Public Storage
Form 10-K
February 27, 2019

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10 K

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

For the fiscal year ended December 31, 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 33519

PUBLIC STORAGE

(Exact name of Registrant as specified in its charter)

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

701 Western Avenue, Glendale, California 91201-2349

(Address of principal executive offices) (Zip Code)

(818) 244 8080

(Registrant's telephone number, including area code)

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

Depositary Shares Each Representing 1/1,000 of a 5.200% Cumulative Preferred Share, Series W $.01 par value	New York Stock Exchange

Title of each class	Name of each exchange on which registered
Depositary Shares Each Representing 1/1,000 of a 5.625% Cumulative Preferred Share, Series U $.01 par value	New York Stock Exchange
Depositary Shares Each Representing 1/1,000 of a 5.375% Cumulative Preferred Share, Series V $.01 par value	New York Stock Exchange
Depositary Shares Each Representing 1/1,000 of a 5.200% Cumulative Preferred Share, Series W $.01 par value	New York Stock Exchange
Depositary Shares Each Representing 1/1,000 of a 5.200% Cumulative Preferred Share, Series X $.01 par value	New York Stock Exchange
Depositary Shares Each Representing 1/1,000 of a 6.375% Cumulative Preferred Share, Series Y $.01 par value	New York Stock Exchange
Depositary Shares Each Representing 1/1,000 of a 6.000% Cumulative Preferred Share, Series Z $.01 par value	New York Stock Exchange
Depositary Shares Each Representing 1/1,000 of a 5.875% Cumulative Preferred Share, Series A $.01 par value	New York Stock Exchange
Depositary Shares Each Representing 1/1,000 of a 5.400% Cumulative Preferred Share, Series B $.01 par value	New York Stock Exchange

Depositary Shares Each Representing 1/1,000 of a 5.125% Cumulative Preferred Share, Series C $.01 par value	New York Stock Exchange
Depositary Shares Each Representing 1/1,000 of a 4.950% Cumulative Preferred Share, Series D $.01 par value	New York Stock Exchange
Depositary Shares Each Representing 1/1,000 of a 4.900% Cumulative Preferred Share, Series E $.01 par value	New York Stock Exchange
Depositary Shares Each Representing 1/1,000 of a 5.150% Cumulative Preferred Share, Series F $.01 par value	New York Stock Exchange
Depositary Shares Each Representing 1/1,000 of a 5.050% Cumulative Preferred Share, Series G $.01 par value	New York Stock Exchange
Common Shares, $.10 par value	New York Stock Exchange

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

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

Yes [X]No [ ]

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

Yes [ ]No [X]

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

Yes [X]No [ ]

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

Yes [X]No [ ]

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.

Smaller reporting company Emerging growth company

Large accelerated filer	Accelerated filer	Non-accelerated filer		
[X]	[ ]	[ ]	[ ]	[ ]

2

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

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

Yes [   ]No [X]

The aggregate market value of the voting and non-voting common shares held by non-affiliates of the Registrant as of June 30, 2018:

Common Shares, $0.10 Par Value Per Share – $33,830,475,000 (computed on the basis of $226.86 per share, which was the reported closing sale price of the Company's Common Shares on the New York Stock Exchange (the "NYSE") on June 30, 2018).

As of February 25, 2019, there were 174,498,758 outstanding Common Shares, $.10 par value per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement to be filed in connection with the Annual Meeting of Shareholders to be held in 2019 are incorporated by reference into Part III of this Annual Report on Form 10-K to the extent described therein.

PART I

ITEM 1.Business

Forward Looking Statements

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

These forward-looking statements involve known and unknown risks and uncertainties, which may cause our actual results and performance to be materially different from those expressed or implied in the forward-looking statements. Factors and risks that may impact future results and performance include, but are not limited to, those described in Part 1, Item 1A, "Risk Factors" and in our other filings with the Securities and Exchange Commission (the “SEC”) including:

- general risks associated with the ownership and operation of real estate, including changes in demand, risk related to development of self-storage facilities, potential liability for environmental contamination, natural disasters and adverse changes in laws and regulations governing property tax, real estate and zoning;
- risks associated with downturns in the national and local economies in the markets in which we operate, including risks related to current economic conditions and the economic health of our customers;
- the impact of competition from new and existing self-storage and commercial facilities and other storage alternatives;
- difficulties in our ability to successfully evaluate, finance, integrate into our existing operations, and manage acquired and developed properties;
- risks associated with international operations including, but not limited to, unfavorable foreign currency rate fluctuations, changes in tax laws, and local and global economic uncertainty that could adversely affect our earnings and cash flows;
- risks related to our participation in joint ventures;
- the impact of the regulatory environment as well as national, state and local laws and regulations including, without limitation, those governing environmental, taxes, our tenant reinsurance business and labor, and risks related to the impact of new laws and regulations;
- risks of increased tax expense associated either with a possible failure by us to qualify as a real estate investment trust (“REIT”), or with challenges to the determination of taxable income for our taxable REIT subsidiaries;
- risks due to a potential November 2020 statewide ballot initiative (or other equivalent actions) that could remove the protections of Proposition 13 with respect to our real estate and result in substantial increases in our assessed values and property tax bills in California;
- changes in United States (“U.S.”) federal or state tax laws related to the taxation of REITs and other corporations;

- security breaches or a failure of our networks, systems or technology could adversely impact our business, customer and employee relationships;
- risks associated with the self-insurance of certain business risks, including property and casualty insurance, employee health insurance and workers compensation liabilities;
- difficulties in raising capital at a reasonable cost;
- delays and cost overruns on our development projects;
- ongoing litigation and other legal and regulatory actions which may divert management's time and attention, require us to pay damages and expenses or restrict the operation of our business; and
- economic uncertainty due to the impact of war or terrorism.

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

General

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

At December 31, 2018, our principal business activities were as follows:

(i) Self-storage Operations: We acquire, develop, own and operate self-storage facilities, which offer storage spaces for lease on a month-to-month basis, for personal and business use. We are the largest owner and operator of self-storage facilities in the U.S. We have direct and indirect equity interests in 2,429 self-storage facilities that we consolidate (an aggregate of 162 million net rentable square feet of space) located in 38 states within the U.S. operating under the "Public Storage" brand name.

(ii) Ancillary Operations: We reinsure policies against losses to goods stored by customers in our self-storage facilities and sell merchandise, primarily locks and cardboard boxes, at our self-storage facilities.

(iii) Investment in PS Business Parks: We have a 42% equity interest in PS Business Parks, Inc. ("PSB"), a publicly held REIT that owns, operates, acquires and develops commercial properties, primarily multi-tenant flex, office, and industrial parks. At December 31, 2018, PSB owns and operates 28.2 million rentable square feet of commercial space.

(iv) Investment in Shurgard Europe: We have a 35% equity interest in Shurgard Self Storage SA ("Shurgard Europe"), a publicly held company trading under Euronext Brussels under the "SHUR" symbol, which owns 232 self-storage facilities (13 million net rentable square feet) located in seven countries in Western Europe operated under the "Shurgard" brand name. We believe Shurgard Europe is the largest owner and operator of self-storage facilities in Western Europe.

We also manage 33 self-storage facilities for third parties. We are seeking to expand our third-party management operations to further increase our economies of scale and leverage our brand; however, there is no assurance that we will be able to do so. We also own 0.8 million net rentable square feet of commercial space which is managed primarily by PSB.

For all periods presented herein, we have elected to be treated as a REIT, as defined in the Internal Revenue Code of 1986, as amended (the "Code"). As a REIT, we do not incur U.S. federal income tax if we distribute 100% of our "REIT taxable income" (generally, net rents and gains from real property, dividends, and interest) each year (for this purpose, certain distributions paid in a subsequent year may be considered), and if we meet certain organizational and operational rules. We believe we met these requirements in all periods presented herein and we expect to continue to elect and qualify as a REIT.

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

On our website, www.publicstorage.com, we make available, free of charge, our Annual Reports on Form 10- K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after the reports and amendments are electronically filed with or furnished to the SEC. The information contained on our website is not a part of, or incorporated by reference into, this Annual Report on Form 10-K.

Competition

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

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

Ownership and operation of self-storage facilities is highly fragmented. As the largest owner of self-storage facilities, we believe that we own approximately 7% of the self-storage square footage in the U.S. and that collectively the five largest self-storage owners in the U.S. own approximately 15%, with the remaining 85% owned by numerous regional and local operators.

We generally own facilities in major markets. We believe that we have significant market share and concentration in major metropolitan centers, with approximately 71% of our 2018 same-store revenues generated in the 20 Metropolitan Statistical Areas (each, an "MSA", as defined by the U.S. Census Bureau) with the highest population levels. We believe this is a competitive advantage relative to other self-storage operators, which do not have our geographic concentration and market share in the major MSAs.

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

Business Attributes

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

6

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

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

· Our Desktop and Mobile Websites: The online marketing channel is a key source of customers. Approximately 73% of our move-ins in 2018 were sourced through our websites and we believe that many of our other customers who reserved directly through our call center or arrived at a facility and moved in without a reservation, have reviewed our pricing and availability online through our websites. We invest extensively in advertising on the Internet to attract potential customers, primarily through the use of search engines, and we regularly update our websites to enhance their productivity.
· Our Call Center: Our call center is staffed by skilled sales specialists. Customers primarily reach our call center by calling our advertised toll-free telephone numbers provided on search engines or our website. We believe giving customers the option to interact with a call center agent, despite the higher marginal cost relative to a reservation made on our website, enhances our ability to close sales with potential customers.
· Our Properties: Customers can also shop at any one of our facilities. Property managers access the same information that is available on our website and to our call center agents, and can inform the customer of available space at that site or our other nearby storage facilities. Property managers are trained to maximize the conversion of such "walk in" shoppers into customers.

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

Marketing economies of scale: Our major-market concentration relative to the fragmented ownership and operation of the rest of the industry, combined with our well-recognized brand name, improves our prominence in unpaid online search results for self-storage and reduces our average cost per "click" for multiple-keyword advertising. The large number of facilities we have in major metropolitan centers enables us to efficiently use television advertising from time to time. Our competitors generally do not use television advertising because they lack the scale in major metropolitan centers.

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

Growth and Investment Strategies

Our growth strategies consist of: (i) improving the operating performance of our existing self-storage facilities, (ii) acquiring more facilities, (iii) developing new facilities and adding more self-storage space to existing facilities, (iv) participating in the growth of our investment in PSB, and (v) participating in the growth of our

7

investment in Shurgard Europe. While our long-term strategy includes each of these elements, in the short run the level of growth in our asset base in any period is dependent upon the cost and availability of capital, as well as the relative attractiveness of available investment alternatives.

Improve the operating performance of existing facilities: We seek to increase the net cash flow of our existing self-storage facilities by (i) regularly analyzing our call volume, reservation activity, Internet activity, move-in/move-out rates and other market supply and demand factors and responding by adjusting our Internet marketing spending and intensity, our promotional and other discounts, and the rental rates we charge to new and existing customers, (ii) attempting to maximize revenues through evaluating the appropriate balance between occupancy, rental rates, and promotional discounting and (iii) controlling operating costs. We believe that our property management personnel, information technology, our convenient shopping options for the customer, our economies of scale, and our Internet marketing and advertising programs will continue to enhance our ability to meet these goals.

Acquire properties owned by others in the U.S.: We seek to capitalize on the fragmentation of the self-storage business through acquiring attractively priced, well-located existing self-storage facilities. We believe our presence in and knowledge of substantially all of the major markets in the U.S. enhances our ability to identify attractive acquisition opportunities. Data on the rental rates and occupancy levels of our existing facilities provide us an advantage in evaluating the potential of acquisition opportunities. Our aggressiveness in bidding for particular marketed facilities depends upon many factors including the potential for future growth, the quality of construction and location, the cash flow we expect from the facility when operated on our platform, how well the facility fits into our current geographic footprint, as well as our yield expectations. From 2015 through 2018, we acquired an aggregate of 119 facilities from third parties at an aggregate cost of $929 million. We will continue to seek to acquire properties in 2019; however, there is significant competition to acquire existing facilities, and self-storage owners' desire to sell is based upon many variables, including potential reinvestment returns, expectations of future growth, estimated value, the cost of debt financing, as well as personal considerations. As a result, there can be no assurance as to the level of facilities we may acquire.

Develop new self-storage facilities and expand existing facilities: The development of new self-storage locations and the expansion of existing facilities has been an important source of growth. Since the beginning of 2013, we have expanded our development efforts due in part to the significant increase in prices being paid for existing facilities, in many cases well above the cost of developing new facilities. At December 31, 2018, we had a development pipeline to develop new self-storage facilities and expand existing self-storage facilities, which will add approximately 5.2 million net rentable square feet of self-storage space, at a total cost of $607.4 million. Some of these projects are subject to significant contingencies such as entitlement approval. We expect to continue to seek additional development projects; however, the level of future development may be limited due to various constraints such as difficulty in finding projects that meet our risk-adjusted yield expectations, challenges in obtaining building permits for self-storage activities in certain municipalities, as well as challenges in sourcing quality construction materials, labor, and design elements.

Participate in the growth of PS Business Parks, Inc.: Our investment in PSB provides diversification into another asset type. PSB is a stand-alone public company traded on the NYSE. As of December 31, 2018, we have a 42% equity interest in PSB.

PSB seeks to grow its asset base in favorable markets as well as increase the cash flows from its existing portfolio. As of December 31, 2018, PSB owned and operated approximately 28.2 million rentable square feet of commercial space, and had an enterprise value of approximately $5.5 billion (based upon the trading price of PSB's common stock combined with the liquidation value of its preferred stock as of December 31, 2018).

Participate in the growth of Shurgard Europe: We believe Shurgard Europe is the largest self-storage company in Western Europe. It owns and operates 232 self-storage facilities with approximately 13 million net rentable square feet in: France (principally Paris), Sweden (principally Stockholm), the United Kingdom (principally London), the Netherlands, Denmark (principally Copenhagen), Belgium and Germany. On October 15, 2018, Shurgard Europe completed an initial global offering (the “Offering”) of 25.0 million of its common shares for €575 million in gross proceeds, and its shares commenced trading on Euronext Brussels under the “SHUR” symbol.

As a result of the Offering (we did not acquire any additional common shares or sell any of our existing shares in the Offering), our equity interest in Shurgard Europe decreased from 49% to 35.2%.

Customer awareness and availability of self-storage is significantly lower in Europe than in the U.S. However, with more awareness and product supply, we believe there is potential for increased demand for storage space in Europe. We believe Shurgard Europe can capitalize on potential increased demand through the development of new facilities and acquiring existing facilities. From 2014 through 2018, Shurgard Europe acquired 36 facilities with an approximate 1.8 million net rentable square feet in Germany, the Netherlands, the United Kingdom, Sweden and France for an aggregate purchase price of approximately $380.5 million. In addition, from 2014 through 2018, Shurgard Europe opened eight development properties in the United Kingdom, Germany and Sweden containing 636,000 net rentable square feet at a cost of $100.7 million.

Financing of the Company's Growth Strategies

Overview of financing strategy and sources of capital: As a REIT, we generally distribute 100% of our taxable income to our shareholders which, relative to a taxable C corporation, limits the amount of cash flow from operations that we can retain for investments. As a result, in order to grow our asset base, access to capital is important.

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

Sources of capital available to us include retained operating cash flow, the issuance of preferred and common securities, the issuance of medium and long-term debt, joint venture financing and the sale of properties. We view our line of credit, as well as short-term bank loans, as bridge financing.

Historically, we have financed our cash investment activities primarily with retained operating cash flow and the issuance of preferred securities. While we have issued common shares, such issuances have been minimal, because preferred securities have had a more attractive cost of capital. In 2015 and 2016, we issued Euro-denominated medium-term debt primarily as a hedge to our Euro-denominated investment in Shurgard Europe. On September 18, 2017, we completed a public offering of $1.0 billion in aggregate principal amount of unsecured notes in two equal tranches (collectively, the "U.S. Dollar Notes"), one maturing in September 2022 bearing interest at 2.370%, and another maturing in September 2027 bearing interest at 3.094%. While we have increased the level of debt in our capital structure, we expect to continue to remain conservatively capitalized and not subject ourselves to significant refinancing risk.

We have no current plans to use joint venture financing or the sale of properties as sources of capital.

We select among the sources of capital available to us based upon relative cost, availability, the desire for leverage, and considering potential constraints caused by certain features of capital sources, such as debt covenants.

Retained operating cash flow: Although we are generally required to distribute 100% of our taxable income to our shareholders, we are nonetheless able to retain operating cash flow to the extent that our tax depreciation exceeds our maintenance capital expenditures. In recent years, we have retained approximately $200 million to $300 million per year in cash flow.

Preferred equity: As noted above, we view preferred equity as an important source of capital over the long term. However, rates and market conditions for the issuance of preferred securities can be volatile or inefficient from time to time, particularly so in the last few years. Since 2013, we have issued preferred securities at fixed rates ranging from 4.900% to 6.375%. Most recently, in August 2017, we issued $300 million of preferred securities at a fixed rate of 5.050%. We believe that the market coupon rate of our preferred securities is influenced by long-term interest rates, as well as demand specifically from retail investors. Institutional investors are generally not buyers of our preferred securities.

At December 31, 2018, we have approximately $4.0 billion in preferred securities outstanding. On February 22, 2019, we called for redemption on March 28, 2019 our 6.375% Series Y Preferred Shares, at par ($285 million). Our preferred securities outstanding at December 31, 2018, excluding the Series Y Preferred Shares that were called for redemption had an average coupon rate of 5.3% and an average market yield of 5.9%. As of February 27, 2019, we have the option to redeem, with 30 days' notice, the following additional series of preferred securities; our 5.625% Series U Preferred Shares ($288 million), our 5.375% Series V Preferred Shares ($495 million), our 5.200% Series W Preferred Shares ($500 million), and our 5.200% Series X Preferred Shares ($225 million). Our 6.000% Series Z Preferred Shares ($288 million) become callable on June 4, 2019. Redemption of such preferred shares will depend upon many factors, including the rate at which we could issue replacement preferred securities. None of our preferred securities is redeemable at the option of the holders.

Medium or long-term debt: We have broad powers to issue debt to fund our business. Our corporate credit ratings are "A" by Standard & Poor's and "A2" by Moody's. We believe these high ratings, combined with our current minimal level of debt, could allow us to issue additional unsecured debt at lower interest rates than the coupon rates on preferred securities.

At December 31, 2018, we have $1.0 billion of U.S. Dollar Notes and approximately €342 million of Euro-denominated senior unsecured notes (the "Euro Notes") outstanding, which were issued to institutional investors in 2015 and 2016.

Common equity: Except in connection with mergers, most notably a merger in 2006 with Shurgard Storage Centers, we have not raised capital through the issuance of common equity because lower cost alternatives have been available. However, we believe that the market for our common equity is liquid and, as a result, common equity is a significant potential source of capital.

Bridge financing: We have a $500.0 million revolving line of credit which we occasionally use as temporary "bridge" financing, along with short-term bank loans, until we are able to raise longer-term capital. As of December 31, 2018, there were no borrowings outstanding on our revolving line of credit and no short-term bank loans.

Unlikely capital alternatives: We have issued both our common and preferred securities in exchange for real estate and other investments in the past. We do not expect such issuances to be a material source of capital in the future, though there can be no assurance.

We have participated in joint ventures with institutional investors in the past to acquire, develop, and operate self-storage facilities, most notably our joint venture to own Shurgard Europe, prior to its Offering. We do not presently expect joint venture financing to be a material source of capital in the future because we have other sources of capital that are currently less expensive and because of potential constraints resulting from joint management and ownership.

Generally, we have disposed of self-storage facilities only when compelled to do so through condemnation proceedings. Because we believe that we are an optimal operator of self-storage facilities, we have generally found that we cannot obtain sufficient value in selling properties. As a result, we do not presently expect to raise significant capital selling self-storage facilities; however, there can be no assurance that we will not.

Investments in Real Estate and Unconsolidated Real Estate Entities

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

10

- Our investments primarily consist of direct ownership of self-storage facilities, as well as partial interests in entities we control that own self-storage facilities that we manage under the "Public Storage" brand name in the U.S. Our investments in self-storage facilities are described in more detail in Item 2, "Properties," below.
- We have an ownership interest in Shurgard Europe, which owns storage facilities located in Europe under the "Shurgard" brand name.
- Additional acquired interests in real estate will primarily include the acquisition of properties from third parties, as well as to a lesser extent, partial interests in entities in which we already have an interest.
- To a lesser extent, we have interests in existing commercial properties (described in Item 2, "Properties"), containing commercial and industrial rental space, primarily through our investment in PSB.

Facilities Owned by Unconsolidated Real Estate Entities

At December 31, 2018, we had ownership interests in PSB and Shurgard Europe (each discussed above), which we do not control or consolidate.

PSB and Shurgard Europe, have debt and other obligations that we do not consolidate in our financial statements. Such debt or other obligations have no recourse to us. See Note 4 to our December 31, 2018 financial statements for further disclosure regarding the assets, liabilities and operating results of PSB and Shurgard Europe. In addition, PSB's public filings are available at its website, www.psbusinessparks.com and on the SEC website, and Shurgard Europe's public filings and publicly reported information can be obtained on its website, https://corporate.shurgard.eu and on the website of the Luxembourg Stock Exchange, http://www.bourse.lu.

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

At December 31, 2018, B. Wayne Hughes and Tamara Hughes Gustavson together owned and controlled 62 self-storage facilities in Canada. These facilities operate under the "Public Storage" tradename, which we license to the owners of these facilities for use in Canada on a royalty-free, non-exclusive basis. We have no ownership interest in these facilities and we do not own or operate any facilities in Canada. If we chose to acquire or develop our own facilities in Canada, we would have to share the use of the "Public Storage" name in Canada. We have a right of first refusal, subject to limitations, to acquire the stock or assets of the corporation engaged in the operation of these facilities if their owners agree to sell them. Our subsidiaries reinsure risks relating to loss of goods stored by customers in these facilities, and have received approximately $1.3 million, $1.1 million and $848,000 for the years ended December 31, 2018, 2017 and 2016, respectively. Our right to continue receiving these premiums may be qualified.

Limitations on Debt

Our revolving credit facility, U.S. Dollar Notes and Euro Notes contain various customary financial covenants, including limitations on our ability to encumber our properties with mortgages and limitations on the level of indebtedness. We believe we complied with each of these covenants as of December 31, 2018.

Employees

We had approximately 5,600 employees in the U.S. at December 31, 2018 who are engaged primarily in property operations.

Seasonality

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

Insurance

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

We reinsure a program that provides insurance to our customers from an independent third-party insurer. This program covers customer claims for losses to goods stored at our facilities as a result of specific named perils (earthquakes are not covered by this program), up to a maximum limit of $5,000 per storage unit. We reinsure all risks in this program, but purchase insurance to cover this exposure for a limit of $15.0 million for losses in excess of $5.0 million per occurrence. We are subject to licensing requirements and regulations in several states. Customers participate in the program at their option. At December 31, 2018, there were approximately 914,000 certificates held by our self-storage customers, representing aggregate coverage of approximately $2.9 billion.

ITEM 1A. Risk Factors

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

We have significant exposure to real estate risk.

Since our business consists primarily of acquiring and operating real estate, we are subject to the risks related to the ownership and operation of real estate that could result in reduced revenues, increased expenses, increased capital expenditures, or increased borrowings, which could negatively impact our operating results, cash flow available for distribution or reinvestment, and our stock price:

Natural disasters or terrorist attacks could cause damage to our facilities, resulting in increased costs and reduced revenues. Natural disasters, such as earthquakes, fires, hurricanes and floods, or terrorist attacks could cause significant damage and require significant repair costs, and make facilities temporarily uninhabitable, reducing our revenues. Damage and business interruption losses could exceed the aggregate limits of our insurance coverage. In addition, because we self-insure a portion of our risks, losses below a certain level may not be covered by insurance. See Note 13 to our December 31, 2018 financial statements for a description of the risks of losses that are not covered by third-party insurance contracts. We may not have sufficient insurance coverage for losses caused by a terrorist attack, or such insurance may not be maintained, available or cost-effective. In addition, significant natural disasters, terrorist attacks, threats of future terrorist attacks, or resulting wider armed conflicts could have negative impacts on storage demand and/or our revenues.

Operating costs, including property taxes, could increase. We could be subject to increases in insurance premiums, property or other taxes, repair and maintenance costs, payroll, utility costs, workers compensation, and other operating expenses due to various factors such as inflation, labor shortages, commodity and energy price increases, weather, increases to minimum wage rates, changes to governmental safety and real estate use limitations,

12

as well as other governmental actions. Our property tax expense, which totaled approximately $256.9 million during the year ended December 31, 2018, generally depends upon the assessed value of our real estate facilities as determined by assessors and government agencies, and accordingly could be subject to substantial increases if such agencies changed their valuation approaches or opinions or if new laws are enacted.

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

Development of self-storage facilities can subject us to risks. At December 31, 2018, we have a pipeline of development projects totaling $607.4 million (subject to contingencies), and we expect to continue to seek additional development projects. There are significant risks involved in developing self-storage facilities, such as delays or cost increases due to changes in or failure to meet government or regulatory requirements, failure of revenue to meet our underwriting estimates, weather issues, unforeseen site conditions, or personnel problems. Self-storage space is generally not pre-leased, and rent-up of newly developed space can be delayed or ongoing cash flow yields can be reduced due to competition, reductions in storage demand, or other factors.

There is significant competition among self-storage operators and from other storage alternatives. Our self-storage facilities generate most of our revenue and earnings. Competition in the local market areas in which many of our properties are located is significant and has affected our occupancy levels, rental rates and operating expenses. Development of self-storage facilities has increased in recent years, which has intensified competition and will continue to do so as newly developed facilities are opened. Development of self-storage facilities by other operators could continue to increase, due to increases in availability of funds for investment or other reasons, and further intensify competition.

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

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

We are not aware of any environmental contamination or moisture infiltration related liabilities that could be material to our overall business, financial condition, or results of operation. However, we may not have detected all material liabilities, we could acquire properties with material undetected liabilities, or new conditions could arise or develop at our properties, any of which would result in a cash settlement or adversely affect our ability to sell, lease, operate, or encumber affected facilities.

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

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

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

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

We own a 35.2% equity interest in Shurgard Europe, with our investment having a $349.5 million book value at December 31, 2018, and $14.1 million in equity in earnings in 2018. As a result, we are exposed to additional risks related to international operations that may adversely impact our business and financial results, including the following:

· Currency risks: Currency fluctuations can impact the fair value of our investment in Shurgard Europe, as well as future repatriation of cash.
· Legislative, tax, and regulatory risks: Shurgard Europe is subject to a variety of local, national, and pan European laws and regulations related to permitting and land use, the environment, labor, and other areas, as well as income, property, sales, value added and employment tax laws. These laws can be difficult to apply or interpret and can vary in each country or locality, and are subject to unexpected changes in their form and application due to regional, national, or local political uncertainty and other factors. Such changes, or Shurgard Europe's failure to comply with these laws, could subject it to penalties or other sanctions, adverse changes in business processes, as well as potentially adverse income tax, property tax, or other tax burdens.
· Impediments to capital repatriation could negatively impact the realization of our investment in Shurgard Europe: Laws in Europe and the U.S. may create, impede or increase our cost to repatriate distributions received from Shurgard Europe or proceeds from the sale of Shurgard Europe's shares.
· Risks of collective bargaining and intellectual property: Collective bargaining, which is prevalent in certain areas in Europe, could negatively impact Shurgard Europe's labor costs or operations. Many of Shurgard Europe's employees participate in various national unions.
· Potential operating and individual country risks: Economic slowdowns or extraordinary political or social change in the countries in which it operates have posed, and could continue to pose, challenges or result in future reductions of Shurgard Europe's operating cash flows.
· Liquidity of our ownership stake: We have no plans to liquidate our interest in Shurgard Europe. However, while Shurgard Europe is a publicly held entity, our ability to liquidate our shares in Shurgard Europe, if we chose to, could be limited by the level of Shurgard Europe's public "float" relative to our ownership stake. We are subject to a contractual "lock up" that prevents us from selling any shares until April 9, 2019, and our existing relationship with our legacy joint venture partner may place further contractual limitations on our ability to sell all of the shares we own if we desired to do so.
· Impediments of Shurgard Europe's public ownership structure: Shurgard Europe's strategic decisions, involving activities such as borrowing money, capital contributions, raising capital from third parties, as well as selling or acquiring significant assets, are determined by its board of directors. As a result, Shurgard Europe may be precluded from taking advantage of opportunities that we would find attractive but that we may not be able to pursue economically separately.

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

At December 31, 2018, B. Wayne Hughes, our former Chairman and his family, which includes his daughter, Tamara Hughes Gustavson and his son, B. Wayne Hughes, Jr., who are both members of our Board of Trustees (collectively, the "Hughes Family"), owned approximately 14.5% of our aggregate outstanding common shares. Our declaration of trust permits the Hughes Family to own up to 35.66% of our outstanding common shares while it generally restricts the ownership by other persons and entities to 3% of our outstanding common shares. Consequently, the Hughes Family may significantly influence matters submitted to a vote of our shareholders, including electing trustees, amending our organizational documents, dissolving and approving other extraordinary transactions, such as a takeover attempt, resulting in an outcome that may not be favorable to other shareholders.

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

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

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

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

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

There can be no assurance that we qualify or will continue to qualify as a REIT, because of the highly technical nature of the REIT rules, the ongoing importance of factual determinations, the possibility of unidentified issues in prior periods or changes in our circumstances, as well as share ownership limits in our articles of incorporation that do not necessarily ensure that our shareholder base is sufficiently diverse for us to qualify as a REIT. For any year we fail to qualify as a REIT, unless certain relief provisions apply (the granting of such relief could nonetheless result in significant excise or penalty taxes), we would not be allowed a deduction for dividends paid, we would be subject to corporate tax on our taxable income, and generally we would not be allowed to elect REIT status until the fifth year after such a disqualification. Any taxes, interest, and penalties incurred would reduce

15

our cash available for distributions to shareholders and could negatively affect our stock price. However, for years in which we failed to qualify as a REIT, we would not be subject to REIT rules which require us to distribute substantially all of our taxable income to our shareholders.

Holders of our preferred shares have dividend, liquidation and other rights that are senior to the rights of the holders of shares of our common stock.

Holders of our preferred shares are entitled to cumulative dividends before any dividends may be declared or set aside on our common stock. Upon liquidation, holders of our preferred shares will receive a liquidation preference of $25,000 per share (or $25.00 per depositary share) plus any accrued and unpaid distributions before any payment is made to the common shareholders. These preferences may limit the amount received by our common shareholders either from ongoing distributions or upon liquidation. In addition, our preferred shareholders have the right to elect two additional directors to our Board whenever dividends are in arrears in an aggregate amount equivalent to six or more quarterly dividends, whether or not consecutive.

Preferred Shareholders are subject to certain risks

Holders of our preferred shares have preference rights over our common shareholders with respect to liquidation and distributions, which give them some assurance of continued payment of their stated dividend rate, and receipt of their principal upon liquidation of the Company or redemption of their securities. However, holders of our Preferred Shares should consider the following risks:

· The Company has in the past, and could in the future, issue or assume additional debt. Preferred shareholders would be subordinated to the interest and principal payments of such debt, which would increase the risk that there would not be sufficient funds to pay distributions or liquidation amounts to the preferred shareholders.
· The Company has in the past, and could in the future, issue additional preferred shares that, while pari passu to the existing preferred shares, increases the risk that there would not be sufficient funds to pay distributions to the preferred shareholders.
· While the Company has no plans to do so, if the Company were to lose its REIT status or no longer elect REIT status, it would no longer be required to distribute its taxable income to maintain REIT status. If, in such a circumstance, the Company ceased paying dividends, unpaid distributions to the preferred shareholders would continue to accumulate. The preferred shareholders would have the ability to elect two additional members to serve on our Board of Trustees until the arrearage was cured. The preferred shareholders would not receive any compensation (such as interest) for the delay in the receipt of distributions, and it is possible that the arrearage could accumulate indefinitely.

Changes in tax laws could negatively impact us.

The United States Treasury Department and Congress frequently review federal income tax legislation, regulations and other guidance. We cannot predict whether, when or to what extent new federal tax laws, regulations, interpretations or rulings will be adopted. Any legislative action may prospectively or retroactively modify our tax treatment and, therefore, may adversely affect taxation of us or our shareholders.

Changes made by the Tax Cuts and Jobs Act (the “TCJA”), signed into law on December 22, 2017, will limit our ability to deduct compensation in excess of $1 million paid to certain senior executives. This could require us to increase distributions to our shareholders in order to avoid paying tax and to maintain our REIT status.

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

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

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

We have exposure to increased property tax in California.

Approximately $565 million of our 2018 net operating income is from our properties in California, and we incurred approximately $41 million in related property tax expense. Due to the impact of Proposition 13, which generally limits increases in assessed values to 2% per year, the assessed value and resulting property tax we pay is less than it would be if the properties were assessed at current values. From time to time, proposals have been made to reduce the beneficial impact of Proposition 13, particularly with respect to commercial and industrial (non-residential) real estate, which would include self-storage facilities. In late 2018, an initiative qualified for California's November 2020 statewide ballot that would create a "split roll," generally making Proposition 13's protections only applicable to residential real estate. We cannot predict whether the initiative will actually be on the ballot in 2020, or what the prospects for passage might be, or whether other changes to Proposition 13 may be proposed or adopted. If the initiative or a similar proposal were to be adopted, it would end the beneficial effect of Proposition 13 for our properties, and our property tax expense could increase substantially, adversely affecting our cash flow from operations and net income.

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

We have over 5,600 employees, more than 1.4 million customers, and we conduct business at facilities with 162 million net rentable square feet of storage space. As a result, we are subject to the risk of legal claims and proceedings (including class actions) and regulatory enforcement actions in the ordinary course of our business and otherwise, and we could incur significant liabilities and substantial legal fees as a result of these actions. Resolution of these claims and actions may divert time and attention by our management could involve payment of damages or expenses by us, all of which may be significant, and could damage our reputation and our brand. In addition, any such resolution could involve our agreement to terms that restrict the operation of our business. The results of legal proceedings cannot be predicted with certainty. We cannot guarantee losses incurred in connection with any current or future legal or regulatory proceedings or actions will not exceed any provisions we may have set aside in respect of such proceedings or actions or will not exceed any available insurance coverage. The impact of any such legal claims, proceedings, and regulatory enforcement actions and could negatively impact our operating results, cash flow available for distribution or reinvestment, and/or the price of our common shares.

We are heavily dependent on computer systems, telecommunications and the Internet to process transactions, summarize results and manage our business. The failure or disruption of our computer and communications systems could significantly harm our business.

We are heavily dependent upon automated information technology and Internet commerce, with more than half of our new customers coming from the telephone or over the Internet. We centrally manage significant components of our operations with our computer systems, including our financial information, and we also rely extensively on third-party vendors to retain data, process transactions and provide other systems services. These systems are subject to damage or interruption from power outages, computer and telecommunications failures, hackers, computer worms, viruses and other destructive or disruptive security breaches and catastrophic events. Such incidents could also result in significant costs to repair or replace such networks or information systems. As a result, our operations could be severely impacted by a natural disaster, terrorist attack, attack by hackers, acts of vandalism, data theft, misplaced or lost data, programming or human error, or other circumstance that results in a significant outage of our systems or those of our third party providers, despite our use of back up and redundancy measures.

If our confidential information is compromised or corrupted, including as a result of a cybersecurity breach, our reputation and business relationships could be damaged, which could adversely affect our financial condition and operating results.

In the ordinary course of our business we acquire and store sensitive data, including personally identifiable information of our prospective and current customers and our employees. The secure processing and maintenance of this information is critical to our operations and business strategy. Although we believe we have taken commercially reasonable steps to protect the security of our confidential information, information security risks have generally increased in recent years due to the rise in new technologies and the increased sophistication and activities of perpetrators of cyberattacks. Despite our security measures, our information technology and infrastructure could be vulnerable to a cyberattack or other data security breach which would penetrate our network security and our or our customers' or employees' confidential information could be compromised or misappropriated. Our confidential information may also be compromised due to programming or human error or malfeasance. Ever-evolving threats mean we must continually evaluate and adapt our systems and processes, and there is no guarantee that they will be adequate to safeguard against all data security breaches or misuses of data. In addition, as the regulatory environment related to information security, data collection and use, and privacy becomes increasingly rigorous, with new and changing requirements applicable to our business from multiple regulatory agencies at the local, state, federal, or international level, compliance with those requirement could also result in additional costs, or we could fail to comply with those requirements due to various reasons such as not being aware of them.

Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, disruption to our operations and the services we provide to customers or damage our reputation, any of which could adversely affect our results of operations, reputation and competitive position. In addition, our customers could lose confidence in our ability to protect their personal information, which could cause them to discontinue leasing our self-storage facilities. Such events could lead to lost future revenues and adversely affect our results of operations and could result in remedial and other costs, fines or lawsuits, which could be in excess of any available insurance that we have procured.

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

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

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

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

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

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

ITEM 1B.Unresolved Staff Comments

None.

ITEM 2.Properties

At December 31, 2018, we had controlling ownership interests in 2,429 self-storage facilities located in 38 states within the U.S., and we have a 35.2% interest in Shurgard Europe which owns 232 storage facilities located in seven Western European nations:

	At December 31, 2018	
	Number of Storage Facilities	Net Rentable Square Feet (in thousands)
U.S.:		
California		
Southern	250	18,274
Northern	179	11,240
Texas	304	21,987
Florida	287	19,617
Illinois	126	7,952
Georgia	110	7,246
Washington	96	6,589
North Carolina	90	6,369
Virginia	92	5,674
Colorado	73	5,001
New York	67	4,672
New Jersey	58	3,863
Maryland	62	3,761
Minnesota	54	3,690
South Carolina	60	3,385
Ohio	49	3,199
Arizona	45	2,975
Michigan	44	2,939
Indiana	36	2,249
Missouri	38	2,236
Oregon	39	2,040
Pennsylvania	29	1,993
Tennessee	34	1,955
Nevada	27	1,818
Massachusetts	25	1,691
Oklahoma	22	1,533
Kansas	21	1,268
Other states (12 states)	112	6,831
Total - U.S. (a)	2,429	162,047
Shurgard Europe:		
Netherlands	61	3,127
France	56	2,935

Sweden	36	1,967
United Kingdom	31	1,771
Belgium	21	1,265
Germany	17	969
Denmark	10	572
Total - Shurgard Europe	232	12,606
Grand Total	2,661	174,653

(a) See Schedule III: Real Estate and Accumulated Depreciation in the Company's 2018 financials, for a summary of land, building, accumulated depreciation, square footage, and number of properties by market for our properties located in the U.S.

We seek to maximize our facilities' cash flow through the regular review and adjustment of rents charged and promotions granted to our existing and new incoming customers, and controlling expenses. For the year ended December 31, 2018, the weighted average occupancy level and the average realized rent per occupied square foot for our self-storage facilities were approximately 91.3% and $17.01, respectively, in the U.S. and 87.0% and $22.47, respectively, in Europe.

At December 31, 2018, 30 of our U.S. facilities with a net book value of $111 million were encumbered by an aggregate of $27 million in mortgage notes payable.

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

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

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

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

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

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

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

We believe that self-storage facilities, upon achieving stabilized occupancy levels of approximately 90%, have attractive characteristics consisting of high profit margins, a broad tenant base, low levels of capital expenditures to maintain their condition and appearance and excellent returns on invested capital. Historically, upon reaching stabilization, our U.S. self-storage facilities have generally shown a high degree of stability in generating cash flows.

Description of Commercial Properties: We have an interest in PSB, which, as of December 31, 2018, owns and operates approximately 28.2 million rentable square feet of commercial space in six states. At December 31, 2018, the $434.5 million book value and $1.9 billion market value, respectively, of our investment in PSB represents approximately 4% and 17%, respectively, of our total book value assets. We also directly own 0.8 million net rentable square feet of commercial space managed primarily by PSB.

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

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

ITEM 3.Legal Proceedings

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

ITEM 4.Mine Safety Disclosures

Not applicable.

PART II

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

Our Common Shares of beneficial interest (the "Common Shares") (NYSE: PSA) have been listed on the NYSE since October 19, 1984. As of February 25, 2019, there were approximately 12,193 holders of record of our Common Shares.

Our Board of Trustees has authorized management to repurchase up to 35,000,000 of our common shares on the open market or in privately negotiated transactions. From the inception of the repurchase program through February 27, 2019, we have repurchased a total of 23,721,916 common shares (all purchased prior to 2010) at an aggregate cost of approximately $679.1 million. Our common share repurchase program does not have an expiration date and there are 11,278,084 common shares that may yet be repurchased under our repurchase program as of December 31, 2018. We have no current plans to repurchase shares; however, future levels of common share repurchases will be dependent upon our available capital, investment alternatives, and the trading price of our common shares.

Refer to Item 12. "Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters" for information about our equity compensation plans.

ITEM 6.Selected Financial Data

	For the year ended December 31,				
	2018	2017	2016	2015	2014
	(Amounts in thousands, except share and per share data)				
Revenues	$ 2,754,280	$ 2,668,528	$ 2,560,549	$ 2,381,696	$ 2,177,296
Expenses:					
Cost of operations	739,722	707,978	669,083	635,502	613,324
Depreciation and amortization	483,646	454,526	433,314	426,008	437,114
General and administrative	118,720	82,882	83,656	88,177	71,459
Interest expense	32,542	12,690	4,210	610	6,781
	1,374,630	1,258,076	1,190,263	1,150,297	1,128,678
Other increase (decrease) to net income:					
Interest and other income	26,442	18,771	15,138	16,544	17,638
Equity in earnings of unconsolidated real estate entities	103,495	75,655	56,756	50,937	88,267
Foreign currency exchange gain (loss)	18,117	(50,045)	17,570	306	(7,047)
Casualty loss	-	(7,789)	-	-	-
Gain on sale of real estate	37,903	1,421	689	18,503	2,479
Gain due to Shurgard Europe public offering	151,616	-	-	-	-
Net income	1,717,223	1,448,465	1,460,439	1,317,689	1,149,955
Net income allocated to noncontrolling equity interests	(6,192)	(6,248)	(6,863)	(6,445)	(5,751)
Net income allocable to Public Storage shareholders	$ 1,711,031	$ 1,442,217	$ 1,453,576	$ 1,311,244	$ 1,144,204
Per Common Share:					
Distributions	$8.00	$8.00	$7.30	$6.50	$5.60
Net income – Basic	$8.56	$6.75	$6.84	$6.10	$5.27
Net income – Diluted	$8.54	$6.73	$6.81	$6.07	$5.25
Weighted average common shares – Basic	173,969	173,613	173,091	172,699	172,251
Weighted average common shares – Diluted	174,297	174,151	173,878	173,510	173,138
Balance Sheet Data:					

Total assets	$ 10,928,270	$ 10,732,892	$ 10,130,338	$ 9,778,232	$ 9,818,676
Total debt	$ 1,412,283	$ 1,431,322	$ 390,749	$ 319,016	$ 64,364
Total preferred equity	$ 4,025,000	$ 4,025,000	$ 4,367,500	$ 4,055,000	$ 4,325,000
Public Storage shareholders' equity	$ 9,119,478	$ 8,940,009	$ 9,411,910	$ 9,170,641	$ 9,480,796
Permanent noncontrolling interests' equity	$ 25,250	$ 24,360	$ 29,744	$ 26,997	$ 26,375
Net cash flow:					
Provided by operating activities	$ 2,061,503	$ 1,975,679	$ 1,945,336	$ 1,748,279	$ 1,603,542
Used in investing activities	$ (513,778)	$ (739,854)	$ (699,111)	$ (456,135)	$ (194,331)
Used in financing activities	$ (1,619,588)	$ (992,219)	$ (1,148,826)	$ (1,391,283)	$ (1,236,864)

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

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

Critical Accounting Policies

Our MD&A discusses our financial statements, which have been prepared in accordance with United States ("U.S.") generally accepted accounting principles ("GAAP"), and are affected by our judgments, assumptions and estimates. The notes to our December 31, 2018 financial statements, primarily Note 2, summarize our significant accounting policies.

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

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

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

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

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

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

Accounting for Acquired Real Estate Facilities: We estimate the fair values of the land, buildings and intangible assets acquired for purposes of allocating the purchase price. Such estimates are based upon many assumptions and judgments, including (i) market rates of return and capitalization rates on real estate and intangible assets, (ii) building and material cost levels, (iii) comparisons of the acquired underlying land parcels to recent land transactions, and (iv) future cash flows from the real estate and the existing tenant base. Others could come to materially different conclusions as to the estimated fair values, which would result in different depreciation and amortization expense, gains and losses on sale of real estate assets, and real estate and intangible assets.

Overview

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

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

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

We plan on growing organically as well as through the acquisition and development of new facilities and expanding our existing self-storage facilities. Since the beginning of 2013 through December 31, 2018, we acquired a total of 296 facilities with 20.6 million net rentable square feet from third parties for approximately $2.7 billion, and we opened newly developed and expanded self-storage space for a total cost of $1.2 billion, adding approximately 11.3 million net rentable square feet.

Subsequent to December 31, 2018, we acquired or were under contract to acquire (subject to customary closing conditions) 14 self-storage facilities for $102.4 million. We will continue to seek to acquire properties; however, there is significant competition to acquire existing facilities and there can be no assurance as to the level of facilities we may acquire.

As of December 31, 2018, we had additional development and redevelopment projects to build approximately 5.2 million net rentable square feet at a total cost of approximately $607.4 million. We expect to continue to seek additional development projects; however, the level of such activity may be limited due to various constraints such as difficulty in finding available sites that meet our risk-adjusted yield expectations, as well as challenges in obtaining building permits for self-storage activities in certain municipalities.

We believe that our development and redevelopment activities are beneficial to our business over the long run. However, in the short run, such activities dilute our earnings due to the three to four year period that it takes to fill up newly developed and redeveloped storage facilities and reach a stabilized level of cash flows offset by the cost of capital to fund the cost, combined with related overhead expenses flowing through general and administrative expense. We believe the level of dilution incurred in 2018 will continue at similar levels in 2019 and beyond, assuming realization of our current expectation of maintaining our current level of development for the foreseeable future.

On July 13, 2018, we received a cash distribution from Shurgard Self Storage SA ("Shurgard Europe") totaling $145.4 million.

On September 18, 2017, we completed a public offering of $1.0 billion in aggregate principal amount of unsecured notes in two equal tranches (collectively, the “U.S. Dollar Notes”), one maturing in September 2022 bearing interest at 2.370%, and another maturing in September 2027 bearing interest at 3.094%. This was our first public offering of debt, which should also serve to facilitate future offerings.

On October 15, 2018, Shurgard Europe completed an initial global offering (the "Offering") of its common shares, and its shares commenced trading on Euronext Brussels under the "SHUR" symbol. In the Offering, Shurgard Europe issued 25.0 million of its common shares to third parties at a price of €23 per share, for €575 million in gross proceeds. The gross proceeds were used to repay short-term borrowings, invest in real estate assets, and for other corporate purposes. Our equity interest, comprised of a direct and indirect pro-rata ownership interest in 31.3 million shares, decreased from 49% to 35.2% as a result of the Offering. While we did not sell any of our shares in the Offering, we did record a gain on disposition in 2018 of $151.6 million, as if we had sold a proportionate share of our investment in Shurgard Europe. See "Investment in Shurgard Europe" below for more information.

On October 18, 2018, we sold our property in West London to Shurgard Europe for $42.1 million and recorded a related gain on sale of real estate of approximately $31.5 million.

As of December 31, 2018, our capital resources over the next year are expected to be approximately $1.1 billion which exceeds our current planned capital needs over the next year of approximately $711.4 million. Our capital resources include: (i) $361.2 million of cash as of December 31, 2018, (ii) $483.8 million of available borrowing capacity on our revolving line of credit, and (iii) approximately $200 million to $250 million of expected retained operating cash flow for the next twelve months. Retained operating cash flow represents our expected cash flow provided by operating activities, less shareholder distributions and capital expenditures to maintain our real estate facilities.

Our planned capital needs over the next year consist of (i) $322.1 million of remaining spend on our current development pipeline, (ii) $102.4 million in property acquisitions currently under contract, (iii) $285.0 million for the redemption of our Series Y Preferred Shares on March 28, 2019, and (iv) $1.9 million in principal repayments on existing debt. Our capital needs may increase over the next year as we expect to add projects to our development pipeline and acquire additional properties. In addition to other investment activities, we may also redeem outstanding preferred securities or repurchase shares of our common stock in the future.

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

Results of Operations

Operating results for 2018 and 2017

In 2018, net income allocable to our common shareholders was $1,488.9 million or $8.54 per diluted common share, compared to $1,171.6 million or $6.73 per diluted common share in 2017 representing an increase of $317.3 million or $1.81 per diluted common share. The increase is due primarily to (i) $183.1 million in aggregate gains due to Shurgard Europe's initial public offering and the sale of our facility in West London to Shurgard Europe, (ii) a $47.1 million increase in self-storage net operating income (described below), (iii) our $37.7 million equity share of gains recorded by PS Business Parks in 2018, (iv) a $68.2 million increase due to the impact of foreign currency exchange gains and losses associated with our euro denominated debt, (v) a $29.3 million allocation to preferred shareholders associated with preferred share redemptions in 2017 and (vi) a $7.8 million casualty loss and $5.2 million in incremental tenant reinsurance losses related to Hurricanes Harvey and Irma in 2017. These impacts were offset partially by a $36.1 million increase in general and administrative expense due to the acceleration of share-based compensation expense accruals for our former CEO and CFO in 2018 as a result of their retirement on December 31, 2018 and the reversal of share-based compensation accruals forfeited by retiring senior executive officers in 2017.

The $47.1 million increase in self-storage net operating income is a result of a $15.6 million increase in our Same Store Facilities and $31.5 million increase in our Non Same Store Facilities. Revenues for the Same Store Facilities increased 1.5% or $33.3 million in 2018 as compared to 2017, due primarily to higher realized annual rent per occupied square foot. Cost of operations for the Same Store Facilities increased by 3.2% or $17.7 million in 2018 as compared to 2017, due primarily to increased property taxes. The increase in net operating income of $31.5 million for the Non Same Store Facilities is due primarily to the impact of 164 self-storage facilities acquired and developed since January 2016.

Operating results for 2017 and 2016

In 2017, net income allocable to our common shareholders was $1,171.6 million or $6.73 per diluted common share, compared to $1,183.9 million or $6.81 per share in 2016 representing a decrease of $12.3 million or $0.08. The decrease primarily reflects (i) a $67.6 million reduction due to the impact of foreign exchange translation gains and losses associated with our euro denominated debt, (ii) an $8.5 million increase in interest expense associated with higher outstanding debt balances and (iii) a $7.8 million casualty loss and $5.2 million in incremental tenant reinsurance losses related to Hurricanes Harvey and Irma offset partially by (iv) a $66.9 million increase in self-storage net operating income (described below) and (v) an $18.9 million increase in our equity in earnings of unconsolidated real estate entities.

The $66.9 million increase in self-storage net operating income is a result of a $46.2 million increase in our Same Store Facilities (as defined below) and a $20.7 million increase in our Non Same Store Facilities (as defined below). Revenues for the Same Store Facilities increased 3.0% or $64.6 million in 2017 as compared to 2016, due primarily to higher realized annual rent per occupied square foot. Cost of operations for the Same Store Facilities increased by 3.4% or $18.3 million in 2017 as compared to 2016, due primarily to increased property taxes, advertising and selling expense and repairs and maintenance costs, offset partially by lower snow removal costs. The increase in net operating income for the Non Same Store Facilities is due primarily to the impact of recently acquired, developed or expanded facilities.

Funds from Operations and Core Funds from Operations

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

For the year ended December 31, 2018, FFO was $10.45 per diluted common share, as compared to $9.70 per diluted common share for each of the years ended December 31, 2017 and 2016, representing an increase in 2018 of 7.7%, or $0.75 per diluted common share.

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

	Year Ended December 31,		
	2018	2017	2016
Reconciliation of Diluted Earnings per Share to FFO per Share:			
Diluted Earnings per Share	$ 8.54	$ 6.73	$ 6.81
Eliminate amounts per share excluded from FFO:			
Depreciation and amortization	3.21	3.00	2.90
Gains on sale of real estate investments and Shurgard Europe IPO, including our equity share from investments and other	(1.30)	(0.03)	(0.01)
FFO per share	$ 10.45	$ 9.70	$ 9.70
Computation of FFO per Share:			
Net income allocable to common shareholders	$ 1,488,900	$ 1,171,609	$ 1,183,879
Eliminate items excluded from FFO:			
Depreciation and amortization	483,646	454,526	433,314
Depreciation from unconsolidated real estate investments	79,868	71,931	74,407
Depreciation allocated to noncontrolling interests and restricted share unitholders	(3,646)	(3,567)	(3,549)
Gains on sale of real estate investments and Shurgard Europe IPO, including our equity share from investments and other	(227,332)	(4,908)	(768)
FFO allocable to common shares	$ 1,821,436	$ 1,689,591	$ 1,687,283
Diluted weighted average common shares	174,297	174,151	173,878
FFO per share	$ 10.45	$ 9.70	$ 9.70

We also present “Core FFO per share,” a non-GAAP measure that represents FFO per share excluding the impact of (i) foreign currency exchange gains and losses, (ii) EITF D-42 charges related to the redemption of preferred securities, (iii) acceleration of accruals due to the retirement of our former CEO and CFO and reversals of accruals with respect to share-based awards forfeited by retiring senior executive officers, and (iv) certain other non-cash and/or nonrecurring income or expense items. We review Core FFO per share to evaluate our ongoing operating performance and we believe it is used by investors and REIT analysts in a similar manner. However, Core FFO per share is not a substitute for net income per share. Because other REITs may not compute Core FFO per share in the same manner as we do, may not use the same terminology or may not present such a measure, Core FFO per share may not be comparable among REITs.

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

	Year Ended December 31,			Year Ended December 31,		
	2018	2017	Percentage Change	2017	2016	Percentage Change
FFO per share	$ 10.45	$ 9.70	7.7%	$ 9.70	$ 9.70	0.0%
Eliminate the per share impact of items excluded from Core FFO, including our equity share from investments:						
Foreign currency exchange (gain) loss	(0.10)	0.29		0.29	(0.11)	
Application of EITF D-42	-	0.19		0.19	0.17	
Casualty losses and tenant claims due to hurricanes	-	0.07		0.07	-	
Shurgard Europe - IPO costs and casualty loss	0.03	-		-	-	
Acceleration (reversal) of share-based compensation expense due to executive officer retirement	0.18	(0.03)		(0.03)	-	
Other items	-	0.01		0.01	0.03	
	$ 10.56	$ 10.23	3.2%	$ 10.23	$ 9.79	4.5%

Core FFO per
share
Analysis of Net Income by Reportable Segment

The following discussion and analysis is presented and organized in accordance with Note 11 to our December 31, 2018 financial statements, “Segment Information.” Accordingly, refer to the tables presented in Note 11 in order to reconcile such amounts to our total net income and for further information on our reportable segments.

Self-Storage Operations

Our self-storage operations are analyzed in two groups: (i) the 2,046 facilities that we have owned and operated on a stabilized basis since January 1, 2016 (the “Same Store Facilities”), and (ii) all other facilities, which are newly acquired, newly developed, recently redeveloped, or are otherwise not stabilized with respect to occupancies or rental rates since January 1, 2016 (the “Non Same Store Facilities”). See Note 11 to our December 31, 2018 financial statements “Segment Information,” for a reconciliation of the amounts in the tables below to our total net income.

Self-Storage Operations Summary	Year Ended December 31,			Year Ended December 31,		
	2018	2017	Percentage Change	2017	2016	Percentage Change
Revenues:						
Same Store Facilities	$ 2,242,755	$ 2,209,427	1.5%	$ 2,209,427	$ 2,144,872	3.0%
Non Same Store Facilities	354,852	303,006	17.1%	303,006	260,956	16.1%
	2,597,607	2,512,433	3.4%	2,512,433	2,405,828	4.4%
Cost of operations:						
Same Store Facilities	579,520	561,774	3.2%	561,774	543,426	3.4%
Non Same Store Facilities	116,211	95,859	21.2%	95,859	74,479	28.7%
	695,731	657,633	5.8%	657,633	617,905	6.4%
Net operating income (a):						
Same Store Facilities	1,663,235	1,647,653	0.9%	1,647,653	1,601,446	2.9%
Non Same Store Facilities	238,641	207,147	15.2%	207,147	186,477	11.1%
Total net operating income	1,901,876	1,854,800	2.5%	1,854,800	1,787,923	3.7%
Depreciation and amortization expense:						
Same Store Facilities	(360,241)	(355,700)	1.3%	(355,700)	(361,991)	(1.7)%
Non Same Store Facilities	(123,405)	(98,826)	24.9%	(98,826)	(71,323)	38.6%
Total depreciation and amortization expense	(483,646)	(454,526)	6.4%	(454,526)	(433,314)	4.9%
Net income:						
Same Store Facilities	1,302,994	1,291,953	0.9%	1,291,953	1,239,455	4.2%
Non Same Store Facilities	115,236	108,321	6.4%	108,321	115,154	(5.9)%
Total net income	$ 1,418,230	$ 1,400,274	1.3%	$ 1,400,274	$ 1,354,609	3.4%
Number of facilities at period end:						
Same Store Facilities	2,046	2,046	-	2,046	2,046	-
Non Same Store Facilities	383	341	12.3%	341	291	17.2%
Net rentable square footage at period end (in thousands):						
Same Store Facilities	131,180	131,180	-	131,180	131,180	-
Non Same Store Facilities	30,867	26,982	14.4%	26,982	22,155	21.8%

(a) Net operating income or "NOI" is a non-GAAP financial measure that excludes the impact of depreciation and amortization expense, which is based upon historical real estate costs and assumes that building values diminish ratably over time, while we believe that real estate values fluctuate due to market conditions. We utilize NOI in determining current property values, evaluating property performance, and in evaluating property operating trends. We believe that investors and analysts utilize NOI in a similar manner. NOI is not a substitute for net income, net operating cash flow, or other related GAAP financial measures, in evaluating our operating results. See Note 11 to our December 31, 2018 financial statements for a reconciliation of NOI to our total net income for all periods presented.

Net operating income from our self-storage operations has increased 2.5% in 2018 as compared to 2017 and 3.7% in 2017 as compared to 2016. These increases are due to higher revenues in our Same Store Facilities, as well as the acquisition and development of new facilities and the fill-up of unstabilized facilities.

Same Store Facilities

The Same Store Facilities represent those facilities that have been owned and operated at a stabilized level of occupancy, revenues and cost of operations since January 1, 2016. We review the operations of our Same Store Facilities, which excludes facilities whose operating trends are significantly affected by factors such as casualty events, as well as recently developed or acquired facilities, to more effectively evaluate the ongoing performance of our self-storage portfolio in 2016, 2017, and 2018. We believe the Same Store information is used by investors and REIT analysts in a similar manner. The following table summarizes the historical operating results of these 2,046 facilities (131.2 million net rentable square feet) that represent approximately 81% of the aggregate net rentable square feet of our U.S. consolidated self-storage portfolio at December 31, 2018.

Selected Operating Data for the Same Store Facilities (2,046 facilities)	Year Ended December 31,			Year Ended December 31,		
	2018	2017	Percentage Change	2017	2016	Percentage Change
Revenues:						
Rental income	$ 2,144,330	$ 2,111,164	1.6%	$ 2,111,164	$ 2,046,606	3.2%
Late charges and administrative fees	98,425	98,263	0.2%	98,263	98,266	(0.0)%
Total revenues (a)	2,242,755	2,209,427	1.5%	2,209,427	2,144,872	3.0%
Cost of operations:						
Property taxes	210,637	200,005	5.3%	200,005	192,400	4.0%
On-site property manager payroll	109,713	108,477	1.1%	108,477	107,461	0.9%
Supervisory payroll	35,275	38,175	(7.6)%	38,175	37,123	2.8%
Repairs and maintenance	46,200	46,447	(0.5)%	46,447	44,346	4.7%
Utilities	41,075	39,477	4.0%	39,477	39,769	(0.7)%
Marketing	30,771	28,679	7.3%	28,679	26,025	10.2%
Other direct property costs	59,096	56,975	3.7%	56,975	54,822	3.9%
Allocated overhead	46,753	43,539	7.4%	43,539	41,480	5.0%
Total cost of operations (a)	579,520	561,774	3.2%	561,774	543,426	3.4%
Net operating income	1,663,235	1,647,653	0.9%	1,647,653	1,601,446	2.9%
Depreciation and amortization expense	(360,241)	(355,700)	1.3%	(355,700)	(361,991)	(1.7)%
Net income	$ 1,302,994	$ 1,291,953	0.9%	$ 1,291,953	$ 1,239,455	4.2%
Gross margin (before depreciation and amortization expense)	74.2%	74.6%	(0.5)%	74.6%	74.7%	(0.1)%
Weighted average for the period:						
Square foot occupancy	93.2%	93.8%	(0.6)%	93.8%	94.6%	(0.8)%

Realized annual rental income per (b):						
Occupied square foot	$ 17.54	$ 17.15	2.3%	$ 17.15	$ 16.50	3.9%
Available square foot	$ 16.35	$ 16.09	1.6%	$ 16.09	$ 15.60	3.1%
At December 31:						
Square foot occupancy	91.4%	91.2%	0.2%	91.2%	92.5%	(1.4)%
Annual contract rent per occupied square foot (c)	$ 18.17	$ 17.94	1.3%	$ 17.94	$ 17.40	3.1%

32

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

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

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

Analysis of Same Store Revenue

Revenues generated by our Same Store Facilities increased by 1.5% in 2018 as compared to 2017 and by 3.0% in 2017 as compared to 2016, due primarily to increases in realized annual rent per occupied square foot of 2.3% and 3.9% in 2018 and 2017, respectively, as compared to the previous year.

Same Store revenue growth on a year over year basis declined from 3.0% in 2017 to 1.5% in 2018, due to softness in demand in substantially all of our major markets, which has led to a lack of pricing power with respect to new tenants. We attribute some of this softness to local economic conditions and, in some markets most notably Atlanta, Austin, Charlotte, Chicago, Dallas, Denver, Houston, New York and Portland, increased supply of newly constructed self-storage facilities.

Same Store weighted average square foot occupancy remained strong at 93.2%, 93.8% and 94.6% during 2018, 2017 and 2016.

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

Increasing rental rates to existing tenants, generally on an annual basis, is a key component of our revenue growth. We determine the level of rental increases based upon our expectations regarding the impact of existing tenant rate increases on incremental move-outs. An important determinant of the level of rent increases is the number of long-term tenants that we have (generally, those that have been with us for at least a year).

Annual contract rent per foot for customers moving in was $14.22, $14.65, and $14.66 in 2018, 2017, and 2016, respectively, and the related square footage for the space they moved into was 98.7 million, 103.1 million, and 107.9 million, respectively. Annual contract rent per foot for customers moving out was $16.29, $16.09, and $15.66 in 2018, 2017, and 2016, respectively, and the related square footage for the space they moved out of was 98.4 million, 104.8 million, and 108.4 million, respectively.

Annual contract rent per foot for customers moving in was $13.68 and $14.17 for the three months ended December 31, 2018 and 2017, respectively, and the related square footage for the space they moved into was 23.3 million and 23.4 million, respectively. Annual contract rent per foot for customers moving out was $16.25 and $16.15 for the three months ended December 31, 2018 and 2017, respectively, and the related square footage for the space they moved out of was 24.2 million and 26.0 million, respectively.

We ended 2016 with aggregate annualized contract rents per occupied foot up 4.7% on a year over year basis. The year over year increase dropped to 3.1% at the end of 2017 and 1.3% at the end of 2018.

The decreases in year over year growth in annual contract rent from 4.7% at the end of 2016 to 3.1% at the end of 2017 and to 1.3% at the end of 2018 was due to increased rent "roll down" on tenants moving out relative to the rates of move-ins, particularly with respect to 2018 with reduced move-in rates. However, in 2018, our customer trends resulted in fewer move-outs and an increased average length of stay. The increased average length of stay contributed to an increased beneficial effect of rent increases to existing tenants in 2018 as compared to 2017 due to more long-term customers that were eligible for rate increases. The extent to which these positive trends will continue in 2019 is uncertain at this time.

In order to stimulate move-in volume, we often give promotional discounts, generally in the form of a "$1.00 rent for the first month" offer. Promotional discounts, based upon the move-in contractual rates for the related promotional period, totaled $77.8 million, $82.4 million and $87.6 million for 2018, 2017 and 2016, respectively, and are recorded as a reduction to revenue. The decreases in promotional discounts in 2017 and 2018 are due to reductions in the volume of move-ins as well as in the case of 2018, lower average move-in rates. Promotional discounts totaled $19.8 million and $19.9 million for the three months ended December 31, 2018 and 2017, respectively.

Demand is higher in the summer months than in the winter months and, as a result, rental rates charged to new tenants are typically higher in the summer months than in the winter months. Demand fluctuates due to various local and regional factors, including the overall economy. Demand into our system is also impacted by new supply of self-storage space as well as alternatives to self-storage.

We believe rental growth in 2019 will come primarily from continued annual rent increases to existing tenants. Our future rental growth will also be dependent upon many factors for each market that we operate in, including demand for self-storage space, the level of new supply of self-storage space and the average length of stay of our tenants.

We believe that the current trends in move-in, move-out, in place contractual rents and occupancy levels are consistent with continued moderate revenue growth in 2019. However, there can be no assurance of continued revenue growth, because current trends, when viewed in the short-run, are volatile and not necessarily predictive of our revenues going forward because they are subject to many factors which cannot be predicted, such as the level of consumer demand and competition from newly developed and existing facilities.

We are taking a number of actions to improve demand into our system, including (i) increasing marketing spend on the Internet, (ii) offering competitive rental rates and (iii) continuing to offer promotional discounts to new tenants. Even if these actions are successful in improving demand into our system, in at least the near term, we believe these actions may have a negative impact on our revenue trends due to less growth in initial rental rates and increased promotional discounts.

Analysis of Same Store Cost of Operations

Cost of operations (excluding depreciation and amortization) increased 3.2% in 2018 as compared to 2017, and 3.4% in 2017 as compared to 2016, due primarily to increased property tax expense.

Property tax expense increased 5.3% in 2018 as compared to 2017, and 4.0% in 2017 as compared to 2016, due primarily to higher assessed values. We expect property tax expense growth of approximately 5.0% in 2019 due primarily to higher assessed values and, to a lesser extent, increased tax rates.

On-site property manager payroll expense increased 1.1% in 2018 as compared to 2017 and 0.9% in 2017 as compared to 2016. These increases were due to higher wage rates, offset partially by lower hours worked. We expect on-site property manager payroll expense to increase on an inflationary basis in 2019. We have been impacted by a tight labor market across the country, as well as increases in minimum wages in certain jurisdictions, and expect additional impacts in 2019 as existing minimum wage increases become effective and new increases are enacted.

Supervisory payroll expense, which represents compensation paid to the management personnel who directly and indirectly supervise the on-site property managers, decreased 7.6% in 2018 as compared to 2017 and increased

2.8% in 2017 as compared to 2016. The decrease in 2018 is due to reductions in headcount offset by higher wage rates. The increase in 2017 is due primarily to higher wage rates. We expect inflationary increases in wage rates and increased headcount in 2019.

Repairs and maintenance expense decreased 0.5% in 2018 as compared to 2017 and increased 4.7% in 2017 as compared to 2016. Repair and maintenance costs include snow removal expense totaling $3.5 million, $3.0 million and $4.2 million in 2018, 2017 and 2016, respectively. Excluding snow removal costs, repairs and maintenance decreased 1.7% in 2018 as compared to 2017 and increased 8.3% in 2017 as compared to 2016.

Repairs and maintenance expense levels are dependent upon many factors such as weather conditions, which can impact repair and maintenance needs including snow removal, inflation in material and labor costs, and random events. We expect inflationary increases in repairs and maintenance expense in 2019, excluding snow removal expense, which is primarily weather dependent and not predictable.

Our utility expenses are comprised primarily of electricity costs, which are dependent upon energy prices and usage levels. Changes in usage levels are driven primarily by weather and temperature. Utility expense increased 4.0% in 2018 as compared to 2017 and decreased 0.7% in 2017 as compared to 2016. It is difficult to estimate future utility costs, because weather, temperature, and energy prices are volatile and not predictable.

Marketing expense is comprised principally of Internet advertising, television advertising and the operating costs of our telephone reservation center. Marketing expense varies based upon demand, occupancy levels, and other factors. Television and Internet advertising, in particular, can increase or decrease significantly in the short-term. Marketing expense increased 7.3% in 2018 as compared to 2017 and 10.2% in 2017 as compared to 2016 due primarily to increased Internet marketing expenditures. We expect continued increases in marketing expense in 2019.

Other direct property costs include administrative expenses incurred at the self-storage facilities, such as property insurance, telephone and data communication lines, business license costs, bank charges related to processing the facilities' cash receipts, credit card fees, and the cost of operating each property's rental office. These costs increased 3.7% in 2018 as compared to 2017 and 3.9% in 2017 as compared to 2016. These increases included higher credit card fees due to a higher proportion of collections being received from credit cards and higher revenues. The increase in 2018 also includes the impact of upgraded data communication lines. We expect inflationary increases in other direct property costs in 2019.

Allocated overhead represents administrative expenses for shared general corporate functions, which are allocated to self-storage property operations to the extent their efforts are devoted to self-storage operations. Such functions include information technology, human resources, operational accounting and finance, marketing, and costs of senior executives (other than the Chief Executive Officer and Chief Financial Officer, which are included in general and administrative expense). Allocated overhead increased 7.4% in 2018 as compared to 2017 and 5.0% in 2017 as compared to 2016. The increases in both periods were due to increased headcount and information technology expenses. We expect inflationary increases in allocated overhead in 2019.

Analysis of Same Store Depreciation and Amortization

Depreciation and amortization for Same Store Facilities increased 1.3% in 2018 as compared to 2017 and decreased 1.7% in 2017 as compared to 2016. We expect modest increases in depreciation expense in 2019.

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

35

	For the Quarter Ended				
	March 31	June 30	September 30	December 31	Entire Year
	(Amounts in thousands, except for per square foot amounts)				
Total revenues:					
2018	$ 548,116	$ 558,216	$ 574,523	$ 561,900	$ 2,242,755
2017	$ 536,618	$ 549,676	$ 567,969	$ 555,164	$ 2,209,427
2016	$ 515,444	$ 531,654	$ 554,591	$ 543,183	$ 2,144,872
Total cost of operations:					
2018	$ 153,532	$ 150,688	$ 152,206	$ 123,094	$ 579,520
2017	$ 148,577	$ 146,857	$ 148,079	$ 118,261	$ 561,774
2016	$ 142,951	$ 139,335	$ 145,734	$ 115,406	$ 543,426
Property taxes:					
2018	$ 58,359	$ 59,138	$ 59,004	$ 34,136	$ 210,637
2017	$ 55,831	$ 56,032	$ 55,822	$ 32,320	$ 200,005
2016	$ 53,477	$ 53,674	$ 53,485	$ 31,764	$ 192,400
Repairs and maintenance:					
2018	$ 11,523	$ 11,593	$ 11,251	$ 11,833	$ 46,200
2017	$ 11,684	$ 11,387	$ 11,407	$ 11,969	$ 46,447
2016	$ 11,446	$ 10,672	$ 11,053	$ 11,175	$ 44,346
Marketing:					
2018	$ 6,516	$ 7,697	$ 7,814	$ 8,744	$ 30,771
2017	$ 6,792	$ 8,127	$ 6,966	$ 6,794	$ 28,679
2016	$ 5,236	$ 5,715	$ 7,755	$ 7,319	$ 26,025
REVPAF:					
2018	$ 15.97	$ 16.31	$ 16.75	$ 16.38	$ 16.35
2017	$ 15.63	$ 16.03	$ 16.54	$ 16.17	$ 16.09
2016	$ 14.98	$ 15.49	$ 16.12	$ 15.81	$ 15.60
Weighted average realized annual rent per occupied square foot:					
2018	$ 17.30	$ 17.35	$ 17.83	$ 17.68	$ 17.54
2017	$ 16.79	$ 16.95	$ 17.49	$ 17.37	$ 17.15
2016	$ 15.99	$ 16.24	$ 16.91	$ 16.85	$ 16.50
Weighted average occupancy levels for the period:					
2018	92.3%	94.0%	94.0%	92.6%	93.2%
2017	93.1%	94.6%	94.6%	93.1%	93.8%
2016	93.7%	95.4%	95.4%	93.7%	94.6%

36

Analysis of Market Trends

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

Same Store Facilities Operating Trends by Market	Year Ended December 31,			Year Ended December 31,		
	2018	2017	Change	2017	2016	Change
	(Amounts in thousands, except for weighted average data)					
Market (number of facilities, square footage in millions)						
Revenues:						
Los Angeles (197, 13.4)	$ 339,037	$ 327,326	3.6%	$ 327,326	$ 310,360	5.5%
San Francisco (124, 7.6)	192,620	188,139	2.4%	188,139	181,141	3.9%
New York (82, 5.7)	140,463	136,654	2.8%	136,654	133,280	2.5%
Seattle-Tacoma (81, 5.4)	104,659	102,810	1.8%	102,810	98,538	4.3%
Washington DC (82, 5.1)	105,339	105,228	0.1%	105,228	103,695	1.5%
Miami (73, 5.0)	96,900	95,726	1.2%	95,726	94,239	1.6%
Chicago (129, 8.1)	117,715	120,500	(2.3)%	120,500	120,344	0.1%
Atlanta (98, 6.4)	84,275	82,534	2.1%	82,534	80,275	2.8%
Dallas-Ft. Worth (77, 4.9)	63,393	65,070	(2.6)%	65,070	64,202	1.4%
Houston (70, 4.8)	65,155	64,639	0.8%	64,639	65,771	(1.7)%
Philadelphia (57, 3.6)	57,469	55,759	3.1%	55,759	53,558	4.1%
Orlando-Daytona (64, 4.0)	54,635	52,700	3.7%	52,700	50,074	5.2%
West Palm Beach (38, 2.6)	46,614	45,650	2.1%	45,650	43,721	4.4%
Tampa (47, 3.1)	44,004	43,484	1.2%	43,484	41,590	4.6%
Portland (41, 2.2)	39,603	39,997	(1.0)%	39,997	38,835	3.0%
All other markets (786, 49.3)	690,874	683,211	1.1%	683,211	665,249	2.7%
Total revenues	$ 2,242,755	$ 2,209,427	1.5%	$ 2,209,427	$ 2,144,872	3.0%
Net operating income:						
Los Angeles	$ 280,907	$ 272,106	3.2%	$ 272,106	$ 256,426	6.1%
San Francisco	156,691	153,787	1.9%	153,787	147,851	4.0%
New York	101,662	99,143	2.5%	99,143	96,415	2.8%
Seattle-Tacoma	82,007	81,271	0.9%	81,271	78,465	3.6%
Washington DC	78,780	79,292	(0.6)%	79,292	79,245	0.1%
Miami	72,881	72,307	0.8%	72,307	71,558	1.0%
Chicago	65,155	70,445	(7.5)%	70,445	71,264	(1.1)%
Atlanta	62,500	61,110	2.3%	61,110	59,713	2.3%
Dallas-Ft. Worth	44,642	46,572	(4.1)%	46,572	45,984	1.3%
Houston	43,039	42,546	1.2%	42,546	44,432	(4.2)%
Philadelphia	40,456	39,485	2.5%	39,485	38,077	3.7%
Orlando-Daytona	40,240	38,951	3.3%	38,951	36,517	6.7%
West Palm Beach	34,806	33,868	2.8%	33,868	32,649	3.7%

Tampa	31,796	31,591	0.6%	31,591	30,146	4.8%
Portland	30,767	31,304	(1.7)%	31,304	30,445	2.8%
All other markets	496,906	493,875	0.6%	493,875	482,259	2.4%
Total net operating income	$ 1,663,235	$ 1,647,653	0.9%	$ 1,647,653	$ 1,601,446	2.9%

37

Same Store Facilities Operating Trends by Market (Continued)

	Year Ended December 31,			Year Ended December 31,		
	2018	2017	Change	2017	2016	Change
Weighted average square foot occupancy:						
Los Angeles	95.2%	95.7%	(0.5)%	95.7%	96.0%	(0.3)%
San Francisco	94.5%	95.2%	(0.7)%	95.2%	95.9%	(0.7)%
New York	94.3%	94.3%	0.0%	94.3%	94.6%	(0.3)%
Seattle-Tacoma	93.2%	94.5%	(1.4)%	94.5%	95.8%	(1.4)%
Washington DC	92.4%	92.7%	(0.3)%	92.7%	93.2%	(0.5)%
Miami	92.7%	93.5%	(0.9)%	93.5%	94.9%	(1.5)%
Chicago	90.3%	91.2%	(1.0)%	91.2%	92.3%	(1.2)%
Atlanta	93.2%	93.5%	(0.3)%	93.5%	94.7%	(1.3)%
Dallas-Ft. Worth	91.7%	93.3%	(1.7)%	93.3%	95.0%	(1.8)%
Houston	90.8%	91.8%	(1.1)%	91.8%	92.4%	(0.6)%
Philadelphia	94.8%	94.6%	0.2%	94.6%	94.5%	0.1%
Orlando-Daytona	94.4%	95.0%	(0.6)%	95.0%	95.1%	(0.1)%
West Palm Beach	94.1%	94.9%	(0.8)%	94.9%	95.5%	(0.6)%
Tampa	93.0%	94.3%	(1.4)%	94.3%	95.0%	(0.7)%
Portland	94.1%	95.3%	(1.3)%	95.3%	96.6%	(1.3)%
All other markets	93.1%	93.6%	(0.5)%	93.6%	94.3%	(0.7)%
Total weighted average square foot occupancy	93.2%	93.8%	(0.6)%	93.8%	94.6%	(0.8)%
Realized annual rent per occupied square foot:						
Los Angeles	$ 25.72	$ 24.67	4.3%	$ 24.67	$ 23.29	5.9%
San Francisco	26.15	25.30	3.4%	25.30	24.18	4.6%
New York	25.17	24.50	2.7%	24.50	23.80	2.9%
Seattle-Tacoma	20.03	19.39	3.3%	19.39	18.28	6.1%
Washington DC	21.41	21.16	1.2%	21.16	20.69	2.3%
Miami	19.77	19.36	2.1%	19.36	18.72	3.4%
Chicago	15.33	15.56	(1.5)%	15.56	15.33	1.5%
Atlanta	13.19	12.89	2.3%	12.89	12.37	4.2%
Dallas-Ft. Worth	13.34	13.46	(0.9)%	13.46	13.07	3.0%
Houston	14.32	14.06	1.8%	14.06	14.15	(0.6)%
Philadelphia	16.10	15.66	2.8%	15.66	15.04	4.1%
Orlando-Daytona	13.88	13.31	4.3%	13.31	12.61	5.6%
West Palm Beach	18.59	18.08	2.8%	18.08	17.16	5.4%
Tampa	14.25	13.90	2.5%	13.90	13.15	5.7%
Portland	18.70	18.61	0.5%	18.61	17.81	4.5%
All other markets	14.27	14.03	1.7%	14.03	13.55	3.5%

Total realized rent per occupied square foot	$ 17.54	$ 17.15	2.3%	$ 17.15	$ 16.50	3.9%

38

Same Store Facilities
Operating Trends by
Market (Continued)

	Year Ended December 31,			Year Ended December 31,		
	2018	2017	Change	2017	2016	Change
REVPAF:						
Los Angeles	$ 24.48	$ 23.60	3.7%	$ 23.60	$ 22.36	5.5%
San Francisco	24.71	24.10	2.5%	24.10	23.19	3.9%
New York	23.74	23.10	2.8%	23.10	22.51	2.6%
Seattle-Tacoma	18.67	18.31	2.0%	18.31	17.52	4.5%
Washington DC	19.78	19.62	0.8%	19.62	19.28	1.8%
Miami	18.32	18.10	1.2%	18.10	17.77	1.9%
Chicago	13.84	14.19	(2.5)%	14.19	14.16	0.2%
Atlanta	12.30	12.06	2.0%	12.06	11.72	2.9%
Dallas-Ft. Worth	12.23	12.57	(2.7)%	12.57	12.41	1.3%
Houston	13.00	12.91	0.7%	12.91	13.08	(1.3)%
Philadelphia	15.26	14.81	3.0%	14.81	14.21	4.2%
Orlando-Daytona	13.10	12.65	3.6%	12.65	11.99	5.5%
West Palm Beach	17.50	17.16	2.0%	17.16	16.39	4.7%
Tampa	13.26	13.11	1.1%	13.11	12.49	5.0%
Portland	17.59	17.74	(0.8)%	17.74	17.19	3.2%
All other markets	13.28	13.13	1.1%	13.13	12.77	2.8%
Total REVPAF	$ 16.35	$ 16.09	1.6%	$ 16.09	$ 15.60	3.1%

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

Non Same Store Facilities

The Non Same Store Facilities at December 31, 2018 represent 383 facilities that were not stabilized with respect to occupancies or rental rates since January 1, 2016, or that we did not own as of January 1, 2016. As a result of the stabilization process and timing of when facilities were acquired, developed, or redeveloped, year-over-year changes can be significant.

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

NON SAME STORE FACILITIES	Year Ended December 31,			Year Ended December 31,		
	2018	2017	Change	2017	2016	Change
	(Dollar amounts in thousands, except square foot amounts)					
Revenues (a):						
2018 acquisitions	$ 5,167	$ -	$ 5,167	$ -	$ -	$ -
2017 acquisitions	28,704	5,577	23,127	5,577	-	5,577
2016 acquisitions	39,166	36,336	2,830	36,336	18,174	18,162
2016 - 2018 new developments	37,625	17,391	20,234	17,391	2,885	14,506
2013 - 2015 new developments	26,725	24,910	1,815	24,910	20,520	4,390
Other facilities (b)	217,465	218,792	(1,327)	218,792	219,377	(585)
Total revenues	354,852	303,006	51,846	303,006	260,956	42,050
Cost of operations (a):						
2018 acquisitions	2,141	-	2,141	-	-	-
2017 acquisitions	9,669	2,006	7,663	2,006	-	2,006
2016 acquisitions	13,523	13,693	(170)	13,693	6,455	7,238
2016 - 2018 new developments	22,120	11,433	10,687	11,433	3,146	8,287
2013 - 2015 new developments	8,031	8,093	(62)	8,093	7,786	307
Other facilities (b)	60,727	60,634	93	60,634	57,092	3,542
Total cost of operations	116,211	95,859	20,352	95,859	74,479	21,380
Net operating income:						
2018 acquisitions	3,026	-	3,026	-	-	-
2017 acquisitions	19,035	3,571	15,464	3,571	-	3,571
2016 acquisitions	25,643	22,643	3,000	22,643	11,719	10,924
2016 - 2018 new developments	15,505	5,958	9,547	5,958	(261)	6,219
2013 - 2015 new developments	18,694	16,817	1,877	16,817	12,734	4,083
Other facilities (b)	156,738	158,158	(1,420)	158,158	162,285	(4,127)
Net operating income	238,641	207,147	31,494	207,147	186,477	20,670
Depreciation and amortization expense	(123,405)	(98,826)	(24,579)	(98,826)	(71,323)	(27,503)
Net income	$ 115,236	$ 108,321	$ 6,915	$ 108,321	$ 115,154	$ (6,833)
At December 31:						
Square foot occupancy:						
2018 acquisitions	79.6%	-	-	-	-	-
2017 acquisitions	90.9%	87.2%	4.2%	87.2%	-	-
2016 acquisitions	87.5%	85.9%	1.9%	85.9%	82.9%	3.6%
2016 - 2018 new developments	63.5%	52.3%	21.4%	52.3%	34.6%	51.2%
2013 - 2015 new developments	89.9%	88.9%	1.1%	88.9%	86.2%	3.1%
Other facilities (b)	83.0%	82.9%	0.1%	82.9%	88.8%	(6.6)%
	80.5%	79.3%	1.5%	79.3%	82.3%	(3.6)%
Annual contract rent per						

occupied square foot:						
2018 acquisitions	$ 11.10	$ -	-	$ -	$ -	-
2017 acquisitions	14.81	14.60	1.4%	14.60	-	-
2016 acquisitions	10.42	10.23	1.9%	10.23	9.99	2.4%
2016 - 2018 new developments	11.87	12.11	(2.0)%	12.11	12.65	(4.3)%
2013 - 2015 new developments	15.65	14.94	4.8%	14.94	13.90	7.5%
Other facilities (b)	16.95	17.12	(1.0)%	17.12	16.90	1.3%
	$ 14.62	$ 15.08	(3.1)%	$ 15.08	$ 15.18	(0.7)%

40

NON SAME STORE FACILITIES (Continued)	Year Ended December 31, 2018	2017	Change	Year Ended December 31, 2017	2016	Change
Number of facilities:						
2018 acquisitions	25	-	25	-	-	-
2017 acquisitions	34	34	-	34	-	34
2016 acquisitions	55	55	-	55	55	-
2016 - 2018 new developments	50	32	18	32	16	16
2013 - 2015 new developments	20	20	-	20	20	-
Other facilities (b)	199	200	(1)	200	200	-
	383	341	42	341	291	50
Net rentable square feet (in thousands):						
2018 acquisitions	1,629	-	1,629	-	-	-
2017 acquisitions	2,114	2,114	-	2,114	-	2,114
2016 acquisitions	4,247	4,177	70	4,177	4,121	56
2016 - 2018 new developments	6,135	4,181	1,954	4,181	2,141	2,040
2013 - 2015 new developments	1,877	1,877	-	1,877	1,877	-
Other facilities (b)	14,865	14,633	232	14,633	14,016	617
	30,867	26,982	3,885	26,982	22,155	4,827

	As of December 31, 2018
Costs to acquire or develop:	
2018 acquisitions	$ 181,020
2017 acquisitions (c)	291,329
2016 acquisitions	429,123
2016 - 2018 new developments	753,262
2013 - 2015 new developments	188,049
Other facilities (b)	-
	$ 1,842,783

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

(b) The “Other facilities” noted above include other self-storage facilities that are not stabilized in 2016, 2017, or 2018 due primarily to either completed or in-process redevelopment activities, as well as casualty events which significantly impacted the operating results. It includes facilities where we recently expanded their square footage at a cost of $249.7 million, as well as facilities in the process of redevelopment where we demolished 596,000 net rentable square feet of storage space. Such expansion costs are not included in “costs to acquire or develop” as it would not be meaningful or consistent with the amounts for the acquired and newly developed facilities.

(c) Acquisition costs includes i) $149.8 million paid for 22 facilities acquired from third parties, ii) $135.5 million cash paid for the remaining 74.25% interest we did not own in 12 stabilized properties owned by a legacy institutional partnership and iii) the $6.3 million historical book value of our existing investment in the legacy institutional partnership.

The facilities included above under “2017 acquisitions” include 22 facilities acquired from third parties and 12 stabilized facilities previously owned by a legacy institutional partnership that we began consolidating effective December 31, 2017.

The facilities included above under “2016 acquisitions”, “2017 acquisitions”, and “2018 acquisitions” have an aggregate of approximately 8.0 million net rentable square feet, including 1.3 million in Ohio, 1.1 million in Oklahoma, 0.8 million in Texas, 0.7 million in Florida, 0.5 million in each of Minnesota, Tennessee, and Kentucky, and 2.6 million in other states.

The facilities included above under “2013 – 2015 new developments” and “2016 – 2018 new developments” have an aggregate of approximately 8.0 million net rentable square feet, including 3.7 million in Texas, 1.2 million in California, 0.7 million each in Colorado and Florida, 0.4 million in Washington, and 1.3 million in other states.

The facilities included above under “Other facilities” have an aggregate of 14.9 million net rentable square feet, including 4.4 million in Texas, 2.7 million in California, 2.0 million in Florida, 0.9 million in Colorado, 0.8 million in South Carolina, 0.6 million each in New York and Washington, and 2.9 million in other states.

For the year ended December 31, 2018, the weighted average annualized yield on cost, based upon net operating income, for i) the facilities acquired in 2016 was 6.0% and ii) the 22 facilities acquired in 2017 from third parties for $149.8 million was 5.4%. The yield for the other facilities acquired are not meaningful due to our limited ownership period in the case of facilities acquired in 2018 and our preexisting ownership interest in and management of the 12 stabilized facilities owned by a legacy institutional partnership.

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

Net operating income with respect to the “Other facilities” declined $1.4 million in 2018 as compared to 2017 and $4.1 million in 2017 as compared to 2016. Such decreases are primarily due to the demolishment of 834,000 net rentable square feet of storage space due to expansion activities, offset partially by increased net operating income with respect to facilities where expansion activities are complete and the added space is filling up. Our current pipeline of $354.0 million in redevelopment projects will result in the demolishment of an additional 86,000 net rentable square feet of space, and the build of an additional 3.5 million net rentable square feet of storage space.

Since the beginning of 2013, we have opened newly developed facilities with a total cost of $941.3 million and redeveloped existing facilities, expanding their square footage, for a total cost of $294.4 million. The newly developed facilities are included in "Developed facilities" and the redeveloped facilities are included in "Other facilities" in the table above. We believe that our development and redevelopment activities are beneficial to our business over the long run. However, in the short run, such activities dilute our earnings due to the three to four year period that it takes to fill up newly developed and redeveloped storage facilities and reach a stabilized level of cash flows offset by the cost of capital to fund the cost, combined with related overhead expenses flowing through general and administrative expense. We believe the level of dilution incurred in 2018 will continue at similar levels in 2019 and beyond, assuming realization of our current expectation of maintaining our current level of development for the foreseeable future.

We expect the Non Same Store Facilities to continue to provide increased net operating income in 2019 as these facilities approach stabilized occupancy levels and the earnings of the 2018 acquisitions are reflected in our operations for a longer period in 2019 as compared to 2018.

We also expect to increase the number and net rentable square feet of Non Same Store Facilities through development of new self-storage facilities, redevelopment of existing facilities and acquisitions of facilities.

As of December 31, 2018, we had development and redevelopment projects which will add approximately 5.2 million net rentable square feet of storage space at a total cost of approximately $607.4 million. Some of these projects are subject to significant contingencies such as entitlement approval. We expect to continue to seek additional development projects; however, the level of future development may be limited due to various constraints such as difficulty in finding projects that meet our risk-adjusted yield expectations and challenges in obtaining building permits for self-storage activities in certain municipalities.

Subsequent to December 31, 2018, we acquired or were under contract to acquire (subject to customary closing conditions) 14 self-storage facilities for $102.4 million. We will continue to seek to acquire properties; however, there is significant competition to acquire existing facilities and therefore the dollar value of acquisitions is unpredictable.

Depreciation and amortization with respect to the Non Same Store Facilities totaled $123.4 million, $98.8 million and $71.3 million in 2018, 2017 and 2016, respectively. These amounts include i) depreciation of the buildings acquired or developed, which is recorded generally on a straight line basis, and ii) amortization of cost allocated to the tenants in place upon acquisition of a facility, which is recorded based upon the benefit of such existing tenants to each period and thus is highest when the facility is first acquired and declines as such tenants vacate. With respect to Non Same Store Facilities owned at December 31, 2018, depreciation of buildings and amortization of tenant intangibles is expected to total $107.4 million and $8.7 million, respectively, in 2019. The level of future depreciation and amortization will also depend upon the level of acquisitions of facilities and the level of newly developed storage space.

Ancillary Operations

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

	Year Ended December 31,			Year Ended December 31,		
	2018	2017	Change	2017	2016	Change
Revenues:						
Tenant reinsurance premiums	$ 125,575	$ 122,852	$ 2,723	$ 122,852	$ 118,911	$ 3,941
Merchandise	31,098	33,243	(2,145)	33,243	35,810	(2,567)
Total revenues	156,673	156,095	578	156,095	154,721	1,374
Cost of Operations:						
Tenant reinsurance	25,646	30,554	(4,908)	30,554	29,145	1,409
Merchandise	18,345	19,791	(1,446)	19,791	22,033	(2,242)
Total cost of operations	43,991	50,345	(6,354)	50,345	51,178	(833)
Net income						
Tenant reinsurance	99,929	92,298	7,631	92,298	89,766	2,532
Merchandise	12,753	13,452	(699)	13,452	13,777	(325)
Total net income	$ 112,682	$ 105,750	$ 6,932	$ 105,750	$ 103,543	$ 2,207

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

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

Tenant reinsurance revenue increased from $118.9 million in 2016 to $122.9 million in 2017, and to $125.6 million in 2018, due primarily to an increase in our tenant base due to newly acquired and developed facilities.

Tenant insurance revenues include $103.6 million, $103.9 million and $102.9 million for 2018, 2017 and 2016, respectively, for the Same Store Facilities.

We expect future growth will come primarily from customers of newly acquired and developed facilities, as well as additional tenants at our existing unstabilized self-storage facilities.

Cost of operations primarily includes claims paid that are not covered by our outside third-party insurers, as well as claims adjustment expenses. Claims expenses vary based upon the level of insured tenants, and the level of events affecting claims at particular properties (such as burglary) as well as catastrophic weather events affecting multiple properties such as hurricanes and floods. Cost of operations were $29.1 million in 2016, $30.6 million in 2017, and $25.6 million in 2018. Amounts for 2016 includes flooding in Houston and South Carolina, while claims cost for 2017 includes the impact of Hurricanes Harvey and Irma.

Merchandise sales: We sell locks, boxes, and packing supplies at our self-storage facilities and the level of sales of these items is primarily impacted by the level of move-ins and other customer traffic at our self-storage facilities. We do not expect any significant changes in revenues or profitability from our merchandise sales in 2019.

Equity in earnings of unconsolidated real estate entities

At December 31, 2018, we have equity investments in PSB and Shurgard Europe, which we account for on the equity method and record our pro-rata share of the net income of these entities for each period. The following table, and the discussion below, sets forth the significant components of our equity in earnings of unconsolidated real estate entities:

	Year Ended December 31,			Year Ended December 31,		
	2018	2017	Change	2017	2016	Change
Equity in earnings:						
PSB	$ 89,362	$ 46,544	$ 42,818	$ 46,544	$ 31,707	$ 14,837
Shurgard Europe	14,133	25,948	(11,815)	25,948	22,324	3,624
Legacy Institutional Partnership (a)	-	3,163	(3,163)	3,163	2,725	438
Total equity in earnings	$ 103,495	$ 75,655	$ 27,840	$ 75,655	$ 56,756	$ 18,899

(a) This represents our equity earnings in a legacy institutional partnership. On December 31, 2017, we acquired the 74.25% interest that we did not own in this partnership for $135.5 million. As a result, no further equity earnings will be recorded.

Investment in PSB: At December 31, 2018 and 2017, we had approximately a 42% common equity interest in PS Business Parks, Inc. ("PSB"), comprised of our ownership of 7,158,354 shares of PSB's common stock and 7,305,355 limited partnership units in an operating partnership controlled by PSB. The limited partnership units are convertible at our option, subject to certain conditions, on a one-for-one basis into PSB common stock.

At December 31, 2018, PSB wholly-owned approximately 28.2 million rentable square feet of commercial space and had a 95% interest in a 395-unit apartment complex. PSB also manages commercial space that we own pursuant to property management agreements.

Equity in earnings from PSB totaled $89.4 million, $46.5 million, and $31.7 million for 2018, 2017, and 2016, respectively. Included in these amounts are i) our equity share of gains on sale of real estate totaling $37.7 million and $3.1 million for 2018 and 2017, respectively, and ii) our equity share of preferred redemption charges totaling $4.5 million and $3.1 million for 2017 and 2016, respectively.

Equity in earnings from PSB, excluding the aforementioned real estate gains and preferred redemption charges, increased $3.7 million in 2018 as compared to 2017 and $13.2 million in 2017 as compared to 2016. The increases in both years reflects improved property operations and, in the case of 2017, lower levels of interest expense and preferred distributions. See Note 4 to our December 31, 2018 financial statements for selected financial information on PSB, as well as PSB's filings and selected financial information that can be accessed through the SEC, and on PSB's website, www.psbusinessparks.com.

Investment in Shurgard Europe: At December 31, 2018, we have a 35.2% equity share in Shurgard Europe's net income, comprised of a direct and indirect pro-rata ownership interest in 31.3 million shares.

On July 13, 2018, Shurgard Europe paid a cash distribution totaling $296.7 million, of which we received our 49% equity share totaling $145.4 million. On October 15, 2018, Shurgard Europe completed an initial global offering (the "Offering"), and its shares commenced trading on Euronext Brussels under the "SHUR" symbol. In the Offering, Shurgard Europe issued 25.0 million of its common shares to third parties at a price of €23 per share, for an aggregate of €575 million in gross proceeds. Our ownership interest was reduced from 49% to 35.2% as a result of the Offering. While we did not sell any shares in the offering, and have no current plans to do so, we recorded a gain on disposition in 2018 totaling $151.6 million as if we had sold a proportionate share of our investment in Shurgard Europe.

At December 31, 2018, Shurgard Europe's operations are comprised of 232 wholly-owned facilities with 13 million net rentable square feet. See Note 4 to our December 31, 2018 financial statements for selected financial information on Shurgard Europe for the years ended December 31, 2018, 2017 and 2016. As described in more detail in Note 4 we receive trademark license fees from Shurgard Europe. Shurgard Europe's public filings and publicly reported information can be obtained on its website, https://corporate.shurgard.eu and on the website of the Luxembourg Stock Exchange, http://www.bourse.lu.

Our equity in earnings from Shurgard Europe totaled $14.1 million, $25.9 million, and $22.3 million for 2018, 2017, and 2016, respectively. An aggregate reduction of $5.2 million is reflected in our equity in earnings in 2018 for a casualty loss related to a fire at one of Shurgard's facilities and the costs of the Offering. Equity in earnings from Shurgard Europe, excluding the aforementioned casualty loss and Offering costs, decreased $6.6 million from 2017 to 2018, and increased $3.6 million from 2016 to 2017. The decrease in 2018 is due to a $6.9 million increase in our equity share of depreciation expense and a reduced average equity ownership interest during the year due to the Offering. The increase in 2017 is due primarily to improved property operations, offset partially by increased tax expense.

In 2018, Shurgard Europe acquired eight self-storage facilities from third parties (five in Sweden and three in the United Kingdom) for an aggregate of $114.5 million. On October 18, 2018, Shurgard acquired our wholly-owned property in West London for $42.1 million in cash. In 2018, Shurgard Europe opened two newly developed facilities, one each in Sweden and Germany at an aggregate total cost of $19.6 million. In 2017, Shurgard Europe opened two newly developed facilities in the United Kingdom with an aggregate total cost of $28.8 million and acquired a property in France for $15.5 million. In 2016, Shurgard Europe opened a newly developed facility in the United Kingdom with a total cost of $12.9 million.

Unlike our operations in the U.S., Shurgard Europe operates through taxable corporations in each of the countries in which it does business and incurs tax expense.

We expect a reduction in ongoing equity earnings from Shurgard Europe in 2019 due to the extent to which offering proceeds are not immediately utilized to repay debt or invest in real estate assets. Shurgard Europe also expects to begin distributing a substantial portion of its earnings to its shareholders, which will result in reduced cash available to reinvest in real estate. Our future earnings from Shurgard Europe will also be affected by (i) the operating results of its existing facilities, (ii) the level of development and acquisition activities, (iii) income tax rates, and (iv) the exchange rate between the U.S. Dollar and currencies in the countries in which Shurgard Europe conducts its business (principally the Euro).

For purposes of recording our equity in earnings from Shurgard Europe, the Euro was translated at exchange rates of approximately 1.144 U.S. Dollars per Euro at December 31, 2018 (1.198 at December 31, 2017), and average exchange rates of 1.181 for 2018, 1.129 for 2017 and 1.107 for 2016.

Analysis of items not allocated to segments

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

	Year Ended December 31,			Year Ended December 31,		
	2018	2017	Change	2017	2016	Change
Share-based compensation expense	$ 71,031	$ 37,548	$ 33,483	$ 37,548	$ 37,483	$ 65
Costs of senior executives	4,822	5,872	(1,050)	5,872	6,052	(180)
Development and acquisition costs	5,441	8,193	(2,752)	8,193	9,721	(1,528)
Tax compliance costs and taxes paid	5,438	4,795	643	4,795	3,859	936
Legal costs	8,234	6,995	1,239	6,995	7,305	(310)
Public company costs	4,712	4,145	567	4,145	3,768	377
Other costs	19,042	15,334	3,708	15,334	15,468	(134)
Total	$ 118,720	$ 82,882	$ 35,838	$ 82,882	$ 83,656	$ (774)

Share-based compensation expense includes the amortization of restricted share units and stock options granted to employees and trustees, as well as related employer taxes. Share-based compensation expense varies based upon the level of grants and their related vesting and amortization periods, forfeitures, as well as the Company's common share price on the date of grant.

In February 2018, we announced that Ron Havner, our CEO and John Reyes, our CFO at the time were retiring from their executive roles at the end of 2018 and would serve only as Trustees of the Company. Pursuant to our share-based compensation plans, their unvested grants will continue to vest over the original vesting periods during their service as Trustees. For financial reporting, the end of the service periods for previous stock option and RSU grants for these executives have changed from (i) the various vesting dates to (ii) December 31, 2018. Accordingly, all remaining share-based compensation expense for these two executives was amortized through the end of 2018. Included in share-based compensation expense for 2018 is approximately $30.7 million due to the aforementioned accelerated amortization. Share-based compensation costs in 2017 include a $5.4 million reversal of previously amortized costs, due to the forfeiture of share-based compensation resulting from the retirement of certain senior executives in 2017. See Note 10 to our December 31, 2018 financial statements for further information on our share-based compensation. We expect a reduction in share-based compensation expense in 2019 as compared to 2018.

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

Development and acquisition costs primarily represent internal and external expenses related to our development and acquisition of real estate facilities and varies primarily based upon the level of activities. The amounts in the above table are net of $12.2 million, $9.4 million and $8.5 million for 2018, 2017 and 2016, respectively, in development costs that were capitalized to newly developed and redeveloped self-storage facilities. Development and acquisition costs are expected to remain stable in 2019.

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

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

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

Other costs represent certain professional and consulting fees, payroll, and overhead that are not attributable to our property operations. Such costs vary depending upon the level of corporate activities, initiatives, and other factors and, as such, are not predictable. Amounts for 2018 include approximately $2.4 million in costs incurred to demolish certain buildings that were damaged in flooding in 2017 and are being rebuilt.

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

Interest and other income: Interest and other income is comprised primarily of the net income from our commercial operations, our property management operation, interest earned on cash balances, and trademark license fees received from Shurgard Europe, as well as sundry other income items that are received from time to time in varying amounts. Amounts attributable to our commercial operations and property management operations totaled $11.8 million, $10.9 million and $10.6 million in 2018, 2017 and 2016, respectively. The increase in interest and other income is attributable to increased commercial operations and higher interest rates on uninvested cash balances. We do not expect any significant changes in interest and other income in 2019.

Interest expense: For 2018, 2017 and 2016, we incurred $37.3 million, $17.1 million, and $9.4 million, respectively, of interest on our outstanding debt. In determining interest expense, these amounts were offset by capitalized interest of $4.8 million, $4.4 million and $5.1 million during 2018, 2017, and 2016, respectively, associated with our development activities. On September 18, 2017, we completed a public offering of $1.0 billion notes (the "U.S. Dollar Notes") bearing an average annual interest rate of 2.732%. At December 31, 2018, we had $1.4 billion of debt outstanding, with an average interest rate of 2.6%. See Note 6 to our December 31, 2018 financial statements for further information on our debt balances. Future interest expense will be dependent upon the level of outstanding debt and the amount of in-process development costs.

Foreign Exchange Gain (Loss): For 2018, we recorded a foreign currency translation gain of $18.1 million representing the change in the U.S. Dollar equivalent of our Euro-denominated unsecured notes due to fluctuations in exchange rates (loss of $50.0 million and gain of $17.6 million for 2017 and 2016, respectively). The Euro was translated at exchange rates of approximately 1.144 U.S. Dollars per Euro at December 31, 2018, 1.198 at December 31, 2017 and 1.052 at December 31, 2016. Future gains and losses on foreign currency translation will be dependent upon changes in the relative value of the Euro to the U.S. Dollar, and the level of Euro-denominated debt outstanding.

Casualty Loss: During 2017, we incurred a $7.8 million casualty loss with respect to damage to several of our facilities caused by Hurricanes Harvey and Irma.

Gain on Real Estate Investment Sales: In 2018, 2017 and 2016, we recorded gains on real estate investment sales totaling $37.9 million, $1.4 million and $689,000, respectively. On October 18, 2018, we sold our property in West London to Shurgard Europe for $42.1 million and recorded a related gain on sale of real estate of approximately $31.5 million. The remainder of the gains are primarily in connection with the partial sale of real estate facilities pursuant to eminent domain proceedings.

Gain due to Shurgard Europe Public Offering: In connection with Shurgard Europe's Offering of its common shares to the public, our equity interest in Shurgard Europe decreased from 49% to 35.2%. While we did not sell any of our shares in the Offering, we recorded a gain on disposition in 2018 of $151.6 million, as if we had sold a proportionate share of our investment in Shurgard Europe.

Net Income Allocable to Preferred Shareholders: Net income allocable to preferred shareholders based upon distributions decreased in 2018 as compared to 2017 and in 2017 as compared to 2016, due primarily to lower average rates offset partially by higher weighted average preferred shares outstanding. We also allocated $29.3 million and $26.9 million of income from our common shareholders to the holders of our preferred shares in

2017 and 2016, respectively, (none in 2018) in connection with the redemption of our preferred shares. Based upon our preferred shares outstanding at December 31, 2018, our quarterly distribution to our preferred shareholders is expected to be approximately $54.1 million ($49.5 million per quarter excluding distributions on our Series Y Cumulative Preferred shares, which will be redeemed on March 28, 2019).

Liquidity and Capital Resources

Financing Strategy: As a REIT, we generally distribute 100% of our taxable income to our shareholders, which relative to a taxable C corporation, limits the amount of cash flow from operations that we can retain for investments. As a result, in order to grow our asset base, access to capital is important. Historically we have primarily financed our cash investment activities with retained operating cash flow combined with the proceeds from the issuance of preferred securities. Over the past three years, we have diversified our capital sources by issuing medium term debt.

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

We have a $500.0 million revolving line of credit which we occasionally use as temporary "bridge" financing until we are able to raise longer term capital. As of December 31, 2018 and February 27, 2019, there were no borrowings outstanding on the revolving line of credit, however, we do have approximately $16.2 million of outstanding letters of credit which limits our borrowing capacity to $483.8 million.

Over the long-term, we expect to fund our capital requirements with retained operating cash flow, the issuance of additional medium or long term debt, and proceeds from the issuance of common and preferred securities. We will select among these sources of capital based upon availability, relative cost, the desire for leverage, refinancing risk, and considering potential constraints caused by certain features of capital sources, such as debt covenants.

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

As of December 31, 2018, our capital resources over the next year are expected to be approximately $1.1 billion which exceeds our current planned capital needs over the next year of approximately $711.4 million. Our capital resources include: (i) $361.2 million of cash as of December 31, 2018, (ii) $483.8 million of available borrowing capacity on our revolving line of credit, and (iii) approximately $200 to $250 million of expected retained operating cash flow for the next twelve months. Retained operating cash flow represents our expected cash flow provided by operating activities, less shareholder distributions and capital expenditures to maintain our real estate facilities.

Our planned capital needs over the next year consist of (i) $322.1 million of remaining spend on our current development pipeline, (ii) $102.4 million in property acquisitions currently under contract, (iii) $285.0 million for the redemption of our Series Y Preferred Shares on March 28, 2019 and (iv) $1.9 million in principal repayments on existing debt. Our capital needs may increase over the next year as we expect to add projects to our development pipeline and acquire additional properties. In addition to other investment activities, we may also redeem outstanding preferred securities or repurchase shares of our common stock in the future.

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

Required Debt Repayments: As of December 31, 2018, our outstanding debt totaled approximately $1.4 billion, consisting of $27.4 million of secured debt, $391.4 million of Euro-denominated unsecured debt and $1.0 billion of U.S. Dollar denominated unsecured debt. Approximate principal maturities are as follows (amounts in thousands):

2019	$ 1,867
2020	1,958
2021	1,836
2022	502,522
2023	19,161
Thereafter	891,490
	$ 1,418,834

The remaining maturities on our debt over at least the next three years are nominal compared to our expected annual retained operating cash flow.

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

Capital expenditures totaled $139.4 million in 2018, and are expected to approximate $200 million in 2019. Our capital expenditures for 2019 include certain projects that are upgrades and not traditional like-for-like replacements of existing components, and in certain circumstances replace existing components before the end of their functional lives. Such projects include installation of LED lighting, replacing existing planting configurations with more drought tolerant and low maintenance configurations, installation of solar panels, improvements to office configurations to provide a more customer-friendly experience, and improvements to outdoor facades and color schemes. Such incremental investments improve customer satisfaction, the attractiveness and competitiveness of our facilities to new and existing customers, or reduce operating costs. The amount and extent to which these expenditures will continue after 2019 is uncertain at this time.

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

On February 19, 2019, our Board declared a regular common quarterly dividend of $2.00 per common share totaling approximately $348 million, which will be paid at the end of March 2019. Our consistent, long-term dividend policy has been to distribute only our taxable income. Future quarterly distributions with respect to the common shares will continue to be determined based upon our REIT distribution requirements after taking into consideration distributions to the preferred shareholders and will be funded with cash flows from operating activities.

We estimate the annual distribution requirements with respect to our Preferred Shares outstanding at December 31, 2018, to be approximately $216.3 million per year ($198.1 million per year excluding distributions on our Series Y Cumulative Preferred shares, which will be redeemed on March 28, 2019).

We estimate we will pay approximately $7.0 million per year in distributions to noncontrolling interests outstanding at December 31, 2018.

Real Estate Investment Activities: Subsequent to December 31, 2018, we acquired or were under contract to acquire (subject to customary closing conditions) 14 self-storage facilities for $102.4 million. We will continue to seek to acquire properties; however, there is significant competition to acquire existing facilities and there can be no assurance as to the level of facilities we may acquire.

As of December 31, 2018 we had development and redevelopment projects at a total cost of approximately $607.4 million. Costs incurred through December 31, 2018 were $285.3 million, with the remaining cost to complete of $322.1 million expected to be incurred primarily in the next 18 months. Some of these projects are subject to significant contingencies such as entitlement approval. We expect to continue to seek additional projects; however, the level of future development and redevelopment may be limited due to various constraints such as difficulty in finding projects that meet our risk-adjusted yield expectations and challenges in obtaining building permits for self-storage activities in certain municipalities.

Redemption of Preferred Securities: Historically, we have taken advantage of refinancing higher coupon preferred securities with lower coupon preferred securities. On February 22, 2019, we called for redemption, and on March 28, 2019, we will redeem our 6.375% Series Y Preferred Shares, at par ($285 million). In the future, we may also elect to finance the redemption of preferred securities with proceeds from the issuance of debt. As of February 27, 2019, we have the following additional series of preferred securities that are eligible for redemption, at our option and with 30 days' notice; our 5.625% Series U Preferred Shares ($288 million), our 5.375% Series V Preferred Shares ($495 million), our 5.200% Series W Preferred Shares ($500 million), and our 5.200% Series X Preferred Shares ($225 million). Our 6.000% Series Z Preferred Shares ($288 million) become callable on June 4, 2019. Redemption of such preferred shares will depend upon many factors, including the rate at which we could issue replacement preferred securities. None of our preferred securities are redeemable at the option of the holders.

Repurchases of Common Shares: Our Board has authorized management to repurchase up to 35,000,000 of our common shares on the open market or in privately negotiated transactions. During 2018, we did not repurchase any of our common shares. From the inception of the repurchase program through February 27, 2019, we have repurchased a total of 23,721,916 common shares at an aggregate cost of approximately $679.1 million. Future levels of common share repurchases will be dependent upon our available capital, investment alternatives and the trading price of our common shares.

Contractual Obligations

Our significant contractual obligations at December 31, 2018 and their impact on our cash flows and liquidity are summarized below for the years ending December 31 (amounts in thousands):

	Total	2019	2020	2021	2022	2023	Thereafter
Interest and principal payments on debt (1)	$ 1,650,985	$ 38,196	$ 38,193	$ 37,971	$ 535,109	$ 42,838	$ 958,678
Operating leases (2)	78,519	4,031	4,240	4,356	3,755	3,626	58,511
Construction commitments (3)	138,460	126,247	12,213	-	-	-	-

Total	$ 1,867,964	$ 168,474	$ 54,646	$ 42,327	$ 538,864	$ 46,464	$ 1,017,189

(1) Represents contractual principal and interest payments. Amounts with respect to certain Euro-denominated debt are based upon exchange rates at December 31, 2018. See Note 6 to our December 31, 2018 financial statements for further information.

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

(3)Represents future expected payments for construction under contract at December 31, 2018.

We estimate the annual distribution requirements with respect to our Preferred Shares outstanding at December 31, 2018 to be approximately $216.3 million per year ($198.1 million per year excluding distributions on our Series Y Cumulative Preferred shares, which will be redeemed on March 28, 2019). Dividends are paid when and if declared by our Board and accumulate if not paid.

Off-Balance Sheet Arrangements: At December 31, 2018, we had no material off-balance sheet arrangements as defined under Regulation S-K 303(a)(4) and the instructions thereto.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk

To limit our exposure to market risk, we are capitalized primarily with preferred and common equity. Our preferred shares are redeemable at our option generally five years after issuance, but the holder has no redemption option. Our debt is our only market-risk sensitive portion of our capital structure, which totals approximately $1.4 billion and represents 15.5% of the book value of our equity at December 31, 2018.

We have foreign currency exposure at December 31, 2018 related to (i) our investment in Shurgard Europe, with a book value of $349.5 million and (ii) €342.0 million ($391.4 million) of Euro-denominated unsecured notes payable.

The fair value of our fixed rate debt at December 31, 2018 is approximately $1.4 billion. The table below summarizes the annual maturities of our fixed rate debt, which had a weighted average effective rate of 2.6% at December 31, 2018. See Note 6 to our December 31, 2018 financial statements for further information regarding our fixed rate debt (amounts in thousands).

	2019	2020	2021	2022	2023	Thereafter	Total
Fixed rate debt	$ 1,867	$ 1,958	$ 1,836	$ 502,522	$ 19,161	$ 891,490	$ 1,418,834

ITEM 9A. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

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

As of December 31, 2018, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2018, at a reasonable assurance level.

Management’s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control-Integrated Framework issued by the Committee on Sponsoring Organizations of the Treadway Commission (2013 Framework). Based on our evaluation under the framework in Internal Control-Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2018.

The effectiveness of internal control over financial reporting as of December 31, 2018, has been audited by Ernst & Young LLP, an independent registered public accounting firm. Ernst & Young LLP’s report on our internal control over financial reporting appears below.

Changes in Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth quarter of 2018 to which this report relates that have materially affected, or are reasonable likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Trustees of Public Storage

Opinion on Internal Control over Financial Reporting

We have audited Public Storage (the Company)’s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, the Company maintained, in all material aspects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, equity and cash flows, for each of the three years in the period ended December 31, 2018 and the related notes and financial statement schedule listed in the Index at Item 15(a) of the Company and our report dated February 27, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Security and Exchange Commission and the PCAOB.

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Ernst & Young LLP

Los Angeles, California

February 27, 2019

ITEM 9B.Other Information

None.

PART III

ITEM 10.Trustees, Executive Officers and Corporate Governance

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

Joseph D. Russell, Jr., age 59, has served as Chief Executive Officer since January 1, 2019, and as President since July 2016. Prior to joining Public Storage, Mr. Russell was President and Chief Executive Officer of PS Business Parks, Inc. from August 2002 to July 2016. Mr. Russell has also served as a trustee of Public Storage since January 1, 2019, and as a director of PS Business Parks, Inc. since August 2003.

H. Thomas Boyle, age 36, has served as Chief Financial Officer since January 1, 2019, and was Vice President and Chief Financial Officer, Operations of the company since joining the Company in November 2016. Prior to joining the company, Mr. Boyle served in roles of increasing responsibilities with Morgan Stanley since 2005, from analyst to his last role as Executive Director, Equity and Debt Capital Markets.

Lily Yan Hughes, age 55, has served as Senior Vice President, Chief Legal Officer and Corporate Secretary since joining the Company in January 2015. Prior to joining Public Storage, she was Vice President and Associate General Counsel-Corporate, M&A and Finance at Ingram Micro Inc. from March 1997 to January 2015.

Natalia Johnson, age 41, has served as Senior Vice President, Chief Human Resources Officer since April 25, 2018 and was previously Senior Vice President of Human Resources since joining the Company in July 2016. Prior to joining Public Storage, Ms. Johnson held a variety of senior management positions at Bank of America, including Chief Operating Officer for Mortgage Technology and Human Resources Executive for the Mortgage Business and worked for Coca-Cola Andina and San Crist bal Insurance.

Other information required by this item is hereby incorporated by reference to the material appearing in the Notice and Proxy Statement for the 2019 Annual Meeting of Shareholders, to be filed pursuant to Regulation 14A under the Exchange Act.

ITEM 11.Executive Compensation

The information required by this item is hereby incorporated by reference to the material appearing in the Notice and Proxy Statement for the 2019 Annual Meeting of Shareholders, to be filed pursuant to Regulation 14A under the Exchange Act.

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

The following table sets forth information as of December 31, 2018 on the Company's equity compensation plans:

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders (a)	3,138,618 (b)	$201.31 (d)	1,282,158
Equity compensation plans not approved by security holders (c)	-	-	-

a) The Company's stock option and stock incentive plans are described more fully in Note 10 to the December 31, 2018 financial statements. All plans were approved by the Company's shareholders.
b) Includes 717,696 restricted share units that, if and when vested, will be settled in common shares of the Company on a one for one basis.
c) There are no securities available for future issuance or currently outstanding under plans not approved by the Company's shareholders as of December 31, 2018.
d) Represents the average exercise price of 2,420,922 stock options outstanding at December 31, 2018. We also have 717,696 restricted share units outstanding at December 31, 2018 that vest for no consideration.

Other information required by this item is hereby incorporated by reference to the material appearing in the Notice and Proxy Statement for the 2019 Annual Meeting of Shareholders, to be filed pursuant to Regulation 14A under the Exchange Act.

ITEM 13.Certain Relationships and Related Transactions and Trustee Independence

The information required by this item is hereby incorporated by reference to the material appearing in the Notice and Proxy Statement for the 2019 Annual Meeting of Shareholders, to be filed pursuant to Regulation 14A under the Exchange Act.

ITEM 14.Principal Accountant Fees and Services

The information required by this item is hereby incorporated by reference to the material appearing in the Notice and Proxy Statement for the 2019 Annual Meeting of Shareholders, to be filed pursuant to Regulation 14A under the Exchange Act of 1934.

PART IV

ITEM 15.Exhibits and Financial Statement Schedules

a. 1. Financial Statements

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

2. Financial Statement Schedules

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

3. Exhibits

See Index to Exhibits contained herein.

b. Exhibits:

See Index to Exhibits contained herein.

c. Financial Statement Schedules

Not applicable.

PUBLIC STORAGE
INDEX TO EXHIBITS (1)
(Items 15(a)(3) and 15(c))

3.1 Articles of Amendment and Restatement of Declaration of Trust of Public Storage, a Maryland real estate investment trust, filed with the Maryland State Department of Assessments and Taxation on May 4, 2018. Filed with the Registrant's Current Report on Form 8-K dated May 8, 2018 and incorporated by reference herein.

3.2 Amended and Restated Bylaws of Public Storage, a Maryland real estate investment trust, dated May 4, 2018. Filed with the Registrant's Current Report on Form 8-K dated May 8, 2018 and incorporated by reference herein.

3.3 Articles Supplementary for Public Storage 5.625% Cumulative Preferred Shares, Series U. Filed with the Registrant's Current Report on Form 8-K dated June 6, 2012 and incorporated by reference herein.

3.4 Articles Supplementary for Public Storage 5.375% Cumulative Preferred Shares, Series V. Filed with the Registrant's Current Report on Form 8-K dated September 11, 2012 and incorporated by reference herein.

3.5 Articles Supplementary for Public Storage 5.20% Cumulative Preferred Shares, Series W. Filed with the Registrant's Current Report on Form 8-K dated January 7, 2013 and incorporated by reference herein.

3.6 Articles Supplementary for Public Storage 5.20% Cumulative Preferred Shares, Series X. Filed with the Registrant's Current Report on Form 8-K dated March 4, 2013 and incorporated by reference herein.

3.7 Articles Supplementary for Public Storage 6.375% Cumulative Preferred Shares, Series Y. Filed with the Registrant's Current Report on Form 8-K dated March 10, 2014 and incorporated by reference herein.

3.8 Articles Supplementary for Public Storage 6.375% Cumulative Preferred Shares, Series Y. Filed with the Registrant's Current Report on Form 8-K dated April 9, 2014 and incorporated by reference herein.

3.9 Articles Supplementary for Public Storage 6.00% Cumulative Preferred Shares, Series Z. Filed with the Registrant's Current Report on Form 8-K dated May 28, 2014 and incorporated by reference herein.

3.10 Articles Supplementary for Public Storage 5.875% Cumulative Preferred Shares, Series A. Filed with the Registrant's Current Report on Form 8-K/A dated November 24, 2014 and incorporated by reference herein.

3.11 Articles Supplementary for Public Storage 5.400% Cumulative Preferred Shares, Series B. Filed with the Registrant's Current Report on Form 8-K dated January 12, 2016 and incorporated by reference herein.

3.12 Articles Supplementary for Public Storage 5.125% Cumulative Preferred Shares, Series C. Filed with the Registrant's Current Report on Form 8-K dated May 10, 2016 and incorporated by reference herein.

3.13 Articles Supplementary for Public Storage 4.950% Cumulative Preferred Shares, Series D. Filed with the Registrant's Current Report on Form 8-K dated July 13, 2016 and incorporated by reference herein.

3.14 Articles Supplementary for Public Storage 4.900% Cumulative Preferred Shares, Series E. Filed with the Registrant's Current Report on Form 8-K dated October 6, 2016 and incorporated by reference herein.

3.15 Articles Supplementary for Public Storage 5.150% Cumulative Preferred Shares, Series F. Filed with the Registrant's Current Report on Form 8-K dated May 23, 2017 and incorporated by reference herein.

3.16 Articles Supplementary for Public Storage 5.05% Cumulative Preferred Shares, Series G. Filed with the Registrant's Current Report on Form 8-K dated July 31, 2017 and incorporated by reference herein.

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

10.1 Amended Management Agreement between Registrant and Public Storage Commercial Properties Group, Inc. dated as of February 21, 1995. Filed with Public Storage Inc.'s ("PSI") Annual Report on Form 10-K for the year ended December 31, 1994 (SEC File No. 001-0839) and incorporated herein by reference.

10.2 Second Amended and Restated Management Agreement by and among Registrant and the entities listed therein dated as of November 16, 1995. Filed with PS Partners, Ltd.'s Annual Report on Form 10-K for the year ended December 31, 1996 (SEC File No. 001-11186) and incorporated herein by reference.

10.3 Agreement of Limited Partnership of PS Business Parks, L.P. Filed with PS Business Parks, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998 (SEC File No. 001-10709) and incorporated herein by reference.

10.4 Amended and Restated Agreement of Limited Partnership of Storage Trust Properties, L.P. (March 12, 1999). Filed with PSI's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999 (SEC File No. 001-0839) and incorporated herein by reference.

10.5 Amended and Restated Credit Agreement by and among Registrant, Wells Fargo Securities, LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated as joint lead arrangers, Wells Fargo Bank, National Association, as administrative agent, and the other financial institutions party thereto, dated as of March 21, 2012. Filed with PSI's Current Report on Form 8-K on March 27, 2012 (SEC File No. 001-0839) and incorporated herein by reference.

10.5.1 Second Amendment to Amended and Restated Credit Agreement, dated as of July 17, 2013, by and among Public Storage, the Lenders party thereto and Wells Fargo Bank, National Association. Filed with the Registrant's Current Report on Form 8-K on July 18, 2013 and incorporated herein by reference.

10.5.2 Third Amendment to the Amended and Restated Credit Agreement, dated as of March 31, 2015, among Public Storage, the lenders party thereto and Wells Fargo Bank, National Association, as agent. Filed as Exhibit 10.1 to the Company's Current Report on Form 8-K on April 2, 2015 ("April 2015 8-K") and incorporated herein by reference.

10.5.3 Copy of the Amended and Restated Credit Agreement dated as of March 21, 2012, consolidating all amendments made by the Letter Agreement, dated as of April 12, 2012, the Second Amendment to Amended and Restated Credit Agreement, dated as of July 17, 2013, and the Third Amendment to Amended and Restated Credit Agreement, dated as of March 31, 2015. This conformed copy was filed as Exhibit 10.2 to the April 2015 8-K for ease of reference and was qualified in its entirety by reference to the Third Amendment and incorporated herein by reference.

10.5.4 Fourth Amendment to the Amended and Restated Credit Agreement, dated as of December 22, 2015, among Public Storage, the lenders party thereto and Wells Fargo Bank, National Association, as agent. Filed as Exhibit 10.5.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015 and incorporated herein by reference.

10.6* Shurgard Storage Centers, Inc. 2004 Long Term Incentive Compensation Plan. Filed as Appendix A of Definitive Proxy Statement dated June 7, 2004 filed by Shurgard (SEC File No. 001-11455) and incorporated herein by reference.

10.7* Public Storage, Inc. 2001 Stock Option and Incentive Plan (the "2001 Plan"). Filed with PSI's Registration Statement on Form S-8 (SEC File No. 333-59218) and incorporated herein by reference.

10.8* Form of 2007 Plan Restricted Stock Unit Agreement. Filed as Exhibit 10.11 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015 and incorporated herein by reference.

10.9* Form of 2007 Plan Restricted Stock Unit Agreement – deferral of receipt of shares. Filed as Exhibit 10.12 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015 and incorporated herein by reference.

10.10* Form of 2007 Plan Stock Option Agreement. Filed as Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015 and incorporated herein by reference.

10.11* Form of 2007 Plan Trustee Stock Option Agreement. Filed as Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended December 31, 2015 and incorporated herein by reference.

10.12* Form of 2016 Plan Restricted Stock Unit Agreement. Filed as Exhibit 10.15 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016 and incorporated herein by reference.

10.13* Form of 2016 Plan Restricted Stock Unit Agreement – deferral of receipt of shares. Filed as Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016 and incorporated herein by reference.

10.14* Form of 2016 Plan Non-Qualified Stock Option Agreement. Filed as Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016 and incorporated herein by reference.

10.15* Form of 2016 Plan Trustee Non-Qualified Stock Option Agreement. Filed as Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016 and incorporated herein by reference.

10.16 Form of Trustee and Officer Indemnification Agreement. Filed as Exhibit 10.19 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016 and incorporated herein by reference.

10.17 Term Loan Agreement, by and among Public Storage, Wells Fargo Securities, LLC as Lead Arranger and Wells Fargo National Bank N.A. as Administrative Agent, dated as of December 2, 2013. Filed with Registrant's Current Report on Form 8-K dated December 2, 2013 and incorporated herein by reference.

10.18* Public Storage 2007 Equity and Performance-Based Incentive Compensation Plan, as Amended. Filed with Registrant's Current Report on Form 8-K dated May 1, 2014 and incorporated herein by reference.

10.19* Public Storage 2016 Equity and Performance-Based Incentive Compensation Plan. Filed as Appendix A to the Company's 2016 Proxy Statement dated March 16, 2016 and incorporated herein by reference.

10.20 Note Purchase Agreement, dated as of November 3, 2015, by and among Public Storage and the signatories thereto. Filed with Registrant's Current Report on Form 8-K dated November 3, 2015 and incorporated herein by reference.

10.21 Note Purchase Agreement, dated as of April 12, 2016, by and among Public Storage and the signatories thereto. Filed with Registrant's Current Report on Form 8-K dated April 12, 2016 and incorporated herein by reference.

10.22 Indenture, dated as of September 18, 2017, between Public Storage and Wells Fargo Bank, National Association, as trustee. Filed as Exhibit 4.1 to the Company's Current Report on Form 8-K dated September 18, 2017 and incorporated herein by reference.

10.23 First Supplemental Indenture, dated as of September 18, 2017, between Public Storage and Wells Fargo Bank, National Association, as trustee, including the form of Global Note representing the 2022 Notes and the form of Global Note representing the 2027 Notes. Filed as Exhibit 4.2 to the Company's Current Report on Form 8-K dated September 18, 2017 and incorporated herein by reference.

10.24 Amendment to Amended Agreement of Limited Partnership of PS Business Parks, L.P. to Authorize Special Allocations, dated as of January 1, 2017. Filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018 (SEC File No. 001-33519) and incorporated herein by reference.

10.25* Form of 2016 Plan Restricted Stock Unit Agreement (2018). Filed herewith.

10.26* Form of 2016 Plan Restricted Stock Unit Agreement – deferral of receipt of shares (2018). Filed herewith.

10.27* Form of 2016 Plan Non-Qualified Stock Option Agreement (2018). Filed herewith.

10.28* Form of 2016 Plan Trustee Non-Qualified Stock Option Agreement (2018). Filed herewith.

10.29* Form of 2016 Plan Trustee Deferred Stock Unit Agreement (2018). Filed herewith.

10.30* Form of 2016 Plan Executive Restricted Stock Unit Agreement (2018). Filed herewith.

21 Listing of Subsidiaries. Filed herewith.

23.1 Consent of Ernst & Young LLP. Filed herewith.

31.1 Rule 13a – 14(a) Certification. Filed herewith.

31.2	Rule 13a – 14(a) Certification. Filed herewith.
32	Section 1350 Certifications. Filed herewith.
101 .INS	XBRL Instance Document. Filed herewith.
101 .SCH	XBRL Taxonomy Extension Schema. Filed herewith.
101 .CAL	XBRL Taxonomy Extension Calculation Linkbase. Filed herewith.
101 .DEF	XBRL Taxonomy Extension Definition Linkbase. Filed herewith.
101 .LAB	