Public Storage

Second Quarter 2026 Earnings Call

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PRESENTATION

Operator

Greetings and welcome to Public Storage Second Quarter 2026 Earnings Conference Call.

At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. At that time, if you'd like to ask a question, please press star, one on your telephone keypad. If anyone should require operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Jed Reagan. Thank you. You may begin.

Jed Reagan

Thank you, Operator. Hello everyone and thank you for joining us for our Second Quarter 2026 Earnings Call. I'm here with Tom Boyle and Joe Fisher.

Before we begin, we want to remind you that certain matters discussed during this call may constitute forward-looking statements within the meaning of the federal securities laws. These forward-looking statements are subject to certain economic risks and uncertainties. All forward-looking statements speak only as of today, July 30, 2026, and we assume no obligation to update, revise, or supplement statements that become untrue because of subsequent events. A reconciliation to GAAP of the non-GAAP financial measures we provide on this call is included in our earnings release. You can find our press release, supplement report, SEC reports, and an audio replay of this conference call at our Investor Relations website, investors.publicstorage.com.

We ask that you initially limit yourself to two questions. However, if you have additional questions, please feel free to jump back into queue.

With that, I'll turn the call over to Tom Boyle.

Tom Boyle

Good morning everyone and thank you for joining us.

Our second quarter marked the start of our new era at Public Storage, what we call PS4.0. This new era is characterized by greater energy, urgency, and a sharper focus on building the capabilities that will drive stronger per-share performance over time. My four key points today cover initiatives coming together as building blocks from here.

First, we recently closed the NSA transaction, marking the first major milestone of our value creation engine. Second, Public Storage Canada is a strong strategic addition to the portfolio and an attractive entry point into an underpenetrated market with meaningful room for future growth. Third, the PS Next operating platform continues to execute, with improving leading indicators in the business and new capabilities that are helping us better serve customers. And fourth, our Own-It Culture is gaining momentum across the organization, with strong engagement from our team and real urgency around the opportunity ahead. Let me start first with our recently closed NSA transaction.

Closing this transaction last week is a major milestone for Public Storage and a clear example of PS4.0 in action. As we've discussed, this is not just about getting bigger. It is about strengthening our platform, deepening our portfolio, expanding our opportunity set, and driving differentiated per-share earnings into the future.

A tremendous amount of integration planning went into this closing, and that preparation paid off. We transitioned the 1,100 store and 575,000 unit portfolio onto Public Storage systems overnight and began operating activities immediately upon close. That is exactly the start we wanted. We welcomed over 1,300 new Public Storage teammates and got busy. With all our website and digital presence online that morning, the team completed over 1,500 reservations, switched over 265,000 autopay accounts, began collecting rents, and started rebranding with temporary signage on the first day.

This early execution is important, but it is also just the beginning. The real value creation is ahead of us as we apply PS Next across the portfolio, rebrand the assets, and execute against the operating and capital opportunities we've identified. We are more confident in the achievement of the operating upside with our new unified team driving results from here across customer experience and revenue, operating efficiencies, tenant insurance and G&A.

On the capital front, integration planning has also surfaced additional expansion opportunities that can add to value creation over time. And yes, lots of orange paint is on its way to a location near you.

Thank you to the NSA team for the professionalism, focus, and partnership they brought throughout this process. And thank you to our Public Storage teammates for their leadership. Getting to this point took a significant cross-functional effort, many long days, nights, and weekends, and the strong collaboration between the two organizations is a big reason the transition is off to a solid start.

Second, let me turn North to Public Storage Canada.

We announced the acquisition of Public Storage Canada in June. We will reunite Public Storage with a portfolio that was operated under common ownership until the 1990s and has since been owned and operated independently by the Hughes family. Today, this high-quality, PS-branded portfolio is the third largest in Canada and sits in desirable infill locations across top metros with concentration in Toronto and Vancouver. The portfolio demographics are strong with trade area populations averaging nearly 250,000 and average household incomes approaching $100,000; the market is significantly underserved with per capita supply of 2.5—significantly lower than the U.S.—and there is meaningful embedded upside in the assets that gives us a compelling opportunity to create value over time with our PS Next Operating Platform.

The transaction also reflects disciplined capital allocation. It was acquired off-market pursuant to an existing ROFO/ROFR structure with the Hughes family. In addition to being accretive to long-term portfolio NOI, IRR, and FFO growth, it creates the ability to finance a portion of the NSA acquisition with lower-cost Canadian debt. It is the second transaction this year funded with Public Storage OP units creating another win-win opportunity.

So when I step back, I see Public Storage Canada as both a strong addition to the portfolio today and a important platform for growth in the future.

Third, our PS Next operating platform.

Our full team is zeroed in on improving customer experience, leading to improved fundamentals and on building the platform for the future. The leading indicators of the business have turned and our outlook from here is improving which Joe will cover in more detail shortly.

Our customer focus is translating into better execution, improving customer sentiment year to date, 8% lower move-out activity in the quarter, and better-than-expected occupancy and move-in rent performance, both ahead of prior year. We continue to see favorable trends in our coastal and Midwestern markets, and improving trends in key sunbelt markets. We are seeing sequential improvement with development activity slowing across markets paired with steady demand. We have confidence in demand growth over the medium term with demographic tailwinds as Millennial and Gen Z customers age into our core customer usage years. In LA County, performance will accelerate from here into 2027 with the expiration of pricing restrictions there from the Board of Supervisors.

Technology remains a critical differentiator for our customers. Nearly 90% of customers interact with us digitally at some point in their rental journey, three-quarters complete their lease fully digitally, and our app has been downloaded over 7 million times. That improves the customer experience and helps us run the business more efficiently. And it provides industry leading data sets for use across the organization, including capital allocation data science and machine learning initiatives.

We're also investing in what's next for customer interaction. One example is Ellie, our AI-powered customer service agent, which has already handled more than 90,000 customer interactions in recent months and continues to improve with every conversation. Ellie doesn't just answer questions—she resolves customer needs using our proprietary data and AI models.

We are embracing the new capabilities across PS Next to drive a better customer experience, a better employee experience, and stronger financial results. And we're excited to bring NSA and Canadian properties onto that platform to drive value creation.

Now let's move to my fourth point, the Own-It Culture.

We launched our Own-It Culture earlier this year with a combination of customer obsession, new talent and perspectives alongside strong in-place teams, empowerment with accountability and new incentives to drive alignment. The goal is a culture with more energy, more urgency, and stronger accountability for execution. We recently moved into our new headquarters in Frisco, Texas, and I can feel the energy in that environment. We're also looking forward to our Southern California team moving into new office space in the months ahead.

Last week, we welcomed approximately 1,300 new teammates through the NSA transaction in a new office in Denver. We're excited to have them with us, and we're bringing them into the Public Storage culture in a way that is clear, aligned, and performance-oriented. As we've said before, strategy only creates value if the organization is aligned behind it. That alignment is getting stronger. The energy I'm feeling is translating into urgency and what we are building is a culture grounded in accountability, speed, and execution.

We see a meaningful opportunity ahead and our goal is to make sure the organization is ready to move with discipline and intensity as that opportunity unfolds.

So to sum up, the Company is putting more of the earnings growth building blocks in place at the same time than at any point in recent years. We closed NSA and have begun the value creation work. We announced Public Storage Canada, which expands our platform into an underpenetrated market with room for future growth. We remain active on acquisitions with new data science tools and faster execution, continue to grow the development pipeline, are expanding the lending platform, and are improving the growth profile of our third-party management business.

At the same time, PS Next is strengthening how we operate the core business — improving customer experience, brand, pricing, and efficiency. And as Joe will cover, the financial setup also improves from here, with contributions from non-same-store growth, ancillary businesses, a future tailwind from LA restrictions rolling off, and a more favorable financing profile supporting earnings power over time.

These building blocks are for the future based on execution from here. While that execution will cover several years, the direction is clear: our operating trends are improving, our growth levers are expanding, and the building blocks we are putting in place today position Public Storage for stronger growth in the second half and into the next several years.

With that, let me turn it over to Joe.

Joe Fisher

Thank you, Tom, and good morning everyone.

The topics I will cover today include our second quarter results, a summary of recent transactions, and a balance sheet and capital markets update.

Before I dive in, several key highlights from the quarter include, one, continued momentum in operations, including occupancy, churn, and move-in rates; number two, an across the board guidance raise; three, two major value creation engine transactions; and fourthly, approximately $12 billion in capital markets activity completed or committed year-to-date.

Moving to results, Core FFO in the quarter was $4.17 per share, which was down year-over-year as we have previously communicated, with the sequential decrease from first quarter driven by higher financing costs and G&A.

Same-store revenue and NOI growth in the quarter were minus 0.6% and minus 2.2%, respectively, both ahead of internal expectations. On a forward-looking basis, core metrics were strong vs expectations. Average move-in rents turned positive at plus 1.6%, the first time since 2021 that both new move-in rates and occupancy were up on a year-over-year basis. Move-in rates in 2Q were up 18% since 4Q25, better than historical trends and a clear sign that we are moving past the last few years of stabilization. Occupancy of 92.5% was positive year-over-year by plus 0.2%. Lastly, our existing customers continue to perform well, as demonstrated by a material reduction in churn.

Expense growth was positive 4.4% for the quarter with pressure in property taxes and marketing offset by savings in payroll from our machine learning based staffing model. The property tax increase was primarily timing, with 1Q26 having benefited from earlier than expected appeals wins on a year-over-year basis and thus an offset in 2Q26.

Outside of the same-store pool, NOI growth of 22% in our non-same-store pool and ancillary growth of 15% continued to lift results. Non-same store performance and our external value creation engine continue to be a substantial and repeatable driver of shareholder value.

Turning to 2026 guidance, we are pleased with our year-to-date performance and excited about the underlying momentum we are seeing in the leading indicators and core metrics of our business. We are raising our guidance across all key metrics. Revenue and NOI growth are now forecast at midpoint to be minus 0.2% and minus 1.1%, an improvement of 90 basis points and 110 basis points, respectively. Importantly, while we have previously said that 2Q and 3Q would be the low points for year-over-year same-store revenue growth, our updated guidance implies an improvement from 2Q levels in the second half, with the fourth quarter expected to exit the year with positive revenue growth.

The key assumptions underlying this guidance increase include improved new move-in rates at positive low single digits versus prior assumptions of down mid-single digits and an improved occupancy forecast up plus 30 basis points year-over-year compared to the prior assumption of flat. This is primarily due to the continued success we are having with our focus on customer experience, as demonstrated by increased customer sentiment and decreased churn.

Lastly, given the expiration of the State of Emergency in L.A. County, we now see a headwind of minus 50 basis points for same-store revenue growth this year, an improvement of 30 basis points from our original guidance of minus 80.

For Core FFO, we are raising our forecast to $16.75 to $17.05, with a midpoint of $16.90. This is an increase of 1.4% or $0.22 per share versus our prior forecast. This increase is being driven by the improvement in same-store performance, better interest expense, and continued strong contributions from non-same-store and ancillary, offset slightly be increased G&A.

Lastly, we expect financing benefits from our NSA and PS Canada acquisitions to be approximately $.02 per share positive to Core FFO in 2026 versus our prior assumption of neutral. This is a great start out of the gates for these two transactions.

Specific to NSA's results, you can see in our supplemental that we provided a number of key disclosure pages historically provided by NSA. For Core FFO, NSA achieved $1.14 per share for year-to-date 2026, which is ahead of consensus and annualized would have achieved above the high end of their original guidance range. For NOI, they achieved positive 2.4% growth year-to-date, well ahead of their midpoint of flat NOI growth, driven by solid occupancy improvements and expense controls.

On to transactions, market activity has picked up in 2026, with roughly steady yields in the low 5's and sellers showing a greater willingness to transact. Our expanded team has been busier than ever in 2026 and we have acquired or are under contract for over $450 million year-to-date.

One area of particular focus for the team this year has been recently developed assets, which come with lower occupancy, but present higher stabilized yields and returns. While these can be modestly dilutive to near-term FFO, we believe the future upside, growth, and accretion make them the right long-term investment decisions.

We are also speeding up the transaction process: Improved efficiencies in sourcing, data- and AI-informed underwriting, and accelerated approvals have improved top of funnel to closed deal timelines, leading to higher deal flow, faster execution, and a better process for owners looking to sell their assets.

In addition to the NSA closing on July 22nd, the other big recent transaction news was the announced acquisition of Public Storage Canada. As previously discussed, this strategic entry into the Canadian market provides exposure to a growing Canadian market with infill, high-quality properties, provides significant NOI upside through our PS Next operating platform given 83% occupancy and 65% NOI margins, and will be accretive to our future NOI, cash flow, and IRR outlook. The $1.2 billion transaction will be funded with approximately $900 million of OP Units issued at $321.98 per unit and approximately $300 million of Canadian based debt issuance. In addition, the seller will have the opportunity to receive $288 million of OP units priced at $375 per unit in two earn-out tranches over the next five years should certain NOI outperformance thresholds be achieved. As mentioned earlier, the $900 million of Canadian equity exposure as part of this transaction will allow us to finance an equivalent amount of our NSA acquisition in Canadian rates over 100 basis points below the underwritten U.S. levels. We look forward to closing this transaction in the third quarter.

On the development and expansion front, our pipeline has grown to $692 million across 47 projects, with stabilized yields targeting 8% and remaining amounts unfunded of $432 million.

For our lending business, our platform grew to $173 million outstanding, up $30 million from last quarter, at a current rate of approximately 7.6%.

And lastly, our third-party management platform welcomed 22 net new properties last quarter, bringing our total to over 460 properties.

We see a path to continued growth in all four of these key value creation drivers.

Lastly, our balance sheet remains in excellent position from both a metric and liquidity perspective. We have had a very active and beneficial year in the capital markets, with approximately $12 billion of total capital markets activity. We have completed new issuances, created new facilities and programs, placed hedges, opened up a new market in Canada, done multiple OP Unit transactions, and issued on our ATM program. These actions have strengthened our industry-best balance sheet, enhanced our liquidity and financial flexibility, and fully funded our accretive external growth.

During the quarter and subsequent to quarter-end, we announced a total of $5.9 billion of debt capital markets activity, including $1.4 billion in new unsecured issuance, the expansion and extension of our $3 billion revolving line of credit, a newly created $1 billion commercial paper program, and a $500 million delayed draw term loan. The $1.4 billion of new unsecured issuance was done at a weighted average effective rate below 5%, which was partially supported by a $1 billion 10-year treasury hedge we put in place earlier this year at a 4.3% to help both recent and future issuance costs. We've also entered into forward sale agreements under our ATM program for nearly 800,000 shares at $326.32 per share, expected to generate nearly $260 million of future net proceeds.

At quarter end, we had available liquidity of $3.8 billion between our line of credit and cash on hand, plus approximately $600 plus million of annual free cash flow. Our balance sheet remains one of the strongest in the REIT sector, with net debt to EBITDA of 2.9x, net debt plus preferred equity-to-EBITDA at 4.2X and debt plus preferred equity to enterprise value in the low 20% range. We are one of only two REITs with A and A2 ratings with S&P and Moody's, further testament to our balance sheet health.

In summary, PS Next delivered solid results and an accelerating outlook, our value creation engine was on full display, we made material enhancements to our fortress balance sheet, and continue to execute across all aspects of our business. We are executing today with an eye toward the future and stacking up multiple drivers of absolute and relative per share earnings growth for years to come.

With that, I'd like to turn the call back to the operator to open up for Q&A. Thank you.

Operator

Thank you. At this time we'll be conducting a question-and-answer session. If you'd like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. As a reminder, we ask that you please limit to two questions and requeue if necessary. One moment, please, while we poll for questions.

Our first question comes from Samir Khanal with Bank of America. Your line is now live.

Samir Khanal

Good afternoon, everyone. I guess, Joe, maybe to start off on the L.A. front, how quickly can you capture the revenue from L.A.? Maybe just walk us through the math for this year and then into next year as we think about the upside.

Joe Fisher

Hey Samir, good to hear from you. On L.A. and the state of emergency there, we did have that factored into our original guidance as a minus 80 basis point drag. As I mentioned in the prepared remarks, 30 basis points of that 90 basis point revenue increase in our guidance is going to come from L.A. So we are anticipating some ability to start recapturing as of the expiration on July 1 of this year. We are going to take a pretty measured and phased approach to that. It's not the idea to go out there and go all customers, either new or existing and move them back to market rates. But we are going to, over time, start to recapture that.

As a reminder, we lost about 70 basis points of same-store revenue growth in '25, another 50 net this year, so that gives you an idea of given the demand and supply environment out there, which remains really robust, kind of what we left on the table from the state of emergency and may be able to recapture in the future.

Samir Khanal

Okay. Then I guess my second question is on NSA. You mentioned expansion opportunities that you're finding? And again, I know it's early, but maybe expand on that? And have you identified at this point any sort of incremental revenue or cost synergies beyond the original underwriting.

Tom Boyle

Yes, Samir, it's Tom. I'll cover that. I think as it relates to the capital opportunities, I think there's really a couple that we've identified that I'll share today in collaboration with the NSA team over that integration planning period.

The first is expansion, as I highlighted. So there's definitely some opportunities for expansions on some of the existing assets and we're excited about that. The development team is spending time there. Joe and I just green lit and expansion at our most recent investment committee this week. So getting moving on those, and that value creation will come over the next several years.

The second component is more tactical and this is driven by an ability to spend some R&M dollars and get more units online. So we found about 14,000 units, and the NSA team pointed those out to us, that we can bring back online and which will drive incremental inventory opportunity as we move through the second half year of 2026.

The second part of your question related to overall synergy expectations, I'd say our confidence continues to grow. You heard from me just a few moments ago around, we were able to get our systems in place overnight and that enabled us to have first visibility in terms of the operating situations. And also gave our teams tools and the unified team moving forward, those tools to start driving the business. And so we have confidence both top line, bottom line, ancillary and the like from here and we expect to execute on that plan along those same lines of the road map that Joe provided back in March but have more confidence in terms of the execution on that now that we have the visibility and the teams in place.

Samir Khanal

Thank you.

Operator

Our next question comes from Michael Goldsmith with UBS. Your line is now live.

Michael Goldsmith

Good afternoon. Thanks a lot for taking my questions. One will be more near-term, one will be more kind of intermediate, long term. But maybe on the near term, can you provide an update on July and how that how that's reflected in your guidance? Where you expect kind of proceeds to revenue growth to accelerate slightly through the back half.

Tom Boyle

Yes. So I'll take the first piece of that and then the guidance question Joe can take.

We have seen improved core performance as recently highlighted on the call. As we think about move-in rents, for instance, move-in rents are growing 1.6% in the second quarter compared to a decline of 2.4% in the first quarter. Promotions were a little higher in the second quarter, but that was really a function of April and a different promotional strategy in the month of April. But if you look at June, for instance, where we had more consistent promotions year-over-year, move-in rents are up 4% and the strongest month in the quarter.

As it relates to July, trends continued - occupancy up about 30 basis points. Year-over-year, churn continues to be lower, which was a bright spot in the second quarter and move-in rents again positive, maintaining the momentum from June.

I think a follow-on question could be, so what's driving that? I think it's a combination of several things. One, steady demand from the customer base across the country; two, reducing supply as we see new competitive supply entering the market slowing down. And then the third is some of the customer experience initiatives that we're really driving. Sentiment is up. As we highlighted, churn continues to be lower, which gives us more pricing power for new customers coming in, and the team in place continues to test and learn and drive the business.

In terms of second half, the other part of your question there, Michael, was around expectations for the second half embedded in guidance. I don't know, Joe, if you want to cover that?

Joe Fisher

Yes. So for second half trajectory, I think as we've consistently messaged we did expect 2Q to be the low point for the year as we faced kind of the toughest comps from a revenue perspective. And with the increased momentum that Tom was talking about, it does start to show up a little bit in that year-over-year revenue growth number. Obviously, that's a lagged number, it takes in the prior four quarters. But we do expect to go off of that minus 60 bps in 2Q, see that start to get a little bit better in 3Q and then even turn positive in the fourth quarter.

So we have a nice trajectory there, but I think it's kind of a critical piece is the outlook beyond that and the earn-in that we're starting to build with some of this recent momentum of ECRIs continuing to contribute, existing customers staying with us, longer obviously, occupancy coming up a little bit, and that's momentum that we're seeing on new move-in rates. Hopefully, it comes through that we're excited about the momentum we're seeing here in the second half and what that holds for the future.

Michael Goldsmith

Got it. Then as my follow-up here, I think just as you said, Joe, right, it sounds like near term you've got a little momentum, things getting a little bit better, but you've done a lot of things that are setting yourself up for the intermediate term – with the NSA acquisition, PS Canada, you're acquiring more lease-up, L.A. gets better, you've got development. Is really the Public Storage story now that like things are getting a little bit better in the near term, but you're setting yourselves up for a better 2027 and a big 2028 or some combination of the out years where all of this is going to kind of come together and drive more powerful growth?

Tom Boyle

Yes, Michael, I think you've covered that actually pretty well. We are building—we're putting the building blocks in place and we have more of them in place now than we have in the past. We'll continue to do that, and we are encouraged by the core trends we're seeing in the business as well.

Michael Goldsmith

Got it. Thank you very much. Good luck in the back half.

Tom Boyle

Thanks, Mike.

Operator

Our next question comes from Nicholas Yulico with Scotiabank. Your line is now live.

Viktor Fediv

This is Viktor Fediv on with Nick. I have a question on your move-out rate trajectory. To what extent this 3.5% year-over-year decline was being driven by mix, specifically higher in-place rent and longer tenured customers remaining in storage and therefore, representing a smaller share of move-out? Or are there also unit size or market level mix shift affecting the average rate?

Tom Boyle

Yes, I think it's a combination of a couple of things. One, what you just highlighted around longer-term tenants continuing to stay with us, which we are seeing in the portfolio and churn is down, which is helpful, no question. Then the second thing is, that is a lagging indicator of where move-in rents were as well. And so as we move higher here in move-in rents, you'd expect to see that decline start to moderate as we move forward from here, but certainly an additive component in the second quarter.

Viktor Fediv

Then as a second question, a follow-up on your NSA integration plan because historically NSA has been operating with lower churn than PSA. So as you transition the portfolio into your PS Next platform, do you expect to quickly align NSA with PSA's revenue management approach? Or are there any aspects of NSA pricing strategy that you believe is worth preserving? Particularly given differences in customer mix and the submarket characteristics.

Tom Boyle

Yes. I think there's maybe two components to that question. I think the first is certainly geographically and from a customer base standpoint, there's differences between where churn is. But I think secondly, we are excited to bring those properties into the PS Next operating platform and drive performance. We think that there's opportunity probably first and foremost, around revenue as we think about occupancy as well as rental rate opportunities as we add the properties to our portfolio, rebrand them and drive performance there. So a combination of both new customer, existing customer and new marketing opportunities all playing a part there.

Viktor Fediv

Thank you.

Operator

Our next question comes from Ronald Kamdem with Morgan Stanley. Your line is now live.

Ronald Kamdem

Great. Just taking a step back and trying to get a better sense of just top-of-the-funnel demand and some of the indicators that you guys are looking at, at this point? I think you've talked about sort of the narrative of improving demand. I was hoping you could provide more commentary on what you're seeing in the portfolio and by market, and specifically, the slope of that improvement. Thanks.

Tom Boyle

Sure. On the demand front, I would characterize demand as pretty steady as we move through this year and it certainly feels steadier this year than what we experienced last year, which is encouraging. And I think some of the use cases that we've consistently spoken about, be it existing home sales that often comes up on these calls, have been pretty consistent on a year-over-year basis, and we're seeing pretty consistent customer use from that use case, but also continued strength from customers that have ran out of space at home, which continues to be a higher proportion and a healthy proportion there. So no real things that I would highlight that are new as it relates to use cases or otherwise, but I would say steady demand.

The second component of your question is a good one to highlight, which is we have a number of markets, about half the portfolio that continues to perform really quite well. And I would characterize them as a stronger markets, and I would rattle markets off as I have in the past, like Minneapolis, Chicago, San Francisco, Boston, D.C., they're all growing 3% to 5% same-store revenue growth and seeing good trends there.

At the same time, we have sunbelt markets that continue to sequentially improve. And those markets have declined from a revenue standpoint over the last several years; we continue to see that this year. Given the really difficult comps that they had and the demand that they experienced during '21 and '22, but also the new supply that went to try to match that demand and that new supply is being absorbed and we're seeing sequential improvements in many of those markets from here.

So I'd say encouraging trends across both sets of markets as it relates to the operating fundamentals I spoke to just a few minutes ago. Then you put the L.A. component that Joe spoke to, which will be an additive component of revenue growth as we move really into 2027, which is encouraging.

Ronald Kamdem

Great. Then my second question, just going back to the acquisitions, I was just hoping—I know the acquisition team has expanded and you've talked about sort of the focus there. But if you think about just going forward, just can you give us a sense of like what you guys are doing differently than you have in the past to sort of lead to this outcome where you can increase acquisition volumes and presumably at attractive returns. Thanks.

Tom Boyle

Yes. Thanks, Ron. I think that there's a couple of things that I'd highlight, and we've highlighted in the past. One, we have significant capital resources year in and year out and that gives us an ability to be active and to compound our per share earnings growth opportunity. The second is the operating platform gives us an ability to earn more cash flow from those assets as we put them on the platform.

So we've been investing in the team as well as tools to drive more activity, more precision, shrinking deal timelines with a real micro market targeting focus which has resulted in some attractive activity year-to-date. As you highlighted, about $450 million of acquisitions year-to-date. About 70% of that is off-market and a meaningful portion of that is also lease up given the confidence we have in the operating platform, we're not shying away from that, which is additive to future earnings growth from here.

On the development side, we did increase the size of the pipeline this quarter. We continue to target micro markets around the country with the national platform and try to maintain or grow that platform while the rest of the competitive supply dynamics continue to moderate.

So a multipronged approach to capital deployment, and I've challenged the team to continue to be active and find those opportunities as we invest in the platform this year, and it's encouraging to see the results year-to-date.

Ronald Kamdem

Thank you.

Operator

Our next question comes from Salil Mehta with Green Street Advisors. Your line is now live.

Salil Mehta

Good morning and thanks for taking my questions.

I know you just briefly mentioned this, but I'd just like to quickly touch base on it again, but there was some broader commentary towards the latter half of last year, signaling that markets located in the sunbelt we're reaching an inflection point. But just looking at your disclosures here, I'm seeing Tampa down 10% on NOI and Miami at 3, Atlanta down 6, can you just walk us through what you're seeing in these markets? Why are they continuing to lag?

Tom Boyle

Yes, sure. I can maybe provide some incremental commentary on certain of that.

I think I hit the big picture around some of the tough comps and new supply—and I certainly put Tampa and that camp—also had a benefit several years ago from some storm activity, which led to increased customer demand that we're now have been lapping.

But I think big picture sequentially we've seen improvement in most of the sunbelt markets—maybe not in Tampa. And I think that's been driven really over the last 12 months or so, and we expect to continue, but revenues continue to decline. So while there is improvement, it continues to be uneven month-over-month but the direction is clear.

As we look at those markets, some of which you highlighted, but I would put some of the Texas markets in that camp, Orlando, Atlanta, Charlotte, for instance, all working through pretty similar characteristics, all seeing sequential improvement in the operating metrics, but we're not expecting those to improve dramatically overnight. That absorption is taking place. As we move through the year, we're still expecting, as we finish this year, that those markets are still in negative territory as we finish '26 and head into '27, but the direction is clear and the sequential improvement is occurring.

Salil Mehta

Great. Thanks for the color. This is another follow-up. You guys achieved a positive move- in rate growth around 1.6%. But can you perhaps highlight if this has led to any changes in terms of your ECRI program?

Tom Boyle

Yes, it's a good question. I think on the ECRI program specifically, pretty consistent strategies year-over-year. As move-in rents do move higher, that reduces the replacement cost component of that modeling and optimization which should lead to stronger ECRI contribution over time. Obviously, 1.6% growth in the quarter is modest growth, but as we see that move higher over time, only additive to the ECRI program.

Salil Mehta

Great. That's it for me.

Operator

Our next question comes from Juan Sanabria with BMO Capital Markets. Your line is now live.

Juan Sanabria

Hi. Thanks for the time. Just curious on the acceleration that's assumed in same-store revenue in the back half and turning positive in the fourth quarter. Would that hold that assumption or that guidance were it not for the sunsetting of the L.A. rent restrictions coming off? I.e., if we strip out L.A., would you still expect positive same-store revenue in the fourth quarter?

Joe Fisher

Yes. Hey Juan, it's Joe. It would be pretty close. We do think L.A. with the acceleration there and the easier comps that we now face and with the revenue momentum that we're seeing right now post July 1, L.A. will get to a positive year-over-year revenue growth potentially in the fourth quarter. So it is helpful to the portfolio. So it'd be close, but we do have a big component of the portfolio in those Midwestern and coastal markets. It's performing very well and continues to put up 2%, 3% and 4% revenue growth. So you have that.

And then we do have a shift in momentum, as Tom talked about in the sunbelt, where second derivatives getting better. You're probably not going to see the sunbelt a whole get back to positive in the fourth quarter, but it is definitely moving in the right direction relative to where it's at today.

So, L.A. is additive to that, but it's not the sole driver of it.

Juan Sanabria

Great. Then just on the churn point, that coming down and the focus on customer service, with all the analytics and data you guys are now running and taking advantage of, I guess what would you highlight as kind of the key things in the customer's mind that is improving that length of stay or limiting churn? What has been most effective as you've been more focused on that customer-centric approach?

Tom Boyle

Yes. I think there's a few things. One, from a strategic standpoint, that's been a big focus area really for all the teams across the Company as we're in a more competitive landscape today, and frankly, customers expect more.

If I had to pick one thing as you're highlighting that would be an important driver of that, I would say it's listening to our customers. We put in new survey programs. We used to get 2,000 to 3,000 surveys a month; we're getting more like 90,000 surveys a month now, and that's clearly going to grow with the NSA portfolio that's coming on. So listening to our customers and getting more of that feedback enables the team to resolve those concerns and provide a better customer experience for the customers at our properties.

The focus is around a reliable customer experience, and when there are issues that come up, we can seek to resolve them faster this year than we did last year and hopefully, even more so moving forward with some of the tools that we're putting in place and the like.

So I would say that it's probably listening to our customers more, and we're seeing that benefit play out and customer sentiment scores within those surveys.

Juan Sanabria

Thank you.

Operator

Our next question comes from Ravi Vaidya with Mizuho. Your line is now live.

Ravi Vaidya

Hi there. Thank you for taking my question. Can you discuss the decision to raise equity here? You have ample leverage capacity, over $600 million in free cash flow. Why raise now? And how do you think about your various capital sources?

Joe Fisher

Hey Ravi, so we're definitely fortunate in terms of the various capital sources between the excess free cash flow that we consistently talk about, the balance sheet capacity, having the best credit rating in the space and the ability to borrow at relatively low cost. We look to ATM as just another arrow in that quiver in terms of the ability to keep that flywheel going. If you think about the costs that we're raising at combined with leverage, we're about a 5% cost of capital.

If you look at where we're deploying, we're deploying into more lease-up assets which have a yield below that and are slightly dilutive near term. We're going to grow those up to the high 6s, low 7s over time as they stabilize. As you think about that relative to a cost of equity, we're putting on the board over 100 basis points of incremental spread and, therefore, compounding that earnings per share profile.

So we thought it made sense in terms of cost. It was in moderation in terms of the sizing, but we did have an identified use in terms of the acquisition momentum as well as increased development and lending that we're seeing.

Ravi Vaidya

Got it. That's very helpful color. Just one more here. I wanted to follow up again on the move-in rates of first quarter since 3Q '22 that they've turned positive. Were there any particular markets that drove this? And maybe what are some of the markets are still seeing some difficulty of pricing power?

Tom Boyle

Yes. I wouldn't highlight one particular market. I'd see a lot of the core improvement that we're speaking to,—and you've heard it from both myself and Joe today—has been more broad-based and encouraging. But in terms of stronger markets on move-in rate growth, I would highlight Los Angeles, San Francisco, both healthy; Philadelphia, Boston, Minneapolis, a lot of the markets that we highlighted that we characterized in that coastal and Midwest characterization, really leading the way with healthy move-in rate growth. Then some of the sunbelt markets that continue to be in negative place year-over-year as they work through some of the new supply that's been delivered there.

So while that absorption is taking place, that does put some pressure on move-in rents, and while the sequential improvement is there, in many cases they're still down year-over-year at this point.

Juan Sanabria

Thank you. Appreciate it.

Operator

Our next question comes from Brad Heffern with RBC Capital Markets. Your line is now live.

Brad Heffern

Hey everybody. Thanks for the questions. On L.A., I'm wondering how you think about the extent to which the lack of ECRIs distorted the market. Presumably tenants stayed longer and occupancy was higher because of the lack of ECRI. So do you think we'll see a period of elevated turnover that potentially offset some of the benefit of the ECRIs coming back, or is that not meaningful in your mind?

Tom Boyle

I would say on net, being able to charge market rents is a positive to overall revenue. But you are going to see a little bit of a shift as you'd anticipate with a little bit more rate growth and a little bit less occupancy growth. And so the occupancy remains very healthy in L.A.; we're not expecting a material shift there. But as we've seen, when prior state of emergencies have rolled off, you're likely to see a little bit of an occupancy give up and the flip side is you'll get more rate and a more balanced growth profile between rate and occupancy.

Brad Heffern

Okay. Got it. Thanks for that.

Then, Joe, on the guidance, you called out the $0.02 of benefit from the deals. I think that's really attributable to PS Canada. So I was just wondering, is there any net impact on the guide specifically from NSA being added? I know the original guidance was for it to be neutral, but just checking if anything has changed there.

Joe Fisher

Yes. Hey Brad, no change on that front. So the original communications in terms of core performance related to both NSA and PS Canada was that they would be neutral to the earnings profile this year. Obviously, we expect a pretty material lift in go-forward years and, as Tom talked about, conviction on that front has only increased with the opportunities that we see in front of us.

The only adjustment we made relative to the two transactions is that $0.02 for the back half of the year. That's really because we have financed NSA and under NSA in USD financing. And with the investment in PS Canada, we have $900 million of OP units that we can put in that investment hedge against to hedge against that equity exposure. And so we're going to be able to swap upon close some of that NSA debt into Canadian financing at a 100 basis points better rate. So that will pick up on a run rate basis, maybe four or five pennies going forward.

At this time, that's the only change related to two transactions given we're only one week into NSA and still haven't closed PS Canada.

Brad Heffern

Okay. Thanks.

Operator

Our next question comes from Michael Griffin with Evercore. Your line is now live.

Michael Griffin

Great. Thanks. Maybe just on the same-store expense guide for the year, I think the revised implies about 3.5% growth in the back half of the year. Joe, I know you walked through some of the puts and takes with some of the line items, particularly as it relates to property taxes in the second quarter. But anything else we should just be cognizant of? Are there rollout expenses associated with PS Next that might flow through and pressure expenses in the near term? How should we think about that?

Joe Fisher

A couple of things to highlight there. Number one, just from a broader context, going up to 2.5% expense growth still sub-inflationary is a really good outcome for the team, especially after coming off 2% last year. So overall, a couple of really good years of expense containment as you've seen out of the team in the past.

In terms of the increase that we're seeing of plus or minus 35 basis points there on the guidance, that's really driven by both the labor side within direct expenses as well as the labor piece and indirect, all of which is related to incentive compensation. If you recall, back in February, when we rolled out PS4.0, there was a big focus on alignment throughout the organization and putting additional incentives on the table down to our property managers all the way up through the organization. So 2Q reflected some of that with increased cost. So we're slowing that through the rest of the year. That's really the only driver that we're seeing differently.

Then I'll say just on cadence, 3Q is probably our toughest expense comp for the year. So in terms of that mid-3s back half number, you'll see 3Q come in a little bit higher and then revert lower in the fourth quarter.

Michael Griffin

Thanks, Joe. That's certainly some helpful context. Then maybe just one more on the acquisition opportunity set. Obviously, you've got the PS Canada deal to close in the third quarter this year. I know you guys have looked at other markets internationally. I think Australia is one that comes to mind. How do you view expansion and acquisition opportunities internationally versus domestically? It feels like Canada has a more favorable supply picture. I'd imagine you'd want to bolster that deal, close it before you continue to expand there. Can you talk a little bit about the opportunity set between both international and domestic acquisition opportunities.

Tom Boyle

Sure. I think that there's a few things I'd highlight there. One is the U.S. market continues to be the deepest pool of opportunity and the deepest storage market, no question, globally, and it's one where we have a tremendous operating platform in place and so that's going to always be really the bread and butter of where our team spends its time from a capital allocation standpoint.

That said, there are some really interesting international markets. You highlighted Australia. Obviously, we have acted on Canada. And we view those markets as both attractive from a fundamental standpoint as you highlight, but also as expanding the pie for capital allocation going forward. So we're adding Toronto and Vancouver and other Canadian markets to markets that we can think about acquiring and building in over time.

You noted Australia. We feel similarly around Sydney and Melbourne and Brisbane down in Australia and we're consistently looking for platforms in those markets where we can both buy an existing portfolio and look to drive operating performance as well as expanding capital allocation opportunities. Canada certainly fits that bill, and we're excited about adding that platform to the business here as we move through the second half.

Michael Griffin

Thanks. That’s it for me. Thanks for the time.

Joe Fisher

Thanks, Michael.

Operator

Our next question comes from Caitlin Burrows with Goldman Sachs. Your line is now live.

Caitlin Burrows

Hi there. Just one for me. I guess you mentioned a few times that demand has been steady, but you also mentioned earlier some confidence in demand growth as Millennials and Gen Z age into the core range for storage use. Could you talk about this a bit more and when we could see demand actually pick up? I guess, have you started to see it from this group and do you have any stats on maybe average age of your customer?

Tom Boyle

Yes, sure. That's a great question.

As I noted earlier—and you just repeated it—we are encouraged by what we're seeing. Millennials are our largest cohort of customers today and they're using storage with a higher propensity than prior generations of the same age, and Gen Z is following suit. So we're really encouraged by that activity as they age into our core usage years. That's a tailwind that we view from a demand standpoint over the next 10 to 15 years and one that we're excited about from a demand profile across the country. It also informs how we think about our customer experience and how we're leaning into digital and AI focused customer experience in addition to a strong on-store experience.

In terms of when we're going to see it, I think we're seeing it today and you look at some of the fundamentals, I highlighted that certainly, over the last several years, we've been working through stabilization. I think that I would consider where we are now towards the latter end of stabilization and into recovery as we see these leading operating metrics turn more positive. It's been an uneven recovery, but the direction is certainly clear. If you look at occupancy moving forward, higher year-over-year, move-in rents higher year-over-year, and as Joe mentioned, that's the first time we've seen both of those in positive territories in 2021. So that's encouraging and I think demonstrates the fact that we are seeing steady demand as we continue to move forward here through 2026.

Caitlin Burrows

Thank you.

Operator

Our next question is from Brendan Lynch with Barclays. Your line is now live.

Brendan Lynch

Great. Thanks for taking my questions. Just a few questions on your past commentary from the call today. Tom, you mentioned that you've got participation in your surveys up to 90,000 from just a few thousand a couple of years ago. I'd imagine this is really valuable data, so curious how you're incentivizing that participation to get such a high rate of responses?

Tom Boyle

Yes. Actually, the answer is we're not incentivizing that on the ground. We get a lot of customer visits kind of over time at the property and a portion of those customers are happy to share their points of view. I think the shift is we enabled more opportunities for them to share that feedback and we're listening and responding to that, and that's happening at the property manager, the district manager level with more of a customer focus.

The reaction from the customer base has been strong, and you can see that in some of the numbers that we highlighted today. But I think it's more of a different approach than it is a change in incentives.

Brendan Lynch

Okay. Very good. Then, Joe, you mentioned savings in payroll from your machine learning-based staffing models. What does that entail? What changed? And what is the magnitude of the difference?

Joe Fisher

Yes. So that's been in process now for three or four years in terms of really studying the dynamics at each and every property, understanding the customer, the traffic flows, the attributes of each asset, the risk factors, the seasonality, student components, etc., and really knowing exactly what do we need to do from a staffing perspective. If you look start to finish and finish is still out there in the future but start to today, we're down over 30-plus percent from an hours perspective. At the same time, we're giving individuals in the field, a more fulfilling job and increasing pay associated with that role. So it's not just about cutting the cost. It's just simply cutting hours and giving better responsibilities and capabilities to the field to manage those properties.

In terms of this year, you can see we're down about 1.8%, in the quarter, 1.2% for the year. We would have actually expected that to be down a little bit more, so the offset then comes in from what I mentioned earlier in terms of putting new incentives in place. But we do expect there will be more to come in the future as we continue to find ways to be more efficient, and we'll continue to deliver great customer service to our customers.

Brendan Lynch

Great. Thank you.

Operator

Our next question comes from Todd Thomas with KeyBanc Capital Markets. Your line is now live.

Todd Thomas

Hi. Thanks. I wanted to ask about the increase in deal flow that you're seeing for some recently developed assets that might have lower initial yields. How big of an opportunity do you see this being for the company, just in light of the amount of development volume across the industry over the last few years? Is there a threshold on how much lease-up or development product the company is willing to add? I guess, how are you balancing the near-term dilution versus the longer-term growth opportunity in those assets?

Tom Boyle

Yes, Todd, it's Tom. I think as we look at the opportunity set, it is between both assets that have been in place and are highly occupied as well as lease-up assets. As I noted earlier, we're looking at targeting those micro markets where we want to add product, where we think demand and supply dynamics are going to be favorable, and we'll be strengthening the portfolio. In many instances, those can be lease-up opportunities and those lease-up opportunities are ones that, if the team identifies them and we use some of the new data tools and the like and we find them attractive, we have a lot of confidence in terms of our operating ability to drive lease-up and operating performance from those assets once they're on our platform. So we don't shy away from that operational execution that's required from those assets.

You're highlighting the near-term dilution associated with it, but the flip side is, Joe just mentioned higher returns over time. And so with that confidence in lease-up at the micro market level, we're very comfortable with that near-term dilution for longer-term earnings growth.

That's a component of what we've done year-to-date, and we'll look to continue to be active on that over time alongside more highly occupied properties that are a good fit for the portfolio.

Todd Thomas

Okay. That's helpful. Then, Tom, you talked about the effort to grow both the lending platform and third-party management. Can you speak to the opportunity there to accelerate those parts of the business in the future? What are the long-term goals? Should we expect a more rapid acceleration in those businesses in the near term, or expect sort of a more steady growth or more gradual ramp in those segments of the business?

Joe Fisher

Hey Todd, it's Joe. So while we have not put out public goals in terms of what we are trying to gain in terms of size of development books, size of lending book or size of third-party management, your comment that we do see accelerated growth coming out of all three of those in the near term is 100% factual. We think we have the ability to add value in all three of those avenues, similar to what we've done historically with the acquisition pipeline.

Lending-wise, we saw a little bit of incremental lending take place there in the second quarter. We expect that to continue to probably accelerate through the rest of the year. Again, that has some different attributes there that provide value. There's obviously the rate and return upfront. But as I mentioned earlier, the ability to put our third-party management platform on there which is a benefit to ourselves as well as that owner and obviously increases the security of that lending that we do.

We have access to tenant insurance through that lending platform. And then we get access to some of the assets where we bought, I believe, over 30 assets out of that platform over time.

Lending provides a whole slew of different opportunities. The same thing to say about third-party management; we're growing off a relatively low base, but the momentum in that team is fantastic. We've added a number of resources there from a business development and client service perspective. I think we're really seeing the market react to the benefits of partnering with public storage and what we can do for assets on our platform.

We see some good momentum, which we would expect that to drive additional profitability in the future as well.

Todd Thomas

Okay. Thank you.

Operator

Our next question comes from Eric Wolfe with Citi. Your line is now live.

Joe Fisher

Eric, you might be on mute.

Eric Wolfe

Hey there. I think Nick was going to ask the question, but I'll just jump in. I guess for NSA, I understand that you're guiding towards sort of core FFO neutral for the rest of the year. But I guess, are there specific like operating or financial goals that you're trying to achieve over the next one or two quarters? I'm just trying to understand if there are certain things that we should look out for going into the back half of the year to measure success, whether that's increased occupancy, margin moving up, expenses moving lower? Just some specifics around what would success look like for the back half of the year?

Tom Boyle

Yes. I think there's a few things. The first thing I would say is we were focused on a solid start to the integration and certainly, you're hearing that from us today, and unifying the teams as we operate from here.

Then Joe gave you a pretty good road map as we look at '27 and into '28, when we announced this in March, and it's a combination of, yes, expenses probably you see earlier, but then you start to see tenant insurance show up, and then revenue is probably the longest tail, but the biggest opportunity as we move from here.

We are going to take really a micro market focused strategy as it relates to the pricing opportunity from here, so you're not going to see us necessarily focus on occupancy over rate from a national standpoint, but that will be more driven by what we're seeing in the local market as we view it as a pretty balanced opportunity between taking a portfolio that's circa 85% occupied today and moving higher with occupancy, but also wanting to capture that rate piece. Depending on the submarket that it's in, the opportunities are varied there.

For instance, there's lots of great NSA properties that were that we're looking at that have occupancy well over 90% today, so the opportunity there is around how do we drive rate and look at expense opportunities over time at that property to drive NOI.

The flip side is there are some properties that have lower occupancy and so clearly, we need to lift those higher, but it will be more on a property-by-property micro-market basis, not an overarching strategy.

I think maybe the last thing I'd highlight here is something we highlighted at the call in March, which is the portfolio is really complementary to ours. There's the ability to add new geographies and new submarkets into what we're operating and that gives us more degrees of freedom as we think about operating in those new marketplaces with those properties.

Eric Wolfe

Thank you.

Operator

Our next question is from Mike Mueller with JPMorgan. Your line is now live.

Michael Mueller

Hi. I guess going back to the move-in rates being up 1.6% in 2Q and increasing to 4% in June. Was more of that improvement into June driven by kind of what's going on this year as opposed to what was happening with the comp last year?

Tom Boyle

Yes. The comps are certainly a component of this as you look at any given year, but I wouldn't highlight anything particularly in June. As I noted, we used a pretty similar pricing and promotion strategy in this June compared to last June, so nothing comp related that I would highlight. Obviously, I'm highlighting that it's continued into July as well. But it doesn't mean that every month is going to be a consistent trend. One of the things we've seen over the last several years is that you do have some better months and some softer months. That plays into comps as well as current year performance. I think the confidence that you're hearing from us is that the overall direction is headed there, but it doesn't mean that every month is going to be a step change move consistently.

Michael Mueller

Got it. Okay. I know you talked about acquisitions quite a bit, but are you seeing any significant opportunities in Canada already?

Tom Boyle

We're just getting to a place where we're going to be putting the closing touches here on that portfolio, and we're excited to work with the team to do that. As we do that we'll certainly look at capital allocation opportunities alongside it, but the first focus is the integration efforts and building the team there to drive that performance over time. But you'll start to hear from us around international opportunities in Canada—I'm certain of that—over the next several years.

Operator

We have reached the end of the question-and-answer session. I would now like to turn the call back over to Tom Boyle for closing comments.

Tom Boyle

Great. Thanks, Rob, and thanks everybody for joining today.

Michael characterized it pretty well. We've got a combination of core leading indicators operationally that we're encouraged by as we move through '26, and we're putting the building blocks in place and have more of them in place today than we have in the past. We're looking forward to providing updates to this group as that execution takes place. Thanks very much for joining.

Operator

This concludes today's conference. You may disconnect your lines at this time, and we thank you for your participation