.1 million for 2013, representing primarily the change in the U.S. Dollar equivalent of our Euro-based loan receivable from Shurgard Europe due to fluctuations in exchange rates. This loan receivable was repaid in 2014. Future gains and losses on foreign currency translation will be dependent upon changes in the relative value of the Euro to the U.S. Dollar, applied to our Senior Notes.

**Gain on Real Estate Sales:** During each of 2015 and 2014, we sold various parcels of real estate primarily in connection with eminent domain proceedings recording gains on real estate sales totaling \$18.5 million and \$2.5 million, respectively. During 2013, in connection with PSB's common share issuance in 2013, we recognized a gain on sale of real estate totaling \$4.1 million as if we had sold a proportionate share of our investment in PSB.

**Net Income Allocable to Preferred Shareholders:** Net income allocable to preferred shareholders based upon distributions increased during 2015 as compared to 2014; and during 2014 as compared to 2013 due primarily to higher average outstanding preferred shares. We also allocated \$8.9 million of income from our common shareholders to the holders of our Preferred Shares in 2015, in applying Codification Section 260-10-S99-2 to the redemption of our Preferred Shares (there were no redemptions of our Preferred Shares in 2014 and 2013). Based upon our preferred shares outstanding at December 31, 2015, including the Series B Preferred Shares issued on January 20, 2016, our quarterly distribution to our preferred shareholders is expected to be approximately \$63.1 million.



## Liquidity and Capital Resources

**Financial Strategy:** As a REIT, we generally distribute 100% of our taxable income to our shareholders, which relative to a taxable C corporation, limits the amount of cash flow from operations that we can retain for investments. As a result, in order to grow our asset base, access to capital is important. Historically we have primarily financed our cash investment activities with retained operating cash flow and net proceeds from the issuance of preferred securities. Due to market inefficiency, volatility, and limited capital market breadth for preferred securities, as well as our increased scale and potential capital needs, we are seeking to diversify our capital sources by establishing medium and long-term debt as an alternative; see “Debt issuance” below. Over the long-term, we expect to continue to fund our capital requirements with retained operating cash flow, the issuance of medium or long term debt, and proceeds from the issuance of common and preferred securities.

**Common and preferred equity:** We have historically been able to raise capital through the issuance of preferred securities at an attractive cost of capital, with rates between 5.200% and 6.375% since 2013, relative to the issuance of our common shares and, as a result, issuances of common shares have been minimal. Future issuances of common shares will depend upon the relative cost of capital for the issuance of our common equity.

We continue to view preferred equity as an important source of capital over the long-term. On January 20, 2016, we issued 12.0 million depositary shares, each representing 1/1,000 of a share of our 5.40% Series B Preferred Shares, at an issuance price of \$25.00 per depositary share, for a total of \$300.0 million in gross proceeds, and we incurred \$9.9 million in issuance costs.

Our credit ratings on each of our series of preferred shares are “A3” by Moody’s and “BBB+” by Standard & Poor’s. In recent years, we have been one of the largest and most frequent issuers of preferred equity in the U.S.

**Debt issuance:** As noted above, we are seeking to position ourselves to issue medium and long-term debt in order to diversify our capital sources. On November 3, 2015, we issued the Senior Notes to an institutional investor, and we expect to seek to issue additional medium or long-term debt in 2016 in order to establish a presence in the capital markets for our debt securities.

Notwithstanding our expectation of increasing debt as a capital source, we expect to remain conservatively capitalized and not subject ourselves to significant refinancing risk from the issuance of debt.

We have broad powers to borrow in furtherance of our objectives without a vote of our shareholders. These powers are subject to a limitation on unsecured borrowings in our Bylaws described in “Limitations on Debt” below. Our senior debt has an “A” credit rating by Standard and Poor’s and “A2” by Moody’s. We believe this high rating, combined with our low level of debt, could allow us to issue a significant amount of unsecured debt at lower interest rates than the coupon rates on preferred securities if we chose to.

**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 operating expenses, capital improvements and distributions to our shareholders for the foreseeable future.

As of December 31, 2015, we have capital resources well in excess of our current planned capital needs over the next year totaling \$445 million. Our capital resources include: (i) \$104 million of cash as of December 31, 2015, (ii) \$485 million of available borrowing capacity on our revolving line of credit, (iii) \$250 million to \$300 million of expected retained operating cash flow for the next twelve months, and (iv) \$290 million of net proceeds from the issuance of

preferred securities in January 2016. Retained operating cash flow represents our expected cash flow provided by operating activities, less shareholder distributions and capital expenditures to maintain real estate facilities. Our planned capital needs consist of

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(i) \$267 million of remaining spend on our current development pipeline, (ii) \$149 million in property acquisitions currently under contract and (iii) \$29 million in principal repayments on existing debt. Our capital needs may increase significantly over the course of 2016; at our option we may redeem preferred securities totaling \$862.5 million, we expect to increase our development pipeline, and we expect additional property acquisition opportunities.

We believe we have a variety of possibilities to raise additional capital, if needed, to fund such future commitments including issuing common or preferred securities, issuing debt, or entering into joint venture arrangements to acquire or develop facilities.

**Required Debt Repayments:** As of December 31, 2015, our outstanding debt totaled approximately \$319.0 million, consisting of \$55.1 million of secured debt and \$263.9 million of unsecured debt. Approximate principal maturities are as follows (amounts in thousands):

|            |            |
|------------|------------|
| 2016       | \$ 28,980  |
| 2017       | 9,205      |
| 2018       | 11,099     |
| 2019       | 1,217      |
| 2020       | 1,286      |
| Thereafter | 267,229    |
|            | \$ 319,016 |

The remaining maturities on our debt over at least the next five years are nominal compared to our expected annual cash from retained operating cash flow and we do not expect to refinance such debt with the issuance of new secured debt.

**Capital Expenditure Requirements:** Capital expenditures include major repairs or replacements to elements of our facilities to keep our facilities in good operating condition and maintain their visual appeal to the customer, which totaled \$63.1 million in 2015. Capital expenditures do not include costs relating to the development of new facilities or the expansion of net rentable square footage of existing facilities. For 2016, we expect to incur approximately \$73 million for capital expenditures and to fund such amounts with cash provided by operating activities. For the last four years, such capital expenditures have ranged between approximately \$0.45 and \$0.55 per net rentable square foot per year.

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

Distributions paid during 2015 totaled \$1.371 billion, consisting of \$245.1 million to preferred shareholders and \$1.126 billion to common shareholders and restricted share unitholders. All of these distributions were REIT qualifying distributions.

We estimate the annual distribution requirements with respect to our Preferred Shares outstanding at December 31, 2015, including the Series B Preferred Shares issued on January 20, 2016, to be approximately to be approximately \$252 million per year.

On January 15, 2016, our Board declared a regular common quarterly dividend of \$1.70 per common share. Our consistent, long-term dividend policy has been to distribute only our taxable income.



Future quarterly distributions with respect to the common shares will continue to be determined based upon our REIT distribution requirements after taking into consideration distributions to the preferred shareholders and will be funded with cash provided by operating activities.

We estimate we will pay approximately \$8 million per year in distributions to noncontrolling interests outstanding at December 31, 2015.

**Real Estate Investment Activities:** Subsequent to December 31, 2015, we acquired or were under contract to acquire 17 self-storage facilities (seven in Florida, eight in Ohio, and one each in Tennessee and South Carolina) with 1.2 million net rentable square feet for \$149 million. We will continue to seek to acquire properties; however, there is significant competition to acquire existing facilities and there can be no assurance as to the level of facilities we may acquire.

As of December 31, 2015, we had development and expansion projects which will add approximately 3.7 million net rentable square feet of storage space at a total cost of approximately \$486 million. A total of \$219 million of these costs were incurred through December 31, 2015, with the remaining cost to complete of \$267 million expected to be incurred primarily in 2016. Some of these projects are subject to significant contingencies such as entitlement approval. We expect to continue to seek additional development projects; however, the level of future development may be limited due to various constraints such as difficulty in finding projects that meet our risk-adjusted yield expectations and challenges in obtaining building permits for self-storage activities in certain municipalities.

**Redemption of Preferred Securities:** We have two series of preferred securities that become redeemable, at our option, during 2016; our 6.50% Series Q Preferred Shares, with \$375 million outstanding, become redeemable in April 2016, and our 6.35% Series R Preferred Shares, with \$487.5 million outstanding, become redeemable in July 2016. Redemption of such preferred shares will depend upon many factors including whether we can issue capital at a lower cost of capital than the shares that would be redeemed. None of our preferred securities are redeemable at the option of the holders.

**Repurchases of Company's 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 2015, we did not repurchase any of our common shares. From the inception of the repurchase program through February 26, 2016, we have repurchased a total of 23,721,916 common shares at an aggregate cost of approximately \$679.1 million. We have no current plans to repurchase additional common 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.

#### Contractual Obligations

Our significant contractual obligations at December 31, 2015 and their impact on our cash flows and liquidity are summarized below for the years ending December 31 (amounts in thousands):

|                              | Total      | 2016       | 2017      | 2018      | 2019     | 2020     | Thereafter |
|------------------------------|------------|------------|-----------|-----------|----------|----------|------------|
| Mortgage notes (1)           | \$ 59,824  | \$ 31,249  | \$ 10,040 | \$ 11,803 | \$ 1,518 | \$ 1,518 | \$ 3,696   |
| Senior Notes (2)             | 320,385    | 5,740      | 5,740     | 5,740     | 5,740    | 5,740    | 291,685    |
| Operating leases (3)         | 69,398     | 3,944      | 2,704     | 2,454     | 2,398    | 2,397    | 55,501     |
| Construction commitments (4) | 153,963    | 123,170    | 30,793    | -         | -        | -        | -          |
| Total                        | \$ 603,570 | \$ 164,103 | \$ 49,277 | \$ 19,997 | \$ 9,656 | \$ 9,655 | \$ 350,882 |

(1) Amounts include principal and interest payments (all of which are fixed-rate) on our secured notes (the “Mortgage Notes”) based on their contractual terms. See Note 6 to our December 31, 2015 financial statements for additional information on our notes payable.

(2) Reflects the €242 million of Euro-denominated senior unsecured notes (the “Senior Notes”) we issued to an institutional investor on November 3, 2015, bearing interest at a fixed rate of 2.175% and maturing in ten years.

(3) We lease land, equipment and office space under various operating leases. Certain leases are cancelable; however, significant penalties would be incurred upon cancellation. Amounts reflected above consider continuance of the lease without cancellation.

(4) Amounts exclude an additional \$113.2 million in future expected development spending that was not under contract at December 31, 2015.

We estimate the annual distribution requirements with respect to our Preferred Shares outstanding at December 31, 2015, including the Series B Preferred Shares issued on January 20, 2016, to be approximately to be approximately \$252 million per year. Dividends are paid when and if declared by our Board and accumulate if not paid.

Off-Balance Sheet Arrangements: At December 31, 2015, we had no material off-balance sheet arrangements as defined under Regulation S-K 303(a)(4) and the instructions thereto.

## ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk

To limit our exposure to market risk, we are capitalized primarily with preferred and common equity. Our preferred shares are redeemable at our option generally five years after issuance, but the holder has no redemption option. Our debt is our only market-risk sensitive portion of our capital structure, which totals \$319 million and represents 3.5% of the book value of our equity at December 31, 2015.

We have foreign currency exposure related to our investment in Shurgard Europe, which has a book value of \$388 million at December 31, 2015. We also have foreign currency exposure related to the €242 million of Euro-denominated senior unsecured notes (the "Senior Notes") we issued to an institutional investor on November 3, 2015, which have a book value of \$264 million at December 31, 2015.

The fair value of our fixed rate debt at December 31, 2015 approximates book value. The table below summarizes the annual maturities of our fixed rate debt, which had a weighted average fixed rate of 2.5% at December 31, 2015. See Note 6 to our December 31, 2015 financial statements for further information regarding our fixed rate debt (amounts in thousands).

|                 | 2016      | 2017     | 2018      | 2019     | 2020     | Thereafter | Total      |
|-----------------|-----------|----------|-----------|----------|----------|------------|------------|
| Fixed rate debt | \$ 28,980 | \$ 9,205 | \$ 11,099 | \$ 1,217 | \$ 1,286 | \$ 267,229 | \$ 319,016 |

## ITEM 9A. Controls and Procedures

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

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

As of December 31, 2015, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2015, at a reasonable assurance level.

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

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee on Sponsoring Organizations of the Treadway Commission (2013 Framework). Based on our evaluation under the framework in Internal Control-Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2015.

The effectiveness of internal control over financial reporting as of December 31, 2015, has been audited by Ernst & Young LLP, an independent registered public accounting firm. Ernst & Young LLP's report on our internal control over financial reporting appears below.

### Changes in Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth quarter of 2015 to which this report relates that have materially affected, or are reasonable likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

The Board of Trustees and Shareholders of

Public Storage

We have audited Public Storage's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Public Storage's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Public Storage maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Public Storage as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2015 and our report dated February 26, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California

February 26, 2016

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ITEM 9B. Other Information

None.

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### PART III

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

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

Ronald L. Havner, Jr., age 58, has been Chairman and Chief Executive Officer of Public Storage since August 2011 and November 2002, respectively. Mr. Havner joined Public Storage in 1986 and has held a variety of senior management positions. Mr. Havner has been Chairman of the Board of Public Storage's affiliate, PS Business Parks, Inc. ("PSB") since March 1998.

John Reyes, age 55, has served as Senior Vice President and Chief Financial Officer of Public Storage since 1996, having joined the Company in 1990.

David F. Doll, age 57, became Senior Vice President and President, Real Estate Group, in February 2005, with responsibility for the real estate activities of Public Storage, including property acquisitions, developments, re-developments, and capital improvements.

Lily Y. Hughes, age 52, became Senior Vice President, Chief Legal Officer and Corporate Secretary in January 2015. Prior to joining Public Storage, Ms. Hughes was Vice President and Associate General Counsel-Corporate, M&A and Finance at Ingram Micro Inc., a Fortune 100 NYSE company with operations in 39 countries, which she joined in 1997.

Candace N. Krol, age 54, has served as Senior Vice President and Chief Human Resources Officer of Public Storage since February 2015 and has served as Senior Vice President of Human Resources since September 2005.

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

#### ITEM 11. Executive Compensation

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



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

The following table sets forth information as of December 31, 2015 on the Company's equity compensation plans:

|                                                                | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans |
|----------------------------------------------------------------|---------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|
| Equity compensation plans approved by security holders (a)     | 2,677,667 (b)                                                                               | \$130.18 (d)                                                                | 774,888                                                                                      |
| Equity compensation plans not approved by security holders (c) | -                                                                                           | -                                                                           | -                                                                                            |

a) The Company's stock option and stock incentive plans are described more fully in Note 10 to the December 31, 2015 financial statements. All plans were approved by the Company's shareholders.

b) Includes 737,388 restricted share units that, if and when vested, will be settled in common shares of the Company on a one for one basis.

c) There are no securities available for future issuance or currently outstanding under plans not approved by the Company's shareholders as of December 31, 2015.

d) Represents the average exercise price of 1,940,279 stock options outstanding at December 31, 2015. We also have 737,388 restricted share units outstanding at December 31, 2015 that vest for no consideration.

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

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

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

## ITEM 14. Principal Accountant Fees and Services

The information required by this item is hereby incorporated by reference to the material appearing in the Notice and Proxy Statement for the 2016 Annual Meeting of Shareholders, to be filed pursuant to Regulation 14A under the Exchange Act of 1934.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

a. 1. Financial Statements

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

2. Financial Statement Schedules

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

3. Exhibits

See Index to Exhibits contained herein.

b. Exhibits:

See Index to Exhibits contained herein.

c. Financial Statement Schedules

Not applicable.

PUBLIC STORAGE

INDEX TO EXHIBITS (1)

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

- 3.1 Articles of Amendment and Restatement of Declaration of Trust of Public Storage, a Maryland real estate investment trust. Filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009 and incorporated by reference herein.
- 3.2 Bylaws of Public Storage, a Maryland real estate investment trust. Filed with the Registrant's Current Report on Form 8-K dated May 11, 2010 and incorporated by reference herein.
- 3.3 Articles Supplementary for Public Storage 6.5% Cumulative Preferred Shares, Series Q. Filed with the Registrant's Current Report on Form 8-K dated May 2, 2011 and incorporated by reference herein.
- 3.4 Articles Supplementary for Public Storage 6.35% Cumulative Preferred Shares, Series R. Filed with the Registrant's Current Report on Form 8-K dated July 20, 2011 and incorporated by reference herein.
- 3.5 Articles Supplementary for Public Storage 5.900% Cumulative Preferred Shares, Series S. Filed with the Registrant's Current Report on Form 8-K dated January 9, 2012 and incorporated by reference herein.
- 3.6 Articles Supplementary for Public Storage 5.750% Cumulative Preferred Shares, Series T. Filed with the Registrant's Current Report on Form 8-K dated March 7, 2012 and incorporated by reference herein.
- 3.7 Articles Supplementary for Public Storage 5.625% Cumulative Preferred Shares, Series U. Filed with the Registrant's Current Report on Form 8-K dated June 6, 2012 and incorporated by reference herein.
- 3.8 Articles Supplementary for Public Storage 5.375% Cumulative Preferred Shares, Series V. Filed with the Registrant's Current Report on Form 8-K dated September 11, 2012 and incorporated by reference herein.
- 3.9 Articles Supplementary for Public Storage 5.20% Cumulative Preferred Shares, Series W. Filed with the Registrant's Current Report on Form 8-K dated January 8, 2013 and incorporated by reference herein.
- 3.10 Articles Supplementary for Public Storage 5.20% Cumulative Preferred Shares, Series X. Filed with the Registrant's Current Report on Form 8-K dated March 5, 2013 and incorporated by reference herein.
- 3.11 Articles Supplementary for Public Storage 6.375% Cumulative Preferred Shares, Series Y. Filed with the Registrant's Current Report on Form 8-K dated March 11, 2014 and incorporated by reference herein.
- 3.12 Articles Supplementary for Public Storage 6.375% Cumulative Preferred Shares, Series Y. Filed with the Registrant's Current Report on Form 8-K dated April 9, 2014 and incorporated by reference herein.
- 3.13 Articles Supplementary for Public Storage 6.00% Cumulative Preferred Shares, Series Z. Filed with the Registrant's Current Report on Form 8-K dated May 29, 2014 and incorporated by reference herein.
- 3.14 Articles Supplementary for Public Storage 5.875% Cumulative Preferred Shares, Series A. Filed with the Registrant's Current Report on Form 8-K/A dated November 24, 2014 and incorporated by reference herein.
- 3.15 Articles Supplementary for Public Storage 5.400% Cumulative Preferred Shares, Series B. Filed with the Registrant's Current Report on Form 8-K dated January 13, 2016 and incorporated by reference herein.

- 4.1 Master Deposit Agreement, dated as of May 31, 2007. Filed with the Registrant's Current Report on Form 8-K dated June 6, 2007 and incorporated by reference herein.

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

10.8\* Form of 2001 Plan Non-qualified Stock Option Agreement. Filed with PSI's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004 (SEC File No. 001-0839) and incorporated herein by reference.

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- 10.9\* Form of 2001 Plan Restricted Share Unit Agreement. Filed with PSI's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004 (SEC File No. 001-0839) and incorporated herein by reference.
- 10.10\* Form of 2001 Plan Non-Qualified Outside Director Stock Option Agreement. Filed with PSI's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004 (SEC File No. 001-0839) and incorporated herein by reference.
- 10.11\* Form of 2007 Plan Restricted Stock Unit Agreement. Filed herewith.
- 10.12\* Form of 2007 Plan Restricted Stock Unit Agreement – deferral of receipt of shares. Filed herewith.
- 10.13\* Form of 2007 Plan Stock Option Agreement. Filed herewith.
- 10.14\* Form of 2007 Plan Trustee Stock Option Agreement. Filed herewith.
- 10.15\* Form of Indemnity Agreement. Filed with Registrant's Amendment No. 1 to Registration Statement on Form S-4 (SEC File No. 333-141448) and incorporated herein by reference.
- 10.16 Term Loan Agreement, by and among Public Storage, Wells Fargo Securities, LLC as Lead Arranger and Wells Fargo National Bank N.A. as Administrative Agent, dated as of December 2, 2013. Filed with Registrant's Current Report on Form 8-K dated December 2, 2013 and incorporated herein by reference.
- 10.17\* Public Storage 2007 Equity and Performance-Based Incentive Compensation Plan, as Amended. Filed with Registrant's Current Report on Form 8-K dated May 1, 2014 and incorporated herein by reference.
- 10.18 Note Purchase Agreement, dated as of November 3, 2015, by and among Public Storage and the signatories thereto. Filed with Registrant's Current Report on Form 8-K dated November 3, 2015 and incorporated herein by reference.
- 12 Statement Re: Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends. Filed herewith.
- 21 Listing of Subsidiaries. Filed herewith.
- 23 Consent of Ernst & Young LLP. Filed herewith.
- 31.1 Rule 13a – 14(a) Certification. Filed herewith.
- 31.2 Rule 13a – 14(a) Certification. Filed herewith.
- 32 Section 1350 Certifications. Filed herewith.
- 101 .INS XBRL Instance Document. Filed herewith.
- 101 XBRL Taxonomy Extension Schema. Filed herewith.
- .SCH
- 101 XBRL Taxonomy Extension Calculation Linkbase. Filed herewith.
- .CAL
- 101 XBRL Taxonomy Extension Definition Linkbase. Filed herewith.
- .DEF
- 101 XBRL Taxonomy Extension Label Linkbase. Filed herewith.
- .LAB
- 101 XBRL Taxonomy Extension Presentation Link. Filed herewith.
- .PRE

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

\* Denotes management compensatory plan agreement or arrangement.





## SIGNATURES

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

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## PUBLIC STORAGE

Date: February 26, 2016 By: /s/ Ronald L. Havner, Jr.  
 Ronald L. Havner, Jr., Chairman,  
 Chief Executive Officer and President

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Signature                                              | Title                                                                                                               | Date              |
|--------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|-------------------|
| /s/ Ronald L. Havner, Jr.<br>Ronald L. Havner, Jr.     | Chairman, Chief Executive Officer, President and Trustee (principal executive officer)                              | February 26, 2016 |
| /s/ John Reyes<br>John Reyes                           | Senior Vice President and Chief Financial Officer<br>(principal financial officer and principal accounting officer) | February 26, 2016 |
| /s/ Tamara Hughes Gustavson<br>Tamara Hughes Gustavson | Trustee                                                                                                             | February 26, 2016 |
| /s/ Uri P. Harkham<br>Uri P. Harkham                   | Trustee                                                                                                             | February 26, 2016 |
| /s/ B. Wayne Hughes, Jr.<br>B. Wayne Hughes, Jr.       | Trustee                                                                                                             | February 26, 2016 |
| /s/ Avedick B. Poladian<br>Avedick B. Poladian         | Trustee                                                                                                             | February 26, 2016 |
| /s/ Gary E. Pruitt<br>Gary E. Pruitt                   | Trustee                                                                                                             | February 26, 2016 |
| /s/ Ronald P. Spogli<br>Ronald P. Spogli               | Trustee                                                                                                             | February 26, 2016 |

/s/ Daniel C. Staton

Trustee

February  
26, 2016

Daniel C. Staton

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PUBLIC STORAGE

INDEX TO FINANCIAL STATEMENTS

AND SCHEDULES

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Schedule:

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



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Trustees and Shareholders of Public Storage

We have audited the accompanying consolidated balance sheets of Public Storage as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Public Storage at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Public Storage's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework) and our report dated February 26, 2016 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Los Angeles, California

February 26, 2016

## PUBLIC STORAGE

## BALANCE SHEETS

(Amounts in thousands, except share data)

|                                                                                                                                                                                       | December 31,<br>2015 | December 31,<br>2014 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| <b>ASSETS</b>                                                                                                                                                                         |                      |                      |
| Cash and cash equivalents                                                                                                                                                             | \$ 104,285           | \$ 187,712           |
| Real estate facilities, at cost:                                                                                                                                                      |                      |                      |
| Land                                                                                                                                                                                  | 3,564,810            | 3,476,883            |
| Buildings                                                                                                                                                                             | 9,640,451            | 9,386,352            |
|                                                                                                                                                                                       | 13,205,261           | 12,863,235           |
| Accumulated depreciation                                                                                                                                                              | (4,866,738)          | (4,482,520)          |
|                                                                                                                                                                                       | 8,338,523            | 8,380,715            |
| Construction in process                                                                                                                                                               | 219,190              | 104,573              |
|                                                                                                                                                                                       | 8,557,713            | 8,485,288            |
| Investments in unconsolidated real estate entities                                                                                                                                    | 809,308              | 813,740              |
| Goodwill and other intangible assets, net                                                                                                                                             | 211,458              | 228,632              |
| Other assets                                                                                                                                                                          | 95,468               | 103,304              |
| Total assets                                                                                                                                                                          | \$ 9,778,232         | \$ 9,818,676         |
| <b>LIABILITIES AND EQUITY</b>                                                                                                                                                         |                      |                      |
| Senior unsecured notes                                                                                                                                                                | \$ 263,940           | \$ -                 |
| Mortgage notes                                                                                                                                                                        | 55,076               | 64,364               |
| Accrued and other liabilities                                                                                                                                                         | 261,578              | 247,141              |
| Total liabilities                                                                                                                                                                     | 580,594              | 311,505              |
| Commitments and contingencies (Note 13)                                                                                                                                               |                      |                      |
| Equity:                                                                                                                                                                               |                      |                      |
| Public Storage shareholders' equity:                                                                                                                                                  |                      |                      |
| Preferred Shares, \$0.01 par value, 100,000,000 shares authorized,<br>162,200 shares issued (in series) and outstanding, (173,000 at<br>December 31, 2014), at liquidation preference | 4,055,000            | 4,325,000            |
| Common Shares, \$0.10 par value, 650,000,000 shares authorized,<br>172,921,241 shares issued and outstanding (172,445,554 shares at                                                   |                      |                      |

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|                                           |              |              |
|-------------------------------------------|--------------|--------------|
| December 31, 2014)                        | 17,293       | 17,245       |
| Paid-in capital                           | 5,601,506    | 5,561,530    |
| Accumulated deficit                       | (434,610)    | (374,823)    |
| Accumulated other comprehensive loss      | (68,548)     | (48,156)     |
| Total Public Storage shareholders' equity | 9,170,641    | 9,480,796    |
| Noncontrolling interests                  | 26,997       | 26,375       |
| Total equity                              | 9,197,638    | 9,507,171    |
| Total liabilities and equity              | \$ 9,778,232 | \$ 9,818,676 |

See accompanying notes.

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## PUBLIC STORAGE

## STATEMENTS OF INCOME

(Amounts in thousands, except per share amounts)

|                                                           | For the Years Ended December 31, |              |              |
|-----------------------------------------------------------|----------------------------------|--------------|--------------|
|                                                           | 2015                             | 2014         | 2013         |
| Revenues:                                                 |                                  |              |              |
| Self-storage facilities                                   | \$ 2,235,525                     | \$ 2,049,882 | \$ 1,849,883 |
| Ancillary operations                                      | 146,171                          | 127,414      | 115,059      |
|                                                           | 2,381,696                        | 2,177,296    | 1,964,942    |
| Expenses:                                                 |                                  |              |              |
| Self-storage cost of operations                           | 586,696                          | 566,898      | 524,086      |
| Ancillary cost of operations                              | 48,806                           | 46,426       | 35,673       |
| Depreciation and amortization                             | 426,008                          | 437,114      | 387,402      |
| General and administrative                                | 88,177                           | 71,459       | 66,679       |
|                                                           | 1,149,687                        | 1,121,897    | 1,013,840    |
| Operating income                                          | 1,232,009                        | 1,055,399    | 951,102      |
| Interest and other income                                 | 16,544                           | 17,638       | 33,979       |
| Interest expense                                          | (610)                            | (6,781)      | (6,444)      |
| Equity in earnings of unconsolidated real estate entities | 50,937                           | 88,267       | 57,579       |
| Foreign currency exchange gain (loss)                     | 306                              | (7,047)      | 17,082       |
| Gain on real estate sales                                 | 18,503                           | 2,479        | 4,233        |
| Net income                                                | 1,317,689                        | 1,149,955    | 1,057,531    |
| Allocation to noncontrolling interests                    | (6,445)                          | (5,751)      | (5,078)      |
| Net income allocable to Public Storage shareholders       | 1,311,244                        | 1,144,204    | 1,052,453    |
| Allocation of net income to:                              |                                  |              |              |
| Preferred shareholders                                    | (245,097)                        | (232,636)    | (204,312)    |
| Preferred shareholders - redemptions (Note 8)             | (8,897)                          | -            | -            |
| Restricted share units                                    | (4,200)                          | (3,392)      | (3,410)      |
| Net income allocable to common shareholders               | \$ 1,053,050                     | \$ 908,176   | \$ 844,731   |
| Net income per common share:                              |                                  |              |              |
| Basic                                                     | \$ 6.10                          | \$ 5.27      | \$ 4.92      |
| Diluted                                                   | \$ 6.07                          | \$ 5.25      | \$ 4.89      |
| Basic weighted average common shares outstanding          | 172,699                          | 172,251      | 171,640      |



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|                                                    |         |         |         |
|----------------------------------------------------|---------|---------|---------|
| Diluted weighted average common shares outstanding | 173,510 | 173,138 | 172,688 |
|----------------------------------------------------|---------|---------|---------|

See accompanying notes.

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## PUBLIC STORAGE

## STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands)

|                                                                         | For the Years Ended December 31, |              |              |
|-------------------------------------------------------------------------|----------------------------------|--------------|--------------|
|                                                                         | 2015                             | 2014         | 2013         |
| Net income                                                              | \$ 1,317,689                     | \$ 1,149,955 | \$ 1,057,531 |
| Other comprehensive income (loss):                                      |                                  |              |              |
| Aggregate foreign currency exchange (loss) gain                         | (20,086)                         | (54,703)     | 17,587       |
| Adjust for foreign currency exchange (gain) loss included in net income | (306)                            | 7,047        | (17,082)     |
| Other comprehensive (loss) gain                                         | (20,392)                         | (47,656)     | 505          |
| Total comprehensive income                                              | 1,297,297                        | 1,102,299    | 1,058,036    |
| Allocation to noncontrolling interests                                  | (6,445)                          | (5,751)      | (5,078)      |
| Comprehensive income allocable to Public Storage shareholders           | \$ 1,290,852                     | \$ 1,096,548 | \$ 1,052,958 |

See accompanying notes.

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## PUBLIC STORAGE

## STATEMENTS OF EQUITY

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

| Cumulative Preferred Shares                                                                      | Common Shares | Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total Public Storage Shareholders' Equity | Noncontrolling Interests | Total Equity |              |
|--------------------------------------------------------------------------------------------------|---------------|-----------------|---------------------|--------------------------------------|-------------------------------------------|--------------------------|--------------|--------------|
| Balances at December 31, 2012                                                                    | \$ 2,837,500  | \$ 17,139       | \$ 5,519,596        | \$ (279,474)                         | \$ (1,005)                                | \$ 8,093,756             | \$ 29,108    | \$ 8,122,864 |
| Issuance of 29,000 preferred shares (Note 8)                                                     | 725,000       | -               | (23,313)            | -                                    | -                                         | 701,687                  | -            | 701,687      |
| Issuance of common shares in connection with share-based compensation (388,005 shares) (Note 10) | -             | 39              | 21,072              | -                                    | -                                         | 21,111                   | -            | 21,111       |
| Share-based compensation expense, net of cash paid in lieu of common shares (Note 10)            | -             | -               | 19,320              | -                                    | -                                         | 19,320                   | -            | 19,320       |
| Acquisition of noncontrolling interests                                                          | -             | -               | (5,641)             | -                                    | -                                         | (5,641)                  | (607)        | (6,248)      |
| Net income                                                                                       | -             | -               | -                   | 1,057,531                            | -                                         | 1,057,531                | -            | 1,057,531    |
| Net income allocated to noncontrolling interests                                                 | -             | -               | -                   | (5,078)                              | -                                         | (5,078)                  | 5,078        | -            |
| Distributions to equity holders:                                                                 |               |                 |                     |                                      |                                           |                          |              |              |

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|                                                                                                  |              |           |              |              |          |              |           |              |
|--------------------------------------------------------------------------------------------------|--------------|-----------|--------------|--------------|----------|--------------|-----------|--------------|
| Preferred shares (Note 8)                                                                        | -            | -         | -            | (204,312)    | -        | (204,312)    | -         | (204,312)    |
| Noncontrolling interests                                                                         | -            | -         | -            | -            | -        | -            | (6,454)   | (6,454)      |
| Common shares and restricted share units (\$5.15 per share)                                      | -            | -         | -            | (887,149)    | -        | (887,149)    | -         | (887,149)    |
| Other comprehensive income (Note 2)                                                              | -            | -         | -            | -            | 505      | 505          | -         | 505          |
| Balances at December 31, 2013                                                                    | \$ 3,562,500 | \$ 17,178 | \$ 5,531,034 | \$ (318,482) | \$ (500) | \$ 8,791,730 | \$ 27,125 | \$ 8,818,855 |
| Issuance of 30,500 preferred shares (Note 8)                                                     | 762,500      | -         | (23,546)     | -            | -        | 738,954      | -         | 738,954      |
| Issuance of common shares in connection with share-based compensation (669,263 shares) (Note 10) | -            | 67        | 37,805       | -            | -        | 37,872       | -         | 37,872       |
| Share-based compensation expense, net of cash paid in lieu of common shares (Note 10)            | -            | -         | 16,926       | -            | -        | 16,926       | -         | 16,926       |
| Acquisition of noncontrolling interests                                                          | -            | -         | (689)        | -            | -        | (689)        | (32)      | (721)        |
| Net income                                                                                       | -            | -         | -            | 1,149,955    | -        | 1,149,955    | -         | 1,149,955    |
| Net income allocated to noncontrolling interests                                                 | -            | -         | -            | (5,751)      | -        | (5,751)      | 5,751     | -            |
| Distributions to equity holders: Preferred shares (Note 8)                                       | -            | -         | -            | (232,636)    | -        | (232,636)    | -         | (232,636)    |
| Noncontrolling interests                                                                         | -            | -         | -            | -            | -        | -            | (6,469)   | (6,469)      |
| Common shares and                                                                                |              |           |              |              |          |              |           |              |

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|                                                    |              |           |              |              |             |              |           |              |
|----------------------------------------------------|--------------|-----------|--------------|--------------|-------------|--------------|-----------|--------------|
| restricted share<br>units<br>(\$5.60 per<br>share) | -            | -         | -            | (967,909)    | -           | (967,909)    | -         | (967,909)    |
| Other<br>comprehensive<br>income (Note<br>2)       | -            | -         | -            | -            | (47,656)    | (47,656)     | -         | (47,656)     |
| Balances at<br>December 31,<br>2014                | \$ 4,325,000 | \$ 17,245 | \$ 5,561,530 | \$ (374,823) | \$ (48,156) | \$ 9,480,796 | \$ 26,375 | \$ 9,507,171 |

See accompanying notes.

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## PUBLIC STORAGE

## STATEMENTS OF EQUITY

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

|                                                                                                                       | Cumulative<br>Preferred<br>Shares | Common<br>Shares | Paid-in<br>Capital | Accumulated<br>Deficit | Accumulated<br>Other<br>Comprehensive<br>Loss | Total<br>Public Storage<br>Shareholders'<br>Equity | Noncontrolling<br>Interests | Total<br>Equity |
|-----------------------------------------------------------------------------------------------------------------------|-----------------------------------|------------------|--------------------|------------------------|-----------------------------------------------|----------------------------------------------------|-----------------------------|-----------------|
| Redemption of<br>10,800<br>preferred<br>shares (Note 8)                                                               | (270,000)                         | -                | -                  | -                      | -                                             | -                                                  | (270,000)                   | (270,000)       |
| Issuance of<br>common shares in<br>connection with<br>share-based<br>compensation<br>(475,687<br>shares)<br>(Note 10) | -                                 | 48               | 29,615             | -                      | -                                             | 29,663                                             | -                           | 29,663          |
| Cash paid in lieu<br>of common<br>shares, net of<br>share-based<br>compensation<br>expense (Note<br>10)               | -                                 | -                | 15,793             | -                      | -                                             | 15,793                                             | -                           | 15,793          |
| Acquisition of<br>noncontrolling<br>interests                                                                         | -                                 | -                | (5,432)            | -                      | -                                             | (5,432)                                            | (60)                        | (5,492)         |
| Contributions<br>by<br>noncontrolling<br>interests                                                                    | -                                 | -                | -                  | -                      | -                                             | -                                                  | 1,562                       | 1,562           |
| Net income                                                                                                            | -                                 | -                | -                  | 1,317,689              | -                                             | 1,317,689                                          | -                           | 1,317,689       |
| Net income<br>allocated to<br>noncontrolling<br>interests                                                             | -                                 | -                | -                  | (6,445)                | -                                             | (6,445)                                            | 6,445                       | -               |
| Distributions to<br>equity holders:<br>Preferred<br>shares (Note 8)                                                   | -                                 | -                | -                  | (245,097)              | -                                             | (245,097)                                          | -                           | (245,097)       |
| Noncontrolling<br>interests                                                                                           | -                                 | -                | -                  | -                      | -                                             | -                                                  | (7,325)                     | (7,325)         |

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|                                                             |              |           |              |              |             |              |           |              |
|-------------------------------------------------------------|--------------|-----------|--------------|--------------|-------------|--------------|-----------|--------------|
| Common shares and restricted share units (\$6.50 per share) | -            | -         | -            | (1,125,934)  | -           | (1,125,934)  | -         | (1,125,934)  |
| Other comprehensive loss (Note 2)                           | -            | -         | -            | -            | (20,392)    | (20,392)     | -         | (20,392)     |
| Balances at December 31, 2015                               | \$ 4,055,000 | \$ 17,293 | \$ 5,601,506 | \$ (434,610) | \$ (68,548) | \$ 9,170,641 | \$ 26,997 | \$ 9,197,638 |

See accompanying notes.

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## PUBLIC STORAGE

## STATEMENTS OF CASH FLOWS

(Amounts in thousands)

|                                                                                              | For the Years Ended December 31, |              |              |
|----------------------------------------------------------------------------------------------|----------------------------------|--------------|--------------|
|                                                                                              | 2015                             | 2014         | 2013         |
| Cash flows from operating activities:                                                        |                                  |              |              |
| Net income                                                                                   | \$ 1,317,689                     | \$ 1,149,955 | \$ 1,057,531 |
| Adjustments to reconcile net income to net cash provided by operating activities:            |                                  |              |              |
| Gain on real estate sales                                                                    | (18,503)                         | (2,479)      | (4,233)      |
| Depreciation and amortization                                                                | 426,008                          | 437,114      | 387,402      |
| Distributions received from unconsolidated real estate entities less than equity in earnings | (15,242)                         | (4,809)      | (11,709)     |
| Foreign currency exchange (gain) loss                                                        | (306)                            | 7,047        | (17,082)     |
| Other                                                                                        | 22,955                           | 5,265        | 18,430       |
| Total adjustments                                                                            | 414,912                          | 442,138      | 372,808      |
| Net cash provided by operating activities                                                    | 1,732,601                        | 1,592,093    | 1,430,339    |
| Cash flows from investing activities:                                                        |                                  |              |              |
| Capital expenditures to maintain real estate facilities                                      | (65,594)                         | (80,962)     | (69,391)     |
| Construction in process                                                                      | (228,478)                        | (141,569)    | (90,517)     |
| Acquisition of real estate facilities and intangible assets                                  | (177,076)                        | (410,210)    | (1,150,943)  |
| Investment in unconsolidated real estate entities                                            | -                                | -            | (105,040)    |
| Proceeds from sale of real estate facilities                                                 | 15,013                           | 17,246       | 257          |
| Disposition of portion of loan receivable from Shurgard Europe                               | -                                | 216,217      | -            |
| Repayments of loan receivable from Shurgard Europe                                           | -                                | 204,947      | -            |
| Other                                                                                        | 16,030                           | (4,000)      | 3,241        |
| Net cash used in investing activities                                                        | (440,105)                        | (198,331)    | (1,412,393)  |
| Cash flows from financing activities:                                                        |                                  |              |              |
| Repayments on bank credit facility                                                           | -                                | (50,100)     | (82,900)     |
| Repayments on term loan                                                                      | -                                | (700,000)    | 700,000      |
| Repayments on notes payable                                                                  | (17,237)                         | (44,406)     | (251,895)    |
| Issuance of senior unsecured notes                                                           | 264,255                          | -            | -            |
| Issuance of preferred shares                                                                 | -                                | 738,954      | 701,687      |
| Issuance of common shares                                                                    | 29,663                           | 37,872       | 21,111       |
| Redemption of preferred shares                                                               | (270,000)                        | -            | -            |
| Acquisition of noncontrolling interests                                                      | (5,492)                          | (721)        | (6,248)      |
| Contributions by noncontrolling interests                                                    | 1,562                            | -            | -            |
| Distributions paid to Public Storage shareholders                                            | (1,371,031)                      | (1,200,545)  | (1,091,461)  |



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|                                                                         |             |             |           |
|-------------------------------------------------------------------------|-------------|-------------|-----------|
| Distributions paid to noncontrolling interests                          | (7,325)     | (6,469)     | (6,454)   |
| Net cash used in financing activities                                   | (1,375,605) | (1,225,415) | (16,160)  |
| Net (decrease) increase in cash and cash equivalents                    | (83,109)    | 168,347     | 1,786     |
| Net effect of foreign exchange translation on cash and cash equivalents | (318)       | 196         | 144       |
| Cash and cash equivalents at the beginning of the period                | 187,712     | 19,169      | 17,239    |
| Cash and cash equivalents at the end of the period                      | \$ 104,285  | \$ 187,712  | \$ 19,169 |

See accompanying notes.

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## PUBLIC STORAGE

## STATEMENTS OF CASH FLOWS

(Amounts in thousands)

|                                                                       | For the Years Ended December 31, |          |          |
|-----------------------------------------------------------------------|----------------------------------|----------|----------|
|                                                                       | 2015                             | 2014     | 2013     |
| Supplemental schedule of non-cash investing and financing activities: |                                  |          |          |
| Foreign currency translation adjustment:                              |                                  |          |          |
| Real estate facilities, net of accumulated depreciation               | \$ 500                           | \$ 673   | \$ (254) |
| Investments in unconsolidated real estate entities                    | 19,583                           | 47,251   | (45)     |
| Senior unsecured notes                                                | (315)                            | -        | -        |
| Loan receivable from Shurgard Europe                                  | -                                | 6,975    | (17,144) |
| Accumulated other comprehensive loss                                  | (20,086)                         | (54,703) | 17,587   |
| Real estate acquired in exchange for assumption of notes payable      |                                  |          |          |
|                                                                       | (8,311)                          | (20,460) | (6,071)  |
| Notes payable assumed in connection with acquisition of real estate   |                                  |          |          |
|                                                                       | 8,311                            | 20,460   | 6,071    |
| Accrued construction costs and capital expenditures:                  |                                  |          |          |
| Capital expenditures to maintain real estate facilities               | 2,525                            | 1,178    | (1,879)  |
| Construction in process                                               | (9,623)                          | (8,830)  | (10,859) |
| Accrued and other liabilities                                         | 7,098                            | 7,652    | 12,738   |

See accompanying notes.

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## PUBLIC STORAGE

### NOTES TO FINANCIAL STATEMENTS

December 31, 2015

#### 1. Description of the Business

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

At December 31, 2015, we have direct and indirect equity interests in 2,277 self-storage facilities (with approximately 148 million net rentable square feet) located in 38 states in the United States (“U.S.”) operating under the “Public Storage” name. We also own one self-storage facility in London, England and we have a 49% interest in Shurgard Europe, which owns 216 self-storage facilities (with approximately 12 million net rentable square feet) located in seven Western European countries, all operating under the “Shurgard” name. We also have direct and indirect equity interests in approximately 29 million net rentable square feet of commercial space located in nine states in the U.S. primarily owned and operated by PS Business Parks, Inc. (“PSB”) under the “PS Business Parks” name. At December 31, 2015, we have an approximate 42% common equity interest in PSB.

Disclosures of the number and square footage of facilities, as well as the number and coverage of tenant reinsurance policies (Note 13) are unaudited and outside the scope of our independent registered public accounting firm’s review of our financial statements in accordance with the standards of the Public Company Accounting Oversight Board (U.S.).

#### 2. Summary of Significant Accounting Policies

##### Basis of Presentation

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

Certain amounts previously reported in our December 31, 2014 and 2013 financial statements have been reclassified to conform to the December 31, 2015 presentation. We reclassified the revenues and cost of operations, net for our wholly-owned commercial facilities and property management operations as interest and other income (an aggregate of approximately \$12.7 million and \$11.4 million for the years ended December 31, 2014 and 2013, respectively), rather than as ancillary revenues and ancillary cost of operations. We also revised our reportable segment presentation in Note 11, including renaming (i) our “Domestic Self-Storage” segment to “Self-Storage Operations,” (ii) our “European Self-Storage” segment to “Investment in Shurgard Europe,” (iii) our “Commercial” segment to “Investment in PSB,” removing our commercial facilities’ operations from this segment, and (iv) presenting a new segment called “Ancillary Operations” reflecting the sale of merchandise at our self-storage facilities and reinsurance of policies covering losses to goods stored by our tenants at our facilities. Each of these reclassifications reflects changes to enhance the usefulness of this information based upon the relative significance of these activities to our aggregate operating results.

##### 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 where the equity holders as a group do not have a controlling financial interest. We have no investments or other involvement in any VIEs.

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PUBLIC STORAGE

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

We consolidate all entities that we control (these entities, 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 have significant influence over, but do not control, 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. When we obtain control of an Unconsolidated Real Estate Entity, we commence consolidating the entity and record a gain representing the differential between the book value and fair value of our preexisting equity interest. All changes in consolidation status are reflected prospectively.

When we are general partner, we control the partnership unless the third-party limited partners can dissolve the partnership or otherwise remove us as general partner without cause, or if the limited partners have the right to participate in substantive decisions of the partnership.

Collectively, at December 31, 2015, the Company and the Subsidiaries own 2,265 self-storage facilities in the U.S., one self-storage facility in London, England and three commercial facilities in the U.S. At December 31, 2015, the Unconsolidated Real Estate Entities are comprised of PSB, Shurgard Europe, as well as limited partnerships that own an aggregate of 12 self-storage facilities in the U.S. (these limited partnerships, for the periods in which the reference applies, are referred to as the “Other Investments”).

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

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

We recognize tax benefits of uncertain income tax positions that are subject to audit only if we believe it is more likely than not that the position would ultimately be sustained assuming the relevant taxing authorities had full knowledge of the relevant facts and circumstances of our positions. As of December 31, 2015, 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 develop, construct, renovate and improve facilities, including interest and property taxes incurred during the construction period. We expense internal and external transaction costs associated with acquisitions or dispositions of real estate, as well as repairs and maintenance costs, as incurred. We depreciate buildings and improvements on a straight-line basis over estimated useful lives ranging generally between 5 to 25 years.

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## PUBLIC STORAGE

### NOTES TO FINANCIAL STATEMENTS

December 31, 2015

We allocate the net acquisition cost of acquired operating self-storage facilities to the underlying land, buildings, identified intangible assets, and any noncontrolling interests that remain outstanding based upon their respective individual estimated fair values. Any difference between the net acquisition cost and the estimated fair value of the net tangible and intangible assets acquired is recorded as goodwill.

#### Other Assets

Other assets primarily consist of rents receivable from our tenants, prepaid expenses and restricted cash.

#### Accrued and Other Liabilities

Accrued and other liabilities consist primarily of rents prepaid by our tenants, trade payables, property tax accruals, accrued payroll, accrued tenant reinsurance losses, and contingent loss accruals when probable and estimable. We disclose the nature of significant unaccrued losses that are reasonably possible of occurring and, if estimable, a range of exposure.

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

Cash equivalents represent highly liquid financial instruments such as money market funds with daily liquidity or short-term commercial paper or treasury securities maturing within three months of acquisition. Cash and cash equivalents which are restricted from general corporate use are included in other assets. Commercial paper not maturing within three months of acquisition, which we intend and have the capacity to hold until maturity, are included in marketable securities and accounted for using the effective interest method.

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

#### Fair Value Accounting

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. We prioritize the inputs used in measuring fair value based upon a three-tier hierarchy described in Codification Section 820-10-35. 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 believe that, during all periods presented, the carrying values approximate the estimated fair values of our cash and cash equivalents, other assets, and accrued and other liabilities, based upon our evaluation of the underlying characteristics, market data, and short maturity of these financial instruments, which involved considerable judgment. The characteristics of these financial instruments, market data, and other comparative metrics utilized in determining these fair values are "Level 2" inputs as the term is defined in Codification Section 820-10-35-47.

We estimate fair values in recording our business combinations, to evaluate real estate, investments in unconsolidated real estate entities, goodwill, and other intangible assets for impairment, and to determine the fair values of notes payable and receivable. In estimating these fair values, we consider significant unobservable inputs such as market prices of land, market capitalization rates and earnings multiples for real

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### NOTES TO FINANCIAL STATEMENTS

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estate facilities, projected levels of earnings, costs of construction, functional depreciation, and market interest rates for debt securities with a similar time to maturity and credit quality, which are “Level 3” inputs as the term is defined in Codification Section 820-10-35-52.

#### Currency and Credit Risk

Financial assets that are exposed to credit risk consist primarily of cash and cash equivalents, certain portions of other assets including rents receivable from our tenants and restricted cash. Cash equivalents we invest in are either money market funds with a rating of at least AAA by Standard and Poor’s, commercial paper that is rated A1 by Standard and Poor’s or deposits with highly rated commercial banks.

At December 31, 2015, due primarily to our investment in Shurgard Europe and our senior unsecured notes 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, acquired customers in place, and leasehold interests in land.

Goodwill totaled \$174.6 million at December 31, 2015 and 2014. The “Shurgard” trade name, which is used by Shurgard Europe pursuant to a fee-based licensing agreement, has a book value of \$18.8 million at December 31, 2015 and 2014. Goodwill and the “Shurgard” trade name have indefinite lives and are not amortized.

Acquired customers in place and leasehold interests in land are finite-lived and are amortized relative to the benefit of the customers in place or the benefit to land lease expense to each period. At December 31, 2015, these intangibles had a net book value of \$18.0 million (\$35.2 million at December 31, 2014). Accumulated amortization totaled \$66.4 million at December 31, 2015 (\$69.3 million at December 31, 2014), and amortization expense of \$26.1 million, \$48.4 million and \$24.1 million was recorded in 2015, 2014 and 2013, respectively. The estimated future amortization expense for our finite-lived intangible assets at December 31, 2015 is approximately \$9.7 million in 2016, \$2.1 million in 2017 and \$6.2 million thereafter. During 2015, 2014 and 2013, intangibles were increased \$8.9 million, \$30.2 million and \$61.5 million, respectively, in connection with the acquisition of self-storage facilities (Note 3).

#### Evaluation of Asset Impairment

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

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

is other than temporary.

We evaluate goodwill for impairment annually and whenever relevant events, circumstances and other related factors indicate that fair value of the related reporting unit may be less than the carrying amount. If we

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determine that the fair value of the reporting unit exceeds the aggregate carrying amount, no impairment charge is recorded. Otherwise, we record an impairment charge to the extent the carrying amount of the goodwill exceeds the amount that would be allocated to goodwill if the reporting unit were acquired for estimated fair value.

We evaluate 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 is primarily composed of rental income earned pursuant to month-to-month leases for storage space, as well as associated late charges and administrative fees, are recognized as earned. Promotional discounts reduce rental income over the promotional period, which is generally one month. Ancillary revenues and interest and other income are recognized when earned. Equity in earnings of unconsolidated real estate entities represents our pro-rata share of the earnings of the Unconsolidated Real Estate Entities.

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

Foreign Currency Exchange Translation

The local currency (primarily the Euro) is the functional currency for our interests in foreign operations. The related balance sheet amounts are translated into U.S. Dollars at the exchange rates at the respective financial statement date, while amounts on our statements of income are translated at the average exchange rates during the respective period. When financial instruments denominated in a currency other than the U.S. Dollar are expected to be settled in cash in the foreseeable future, the impact of changes in the U.S. Dollar equivalent are reflected in current earnings. The Euro was translated at exchange rates of approximately 1.091 U.S. Dollars per Euro at December 31, 2015 (1.216 at December 31, 2014), and average exchange rates of 1.110, 1.329 and 1.328 for the years ended December 31, 2015, 2014 and 2013, 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).

For our loan receivable (Note 5), if we determine that it is probable we will be unable to collect all amounts due based on the terms of the loan agreement, we record an impairment charge for any excess of book value over the present value of expected future cash flows.

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



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## Comprehensive Income

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

## Net Income per Common Share

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

Basic net income per share is computed using the weighted average common shares outstanding. Diluted net income per share is computed using the weighted average common shares outstanding, adjusted for the impact, if dilutive, of stock options outstanding (Note 10).

The following table reflects net income allocable to common shareholders and the weighted average common shares and equivalents outstanding, as used in our calculations of basic and diluted net income per share:

|                                                                       | For the Years Ended December 31, |            |            |
|-----------------------------------------------------------------------|----------------------------------|------------|------------|
|                                                                       | 2015                             | 2014       | 2013       |
|                                                                       | (Amounts in thousands)           |            |            |
| Net income allocable to common shareholders                           | \$ 1,053,050                     | \$ 908,176 | \$ 844,731 |
| Weighted average common shares and equivalents outstanding:           |                                  |            |            |
| Basic weighted average common shares outstanding                      | 172,699                          | 172,251    | 171,640    |
| Net effect of dilutive stock options - based on treasury stock method | 811                              | 887        | 1,048      |
| Diluted weighted average common shares outstanding                    | 173,510                          | 173,138    | 172,688    |



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## 3.Real Estate Facilities

Activity in real estate facilities during 2015, 2014 and 2013 is as follows:

|                                                         | 2015                   | 2014          | 2013          |
|---------------------------------------------------------|------------------------|---------------|---------------|
|                                                         | (Amounts in thousands) |               |               |
| Operating facilities, at cost:                          |                        |               |               |
| Beginning balance                                       | \$ 12,863,235          | \$ 12,286,256 | \$ 11,033,819 |
| Capital expenditures to maintain real estate facilities | 63,069                 | 79,784        | 71,270        |
| Acquisitions                                            | 176,444                | 400,514       | 1,095,477     |
| Dispositions                                            | (19,970)               | (112)         | (89)          |
| Newly developed facilities opened for operation         | 123,484                | 98,162        | 85,283        |
| Impact of foreign exchange rate changes                 | (1,001)                | (1,369)       | 496           |
| Ending balance                                          | 13,205,261             | 12,863,235    | 12,286,256    |
| Accumulated depreciation:                               |                        |               |               |
| Beginning balance                                       | (4,482,520)            | (4,098,814)   | (3,738,130)   |
| Depreciation expense                                    | (393,605)              | (384,412)     | (360,442)     |
| Dispositions                                            | 8,886                  | 10            | -             |
| Impact of foreign exchange rate changes                 | 501                    | 696           | (242)         |
| Ending balance                                          | (4,866,738)            | (4,482,520)   | (4,098,814)   |
| Construction in process:                                |                        |               |               |
| Beginning balance                                       | 104,573                | 52,336        | 36,243        |
| Current development                                     | 238,101                | 150,399       | 101,376       |
| Newly developed facilities opened for operation         | (123,484)              | (98,162)      | (85,283)      |
| Ending balance                                          | 219,190                | 104,573       | 52,336        |
| Total real estate facilities at December 31,            | \$ 8,557,713           | \$ 8,485,288  | \$ 8,239,778  |

During 2015, we acquired 17 self-storage facilities (1,285,000 net rentable square feet) and the leasehold interest in the land of one of our existing self-storage facilities, for a total cost of \$185.4 million, consisting of \$177.1 million in cash and the assumption of \$8.3 million in mortgage debt. Approximately \$8.9 million of the total cost was allocated to intangible assets. We completed expansion and development activities during 2015, adding 1,312,000 net rentable square feet of self-storage space, at an aggregate cost of \$123.5 million. Construction in process at December 31, 2015 consists of projects to develop new self-storage facilities and expand existing self-storage facilities, which would add a total of 3.7 million net rentable square feet of storage space, for an aggregate estimated cost of approximately \$486.4 million. During 2015, we sold one commercial facility and two self-storage facilities in connection with eminent domain proceedings for a total of \$29.7 million in cash proceeds, of which \$14.7 million was collected in 2014, and recorded related gains on real estate sales totaling \$18.5 million.

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

During 2013, we acquired 121 operating self-storage facilities from third parties (8,036,000 net rentable square feet of storage space) for \$1.151 billion in cash and assumed mortgage debt with a fair value of

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## PUBLIC STORAGE

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\$6 million. We allocated approximately \$1.095 billion to real estate facilities and \$62 million to intangible assets. We completed expansion and development activities during 2013, adding 614,000 net rentable square feet of self-storage space, at an aggregate cost of \$85.3 million. We disposed of real estate for an aggregate of \$0.2 million in cash, recording a gain of approximately \$0.1 million in connection with partial condemnations.

At December 31, 2015, the adjusted basis of real estate facilities for federal tax purposes was approximately \$9.0 billion (unaudited).

## 4. Investments in Unconsolidated Real Estate Entities

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

|                       | Investments in<br>Unconsolidated Real<br>Estate Entities at<br>December 31, |            | Equity in Earnings of<br>Unconsolidated Real Estate<br>Entities for the Year Ended<br>December 31, |           |           |
|-----------------------|-----------------------------------------------------------------------------|------------|----------------------------------------------------------------------------------------------------|-----------|-----------|
|                       | 2015                                                                        | 2014       | 2015                                                                                               | 2014      | 2013      |
| PSB                   | \$ 414,450                                                                  | \$ 412,115 | \$ 34,155                                                                                          | \$ 56,280 | \$ 23,199 |
| Shurgard Europe       | 388,367                                                                     | 394,842    | 14,272                                                                                             | 29,900    | 32,694    |
| Other Investments (A) | 6,491                                                                       | 6,783      | 2,510                                                                                              | 2,087     | 1,686     |
| Total                 | \$ 809,308                                                                  | \$ 813,740 | \$ 50,937                                                                                          | \$ 88,267 | \$ 57,579 |

(A) At December 31, 2015, the "Other Investments" include an average common equity ownership of approximately 26% in various limited partnerships that collectively own 12 self-storage facilities (13 facilities at December 31, 2014).

During 2015, 2014 and 2013, we received cash distributions from our investments in the Unconsolidated Real Estate Entities totaling \$35.7 million, \$83.5 million and \$45.9 million, respectively. At December 31, 2015, the cost of our investment in the Unconsolidated Real Estate Entities exceeds our pro rata share of the underlying equity by approximately \$62 million (\$68 million at December 31, 2014). This differential is being amortized as a reduction in equity in earnings of the Unconsolidated Real Estate Entities based upon allocations to the underlying net assets. Such amortization was approximately \$2.4 million and \$4.4 million during 2015 and 2014, respectively, none in 2013.

## Investment in PSB

PSB is a REIT traded on the New York Stock Exchange. We have an approximate 42% common equity interest in PSB as of December 31, 2015 and 2014, comprised of our ownership of 7,158,354 shares of PSB's common stock and 7,305,355 limited partnership units ("LP Units") in an operating partnership controlled by PSB. The LP Units are convertible at our option, subject to certain conditions, on a one-for-one basis into PSB common stock. Based upon

the closing price at December 31, 2015 (\$87.43 per share of PSB common stock), the shares and units we owned had a market value of approximately \$1.3 billion.

Included in equity in earnings of unconsolidated real estate entities is our \$11.3 million and \$36.5 million share of gains on sale of facilities recorded by PSB for 2015 and 2014, respectively. During 2013, we purchased 406,748 shares of PSB common stock in open-market transactions for a total of \$29.7 million. Subsequently, on November 7, 2013, PSB completed a public offering of 1,495,000 shares of its common stock for \$79.25 per share. Concurrent with the public offering, we purchased an additional 950,000 shares of PSB common stock from PSB at the same price per share as the public offering for a total cost of

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## PUBLIC STORAGE

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\$75.3 million. In connection with PSB's common share issuance, we recognized a gain on sale of real estate totaling \$4.1 million as if we had sold a proportionate share of our investment in PSB.

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

|                                      | 2015                   | 2014         |
|--------------------------------------|------------------------|--------------|
|                                      | (Amounts in thousands) |              |
| As of December 31,                   |                        |              |
| Total assets (primarily real estate) | \$ 2,186,658           | \$ 2,227,114 |
| Debt                                 | 250,000                | 250,000      |
| Other liabilities                    | 76,059                 | 68,905       |
| Equity:                              |                        |              |
| Preferred stock                      | 920,000                | 995,000      |
| Common equity and LP units           | 940,599                | 913,209      |

|                                                                        | 2015                   | 2014       | 2013       |
|------------------------------------------------------------------------|------------------------|------------|------------|
|                                                                        | (Amounts in thousands) |            |            |
| For the year ended December 31,                                        |                        |            |            |
| Total revenue                                                          | \$ 373,675             | \$ 376,915 | \$ 359,885 |
| Costs of operations                                                    | (121,224)              | (127,371)  | (114,831)  |
| Depreciation and amortization                                          | (105,394)              | (110,357)  | (108,917)  |
| General and administrative                                             | (13,582)               | (13,639)   | (5,312)    |
| Other items                                                            | (12,740)               | (13,221)   | (14,681)   |
| Gain on sale of facilities                                             | 28,235                 | 92,373     | -          |
| Net income                                                             | 148,970                | 204,700    | 116,144    |
| Allocations to preferred shareholders and restricted share unitholders | (62,184)               | (60,817)   | (59,341)   |
| Net income allocated to common shareholders and LP Unitholders         | \$ 86,786              | \$ 143,883 | \$ 56,803  |

### Investment in Shurgard Europe

For all periods presented, we had a 49% equity investment in Shurgard Europe and our joint venture partner owns the remaining 51% interest. In addition, Shurgard Europe pays a license fee to us for the use of the “Shurgard” trademark and paid us interest on a shareholder loan until it was repaid in July 2014 (see Note 5).

Changes in foreign currency exchange rates caused our investment in Shurgard Europe to decrease by approximately \$19.6 million and \$47.3 million in 2015 and 2014, respectively, and to increase by \$45.0 thousand in 2013.

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

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|                                                  | 2015                   | 2014         |
|--------------------------------------------------|------------------------|--------------|
| As of December 31,                               | (Amounts in thousands) |              |
| Total assets (primarily self-storage facilities) | \$ 1,476,632           | \$ 1,404,246 |
| Total debt to third parties                      | 662,336                | 500,767      |
| Other liabilities                                | 110,522                | 180,546      |
| Equity                                           | 703,774                | 722,933      |
| Exchange rate of Euro to U.S. Dollar             | 1.091                  | 1.216        |

|                                                       | 2015                   | 2014       | 2013       |
|-------------------------------------------------------|------------------------|------------|------------|
| For the year ended December 31,                       | (Amounts in thousands) |            |            |
| Self-storage and ancillary revenues                   | \$ 236,990             | \$ 254,136 | \$ 246,615 |
| Self-storage and ancillary cost of operations         | (93,575)               | (100,177)  | (98,222)   |
| Depreciation and amortization                         | (66,665)               | (61,796)   | (60,029)   |
| General and administrative and income tax expense (a) | (23,418)               | (14,964)   | (13,651)   |
| Interest expense on third party debt                  | (16,695)               | (9,607)    | (5,082)    |
| Trademark license fee payable to Public Storage       | (2,376)                | (2,544)    | (2,468)    |
| Interest expense on shareholder loan                  | -                      | (21,761)   | (37,838)   |
| Costs of acquiring facilities and other, net (b)      | (7,509)                | (6,573)    | (2,909)    |
| Net income                                            | \$ 26,752              | \$ 36,714  | \$ 26,416  |
| Average exchange rates of Euro to the U.S. Dollar     | 1.110                  | 1.329      | 1.328      |

(a) Included in these amounts are approximately \$10.8 million, \$5.4 million, and \$2.6 million for 2015, 2014, and 2013, respectively, in income tax expense.

(b) Included in these amounts are \$10.5 million and \$4.3 million in 2015 and 2014, respectively, associated with the acquisition of real estate facilities.

The following table set forth the calculation of our equity in earnings in Shurgard Europe:

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|                                                       | 2015                   | 2014      | 2013      |
|-------------------------------------------------------|------------------------|-----------|-----------|
|                                                       | (Amounts in thousands) |           |           |
| For the year ended December 31,                       |                        |           |           |
| Calculation of equity in earnings of Shurgard Europe: |                        |           |           |
| Our 49% share of Shurgard Europe's net income         | \$ 13,108              | \$ 17,990 | \$ 12,944 |
| Adjustments:                                          |                        |           |           |
| 49% of trademark license fees                         | 1,164                  | 1,247     | 1,209     |
| 49% of interest on shareholder loan                   | -                      | 10,663    | 18,541    |
| Total equity in earnings of Shurgard Europe           | \$ 14,272              | \$ 29,900 | \$ 32,694 |

As indicated in the table above, 49% of the trademark license fees and interest paid by Shurgard Europe to its shareholders is included in our equity in earnings of Shurgard Europe and any remaining amount

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paid to us is included in “interest and other income” on our income statements. See Note 5 for further information.

5. Loan Receivable from Unconsolidated Real Estate Entity

At December 31, 2013, we owned 100% of the shareholder loan due from Shurgard Europe, which had a balance of €311.0 million (\$428.1 million) and bore interest at 9.0% per annum. On January 28, 2014, our joint venture partner in Shurgard Europe acquired a 51% interest in the loan at face value for €158.6 million (\$216.2 million) in cash. In July 2014, Shurgard Europe fully repaid its €311.0 million shareholder loan, and we received our 49% share of the loan totaling €152.4 million (\$204.9 million) in cash. For 2014 and 2013, we recorded interest income with respect to this loan of approximately \$1.5 million and \$19.3 million, respectively.

Because we expected the loan to be repaid in the foreseeable future, changes in the U.S. Dollar equivalent of the amount due us due to change in the foreign exchange rates were presented as “foreign currency exchange gain (loss)” on our income statement.

We believed that the interest rate on the loan approximated the market rate for loans with similar terms, conditions, subordination features, and tenor, and that the fair value of the loan approximated book value. In our evaluation of market rates and fair value, we considered that Shurgard Europe had sufficient operating cash flow, liquidity and collateral, and we had sufficient creditor rights such that credit risk was mitigated.

6. Borrowings

Credit Facility

On March 31, 2015, we entered into an amended revolving credit agreement (the “Credit Facility”), which expires on March 31, 2020. The aggregate limit with respect to borrowings and letters of credit was increased from \$300 million to \$500 million. Amounts drawn on the Credit Facility bear annual interest at rates ranging from LIBOR plus 0.850% to LIBOR plus 1.450% depending upon the ratio of our Total Indebtedness to Gross Asset Value (as defined in the Credit Facility) (LIBOR plus 0.850% at December 31, 2015). In addition, we are required to pay a quarterly facility fee ranging from 0.080% per annum to 0.250% per annum depending upon the ratio of our Total Indebtedness to our Gross Asset Value (0.080% per annum at December 31, 2015). At December 31, 2015 and February 26, 2016, we had no outstanding borrowings under this Credit Facility. We had undrawn standby letters of credit, which reduce our borrowing capacity, totaling \$14.9 million and \$13.9 million at December 31, 2015 and 2014, respectively. The Credit Facility has various customary restrictive covenants, all of which we were in compliance with at December 31, 2015.

Senior Unsecured Notes and Term Loan

On November 3, 2015, we issued €242 million of Euro-denominated senior unsecured notes (the “Senior Notes”) to an institutional investor, bearing interest at a fixed rate of 2.175% and maturing on November 3, 2025. We received \$264.3 million of net proceeds from the issuance of the Senior Notes. We reflect changes in the U.S. Dollar

equivalent of the amount we owe on the Senior Notes, as a result of changes in foreign exchange rates as “foreign currency exchange gain (loss)” on our income statement. For 2015, we recorded a foreign currency exchange gain of \$0.3 million on our income statement for 2015 in connection with the Senior Notes. The Senior Notes have various customary financial covenants, all of which we were in compliance with at December 31, 2015.

On October 1, 2013, we borrowed \$100.0 million from PSB under a term loan which was repaid in full on October 18, 2013. The loan bore interest at 1.388%.

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On December 2, 2013, we borrowed \$700 million from Wells Fargo under an unsecured term loan (the “Term Loan”). The Term Loan was repaid in 2014. We incurred origination costs of \$1.9 million, which were amortized using the effective interest method through the date of extinguishment (\$1.8 million and \$0.1 million for 2014 and 2013, respectively).

## Mortgage Notes

During 2015, 2014 and 2013, we assumed mortgage debt with estimated fair values of \$8.3 million \$20.5 million and \$6.1 million, respectively, and market rates of 4.3%, 3.6% and 3.7%, respectively, (contractual balances of \$8.3 million, \$19.8 million and \$5.7 million and contractual interest rates of 6.2%, 5.2% and 6.2%) in connection with the acquisition of real estate facilities.

The carrying amounts of our mortgage notes (the “Mortgage Notes”) at December 31 2015 and December 31, 2014, totaled \$55.1 million and \$64.4 million, respectively, with unamortized premium totaling \$0.5 million and \$0.6 million, respectively. These notes were assumed in connection with acquisitions of real estate facilities and recorded at fair value with any premium or discount to the stated note balance amortized using the effective interest method. At December 31, 2015, the notes are secured by 32 real estate facilities with a net book value of approximately \$149 million, have contractual interest rates between 2.9% and 7.1%, and mature between June 2016 and September 2028.

At December 31, 2015, approximate principal maturities of our Senior Notes and Mortgage Notes are (amounts in thousands):

|                                 | Senior<br>Notes | Mortgage Notes | Total      |
|---------------------------------|-----------------|----------------|------------|
| 2016                            | \$ -            | \$ 28,980      | \$ 28,980  |
| 2017                            | -               | 9,205          | 9,205      |
| 2018                            | -               | 11,099         | 11,099     |
| 2019                            | -               | 1,217          | 1,217      |
| 2020                            | -               | 1,286          | 1,286      |
| Thereafter                      | 263,940         | 3,289          | 267,229    |
|                                 | \$ 263,940      | \$ 55,076      | \$ 319,016 |
| Weighted average effective rate | 2.2%            | 4.1%           | 2.5%       |

Cash paid for interest totaled \$3.4 million, \$9.0 million and \$10.4 million for 2015, 2014 and 2013, respectively. Interest capitalized as real estate totaled \$2.7 million, \$1.6 million and \$2.9 million in 2015, 2014 and 2013, respectively.

## 7. Noncontrolling Interests

At December 31, 2015, the noncontrolling interests represent (i) third-party equity interests in subsidiaries owning 13 operating self-storage facilities and seven self-storage facilities that are under construction and (ii) 231,978 partnership units held by third-parties in a subsidiary that are convertible on a one-for-one basis (subject to certain limitations) into common shares of the Company at the option of the unitholder (collectively, the “Noncontrolling Interests”). At December 31, 2015, the Noncontrolling Interests cannot require us to redeem their interests, other than pursuant to a liquidation of the subsidiary. During 2015, 2014 and 2013, we allocated a total of \$6.4 million, \$5.8 million and \$5.1 million, respectively, to these interests; and we paid \$7.3 million, \$6.5 million and \$6.5 million, respectively, in distributions to these interests.

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## PUBLIC STORAGE

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015

During 2015, 2014 and 2013, we acquired Noncontrolling Interests for \$5.5 million, \$0.7 million and \$6.2 million, respectively, in cash, substantially all of which was allocated to paid-in-capital. Also during 2015, noncontrolling interests contributed \$1.6 million.

## 8.Shareholders' Equity

## Preferred Shares

At December 31, 2015 and 2014, we had the following series of Cumulative Preferred Shares ("Preferred Shares") outstanding:

| Series                        | Earliest Redemption Date | Dividend Rate | At December 31, 2015 |                        | At December 31, 2014 |                        |
|-------------------------------|--------------------------|---------------|----------------------|------------------------|----------------------|------------------------|
|                               |                          |               | Shares Outstanding   | Liquidation Preference | Shares Outstanding   | Liquidation Preference |
| (Dollar amounts in thousands) |                          |               |                      |                        |                      |                        |
| Series O                      | 4/15/2015                | 6.875%        | -                    | \$ -                   | 5,800                | \$ 145,000             |
| Series P                      | 10/7/2015                | 6.500%        | -                    | -                      | 5,000                | 125,000                |
| Series Q                      | 4/14/2016                | 6.500%        | 15,000               | 375,000                | 15,000               | 375,000                |
| Series R                      | 7/26/2016                | 6.350%        | 19,500               | 487,500                | 19,500               | 487,500                |
| Series S                      | 1/12/2017                | 5.900%        | 18,400               | 460,000                | 18,400               | 460,000                |
| Series T                      | 3/13/2017                | 5.750%        | 18,500               | 462,500                | 18,500               | 462,500                |
| Series U                      | 6/15/2017                | 5.625%        | 11,500               | 287,500                | 11,500               | 287,500                |
| Series V                      | 9/20/2017                | 5.375%        | 19,800               | 495,000                | 19,800               | 495,000                |
| Series W                      | 1/16/2018                | 5.200%        | 20,000               | 500,000                | 20,000               | 500,000                |
| Series X                      | 3/13/2018                | 5.200%        | 9,000                | 225,000                | 9,000                | 225,000                |
| Series Y                      | 3/17/2019                | 6.375%        | 11,400               | 285,000                | 11,400               | 285,000                |
| Series Z                      | 6/4/2019                 | 6.000%        | 11,500               | 287,500                | 11,500               | 287,500                |
| Series A                      | 12/2/2019                | 5.875%        | 7,600                | 190,000                | 7,600                | 190,000                |
| Total Preferred Shares        |                          |               | 162,200              | \$ 4,055,000           | 173,000              | \$ 4,325,000           |

The holders of our Preferred Shares have general preference rights with respect to liquidation, quarterly distributions and any accumulated unpaid distributions. Except under certain conditions and as noted below, holders of the Preferred Shares will not be entitled to vote on most matters. In the event of a cumulative arrearage equal to six quarterly dividends, holders of all outstanding series of preferred shares (voting as a single class without regard to series) will have the right to elect two additional members to serve on our board of trustees (the "Board") until the arrearage has been cured. At December 31, 2015, there were no dividends in arrears.

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

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

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## PUBLIC STORAGE

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015

In 2015, we redeemed our Series O and Series P Preferred Shares, at par. The aggregate redemption amount, before payment of accrued dividends, was \$270.0 million. We recorded \$8.9 million in EITF D-42 allocations of income from our common shareholders to the holders of our Preferred Shares in 2015 in connection with these redemptions.

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

During 2013, we issued an aggregate 29.0 million depositary shares, each representing 1/1,000 of a share of our Series W and Series X Preferred Shares, at an issuance price of \$25.00 per depositary share, for a total of \$725.0 million in gross proceeds, and we incurred \$23.3 million in issuance costs.

## Common Shares

During 2015, 2014 and 2013, activity with respect to the issuance or repurchase of our common shares was as follows (dollar amounts in thousands):

|                                                                           | 2015    |           | 2014    |           | 2013    |           |
|---------------------------------------------------------------------------|---------|-----------|---------|-----------|---------|-----------|
|                                                                           | Shares  | Amount    | Shares  | Amount    | Shares  | Amount    |
| Employee stock-based compensation and exercise of stock options (Note 10) | 475,687 | \$ 29,663 | 669,263 | \$ 37,872 | 388,005 | \$ 21,111 |

Our Board previously authorized the repurchase from time to time of up to 35.0 million of our common shares on the open market or in privately negotiated transactions. Through December 31, 2015, we repurchased approximately 23.7 million shares pursuant to this authorization; none of which were repurchased during the three years ended December 31, 2015.

At December 31, 2015 and 2014, we had 2,677,667 and 2,836,592, respectively, of common shares reserved in connection with our share-based incentive plans (see Note 10), and 231,978 shares reserved for the conversion of partnership units owned by Noncontrolling Interests.

The unaudited characterization of dividends for Federal income tax purposes is made based upon earnings and profits of the Company, as defined by the Internal Revenue Code. Common share dividends including amounts paid to our common shareholders and our restricted share unitholders totaled \$1.126 billion (\$6.50 per share), \$967.9 million (\$5.60 per share) and \$887.1 million (\$5.15 per share), for the years ended December 31, 2015, 2014 and 2013, respectively. Preferred share dividends totaled \$245.1 million, \$232.6 million and \$204.3 million for the years ended December 31, 2015, 2014 and 2013, respectively.

For the tax year ended December 31, 2015, distributions for the common shares and all the various series of preferred shares were classified as follows:

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|                        | 2015 (unaudited) |   |             |   |             |   |             |   |
|------------------------|------------------|---|-------------|---|-------------|---|-------------|---|
|                        | 1st Quarter      |   | 2nd Quarter |   | 3rd Quarter |   | 4th Quarter |   |
| Ordinary Income        | 100.00           | % | 100.00      | % | 98.49       | % | 100.00      | % |
| Long-Term Capital Gain | 0.00             | % | 0.00        | % | 1.51        | % | 0.00        | % |
| Total                  | 100.00           | % | 100.00      | % | 100.00      | % | 100.00      | % |

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PUBLIC STORAGE

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

The ordinary income dividends distributed for the tax year ended December 31, 2015 do not constitute qualified dividend income.

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 of Trustees, collectively own approximately 14.4% of our common shares outstanding at December 31, 2015.

At December 31, 2015, B. Wayne Hughes and Tamara Hughes Gustavson together owned and controlled 55 self-storage facilities in Canada. These facilities operate under the “Public Storage” tradename, which we license to the owners of these facilities for use in Canada on a royalty-free, non-exclusive basis. Our subsidiaries reinsure risks relating to loss of goods stored by customers in these facilities, and have received approximately \$0.5 million per year for each of the three years ended December 31, 2015. Our right to continue receiving these premiums may be qualified. We have no ownership interest in these facilities and we do not own or operate any facilities in Canada. If we chose to acquire or develop our own facilities in Canada, we would have to share the use of the “Public Storage” name in Canada with the facilities’ owners. We have a right of first refusal, subject to limitations, to acquire the stock or assets of the corporation engaged in the operation of these facilities (“PS Canada”) if their owners agree to sell them.

At December 31, 2012, PS Canada and PSB held approximately a 2.2% and 4.0%, respectively, interest in STOR-Re Mutual Insurance Company, Inc. (“STOR-Re”), a Subsidiary that provided liability and casualty insurance for PS Canada, PSB, the Company, and certain affiliates of the Company for occurrences prior to April 1, 2004. During 2013, we acquired PS Canada’s 2.2% interest and PSB’s 4.0% interest in STOR-Re for \$0.6 million and \$1.1 million, respectively, in cash.

On October 1, 2013, we borrowed \$100.0 million from PSB under a term loan which was repaid in full on October 18, 2013. The loan bore interest at 1.388% per annum and interest paid to PSB totaled \$0.1 million.

10.Share-Based Compensation

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

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

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

separately over each individual service period (the “accelerated attribution” method).

#### Stock Options

Stock options vest over a three to five-year period, expire ten years after the grant date, and the

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## PUBLIC STORAGE

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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.

The stock options outstanding at December 31, 2015 have an aggregate intrinsic value (the excess, if any, of each option's market value over the exercise price) of approximately \$228.1 million and remaining average contractual lives of approximately six years. Substantially all of the stock options outstanding at December 31, 2015 have exercise prices less than \$200 per share. The aggregate intrinsic value of exercisable stock options at December 31, 2015 amounted to approximately \$176.6 million.

Additional information with respect to stock options during 2015, 2014 and 2013 is as follows:

|                                     | 2015                    |                                                       | 2014                    |                                                       | 2013                    |                                                       |
|-------------------------------------|-------------------------|-------------------------------------------------------|-------------------------|-------------------------------------------------------|-------------------------|-------------------------------------------------------|
|                                     | Number<br>of<br>Options | Weighted<br>Average<br>Exercise<br>Price<br>per Share | Number<br>of<br>Options | Weighted<br>Average<br>Exercise<br>Price<br>per Share | Number<br>of<br>Options | Weighted<br>Average<br>Exercise<br>Price<br>per Share |
| Options outstanding January 1,      | 2,085,544               | \$ 111.96                                             | 2,174,211               | \$ 85.49                                              | 2,253,510               | \$ 76.14                                              |
| Granted                             | 335,000                 | 200.70                                                | 485,000                 | 176.74                                                | 235,000                 | 153.89                                                |
| Exercised                           | (365,265)               | 80.99                                                 | (570,417)               | 66.39                                                 | (286,299)               | 71.06                                                 |
| Cancelled                           | (115,000)               | 163.15                                                | (3,250)                 | 63.76                                                 | (28,000)                | 55.25                                                 |
| Options outstanding December 31,    | 1,940,279               | \$ 130.08                                             | 2,085,544               | \$ 111.96                                             | 2,174,211               | \$ 85.49                                              |
| Options exercisable at December 31, | 1,150,272               | \$ 94.18                                              | 1,321,537               | \$ 82.46                                              | 1,581,954               | \$ 76.29                                              |

|                                              | 2015     | 2014     | 2013     |
|----------------------------------------------|----------|----------|----------|
| Stock option expense for the year (in 000's) | \$ 3,871 | \$ 3,216 | \$ 3,468 |

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|                                                                                         |           |           |           |
|-----------------------------------------------------------------------------------------|-----------|-----------|-----------|
| Aggregate exercise date intrinsic value of options exercised during the year (in 000's) | \$ 46,719 | \$ 59,322 | \$ 23,337 |
|-----------------------------------------------------------------------------------------|-----------|-----------|-----------|

Average assumptions used in valuing options with the Black-Scholes method:

|                                                                     |       |       |       |
|---------------------------------------------------------------------|-------|-------|-------|
| Expected life of options in years, based upon historical experience | 5     | 5     | 5     |
| Risk-free interest rate                                             | 1.6%  | 1.6%  | 0.8%  |
| Expected volatility, based upon historical volatility               | 15.1% | 16.8% | 25.8% |
| Expected dividend yield                                             | 2.9%  | 3.2%  | 3.3%  |

|                                                                                   |          |          |          |
|-----------------------------------------------------------------------------------|----------|----------|----------|
| Average estimated value of options granted during the year Restricted Share Units | \$ 18.39 | \$ 17.66 | \$ 23.83 |
|-----------------------------------------------------------------------------------|----------|----------|----------|

RSUs generally vest ratably over a five to eight-year period from the grant date. The grantee receives dividends for each outstanding RSU equal to the per-share dividends received by our common shareholders.

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## PUBLIC STORAGE

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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.

The fair value of our RSUs outstanding at December 31, 2015 was approximately \$182.7 million. Remaining compensation expense related to RSUs outstanding at December 31, 2015 totals approximately \$93.0 million (which is net of expected forfeitures) and is expected to be recognized as compensation expense over the next 2.4 years on average. The following tables set forth relevant information with respect to restricted shares (dollar amounts in thousands):

|                                                    | 2015                                   |                                       | 2014                                   |                                       | 2013                                   |                                       |
|----------------------------------------------------|----------------------------------------|---------------------------------------|----------------------------------------|---------------------------------------|----------------------------------------|---------------------------------------|
|                                                    | Number of<br>Restricted<br>Share Units | Grant Date<br>Aggregate<br>Fair Value | Number of<br>Restricted<br>Share Units | Grant Date<br>Aggregate<br>Fair Value | Number of<br>Restricted<br>Share Units | Grant Date<br>Aggregate<br>Fair Value |
| Restricted share units<br>outstanding January 1,   | 751,048                                | \$ 110,874                            | 636,329                                | \$ 77,284                             | 642,647                                | \$ 67,473                             |
| Granted                                            | 252,376                                | 55,307                                | 339,607                                | 59,009                                | 197,675                                | 30,774                                |
| Vested                                             | (187,342)                              | (24,752)                              | (166,905)                              | (18,456)                              | (154,535)                              | (15,657)                              |
| Forfeited                                          | (78,694)                               | (12,145)                              | (57,983)                               | (6,963)                               | (49,458)                               | (5,306)                               |
| Restricted share units<br>outstanding December 31, | 737,388                                | \$ 129,284                            | 751,048                                | \$ 110,874                            | 636,329                                | \$ 77,284                             |

|                                                           | 2015      | 2014      | 2013      |
|-----------------------------------------------------------|-----------|-----------|-----------|
| Amounts for the year (in 000's, except number of shares): |           |           |           |
| Fair value of vested shares on vesting date               | \$ 38,182 | \$ 27,591 | \$ 23,551 |
| Cash paid upon vesting in lieu of issuing common shares   | \$ 15,677 | \$ 11,449 | \$ 8,067  |
| Common shares issued upon vesting                         | 110,422   | 98,846    | 101,706   |
| Restricted share unit expense                             | \$ 27,599 | \$ 25,159 | \$ 23,919 |

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.

## 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.”

We have adjusted the classification of the “Presentation of Segment Information” below with respect to prior periods to be consistent with our current reportable segment definition, as described more fully in Note 2. Following is a description of and basis for presentation for each of our reportable segments.

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PUBLIC STORAGE

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

Self-Storage Operations

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

Ancillary Operations

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

Investment in PSB

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

Investment in Shurgard Europe

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

Presentation of Segment Information

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

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## PUBLIC STORAGE

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015

Year ended December 31, 2015

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



## PUBLIC STORAGE

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015

Year ended December 31, 2014

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





## PUBLIC STORAGE

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015

Year ended December 31, 2013

|                                                              | Self-Storage<br>Operations | Ancillary<br>Operations | Investment<br>in PSB | Investment<br>in<br>Shurgard<br>Europe | Other<br>Items Not<br>Allocated<br>to<br>Segments | Total        |
|--------------------------------------------------------------|----------------------------|-------------------------|----------------------|----------------------------------------|---------------------------------------------------|--------------|
| (Amounts in thousands)                                       |                            |                         |                      |                                        |                                                   |              |
| Revenues:                                                    |                            |                         |                      |                                        |                                                   |              |
| Self-storage operations                                      | \$ 1,849,883               | \$ -                    | \$ -                 | \$ -                                   | \$ -                                              | \$ 1,849,883 |
| Ancillary operations                                         | -                          | 115,059                 | -                    | -                                      | -                                                 | 115,059      |
|                                                              | 1,849,883                  | 115,059                 | -                    | -                                      | -                                                 | 1,964,942    |
| Cost of operations:                                          |                            |                         |                      |                                        |                                                   |              |
| Self-storage operations                                      | 524,086                    | -                       | -                    | -                                      | -                                                 | 524,086      |
| Ancillary operations                                         | -                          | 35,673                  | -                    | -                                      | -                                                 | 35,673       |
|                                                              | 524,086                    | 35,673                  | -                    | -                                      | -                                                 | 559,759      |
| Net operating income:                                        |                            |                         |                      |                                        |                                                   |              |
| Self-storage operations                                      | 1,325,797                  | -                       | -                    | -                                      | -                                                 | 1,325,797    |
| Ancillary operations                                         | -                          | 79,386                  | -                    | -                                      | -                                                 | 79,386       |
|                                                              | 1,325,797                  | 79,386                  | -                    | -                                      | -                                                 | 1,405,183    |
| Other components of net income<br>(loss):                    |                            |                         |                      |                                        |                                                   |              |
| Depreciation and amortization                                | (387,402)                  | -                       | -                    | -                                      | -                                                 | (387,402)    |
| General and administrative                                   | -                          | -                       | -                    | -                                      | (66,679)                                          | (66,679)     |
| Interest and other income                                    | -                          | -                       | -                    | -                                      | 33,979                                            | 33,979       |
| Interest expense                                             | -                          | -                       | -                    | -                                      | (6,444)                                           | (6,444)      |
| Equity in earnings of<br>unconsolidated real estate entities | -                          | -                       | 23,199               | 32,694                                 | 1,686                                             | 57,579       |
| Foreign currency exchange gain                               | -                          | -                       | -                    | -                                      | 17,082                                            | 17,082       |
| Gain on real estate sales                                    | -                          | -                       | -                    | -                                      | 4,233                                             | 4,233        |
| Net income (loss)                                            | \$ 938,395                 | \$ 79,386               | \$ 23,199            | \$ 32,694                              | \$ (16,143)                                       | \$ 1,057,531 |

## 12. Recent Accounting Pronouncements and Guidance

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In May 2014, the FASB issued ASU No. 2014-09, which requires revenue to be based upon the consideration expected from customers for promised goods or services. The new standard, effective on January 1, 2018, permits either the retrospective or cumulative effects transition method and allows for early adoption on January 1, 2017. We do not believe this standard will have a material impact on our results of operations or financial condition.

In February 2015, the FASB issued ASU No. 2015-02, which modifies i) the criteria for and the analysis of the identification of consolidation of variable interest entities, particularly when fee arrangements and related party relationships are involved, and ii) the consolidation analysis for partnerships. The standard is

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PUBLIC STORAGE

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period, with early adoption permitted. We have not yet determined whether this standard will have a material effect on our results of operations or financial condition.

In February 2016, the FASB issued ASU 2016-02, which amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The new standard, effective on January 1, 2019, requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief and allows for early adoption on January 1, 2016. We have not yet determined whether this standard will have a material effect on our results of operations or financial condition.

13. Commitments and Contingencies

Contingent Losses

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

Insurance and Loss Exposure

We have historically carried customary property, earthquake, general liability, employee medical insurance and workers compensation coverage through internationally recognized insurance carriers, subject to deductibles. Deductibles for property and general liability are \$25 million and \$2 million, respectively, per occurrence. The aggregate limits on these policies of \$75 million for property losses and \$102 million for general liability losses are higher than estimates of maximum probable losses that could occur from individual catastrophic events determined in recent engineering and actuarial studies; however, in case of multiple catastrophic events, these limits could be exceeded.

We reinsure a program that provides insurance to our customers from an independent third-party insurer. This program covers tenant claims for losses to goods stored at our facilities as a result of specific named perils (earthquakes are not covered by this program), up to a maximum limit of \$5,000 per storage unit. We reinsure all risks in this program. We are subject to licensing requirements and regulations in several states. At December 31, 2015, there were approximately 874,000 certificates held by our self-storage customers, representing aggregate coverage of approximately \$2.5 billion.

## PUBLIC STORAGE

## NOTES TO FINANCIAL STATEMENTS

December 31, 2015

## 14. Supplementary Quarterly Financial Data (unaudited)

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

|                                               | Three Months Ended                            |                  |                          |                         |
|-----------------------------------------------|-----------------------------------------------|------------------|--------------------------|-------------------------|
|                                               | March 31,<br>2014                             | June 30,<br>2014 | September<br>30,<br>2014 | December<br>31,<br>2014 |
|                                               | (Amounts in thousands, except per share data) |                  |                          |                         |
| Self-storage and ancillary revenues           | \$ 515,045                                    | \$ 533,480       | \$ 567,090               | \$ 561,681              |
| Self-storage and ancillary cost of operations | \$ 173,155                                    | \$ 149,224       | \$ 158,568               | \$ 132,377              |
| Depreciation and amortization                 | \$ 109,021                                    | \$ 106,443       | \$ 111,077               | \$ 110,573              |
| Net Income                                    | \$ 228,273                                    | \$ 278,279       | \$ 294,977               | \$ 348,426              |
| Per Common Share                              |                                               |                  |                          |                         |
| Net income - Basic                            | \$ 1.01                                       | \$ 1.27          | \$ 1.34                  | \$ 1.65                 |

|                      |         |         |         |         |
|----------------------|---------|---------|---------|---------|
| Net income - Diluted | \$ 1.01 | \$ 1.26 | \$ 1.34 | \$ 1.64 |
|----------------------|---------|---------|---------|---------|

#### 15.Subsequent Events

On January 20, 2016, we issued 12.0 million depositary shares, each representing 1/1,000 of a share of our 5.40% Series B Preferred Shares, at an issuance price of \$25.00 per depositary share, for a total of \$300.0 million in gross proceeds, and we incurred \$9.9 million in issuance costs.

Subsequent to December 31, 2015, we acquired or were under contract to acquire 17 self-storage facilities (seven in Florida, eight in Ohio, and one each in Tennessee and South Carolina), with 1.2 million net rentable square feet, for \$149 million.

PUBLIC STORAGE  
SCHEDULE III - REAL ESTATE  
AND ACCUMULATED DEPRECIATION  
(Dollar amounts in thousands)

| Description                        | No. of Facilities | 2015 Encumbrances | Initial Cost Land | Buildings & Improvements | Costs Subsequent to Acquisition | Gross Carrying Amount At December 31, 2015 |              |              | Acquired   |
|------------------------------------|-------------------|-------------------|-------------------|--------------------------|---------------------------------|--------------------------------------------|--------------|--------------|------------|
|                                    |                   |                   |                   |                          |                                 | Land                                       | Buildings    | Total        | De         |
| Self-storage facilities by market: |                   |                   |                   |                          |                                 |                                            |              |              |            |
| Los Angeles                        | 215               | \$ 6,180          | \$ 440,025        | \$ 853,149               | \$ 251,837                      | \$ 448,670                                 | \$ 1,096,341 | \$ 1,545,011 | \$ 538,000 |
| San Francisco                      | 135               | -                 | 223,145           | 481,272                  | 142,334                         | 235,931                                    | 610,820      | 846,751      | 340,000    |
| New York                           | 89                | -                 | 213,537           | 478,489                  | 138,815                         | 219,847                                    | 610,994      | 830,841      | 303,000    |
| Washington DC                      | 88                | -                 | 221,108           | 385,043                  | 101,703                         | 226,302                                    | 481,552      | 707,854      | 223,000    |
| Miami                              | 87                | -                 | 204,551           | 417,288                  | 77,444                          | 206,435                                    | 492,848      | 699,283      | 213,000    |
| Seattle/Tacoma                     | 88                | -                 | 173,459           | 407,724                  | 85,093                          | 174,143                                    | 492,133      | 666,276      | 233,000    |
| Chicago                            | 130               | -                 | 137,165           | 352,595                  | 99,432                          | 140,047                                    | 449,145      | 589,192      | 283,000    |
| Houston                            | 108               | -                 | 141,501           | 314,733                  | 99,763                          | 141,277                                    | 414,720      | 555,997      | 204,000    |
| Atlanta                            | 101               | -                 | 122,880           | 327,975                  | 54,955                          | 123,242                                    | 382,568      | 505,810      | 192,000    |
| Dallas/Ft. Worth                   | 104               | -                 | 114,867           | 264,059                  | 83,066                          | 115,731                                    | 346,261      | 461,992      | 204,000    |
| Orlando/Daytona                    | 67                | -                 | 112,055           | 232,650                  | 47,441                          | 117,537                                    | 274,609      | 392,146      | 103,000    |
| West Palm Beach                    | 44                | -                 | 151,323           | 207,388                  | 22,233                          | 150,327                                    | 230,617      | 380,944      | 79,000     |
| Charlotte                          | 50                | -                 | 68,586            | 176,724                  | 47,009                          | 76,813                                     | 215,506      | 292,319      | 77,000     |
| Minneapolis/St. Paul               | 45                | 9,403             | 81,895            | 177,533                  | 18,194                          | 82,060                                     | 195,562      | 277,622      | 77,000     |
| Denver                             | 54                | 19,228            | 77,855            | 151,123                  | 40,824                          | 78,418                                     | 191,384      | 269,802      | 104,000    |
| Tampa                              | 49                | -                 | 72,274            | 157,983                  | 38,541                          | 75,046                                     | 193,752      | 268,798      | 87,000     |
| Philadelphia                       | 57                | -                 | 51,682            | 152,406                  | 49,250                          | 50,703                                     | 202,635      | 253,338      | 133,000    |
| Boston                             | 25                | -                 | 61,583            | 158,870                  | 17,866                          | 62,217                                     | 176,102      | 238,319      | 63,000     |
| Phoenix                            | 39                | 4,249             | 59,267            | 162,505                  | 14,090                          | 59,259                                     | 176,603      | 235,862      | 69,000     |
| Detroit                            | 40                | -                 | 61,608            | 149,472                  | 19,565                          | 62,458                                     | 168,187      | 230,645      | 79,000     |
| Portland                           | 43                | -                 | 51,182            | 126,464                  | 22,437                          | 51,840                                     | 148,243      | 200,083      | 76,000     |
| Austin                             | 30                | 4,808             | 47,525            | 112,997                  | 33,723                          | 49,531                                     | 144,714      | 194,245      | 59,000     |

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|             |    |       |        |         |        |        |         |         |     |
|-------------|----|-------|--------|---------|--------|--------|---------|---------|-----|
| San Diego   | 20 | 9,116 | 47,884 | 108,911 | 26,384 | 49,433 | 133,746 | 183,179 | 63, |
| Honolulu    | 11 | -     | 54,184 | 106,299 | 8,992  | 55,101 | 114,374 | 169,475 | 45, |
| Raleigh     | 25 | -     | 41,377 | 81,821  | 15,632 | 42,502 | 96,328  | 138,830 | 39, |
| Norfolk     | 28 | -     | 33,316 | 81,267  | 14,648 | 32,755 | 96,476  | 129,231 | 45, |
| San Antonio | 28 | -     | 27,566 | 76,028  | 22,869 | 27,524 | 98,939  | 126,463 | 51, |
| Baltimore   | 23 | -     | 25,176 | 79,734  | 15,121 | 25,300 | 94,731  | 120,031 | 55, |

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PUBLIC STORAGE  
SCHEDULE III - REAL ESTATE  
AND ACCUMULATED DEPRECIATION  
(Dollar amounts in thousands)

| Description                      | No. of<br>Facilities | 2015<br>Encum-<br>brances | Initial Cost |                             | Costs<br>Subsequent<br>to<br>Acquisition | Gross Carrying Amount<br>At December 31, 2015 |           |        |
|----------------------------------|----------------------|---------------------------|--------------|-----------------------------|------------------------------------------|-----------------------------------------------|-----------|--------|
|                                  |                      |                           | Land         | Buildings &<br>Improvements |                                          | Land                                          | Buildings | Total  |
| Sacramento                       | 34                   | -                         | 25,141       | 69,409                      | 24,641                                   | 25,646                                        | 93,545    | 119,19 |
| St. Louis                        | 26                   | -                         | 20,037       | 56,237                      | 18,977                                   | 20,680                                        | 74,571    | 95,251 |
| Indianapolis                     | 22                   | -                         | 21,064       | 57,655                      | 11,117                                   | 22,064                                        | 67,772    | 89,836 |
| Kansas City                      | 24                   | -                         | 14,225       | 43,732                      | 22,628                                   | 14,425                                        | 66,160    | 80,585 |
| Las Vegas                        | 18                   | -                         | 17,879       | 44,357                      | 8,650                                    | 17,128                                        | 53,758    | 70,886 |
| Columbia                         | 20                   | -                         | 16,167       | 44,429                      | 9,801                                    | 16,915                                        | 53,482    | 70,397 |
| Savannah                         | 10                   | -                         | 25,074       | 31,111                      | 2,117                                    | 24,718                                        | 33,584    | 58,302 |
| Greensboro                       | 13                   | -                         | 12,737       | 29,811                      | 12,216                                   | 14,922                                        | 39,842    | 54,764 |
| Fort Myers/Naples                | 9                    | -                         | 15,373       | 35,353                      | 3,879                                    | 15,608                                        | 38,997    | 54,605 |
| Milwaukee                        | 15                   | 2,092                     | 13,189       | 32,071                      | 8,458                                    | 13,158                                        | 40,560    | 53,718 |
| Charleston                       | 10                   | -                         | 10,849       | 31,144                      | 6,059                                    | 11,825                                        | 36,227    | 48,052 |
| Jacksonville                     | 14                   | -                         | 11,252       | 27,714                      | 8,926                                    | 11,301                                        | 36,591    | 47,892 |
| Hartford/New Haven               | 11                   | -                         | 6,778        | 19,959                      | 19,918                                   | 8,443                                         | 38,212    | 46,655 |
| Columbus                         | 14                   | -                         | 4,388        | 22,272                      | 19,040                                   | 4,494                                         | 41,206    | 45,700 |
| New Orleans                      | 9                    | -                         | 9,205        | 30,832                      | 4,617                                    | 9,373                                         | 35,281    | 44,654 |
| Richmond                         | 10                   | -                         | 13,248       | 23,253                      | 3,567                                    | 13,053                                        | 27,015    | 40,068 |
| Tucson                           | 7                    | -                         | 9,403        | 25,491                      | 4,771                                    | 9,884                                         | 29,781    | 39,665 |
| Colorado Springs                 | 12                   | -                         | 8,229        | 19,659                      | 11,012                                   | 8,225                                         | 30,675    | 38,900 |
| Nashville/Bowling Green          | 13                   | -                         | 8,942        | 21,057                      | 8,109                                    | 8,939                                         | 29,169    | 38,108 |
| Memphis                          | 9                    | -                         | 7,962        | 21,981                      | 8,048                                    | 9,315                                         | 28,676    | 37,991 |
| Greenville/Spartanburg/Asheville | 11                   | -                         | 9,036        | 20,767                      | 6,547                                    | 9,965                                         | 26,385    | 36,350 |
| Monterey/Salinas                 | 7                    | -                         | 8,465        | 24,151                      | 3,369                                    | 8,455                                         | 27,530    | 35,985 |
| Birmingham                       | 14                   | -                         | 5,229        | 17,835                      | 12,170                                   | 5,117                                         | 30,117    | 35,234 |
| Cincinnati                       | 11                   | -                         | 4,433        | 14,592                      | 14,752                                   | 4,351                                         | 29,426    | 33,777 |
| Reno                             | 7                    | -                         | 5,487        | 18,704                      | 3,224                                    | 5,487                                         | 21,928    | 27,415 |
| Palm Springs                     | 3                    | -                         | 8,309        | 18,065                      | 752                                      | 8,309                                         | 18,817    | 27,126 |
| Buffalo/Rochester                | 8                    | -                         | 6,159        | 14,850                      | 2,461                                    | 6,157                                         | 17,313    | 23,470 |
| Mobile                           | 8                    | -                         | 4,148        | 14,152                      | 3,463                                    | 3,975                                         | 17,788    | 21,763 |
| London, UK                       | 1                    | -                         | 5,730        | 14,278                      | (62)                                     | 3,891                                         | 16,055    | 19,946 |

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PUBLIC STORAGE  
SCHEDULE III - REAL ESTATE  
AND ACCUMULATED DEPRECIATION  
(Dollar amounts in thousands)

| Description                      | No. of Facilities | 2015 Encumbrances | Initial Cost |                          | Costs Subsequent to Acquisition | Gross Carrying Amount At December 31, 2015 |              | Total         |
|----------------------------------|-------------------|-------------------|--------------|--------------------------|---------------------------------|--------------------------------------------|--------------|---------------|
|                                  |                   |                   | Land         | Buildings & Improvements |                                 | Land                                       | Buildings    |               |
| Salt Lake City                   | 7                 | -                 | 4,229        | 10,835                   | 3,241                           | 3,878                                      | 14,427       | 18,342        |
| Oklahoma City                    | 8                 | -                 | 2,732        | 7,477                    | 7,953                           | 2,732                                      | 15,430       | 18,161        |
| Santa Barbara                    | 2                 | -                 | 5,733        | 9,106                    | 289                             | 5,733                                      | 9,395        | 15,117        |
| Cleveland/Akron                  | 4                 | -                 | 2,921        | 8,157                    | 3,890                           | 3,314                                      | 11,654       | 14,932        |
| Chattanooga                      | 6                 | -                 | 2,723        | 6,854                    | 5,338                           | 2,525                                      | 12,390       | 14,907        |
| Wichita                          | 7                 | -                 | 2,017        | 6,691                    | 6,080                           | 2,130                                      | 12,658       | 14,775        |
| Providence                       | 3                 | -                 | 995          | 11,206                   | 2,178                           | 995                                        | 13,384       | 14,379        |
| Louisville                       | 5                 | -                 | 2,526        | 6,460                    | 2,637                           | 2,525                                      | 9,098        | 11,624        |
| Augusta                          | 4                 | -                 | 1,793        | 5,990                    | 2,079                           | 1,793                                      | 8,069        | 9,862         |
| Dayton                           | 3                 | -                 | 394          | 3,014                    | 3,992                           | 393                                        | 7,007        | 7,401         |
| Huntsville/Decatur               | 3                 | -                 | 1,024        | 3,321                    | 2,753                           | 971                                        | 6,127        | 7,098         |
| Fort Wayne                       | 3                 | -                 | 349          | 3,594                    | 2,946                           | 349                                        | 6,540        | 6,889         |
| Springfield/Holyoke              | 2                 | -                 | 1,428        | 3,380                    | 1,259                           | 1,427                                      | 4,640        | 6,067         |
| Shreveport                       | 2                 | -                 | 817          | 3,030                    | 1,774                           | 741                                        | 4,880        | 5,621         |
| Rochester                        | 2                 | -                 | 1,047        | 2,246                    | 1,407                           | 980                                        | 3,720        | 4,703         |
| Lansing                          | 2                 | -                 | 556          | 2,882                    | 555                             | 556                                        | 3,437        | 3,993         |
| Flint                            | 1                 | -                 | 543          | 3,068                    | 169                             | 542                                        | 3,238        | 3,781         |
| Evansville                       | 2                 | -                 | 899          | 2,096                    | 777                             | 871                                        | 2,901        | 3,778         |
| Topeka                           | 2                 | -                 | 225          | 1,419                    | 1,652                           | 225                                        | 3,071        | 3,296         |
| Roanoke                          | 1                 | -                 | 819          | 1,776                    | 555                             | 819                                        | 2,331        | 3,150         |
| Syracuse                         | 1                 | -                 | 545          | 1,279                    | 681                             | 545                                        | 1,960        | 2,505         |
| Omaha                            | 1                 | -                 | 109          | 806                      | 1,299                           | 109                                        | 2,105        | 2,213         |
| Joplin                           | 1                 | -                 | 264          | 904                      | 803                             | 264                                        | 1,707        | 1,971         |
| Modesto/Fresno/Stockton          | 1                 | -                 | 44           | 206                      | 714                             | 193                                        | 771          | 964           |
| Commercial and other real estate |                   | -                 | 12,903       | 26,939                   | 23,244                          | 13,928                                     | 49,158       | 63,041        |
|                                  | 2,266             | \$ 55,076         | \$ 3,494,349 | \$ 7,760,159             | \$ 1,950,753                    | \$ 3,564,810                               | \$ 9,640,451 | \$ 13,285,260 |

Note: Buildings are depreciated over a useful life of 25 years.

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