

CubeSmart
Form 10-Q
October 27, 2017
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sts

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

December 30, 2016

(Mark one)

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

For the quarterly period ended September 30, 2017.

or

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

For the transition period from _____ to _____ .

Commission file number:

001-32324 (CubeSmart)

000-54462 (CubeSmart, L.P.)

CUBESMART

CUBESMART, L.P.

(Exact Name of Registrant as Specified in its Charter)

Maryland (CubeSmart)
Delaware (CubeSmart, L.P.)
(State or Other Jurisdiction of
Incorporation or Organization)

20-1024732
34-1837021
(I.R.S. Employer
Identification No.)

5 Old Lancaster Road

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Malvern, Pennsylvania 19355
(Address of Principal Executive Offices) (Zip Code)

(610) 535-5000

(Registrant's Telephone Number, Including Area Code)

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

CubeSmart Yes No
CubeSmart, L.P. Yes No

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

CubeSmart Yes No
CubeSmart, L.P. Yes No

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

CubeSmart:

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

CubeSmart, L.P.:

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

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

CubeSmart
CubeSmart, L.P.

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

CubeSmart	Yes	No
CubeSmart, L.P.	Yes	No

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

Class	Outstanding at October 25, 2017
Common shares, \$0.01 par value per share, of CubeSmart	180,881,391

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended September 30, 2017 of CubeSmart (the “Parent Company” or “CubeSmart”) and CubeSmart, L.P. (the “Operating Partnership”). The Parent Company is a Maryland real estate investment trust, or REIT, that owns its assets and conducts its operations through the Operating Partnership, a Delaware limited partnership, and subsidiaries of the Operating Partnership. The Parent Company, the Operating Partnership and their consolidated subsidiaries are collectively referred to in this report as the “Company”. In addition, terms such as “we”, “us”, or “our” used in this report may refer to the Company, the Parent Company or the Operating Partnership.

The Parent Company is the sole general partner of the Operating Partnership and, as of September 30, 2017, owned a 99.0% interest in the Operating Partnership. The remaining 1.0% interest consists of common units of limited partnership interest issued by the Operating Partnership to third parties in exchange for contributions of properties to the Operating Partnership. As the sole general partner of the Operating Partnership, the Parent Company has full and complete authority over the Operating Partnership’s day-to-day operations and management.

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

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

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

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

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

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

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

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

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

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Filing Format

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

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Forward-Looking Statements

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

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in or contemplated by this Report. Any forward-looking statements should be considered in light of the risks and uncertainties referred to in Item 1A. “Risk Factors” in the Parent Company’s and the Operating Partnership’s combined Annual Report on Form 10-K for the year ended December 31, 2016 and in our other filings with the Securities and Exchange Commission (“SEC”). These risks include, but are not limited to, the following:

- national and local economic, business, real estate and other market conditions;

- the competitive environment in which we operate, including our ability to maintain or raise occupancy and rental rates;

- the execution of our business plan;

- the availability of external sources of capital;

- financing risks, including the risk of over-leverage and the corresponding risk of default on our mortgage and other debt and potential inability to refinance existing indebtedness;

- increases in interest rates and operating costs;
- counterparty non-performance related to the use of derivative financial instruments;
- our ability to maintain our Parent Company's qualification as a REIT for federal income tax purposes;
- acquisition and development risks;
- increases in taxes, fees, and assessments from state and local jurisdictions;
- risks of investing through joint ventures;
- changes in real estate and zoning laws or regulations;
- risks related to natural disasters;
- potential environmental and other liabilities;
- other factors affecting the real estate industry generally or the self-storage industry in particular; and
- other risks identified in the Parent Company's and the Operating Partnership's Annual Report on Form 10-K for the year ended December 31, 2016 and, from time to time, in other reports that we file with the SEC or in other documents that we publicly disseminate.

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CUBESMART AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	September 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Storage properties	\$ 4,086,960	\$ 3,998,180
Less: Accumulated depreciation	(723,702)	(671,364)
Storage properties, net (including VIE assets of \$267,933 and \$208,048, respectively)	3,363,258	3,326,816
Cash and cash equivalents	6,230	2,973
Restricted cash	4,189	7,893
Loan procurement costs, net of amortization	1,709	2,150
Investment in real estate ventures, at equity	91,455	98,682
Other assets, net	36,178	36,514
Total assets	\$ 3,503,019	\$ 3,475,028
LIABILITIES AND EQUITY		
Unsecured senior notes, net	\$ 1,142,194	\$ 1,039,076
Revolving credit facility	66,700	43,300
Unsecured term loans, net	299,295	398,749
Mortgage loans and notes payable, net	112,214	114,618
Accounts payable, accrued expenses and other liabilities	139,368	93,764
Distributions payable	49,407	49,239
Deferred revenue	21,765	20,226
Security deposits	414	412
Total liabilities	1,831,357	1,759,384
Noncontrolling interests in the Operating Partnership	48,759	54,407
Commitments and contingencies		
Equity		
Common shares \$.01 par value, 400,000,000 shares authorized, 180,880,816 and 180,083,111 shares issued and outstanding at September 30, 2017 and	1,809	1,801

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December 31, 2016, respectively		
Additional paid-in capital	2,323,878	2,314,014
Accumulated other comprehensive loss	(363)	(1,850)
Accumulated deficit	(708,404)	(658,583)
Total CubeSmart shareholders' equity	1,616,920	1,655,382
Noncontrolling interests in subsidiaries	5,983	5,855
Total equity	1,622,903	1,661,237
Total liabilities and equity	\$ 3,503,019	\$ 3,475,028

See accompanying notes to the unaudited consolidated financial statements.

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CUBESMART AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
REVENUES				
Rental income	\$ 125,699	\$ 116,416	\$ 363,980	\$ 332,951
Other property related income	14,241	13,007	41,104	37,413
Property management fee income	3,925	2,673	10,377	7,129
Total revenues	143,865	132,096	415,461	377,493
OPERATING EXPENSES				
Property operating expenses	47,152	41,805	136,847	123,631
Depreciation and amortization	35,971	41,827	110,826	122,631
General and administrative	8,228	8,065	26,522	24,184
Acquisition related costs	235	888	1,062	5,793
Total operating expenses	91,586	92,585	275,257	276,239
OPERATING INCOME	52,279	39,511	140,204	101,254
OTHER (EXPENSE) INCOME				
Interest:				
Interest expense on loans	(14,454)	(12,787)	(42,028)	(37,071)
Loan procurement amortization expense	(577)	(655)	(2,059)	(1,871)
Equity in losses of real estate ventures	(280)	(581)	(1,305)	(1,817)
Other	741	(397)	941	834
Total other expense	(14,570)	(14,420)	(44,451)	(39,925)
NET INCOME	37,709	25,091	95,753	61,329
NET (INCOME) LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS				
Noncontrolling interests in the Operating Partnership	(490)	(283)	(1,194)	(682)
Noncontrolling interest in subsidiaries	78	76	182	411
NET INCOME ATTRIBUTABLE TO THE COMPANY	37,297	24,884	94,741	61,058
Distribution to preferred shareholders	—	(1,502)	—	(4,506)
NET INCOME ATTRIBUTABLE TO THE COMPANY'S COMMON SHAREHOLDERS	\$ 37,297	\$ 23,382	\$ 94,741	\$ 56,552
Basic earnings per share attributable to common shareholders				
	\$ 0.21	\$ 0.13	\$ 0.53	\$ 0.32
Diluted earnings per share attributable to common shareholders				
	\$ 0.21	\$ 0.13	\$ 0.52	\$ 0.32

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Weighted-average basic shares outstanding	180,304	179,223	180,218	177,639
Weighted-average diluted shares outstanding	181,286	180,478	181,225	178,937

See accompanying notes to the unaudited consolidated financial statements.

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CUBESMART AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
NET INCOME	\$ 37,709	\$ 25,091	\$ 95,753	\$ 61,329
Other comprehensive income (loss):				
Unrealized (losses) gains on interest rate swaps	(10)	458	127	(1,777)
Reclassification of realized losses on interest rate swaps	317	935	1,378	3,529
OTHER COMPREHENSIVE INCOME	307	1,393	1,505	1,752
COMPREHENSIVE INCOME	38,016	26,484	97,258	63,081
Comprehensive income attributable to noncontrolling interests in the Operating Partnership	(494)	(300)	(1,212)	(703)
Comprehensive loss attributable to noncontrolling interest in subsidiaries	78	76	182	411
COMPREHENSIVE INCOME ATTRIBUTABLE TO THE COMPANY	\$ 37,600	\$ 26,260	\$ 96,228	\$ 62,789

See accompanying notes to the unaudited consolidated financial statements.

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CUBESMART AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY

(in thousands)

(unaudited)

	Common Shares		Preferred Shares		Additional	Accumulated Other	Accumulated	T
	Number	Amount	Number	Amount	Paid in	(Loss) Income	Deficit	S
					Capital			E
Balance at December 31, 2016	180,083	\$ 1,801	—	\$ —	\$ 2,314,014	\$ (1,850)	\$ (658,583)	\$
Contributions from noncontrolling interests in subsidiaries								
Acquisition of noncontrolling interest in subsidiary					(8,626)			
Issuance of common shares					(219)			
Issuance of restricted shares	106	1						
Issuance of OP units								
Conversion from units to shares	594	6			15,700			
Exercise of stock options	98	1			864			
Amortization of restricted shares					997			
Share compensation expense					1,148			
Adjustment for noncontrolling interests in the Operating Partnership							1,756	
Net income (loss)							94,741	
Other comprehensive income, net						1,487		

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	Common Shares Number	Amount	Preferred Shares Number	Amount	Additional Paid in Capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	
Common share distributions							(146,318)	
Balance at September 30, 2017	180,881	\$ 1,809	—	\$ —	\$ 2,323,878	\$ (363)	\$ (708,404)	\$
Balance at December 31, 2015	174,668	\$ 1,747	3,100	\$ 31	\$ 2,231,181	\$ (4,978)	\$ (584,654)	\$
Contributions from noncontrolling interests in subsidiaries								
Issuance of common shares	4,408	44			136,106			
Issuance of restricted shares	123	1						
Issuance of OP units								
Exercise of stock options	660	7			12,566			
Amortization of restricted shares					1,041			
Share compensation expense					942			
Adjustment for noncontrolling interest in the Operating Partnership							6,404	
Net income (loss)							61,058	
Other comprehensive income, net						1,731		
Preferred share distributions							(4,506)	
Common share distributions							(112,550)	
Balance at September 30, 2016	179,859	\$ 1,799	3,100	\$ 31	\$ 2,381,836	\$ (3,247)	\$ (634,248)	\$

See accompanying notes to the unaudited consolidated financial statements.

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CUBESMART AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended September 30,	
	2017	2016
Operating Activities		
Net income	\$ 95,753	\$ 61,329
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	112,885	124,502
Equity in losses of real estate ventures	1,305	1,817
Equity compensation expense	4,179	3,614
Accretion of fair market value adjustment of debt	(373)	(913)
Changes in other operating accounts:		
Restricted cash	(242)	404
Other assets	(9,218)	(6,833)
Accounts payable and accrued expenses	18,588	17,561
Other liabilities	1,403	1,571
Net cash provided by operating activities	\$ 224,280	\$ 203,052
Investing Activities		
Acquisitions of storage properties	(13,875)	(313,954)
Additions and improvements to storage properties	(23,345)	(23,072)
Development costs	(49,731)	(134,136)
Investment in real estate ventures, at equity	(191)	(7,911)
Cash distributed from real estate ventures	6,113	5,970
Change in restricted cash	(36)	970
Net cash used in investing activities	\$ (81,065)	\$ (472,133)
Financing Activities		
Proceeds from:		
Unsecured senior notes	103,192	298,512
Revolving credit facility	449,900	830,000
Principal payments on:		
Revolving credit facility	(426,500)	(830,000)
Unsecured term loans	(100,000)	—
Mortgage loans and notes payable	(8,022)	(36,648)
Loan procurement costs	(953)	(2,467)
Acquisition of noncontrolling interest in subsidiary	(9,033)	—
Proceeds from issuance of common shares, net	(218)	136,151
Cash paid upon vesting of restricted shares	(2,034)	(1,631)
Exercise of stock options	865	12,573
Contributions from noncontrolling interests in subsidiaries	717	4,447

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Distributions paid to common shareholders	(146,107)	(111,466)
Distributions paid to preferred shareholders	—	(4,506)
Distributions paid to noncontrolling interests in Operating Partnership	(1,765)	(1,374)
Net cash (used in) provided by financing activities	\$ (139,958)	\$ 293,591
Change in cash and cash equivalents	3,257	24,510
Cash and cash equivalents at beginning of period	2,973	62,869
Cash and cash equivalents at end of period	\$ 6,230	\$ 87,379
Supplemental Cash Flow and Noncash Information		
Cash paid for interest, net of interest capitalized	\$ 46,474	\$ 38,110
Supplemental disclosure of noncash activities:		
Restricted cash - acquisition of storage properties	\$ —	\$ (22,019)
Accretion of liability	\$ 25,595	\$ 23,393
Derivative valuation adjustment	\$ 1,505	\$ 1,752
Discount on issuance of unsecured senior notes	\$ —	\$ 1,488
Mortgage loan assumptions	\$ 6,201	\$ 41,513
Issuance of OP units	\$ 12,324	\$ —
Liability for acquisition of storage property	\$ 1,470	\$ —

See accompanying notes to the unaudited consolidated financial statements.

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CUBESMART, L.P. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands)

	September 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Storage properties	\$ 4,086,960	\$ 3,998,180
Less: Accumulated depreciation	(723,702)	(671,364)
Storage properties, net (including VIE assets of \$267,933 and \$208,048, respectively)	3,363,258	3,326,816
Cash and cash equivalents	6,230	2,973
Restricted cash	4,189	7,893
Loan procurement costs, net of amortization	1,709	2,150
Investment in real estate ventures, at equity	91,455	98,682
Other assets, net	36,178	36,514
Total assets	\$ 3,503,019	\$ 3,475,028
LIABILITIES AND CAPITAL		
Unsecured senior notes, net	\$ 1,142,194	\$ 1,039,076
Revolving credit facility	66,700	43,300
Unsecured term loans, net	299,295	398,749
Mortgage loans and notes payable, net	112,214	114,618
Accounts payable, accrued expenses and other liabilities	139,368	93,764
Distributions payable	49,407	49,239
Deferred revenue	21,765	20,226
Security deposits	414	412
Total liabilities	1,831,357	1,759,384
Limited Partnership interests of third parties	48,759	54,407
Commitments and contingencies		
Capital		
Operating Partner	1,617,283	1,657,232
Accumulated other comprehensive loss	(363)	(1,850)
Total CubeSmart, L.P. capital	1,616,920	1,655,382
Noncontrolling interests in subsidiaries	5,983	5,855
Total capital	1,622,903	1,661,237
Total liabilities and capital	\$ 3,503,019	\$ 3,475,028

See accompanying notes to the unaudited consolidated financial statements.

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CUBESMART, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per common unit data)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
REVENUES				
Rental income	\$ 125,699	\$ 116,416	\$ 363,980	\$ 332,951
Other property related income	14,241	13,007	41,104	37,413
Property management fee income	3,925	2,673	10,377	7,129
Total revenues	143,865	132,096	415,461	377,493
OPERATING EXPENSES				
Property operating expenses	47,152	41,805	136,847	123,631
Depreciation and amortization	35,971	41,827	110,826	122,631
General and administrative	8,228	8,065	26,522	24,184
Acquisition related costs	235	888	1,062	5,793
Total operating expenses	91,586	92,585	275,257	276,239
OPERATING INCOME	52,279	39,511	140,204	101,254
OTHER (EXPENSE) INCOME				
Interest:				
Interest expense on loans	(14,454)	(12,787)	(42,028)	(37,071)
Loan procurement amortization expense	(577)	(655)	(2,059)	(1,871)
Equity in losses of real estate ventures	(280)	(581)	(1,305)	(1,817)
Other	741	(397)	941	834
Total other expense	(14,570)	(14,420)	(44,451)	(39,925)
NET INCOME	37,709	25,091	95,753	61,329
NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS				
Noncontrolling interest in subsidiaries	78	76	182	411
NET INCOME ATTRIBUTABLE TO CUBESMART L.P.	37,787	25,167	95,935	61,740
Operating Partnership interests of third parties	(490)	(283)	(1,194)	(682)
NET INCOME ATTRIBUTABLE TO OPERATING PARTNER	37,297	24,884	94,741	61,058
Distribution to preferred unitholders	—	(1,502)	—	(4,506)
NET INCOME ATTRIBUTABLE TO COMMON UNITHOLDERS	\$ 37,297	\$ 23,382	\$ 94,741	\$ 56,552
Basic earnings per unit attributable to common unitholders				
	\$ 0.21	\$ 0.13	\$ 0.53	\$ 0.32

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Diluted earnings per unit attributable to common unitholders	\$ 0.21	\$ 0.13	\$ 0.52	\$ 0.32
Weighted-average basic units outstanding	180,304	179,223	180,218	177,639
Weighted-average diluted units outstanding	181,286	180,478	181,225	178,937

See accompanying notes to the unaudited consolidated financial statements.

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CUBESMART, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
NET INCOME	\$ 37,709	\$ 25,091	\$ 95,753	\$ 61,329
Other comprehensive income (loss):				
Unrealized (losses) gains on interest rate swaps	(10)	458	127	(1,777)
Reclassification of realized losses on interest rate swaps	317	935	1,378	3,529
OTHER COMPREHENSIVE INCOME	307	1,393	1,505	1,752
COMPREHENSIVE INCOME	38,016	26,484	97,258	63,081
Comprehensive income attributable to Operating Partnership interests of third parties	(494)	(300)	(1,212)	(703)
Comprehensive loss attributable to noncontrolling interest in subsidiaries	78	76	182	411
COMPREHENSIVE INCOME ATTRIBUTABLE TO OPERATING PARTNER	\$ 37,600	\$ 26,260	\$ 96,228	\$ 62,789

See accompanying notes to the unaudited consolidated financial statements.

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CUBESMART, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CAPITAL

(in thousands)

(unaudited)

	Number of OP Units		Operating Partner	Accumulated Other Comprehensive (Loss) Income	Total	Noncontrolling Interests in Total Subsidiaries	Total Capital	Op Par Int of
	Outstanding Common	Preferred			CubeSmart LP Capital			
Balance at December 31, 2016	180,083	—	\$ 1,657,232	\$ (1,850)	\$ 1,655,382	\$ 5,855	\$ 1,661,237	\$ 5
Contributions from noncontrolling interests in subsidiaries						717	717	
Acquisition of noncontrolling interest in subsidiary			(8,626)		(8,626)	(407)	(9,033)	
Issuance of common OP units			(219)		(219)		(219)	
Issuance of restricted OP units	106		1		1		1	
Issuance of OP units								1
Conversion from OP units to shares	594		15,706		15,706		15,706	(
Exercise of OP unit options	98		865		865		865	
Amortization of restricted OP units			997		997		997	
OP unit compensation expense			1,148		1,148		1,148	
Adjustment for Limited Partnership interests of third parties			1,756		1,756		1,756	(
Net income (loss)			94,741		94,741	(182)	94,559	1
Other comprehensive income, net				1,487	1,487		1,487	1

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	Number of OP Units Outstanding		Operating Partner	Accumulated Comprehensive (Loss) Income	Total CubeSmart LeP. Capital	Noncontrolling Interests in Total Subsidiaries	Capital	
	Common	Preferred						
Common OP unit distributions			(146,318)		(146,318)		(146,318)	
Balance at September 30, 2017	180,881	—	\$ 1,617,283	\$ (363)	\$ 1,616,920	\$ 5,983	\$ 1,622,903	\$ 4
Balance at December 31, 2015	174,668	3,100	\$ 1,648,305	\$ (4,978)	\$ 1,643,327	\$ 1,526	\$ 1,644,853	\$ 6
Contributions from noncontrolling interests in subsidiaries						4,447	4,447	
Issuance of common OP units	4,408		136,150		136,150		136,150	
Issuance of restricted OP units	123		1		1		1	
Issuance of OP units								
Exercise of OP unit options	660		12,573		12,573		12,573	
Amortization of restricted OP units			1,041		1,041		1,041	
OP unit compensation expense			942		942		942	
Adjustment for Operating Partnership interests of third parties			6,404		6,404		6,404	
Net income (loss)			61,058		61,058	(411)	60,647	6
Other comprehensive income, net				1,731	1,731		1,731	2
Preferred OP unit distributions			(4,506)		(4,506)		(4,506)	
Common OP unit distributions			(112,550)		(112,550)		(112,550)	
Balance at September 30, 2016	179,859	3,100	\$ 1,749,418	\$ (3,247)	\$ 1,746,171	\$ 5,562	\$ 1,751,733	\$ 6

See accompanying notes to the unaudited consolidated financial statements.

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CUBESMART, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended September 30,	
	2017	2016
Operating Activities		
Net income	\$ 95,753	\$ 61,329
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	112,885	124,502
Equity in losses of real estate ventures	1,305	1,817
Equity compensation expense	4,179	3,614
Accretion of fair market value adjustment of debt	(373)	(913)
Changes in other operating accounts:		
Restricted cash	(242)	404
Other assets	(9,218)	(6,833)
Accounts payable and accrued expenses	18,588	17,561
Other liabilities	1,403	1,571
Net cash provided by operating activities	\$ 224,280	\$ 203,052
Investing Activities		
Acquisitions of storage properties	(13,875)	(313,954)
Additions and improvements to storage properties	(23,345)	(23,072)
Development costs	(49,731)	(134,136)
Investment in real estate ventures, at equity	(191)	(7,911)
Cash distributed from real estate ventures	6,113	5,970
Change in restricted cash	(36)	970
Net cash used in investing activities	\$ (81,065)	\$ (472,133)
Financing Activities		
Proceeds from:		
Unsecured senior notes	103,192	298,512
Revolving credit facility	449,900	830,000
Principal payments on:		
Revolving credit facility	(426,500)	(830,000)
Unsecured term loans	(100,000)	—
Mortgage loans and notes payable	(8,022)	(36,648)
Loan procurement costs	(953)	(2,467)
Acquisition of noncontrolling interest in subsidiary	(9,033)	—
Proceeds from issuance of common OP units	(218)	136,151
Redemption of preferred units		
Cash paid upon vesting of restricted OP units	(2,034)	(1,631)
Exercise of OP unit options	865	12,573

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Contributions from noncontrolling interests in subsidiaries	717	4,447
Distributions paid to common OP unitholders	(147,872)	(112,840)
Distributions paid to preferred OP unitholders	—	(4,506)
Net cash (used in) provided by financing activities	\$ (139,958)	\$ 293,591
Change in cash and cash equivalents	3,257	24,510
Cash and cash equivalents at beginning of period	2,973	62,869
Cash and cash equivalents at end of period	\$ 6,230	\$ 87,379
Supplemental Cash Flow and Noncash Information		
Cash paid for interest, net of interest capitalized	\$ 46,474	\$ 38,110
Supplemental disclosure of noncash activities:		
Restricted cash - acquisition of storage properties	\$ —	\$ (22,019)
Accretion of liability		