

CubeSmart
Form 10-Q
October 26, 2018
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sts

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(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, 2018.

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)	20-1024732
Delaware (CubeSmart, L.P.)	34-1837021
(State or Other Jurisdiction of Incorporation or Organization)	(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 every Interactive Data File required to be submitted 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 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 24, 2018
Common shares, \$0.01 par value per share, of CubeSmart	186,306,533

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended September 30, 2018 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, 2018, owned a 98.9% interest in the Operating Partnership. The remaining 1.1% 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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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, 2017 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;
- the failure of our joint venture partners to fulfill their obligations to us or their pursuit of actions that are inconsistent with our objectives;
- reductions in asset valuations and related impairment charges;
 - security breaches or a failure of our networks, systems or technology, which could adversely impact our business, customer and employee relationships;
- changes in real estate and zoning laws or regulations;
- risks related to natural disasters;
- potential environmental and other liabilities;

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- 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, 2017 and, from time to time, in other reports that we file with the SEC or in other documents that we publicly disseminate.

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CUBESMART AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	September 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Storage properties	\$ 4,323,372	\$ 4,161,715
Less: Accumulated depreciation	(838,325)	(752,925)
Storage properties, net (including VIE assets of \$312,286 and \$291,496, respectively)	3,485,047	3,408,790
Cash and cash equivalents	3,387	5,268
Restricted cash	3,092	3,890
Loan procurement costs, net of amortization	1,134	1,592
Investment in real estate ventures, at equity	98,156	91,206
Other assets, net	49,234	34,590
Total assets	\$ 3,640,050	\$ 3,545,336
LIABILITIES AND EQUITY		
Unsecured senior notes, net	\$ 1,143,258	\$ 1,142,460
Revolving credit facility	94,250	81,700
Unsecured term loans, net	299,699	299,396
Mortgage loans and notes payable, net	109,058	111,434
Accounts payable, accrued expenses and other liabilities	153,185	143,344
Distributions payable	56,584	55,297
Deferred revenue	23,072	21,529
Security deposits	476	486
Total liabilities	1,879,582	1,855,646
Noncontrolling interests in the Operating Partnership	58,446	54,320
Commitments and contingencies		
Equity		
Common shares \$.01 par value, 400,000,000 shares authorized, 186,304,300 and 182,215,735 shares issued and outstanding at September 30, 2018 and	1,863	1,822

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December 31, 2017, respectively		
Additional paid-in capital	2,472,839	2,356,620
Accumulated other comprehensive income	—	3
Accumulated deficit	(779,533)	(729,311)
Total CubeSmart shareholders' equity	1,695,169	1,629,134
Noncontrolling interests in subsidiaries	6,853	6,236
Total equity	1,702,022	1,635,370
Total liabilities and equity	\$ 3,640,050	\$ 3,545,336

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,	
	2018	2017	2018	2017
REVENUES				
Rental income	\$ 132,476	\$ 125,699	\$ 384,480	\$ 363,980
Other property related income	15,494	14,241	44,788	41,104
Property management fee income	5,400	3,925	14,794	10,377
Total revenues	153,370	143,865	444,062	415,461
OPERATING EXPENSES				
Property operating expenses	48,755	47,152	147,037	136,847
Depreciation and amortization	35,239	35,971	105,251	110,826
General and administrative	9,780	8,228	26,865	26,522
Acquisition related costs	—	235	—	1,062
Total operating expenses	93,774	91,586	279,153	275,257
OPERATING INCOME	59,596	52,279	164,909	140,204
OTHER (EXPENSE) INCOME				
Interest:				
Interest expense on loans	(15,191)	(14,454)	(45,797)	(42,028)
Loan procurement amortization expense	(578)	(577)	(1,735)	(2,059)
Equity in losses of real estate ventures	(292)	(280)	(785)	(1,305)
Other	(233)	741	260	941
Total other expense	(16,294)	(14,570)	(48,057)	(44,451)
NET INCOME	43,302	37,709	116,852	95,753
NET (INCOME) LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS				
Noncontrolling interests in the Operating Partnership	(476)	(490)	(1,285)	(1,194)
Noncontrolling interest in subsidiaries	74	78	166	182
NET INCOME ATTRIBUTABLE TO THE COMPANY'S COMMON SHAREHOLDERS	\$ 42,900	\$ 37,297	\$ 115,733	\$ 94,741
Basic earnings per share attributable to common shareholders				
	\$ 0.23	\$ 0.21	\$ 0.63	\$ 0.53
Diluted earnings per share attributable to common shareholders				
	\$ 0.23	\$ 0.21	\$ 0.63	\$ 0.52
Weighted-average basic shares outstanding				
	186,074	180,304	184,036	180,218
Weighted-average diluted shares outstanding				
	186,916	181,286	184,829	181,225

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,	
	2018	2017	2018	2017
NET INCOME	\$ 43,302	\$ 37,709	\$ 116,852	\$ 95,753
Other comprehensive (loss) income:				
Unrealized (losses) gains on interest rate swaps	—	(10)	60	127
Reclassification of realized losses (gains) on interest rate swaps	—	317	(60)	1,378
OTHER COMPREHENSIVE INCOME	—	307	—	1,505
COMPREHENSIVE INCOME	43,302	38,016	116,852	97,258
Comprehensive income attributable to noncontrolling interests in the Operating Partnership	(476)	(494)	(1,289)	(1,212)
Comprehensive loss attributable to noncontrolling interest in subsidiaries	74	78	166	182
COMPREHENSIVE INCOME ATTRIBUTABLE TO THE COMPANY	\$ 42,900	\$ 37,600	\$ 115,729	\$ 96,228

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		Additional	Accumulated Other	Total	Noncon	
	Number	Amount	Paid in Capital	Comprehensive Income (Loss)			Shareholders' Equity
Balance at December 31, 2017	182,216	\$ 1,822	\$ 2,356,620	\$ 3	\$ (729,311)	\$ 1,629,134	\$ 6,2
Contributions from noncontrolling interests in subsidiaries							917
Distributions to noncontrolling interests in subsidiaries							(13
Issuance of common shares	3,554	36	108,299			108,335	
Issuance of restricted shares	85	1				1	
Issuance of OP units							
Conversion from units to shares	44		1,342			1,342	
Exercise of stock options	405	4	3,831			3,835	
Amortization of restricted shares			1,593			1,593	
Share compensation expense			1,154			1,154	
Adjustment for noncontrolling interests in the Operating Partnership					234	234	
Net income (loss)					115,733	115,733	(16
Other comprehensive				(3)	405	402	

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	Common Shares Number	Amount	Additional Paid in Capital	Accumulated Comprehensive (Loss) Income	Other Accumulated Deficit	Total Shareholders' Equity	Noncon Interes Subsid
(loss) income, net					(166,594)	(166,594)	
Common share distributions							
Balance at September 30, 2018	186,304	\$ 1,863	\$ 2,472,839	\$ —	\$ (779,533)	\$ 1,695,169	\$ 6,8
Balance at December 31, 2016	180,083	\$ 1,801	\$ 2,314,014	\$ (1,850)	\$ (658,583)	\$ 1,655,382	\$