

CubeSmart
Form 10-Q
July 29, 2016
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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 June 30, 2016.

or

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

For the transition period from _____ to _____.

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

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	
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 or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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CubeSmart:

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

CubeSmart, L.P.:

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

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

CubeSmart Yes No

CubeSmart, L.P. Yes No

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

Class	Outstanding at July 27, 2016
Common shares, \$0.01 par value per share, of CubeSmart	179,292,330

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EXPLANATORY NOTE

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

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

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

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

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

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

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

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

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

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

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

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Filing Format

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Forward-Looking Statements

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

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in or contemplated by this Report. Any forward-looking statements should be considered in light of the risks and uncertainties referred to in Item 1A. “Risk Factors” in the Parent Company’s and the Operating Partnership’s combined Annual Report on Form 10-K for the year ended December 31, 2015 and in our other filings with the Securities and Exchange Commission (“SEC”). These risks include, but are not limited to, the following:

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

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

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

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CUBESMART AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	June 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Storage facilities	\$ 3,861,096	\$ 3,467,032
Less: Accumulated depreciation	(652,657)	(594,049)
Storage facilities, net (including VIE assets of \$203,341 and \$136,274, respectively)	3,208,439	2,872,983
Cash and cash equivalents	3,423	62,869
Restricted cash	9,017	24,600
Loan procurement costs, net of amortization	2,475	2,800
Investment in real estate ventures, at equity	99,915	97,281
Other assets, net	39,240	43,631
Total assets	\$ 3,362,509	\$ 3,104,164
LIABILITIES AND EQUITY		
Unsecured senior notes, net	\$ 742,402	\$ 741,904
Revolving credit facility	150,000	—
Unsecured term loans, net	398,466	398,183
Mortgage loans and notes payable, net	138,716	111,455
Accounts payable, accrued expenses and other liabilities	96,795	85,034
Distributions payable	39,449	38,685
Deferred revenue	19,868	17,519
Security deposits	402	403
Total liabilities	1,586,098	1,393,183
Noncontrolling interests in the Operating Partnership	68,581	66,128
Commitments and contingencies		
Equity		
7.75% Series A Preferred shares \$.01 par value, 3,220,000 shares authorized, 3,100,000 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	31	31

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Common shares \$.01 par value, 400,000,000 shares authorized, 178,249,897 and 174,667,870 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	1,782	1,747
Additional paid-in capital	2,332,742	2,231,181
Accumulated other comprehensive loss	(4,623)	(4,978)
Accumulated deficit	(627,689)	(584,654)
Total CubeSmart shareholders' equity	1,702,243	1,643,327
Noncontrolling interests in subsidiaries	5,587	1,526
Total equity	1,707,830	1,644,853
Total liabilities and equity	\$ 3,362,509	\$ 3,104,164

See accompanying notes to the unaudited consolidated financial statements.

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CUBESMART AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
REVENUES				
Rental income	\$ 111,538	\$ 96,803	\$ 216,535	\$ 188,359
Other property related income	12,643	11,385	24,406	21,928
Property management fee income	2,345	1,683	4,456	3,272
Total revenues	126,526	109,871	245,397	213,559
OPERATING EXPENSES				
Property operating expenses	41,607	38,210	81,826	75,641
Depreciation and amortization	41,448	38,086	80,804	75,981
General and administrative	7,891	7,114	16,119	14,287
Acquisition related costs	2,563	753	4,905	1,263
Total operating expenses	93,509	84,163	183,654	167,172
OPERATING INCOME	33,017	25,708	61,743	46,387
OTHER (EXPENSE) INCOME				
Interest:				
Interest expense on loans	(12,200)	(10,868)	(24,284)	(21,925)
Loan procurement amortization expense	(611)	(659)	(1,216)	(1,205)
Equity in losses of real estate ventures	(724)	(100)	(1,236)	(338)
Other	901	(208)	1,231	(524)
Total other expense	(12,634)	(11,835)	(25,505)	(23,992)
NET INCOME	20,383	13,873	36,238	22,395
NET (INCOME) LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS				
Noncontrolling interests in the Operating Partnership	(227)	(161)	(399)	(252)
Noncontrolling interest in subsidiaries	268	12	335	15
NET INCOME ATTRIBUTABLE TO THE COMPANY	20,424	13,724	36,174	22,158
Distribution to preferred shareholders	(1,502)	(1,502)	(3,004)	(3,004)
NET INCOME ATTRIBUTABLE TO THE COMPANY'S COMMON SHAREHOLDERS	\$ 18,922	\$ 12,222	\$ 33,170	\$ 19,154
Basic earnings per share attributable to common shareholders				
	\$ 0.11	\$ 0.07	\$ 0.19	\$ 0.12
Diluted earnings per share attributable to common shareholders				
	\$ 0.11	\$ 0.07	\$ 0.19	\$ 0.11

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Weighted-average basic shares outstanding	177,880	166,683	176,838	166,096
Weighted-average diluted shares outstanding	179,221	168,224	178,172	167,655

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		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
NET INCOME	\$ 20,383	\$ 13,873	\$ 36,238	\$ 22,395
Other comprehensive (loss) income:				
Unrealized losses on interest rate swaps	(581)	(357)	(2,235)	(2,686)
Reclassification of realized losses on interest rate swaps	1,268	1,572	2,594	3,137
Unrealized gain (loss) on foreign currency translation	—	268	—	(69)
OTHER COMPREHENSIVE INCOME	687	1,483	359	382
COMPREHENSIVE INCOME	21,070	15,356	36,597	22,777
Comprehensive income attributable to noncontrolling interests in the Operating Partnership	(235)	(180)	(403)	(256)
Comprehensive loss attributable to noncontrolling interest in subsidiaries	268	5	335	18
COMPREHENSIVE INCOME ATTRIBUTABLE TO THE COMPANY	\$ 21,103	\$ 15,181	\$ 36,529	\$ 22,539

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 Number	Common Shares Amount	Preferred Shares Number	Preferred Shares Amount	Additional Paid in Capital	Accumulated Comprehensive (Loss) Income	Other Accumulated Deficit	Total Shareholders' Equity	Noncontrolling Interest in Subsidiaries	Total Equity
174,668	\$ 1,747	3,100	\$ 31	\$ 2,231,181	\$ (4,978)	\$ (584,654)	\$ 1,643,327	\$ 1,526	\$ 1,644,853
								4,396	4,396
2,820	28			88,574			88,602		88,602
121	1						1		1
641	6			12,193			12,199		12,199
				171			171		171
				623			623		623
						(1,469)	(1,469)		(1,469)
						36,174	36,174	(335)	35,839
					355		355		355
						(3,004)	(3,004)		(3,004)
						(74,736)	(74,736)		(74,736)
178,250	\$ 1,782	3,100	\$ 31	\$ 2,332,742	\$ (4,623)	\$ (627,689)	\$ 1,702,243	\$ 5,587	\$ 1,707,830

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Common Shares		Preferred Shares		Additional	Accumulated Other	Accumulated	Total	Noncontrolling	Total
Number	Amount	Number	Amount	Paid in	Comprehensive	Deficit	Shareholders'	Interest in	Equity
				Capital	(Loss) Income		Equity	Subsidiaries	
163,957	\$ 1,639	3,100	\$ 31	\$ 1,974,308	\$ (8,759)	\$ (519,193)	\$ 1,448,026	\$ 1,592	\$ 1,448,026
								178	178
2,339	24			56,453			56,477		56,477
154	1						1		1
12				296			296		296
976	10			9,349			9,359		9,359
				(36)			(36)		(36)
				491			491		491
						(2,913)	(2,913)		(2,913)
						22,158	22,158	(15)	22,158
					381		381	(3)	378
						(3,004)	(3,004)		(3,004)
						(53,433)	(53,433)		(53,433)
167,438	\$ 1,674	3,100	\$ 31	\$ 2,040,861	\$ (8,378)	\$ (556,385)	\$ 1,477,803	\$ 1,752	\$ 1,477,803

See accompanying notes to the unaudited consolidated financial statements.

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CUBESMART AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended June 30, 2016	2015
Operating Activities		
Net income	\$ 36,238	\$ 22,395
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	82,020	77,186
Equity in losses of real estate ventures	1,236	338
Equity compensation expense	794	455
Accretion of fair market value adjustment of debt	(504)	(803)
Changes in other operating accounts:		
Restricted cash	272	190
Other assets	(3,630)	(3,896)
Accounts payable and accrued expenses	5,891	3,306
Other liabilities	1,660	1,517
Net cash provided by operating activities	\$ 123,977	\$ 100,688
Investing Activities		
Acquisitions of storage facilities	(235,577)	(85,627)
Additions and improvements to storage facilities	(13,261)	(11,874)
Development costs	(94,496)	(37,026)
Investment in real estate ventures, at equity	(7,586)	—
Cash distributed from real estate ventures	3,716	3,000
Fundings of notes receivable	—	(4,100)

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Change in restricted cash		137		(63)
Net cash used in investing activities	\$	(347,067)	\$	(135,690)
Financing Activities				
Proceeds from:				
Revolving credit facility		655,100		378,700
Principal payments on:				
Revolving credit facility		(505,100)		(295,100)
Mortgage loans and notes payable		(13,659)		(55,451)
Loan procurement costs		—		(2,283)
Proceeds from issuance of common shares, net		88,603		56,478
Exercise of stock options		12,199		9,359
Contributions from noncontrolling interests in subsidiaries		4,396		178
Distributions paid to common shareholders		(73,984)		(52,887)
Distributions paid to preferred shareholders		(3,004)		(3,004)
Distributions paid to noncontrolling interests in Operating Partnership		(907)		(722)
Net cash provided by financing activities	\$	163,644	\$	35,268
Change in cash and cash equivalents		(59,446)		266
Cash and cash equivalents at beginning of period		62,869		2,901
Cash and cash equivalents at end of period	\$	3,423	\$	3,167
Supplemental Cash Flow and Noncash Information				
Cash paid for interest, net of interest capitalized	\$	26,879	\$	23,893
Supplemental disclosure of noncash activities:				
Restricted cash - acquisition of storage facilities	\$	(22,019)	\$	—
Accretion of liability, net	\$	4,174	\$	7,427
Derivative valuation adjustment	\$	359	\$	451

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Foreign currency translation adjustment	\$	—	\$	(69)
Mortgage loan assumptions	\$	41,513	\$	2,695

See accompanying notes to the unaudited consolidated financial statements.

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CUBESMART, L.P. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands)

	June 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Storage facilities	\$ 3,861,096	\$ 3,467,032
Less: Accumulated depreciation	(652,657)	(594,049)
Storage facilities, net (including VIE assets of \$203,341 and \$136,274, respectively)	3,208,439	2,872,983
Cash and cash equivalents	3,423	62,869
Restricted cash	9,017	24,600
Loan procurement costs, net of amortization	2,475	2,800
Investment in real estate ventures, at equity	99,915	97,281
Other assets, net	39,240	43,631
Total assets	\$ 3,362,509	\$ 3,104,164
LIABILITIES AND CAPITAL		
Unsecured senior notes, net	\$ 742,402	\$ 741,904
Revolving credit facility	150,000	—
Unsecured term loans, net	398,466	398,183
Mortgage loans and notes payable, net	138,716	111,455
Accounts payable, accrued expenses and other liabilities	96,795	85,034
Distributions payable	39,449	38,685
Deferred revenue	19,868	17,519
Security deposits	402	403
Total liabilities	1,586,098	1,393,183
Limited Partnership interests of third parties	68,581	66,128
Commitments and contingencies		
Capital		
Operating Partner	1,706,866	1,648,305
Accumulated other comprehensive loss	(4,623)	(4,978)
Total CubeSmart, L.P. capital	1,702,243	1,643,327
Noncontrolling interests in subsidiaries	5,587	1,526
Total capital	1,707,830	1,644,853
Total liabilities and capital	\$ 3,362,509	\$ 3,104,164

See accompanying notes to the unaudited consolidated financial statements.

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CUBESMART, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per common unit data)

(unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
REVENUES				
Rental income	\$ 111,538	\$ 96,803	\$ 216,535	\$ 188,359
Other property related income	12,643	11,385	24,406	21,928
Property management fee income	2,345	1,683	4,456	3,272
Total revenues	126,526	109,871	245,397	213,559
OPERATING EXPENSES				
Property operating expenses	41,607	38,210	81,826	75,641
Depreciation and amortization	41,448	38,086	80,804	75,981
General and administrative	7,891	7,114	16,119	14,287
Acquisition related costs	2,563	753	4,905	1,263
Total operating expenses	93,509	84,163	183,654	167,172
OPERATING INCOME	33,017	25,708	61,743	46,387
OTHER (EXPENSE) INCOME				
Interest:				
Interest expense on loans	(12,200)	(10,868)	(24,284)	(21,925)
Loan procurement amortization expense	(611)	(659)	(1,216)	(1,205)
Equity in losses of real estate ventures	(724)	(100)	(1,236)	(338)
Other	901	(208)	1,231	(524)
Total other expense	(12,634)	(11,835)	(25,505)	(23,992)
NET INCOME	20,383	13,873	36,238	22,395
NET LOSS (INCOME) ATTRIBUTABLE TO NONCONTROLLING INTERESTS				
Noncontrolling interest in subsidiaries	268	12	335	15
NET INCOME ATTRIBUTABLE TO CUBESMART L.P.				
Operating Partnership interests of third parties	(227)	(161)	(399)	(252)
NET INCOME ATTRIBUTABLE TO OPERATING PARTNER				
Distribution to preferred unitholders	(1,502)	(1,502)	(3,004)	(3,004)
NET INCOME ATTRIBUTABLE TO COMMON UNITHOLDERS				
	\$ 18,922	\$ 12,222	\$ 33,170	\$ 19,154
Basic earnings per unit attributable to common unitholders				
	\$ 0.11	\$ 0.07	\$ 0.19	\$ 0.12

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Diluted earnings per unit attributable to common unitholders	\$ 0.11	\$ 0.07	\$ 0.19	\$ 0.11
Weighted-average basic units outstanding	177,880	166,683	176,838	166,096
Weighted-average diluted units outstanding	179,221	168,224	178,172	167,655

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		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
NET INCOME	\$ 20,383	\$ 13,873	\$ 36,238	\$ 22,395
Other comprehensive (loss) income:				
Unrealized losses on interest rate swaps	(581)	(357)	(2,235)	(2,686)
Reclassification of realized losses on interest rate swaps	1,268	1,572	2,594	3,137
Unrealized gain (loss) on foreign currency translation	—	268	—	(69)
OTHER COMPREHENSIVE INCOME	687	1,483	359	382
COMPREHENSIVE INCOME	21,070	15,356	36,597	22,777
Comprehensive income attributable to Operating Partnership interests of third parties	(235)	(180)	(403)	(256)
Comprehensive loss attributable to noncontrolling interest in subsidiaries	268	5	335	18
COMPREHENSIVE INCOME ATTRIBUTABLE TO OPERATING PARTNER	\$ 21,103	\$ 15,181	\$ 36,529	\$ 22,539

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 Outstanding		Operating Partner	Accumulated Comprehensive (Loss) Income	Total CubeSmart LP Capital	Noncontrolling Interests in Total Subsidiaries		Operating Partner Interests of Third Parties
	Common	Preferred				Capital	Capital	
Balance at December 31, 2015	174,668	3,100	\$ 1,648,305	\$ (4,978)	\$ 1,643,327	\$ 1,526	\$ 1,644,853	\$ 66,000
Contributions from noncontrolling interests in subsidiaries						4,396	4,396	
Issuance of common OP units	2,820		88,602		88,602		88,602	
Issuance of restricted OP units	121		1		1		1	
Issuance of OP Units								1,500
Exercise of OP unit options	641		12,199		12,199		12,199	
Amortization of restricted OP units			171		171		171	
OP unit compensation expense			623		623		623	
Adjustment for Limited Partnership interest of third parties			(1,469)		(1,469)		(1,469)	1,469
Net income (loss)			36,174		36,174	(335)	35,839	399
Other comprehensive				355	355		355	4

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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	Operating Partnership Interest of Third Parties
	Common	Preferred						
income, net								
Preferred OP unit distributions			(3,004)		(3,004)		(3,004)	
Common OP unit distributions			(74,736)		(74,736)		(74,736)	(91)
Balance at June 30, 2016	178,250	3,100	\$ 1,706,866	\$ (4,623)	\$ 1,702,243	\$ 5,587	\$ 1,707,830	\$ 68,5
Balance at December 31, 2014	163,957	3,100	\$ 1,456,785	\$ (8,759)	\$ 1,448,026	\$ 1,592	\$ 1,449,618	\$ 49,8
Contributions from noncontrolling interests in subsidiaries						178	178	
Issuance of common OP units	2,339		56,477		56,477		56,477	
Issuance of restricted OP units	154		1		1		1	
Issuance of OP units								500
Conversion from units to shares	12		296		296		296	(29)
Exercise of OP unit options	976		9,359		9,359		9,359	
Amortization of restricted OP units			(36)		(36)		(36)	
OP unit compensation expense			491		491		491	
Adjustment for Operating Partnership interest of third parties			(2,913)		(2,913)		(2,913)	2,9
Net income (loss)			22,158		22,158	(15)	22,143	252
Other comprehensive				381	381	(3)	378	4

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income (loss), net									
Preferred OP unit distributions			(3,004)		(3,004)		(3,004)		
Common OP unit distributions			(53,433)		(53,433)		(53,433)		(72,000)
Balance at June 30, 2015	167,438	3,100	\$ 1,486,181	\$ (8,378)	\$ 1,477,803	\$ 1,752	\$ 1,479,555		\$ 52,000

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)

	Six Months Ended June 30, 2016	2015
Operating Activities		
Net income	\$ 36,238	\$ 22,395
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	82,020	77,186
Equity in losses of real estate ventures	1,236	338
Equity compensation expense	794	455
Accretion of fair market value adjustment of debt	(504)	(803)
Changes in other operating accounts:		
Restricted cash	272	190
Other assets	(3,630)	(3,896)
Accounts payable and accrued expenses	5,891	3,306
Other liabilities	1,660	1,517
Net cash provided by operating activities	\$ 123,977	\$ 100,688
Investing Activities		
Acquisitions of storage facilities	(235,577)	(85,627)
Additions and improvements to storage facilities	(13,261)	(11,874)
Development costs	(94,496)	(37,026)
Investment in real estate ventures, at equity	(7,586)	—
Cash distributed from real estate ventures	3,716	3,000
Fundings of notes receivable	—	(4,100)

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Change in restricted cash		137		(63)
Net cash used in investing activities	\$	(347,067)	\$	(135,690)
Financing Activities				
Proceeds from:				
Revolving credit facility		655,100		378,700
Principal payments on:				
Revolving credit facility		(505,100)		(295,100)
Mortgage loans and notes payable		(13,659)		(55,451)
Loan procurement costs		—		(2,283)
Proceeds from issuance of common OP units		88,603		56,478
Exercise of OP unit options		12,199		9,359
Contributions from noncontrolling interests in subsidiaries		4,396		178
Distributions paid to common OP unitholders		(74,891)		(53,609)
Distributions paid to preferred OP unitholders		(3,004)		(3,004)
Net cash provided by financing activities	\$	163,644	\$	35,268
Change in cash and cash equivalents		(59,446)		266
Cash and cash equivalents at beginning of period		62,869		2,901
Cash and cash equivalents at end of period	\$	3,423	\$	3,167
Supplemental Cash Flow and Noncash Information				
Cash paid for interest, net of interest capitalized	\$	26,879	\$	23,893
Supplemental disclosure of noncash activities:				
Restricted cash - acquisition of storage facilities	\$	(22,019)	\$	—
Accretion of liability, net	\$	4,174	\$	7,427
Derivative valuation adjustment	\$	359	\$	451
Foreign currency translation adjustment	\$	—	\$	(69)
	\$	41,513	\$	2,695

Mortgage loan
assumptions

See accompanying notes to the unaudited consolidated financial statements.

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CUBESMART AND CUBESMART, L.P.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND NATURE OF OPERATIONS

CubeSmart (the “Parent Company”) operates as a self-managed and self-administered real estate investment trust (“REIT”) with its operations conducted solely through CubeSmart, L.P. and its subsidiaries. CubeSmart, L.P., a Delaware limited partnership (the “Operating Partnership”), operates through an umbrella partnership structure, with the Parent Company, a Maryland REIT, as its sole general partner. In the notes to the consolidated financial statements, we use the terms “the Company”, “we” or “our” to refer to the Parent Company and the Operating Partnership together, unless the context indicates otherwise. As of June 30, 2016, the Company owned self-storage facilities located in 22 states throughout the United States and the District of Columbia that are presented under one reportable segment: the Company owns, operates, develops, manages and acquires self-storage facilities.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

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Reclassifications

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

Recent Accounting Pronouncements

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

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

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

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

In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, an update to the accounting standard relating to the presentation of debt issuance costs. Under the new guidance, debt issuance costs related to a recognized debt liability will be presented on the balance sheet as a direct deduction from the debt liability. In the event that there is not an associated debt liability recorded in the consolidated financial statements, the debt issuance costs will continue to be recorded on the consolidated balance sheet as an asset until the debt liability is recorded. The new standard became effective for the Company on January 1, 2016. The adoption of this guidance did not have a material impact on the Company's consolidated financial position or results of operations as the update only related to changes in financial statement presentation as discussed in notes 6 and 7.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation – Amendments to the Consolidation Analysis, which amends the current consolidation guidance affecting both the variable interest entity (“VIE”) and voting interest

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entity (“VOE”) consolidation models. The standard does not add or remove any of the characteristics in determining if an entity is a VIE or VOE, but rather enhances the way the Company assesses some of these characteristics. The new standard became effective for the Company on January 1, 2016. As discussed under Basis of Presentation above, the adoption of this guidance did not have a material impact on the Company’s consolidated financial position or results of operations as none of its existing consolidation conclusions were changed.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance under GAAP when it becomes effective. The new standard will be effective for the Company beginning on January 1, 2018, however early application beginning on January 1, 2017 is permitted. The standard permits the use of either the retrospective or cumulative effect transition method. The Company has not yet selected a transition method nor has it determined the effect of the standard on its financial statements and related disclosures.

3. STORAGE FACILITIES

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

	June 30, 2016	December 31, 2015
	(in thousands)	
Land	\$ 649,615	\$ 588,503
Buildings and improvements	2,778,802	2,534,193
Equipment	269,739	243,442
Construction in progress	162,940	100,894
Storage facilities	3,861,096	3,467,032
Less Accumulated depreciation	(652,657)	(594,049)
Storage facilities, net	\$ 3,208,439	\$ 2,872,983

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

Asset/Portfolio	Market	Transaction Date	Number of Facilities	Purchase / Sale Price (in thousands)
2016 Acquisitions:				
Metro DC Asset	Baltimore / DC	January 2016	1	\$ 21,000
Texas Assets	Texas Markets - Major New York / Northern	January 2016	2	24,800
New York Asset	NJ	January 2016	1	48,500
Texas Asset	Texas Markets - Major	January 2016	1	11,600
Connecticut Asset	Connecticut	February 2016	1	19,000
Texas Asset	Texas Markets - Major	March 2016	1	11,600
Florida Assets	Florida Markets - Other	March 2016	3	47,925
Colorado Asset	Denver / Aurora	April 2016	1	11,350
Texas Asset	Texas Markets - Major	April 2016	1	11,600
Texas Asset	Texas Markets - Major	May 2016	1	10,100
Texas Asset	Texas Markets - Major	May 2016	1	10,800
Illinois Asset	Chicago	May 2016	1	12,350
Illinois Asset	Chicago	May 2016	1	16,000
Massachusetts Asset	Massachusetts	June 2016	1	14,300
			17	\$ 270,925
2015 Acquisitions:				
Texas Asset	Texas Markets - Major	February 2015	1	\$ 7,295
HSRE Assets	Chicago	March 2015	4	27,500
Arizona Asset	Arizona / Las Vegas	March 2015	1	7,900
Tennessee Asset	Tennessee	March 2015	1	6,575
Texas Asset	Texas Markets - Major	April 2015	1	15,795
Florida Asset	Florida Markets - Other	May 2015	1	7,300
Arizona Asset	Arizona / Las Vegas	June 2015	1	10,100
Florida Asset	Florida Markets - Other	June 2015	1	10,500
Texas Asset	Texas Markets - Major	July 2015	1	14,200
Maryland Asset	Baltimore / DC	July 2015	1	17,000
Maryland Asset	Baltimore / DC	July 2015	1	19,200
New York/New Jersey Assets	New York / Northern NJ	August 2015	2	24,823
New Jersey Asset	NJ	December 2015	1	14,350
PSI Assets	Various (see note 4)	December 2015	12	109,824