CubeSmart
Form 10-Q
April 27, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

December 30, 2016
(Mark one)

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

For the quarterly period ended March 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:
001-32324 (CubeSmart)
000-54462 (CubeSmart, L.P.)

CUBESMART

CUBESMART, L.P.

(Exact Name of Registrant as Specified in its Charter)

Maryland (CubeSmart) Delaware (CubeSmart, L.P.) (State or Other Jurisdiction of Incorporation or Organization)	20-1024732 34-1837021 (I.R.S. Employer Identification No.)

5 Old Lancaster Road

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

(610) 535-5000

(Registrant's Telephone Number, Including Area Code)

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

CubeSmart	Yes	No
CubeSmart, L.P.	Yes	No

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

CubeSmart	Yes	No
CubeSmart, L.P.	Yes	No

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

CubeSmart:
Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting companyEmerging growth company

CubeSmart, L.P.:
Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting companyEmerging growth company

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

CubeSmart
CubeSmart, L.P.

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

CubeSmart	Yes	No
CubeSmart, L.P.	Yes	No

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

Class	Outstanding at April 25, 2018
Common shares, $0.01 par value per share, of CubeSmart	182,280,113

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended March 31, 2018 of CubeSmart (the "Parent Company" or "CubeSmart") and CubeSmart, L.P. (the "Operating Partnership"). The Parent Company is a Maryland real estate investment trust, or REIT, that owns its assets and conducts its operations through the Operating Partnership, a Delaware limited partnership, and subsidiaries of the Operating Partnership. The Parent Company, the Operating Partnership and their consolidated subsidiaries are collectively referred to in this report as the "Company". In addition, terms such as "we", "us", or "our" used in this report may refer to the Company, the Parent Company or the Operating Partnership.

The Parent Company is the sole general partner of the Operating Partnership and, as of March 31, 2018, owned a 98.9% interest in the Operating Partnership. The remaining 1.1% interest consists of common units of limited partnership interest issued by the Operating Partnership to third parties in exchange for contributions of properties to the Operating Partnership. As the sole general partner of the Operating Partnership, the Parent Company has full and complete authority over the Operating Partnership's day-to-day operations and management.

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

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

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

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

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

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

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

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

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Filing Format

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

Forward-Looking Statements

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

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in or contemplated by this Report. Any forward-looking statements should be considered in light of the risks and uncertainties referred to in Item 1A. “Risk Factors” in the Parent Company’s and the Operating Partnership’s combined Annual Report on Form 10-K for the year ended December 31, 2017 and in our other filings with the Securities and Exchange Commission (“SEC”). These risks include, but are not limited to, the following:

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

- increases in interest rates and operating costs;
- counterparty non-performance related to the use of derivative financial instruments;
- our ability to maintain our Parent Company's qualification as a REIT for federal income tax purposes;
- acquisition and development risks;
- increases in taxes, fees, and assessments from state and local jurisdictions;
- the failure of our joint venture partners to fulfill their obligations to us or their pursuit of actions that are inconsistent with our objectives;
- reductions in asset valuations and related impairment charges;
- security breaches or a failure of our networks, systems or technology, which could adversely impact our business, customer and employee relationships;
- changes in real estate and zoning laws or regulations;
- risks related to natural disasters;

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- potential environmental and other liabilities;

- other factors affecting the real estate industry generally or the self-storage industry in particular; and

- other risks identified in the Parent Company's and the Operating Partnership's Annual Report on Form 10-K for the year ended December 31, 2017 and, from time to time, in other reports that we file with the SEC or in other documents that we publicly disseminate.

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CUBESMART AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	March 31, 2018 (unaudited)	December 31, 2017
ASSETS		
Storage properties	$ 4,201,909	$ 4,161,715
Less: Accumulated depreciation	(785,010)	(752,925)
Storage properties, net (including VIE assets of $268,343 and $291,496, respectively)	3,416,899	3,408,790
Cash and cash equivalents	6,036	5,268
Restricted cash	2,946	3,890
Loan procurement costs, net of amortization	1,463	1,592
Investment in real estate ventures, at equity	99,085	91,206
Other assets, net	39,105	34,590
Total assets	$ 3,565,534	$ 3,545,336
LIABILITIES AND EQUITY		
Unsecured senior notes, net	$ 1,142,726	$ 1,142,460
Revolving credit facility	136,400	81,700
Unsecured term loans, net	299,497	299,396
Mortgage loans and notes payable, net	110,635	111,434
Accounts payable, accrued expenses and other liabilities	122,703	143,344
Distributions payable	55,382	55,297
Deferred revenue	22,671	21,529
Security deposits	486	486
Total liabilities	1,890,500	1,855,646
Noncontrolling interests in the Operating Partnership	57,705	54,320
Commitments and contingencies		
Equity		
Common shares $.01 par value, 400,000,000 shares authorized, 182,279,975 and 182,215,735 shares issued and outstanding at March 31, 2018 and	1,823	1,822

December 31, 2017, respectively		
Additional paid-in capital	2,356,759	2,356,620
Accumulated other comprehensive income	279	3
Accumulated deficit	(748,499)	(729,311)
Total CubeSmart shareholders' equity	1,610,362	1,629,134
Noncontrolling interests in subsidiaries	6,967	6,236
Total equity	1,617,329	1,635,370
Total liabilities and equity	$ 3,565,534	$ 3,545,336

See accompanying notes to the unaudited consolidated financial statements.

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CUBESMART AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Three Months Ended March 31, 2018	2017
REVENUES		
Rental income	$ 124,161	$ 117,057
Other property related income	14,247	12,983
Property management fee income	4,469	2,997
Total revenues	142,877	133,037
OPERATING EXPENSES		
Property operating expenses	48,754	44,874
Depreciation and amortization	34,966	38,119
General and administrative	8,744	9,494
Acquisition related costs	—	159
Total operating expenses	92,464	92,646
OPERATING INCOME	50,413	40,391
OTHER (EXPENSE) INCOME		
Interest:		
Interest expense on loans	(15,155)	(13,599)
Loan procurement amortization expense	(579)	(706)
Equity in losses of real estate ventures	(184)	(772)
Other	304	(108)
Total other expense	(15,614)	(15,185)
NET INCOME	34,799	25,206
NET (INCOME) LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS		
Noncontrolling interests in the Operating Partnership	(383)	(277)
Noncontrolling interest in subsidiaries	7	57
NET INCOME ATTRIBUTABLE TO THE COMPANY’S COMMON SHAREHOLDERS	$ 34,423	$ 24,986
Basic earnings per share attributable to common shareholders	$ 0.19	$ 0.14
Diluted earnings per share attributable to common shareholders	$ 0.19	$ 0.14
Weighted-average basic shares outstanding	182,274	180,165
Weighted-average diluted shares outstanding	183,222	181,265

See accompanying notes to the unaudited consolidated financial statements.

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CUBESMART AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(unaudited)

	Three Months Ended March 31,	
	2018	2017
NET INCOME	$ 34,799	$ 25,206
Other comprehensive income:		
Unrealized gains on interest rate swaps	60	141
Reclassification of realized losses on interest rate swaps	219	695
OTHER COMPREHENSIVE INCOME	279	836
COMPREHENSIVE INCOME	35,078	26,042
Comprehensive income attributable to noncontrolling interests in the Operating Partnership	(383)	(277)
Comprehensive loss attributable to noncontrolling interest in subsidiaries	7	57
COMPREHENSIVE INCOME ATTRIBUTABLE TO THE COMPANY	$ 34,702	$ 25,822

See accompanying notes to the unaudited consolidated financial statements.

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CUBESMART AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY

(in thousands)

(unaudited)

	Common Shares Number	Common Shares Amount	Additional Paid in Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Shareholders' Equity	Noncor Interest Subsidi
Balance at December 31, 2017	182,216	$ 1,822	$ 2,356,620	$ 3	$ (729,311)	$ 1,629,134	$ 6,23
Contributions from noncontrolling interests in subsidiaries							738
Issuance of common shares			(44)			(44)	
Issuance of restricted shares	64	1				1	
Issuance of OP units							
Exercise of stock options			2			2	
Amortization of restricted shares			(242)			(242)	
Share compensation expense			423			423	
Adjustment for noncontrolling interests in the Operating Partnership					1,169	1,169	
Net income (loss)					34,423	34,423	(7)
Other comprehensive income, net				276		276	
Common share distributions					(54,780)	(54,780)	
Balance at March 31, 2018	182,280	$ 1,823	$ 2,356,759	$ 279	$ (748,499)	$ 1,610,362	$ 6,96

	Common Shares Number	Common Shares Amount	Additional Paid in Capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Total Shareholders' Equity	Noncor Interest Subsidi
Balance at December 31, 2016	180,083	$ 1,801	$ 2,314,014	$ (1,850)	$ (658,583)	$ 1,655,382	$ 5,85
Contributions from noncontrolling interests in subsidiaries							410
Issuance of common shares			(73)			(73)	
Issuance of restricted shares	88	1				1	
Conversion from units to shares	1		25			25	
Exercise of stock options	2		30			30	
Amortization of restricted shares			(1,021)			(1,021)	
Share compensation expense			375			375	
Adjustment for noncontrolling interest in the Operating Partnership					1,385	1,385	
Net income (loss)					24,986	24,986	(57
Other comprehensive income, net				827		827	
Common share distributions					(48,707)	(48,707)	
Balance at March 31, 2017	180,174	$ 1,802	$ 2,313,350	$ (1,023)	$ (680,919)	$ 1,633,210	$ 6,2

See accompanying notes to the unaudited consolidated financial statements.

CUBESMART AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three Months Ended March 31, 2018	2017
Operating Activities		
Net income	$ 34,799	$ 25,206
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	35,545	38,825
Equity in losses of real estate ventures	184	772
Equity compensation expense	1,592	1,355
Accretion of fair market value adjustment of debt	(183)	(129)
Changes in other operating accounts:		
Other assets	(1,352)	(1,626)
Accounts payable and accrued expenses	(5,558)	2,595
Other liabilities	1,105	909
Net cash provided by operating activities	$ 66,132	$ 67,907
Investing Activities		
Acquisitions of storage properties	(4,034)	(600)
Additions and improvements to storage properties	(5,394)	(6,671)
Development costs	(39,663)	(15,856)
Investment in real estate ventures, at equity	(10,320)	(116)
Cash distributed from real estate ventures	2,257	2,090
Net cash used in investing activities	$ (57,154)	$ (21,153)
Financing Activities		
Proceeds from:		
Revolving credit facility	156,700	147,000
Principal payments on:		
Revolving credit facility	(102,000)	(137,300)
Mortgage loans and notes payable	(7,831)	(6,811)
Proceeds from issuance of common shares, net	(43)	(72)
Cash paid upon vesting of restricted shares	(1,411)	(2,001)
Exercise of stock options	2	30
Contributions from noncontrolling interests in subsidiaries	738	410
Distributions paid to common shareholders	(54,746)	(48,690)
Distributions paid to noncontrolling interests in Operating Partnership	(563)	(549)
Net cash used in financing activities	$ (9,154)	$ (47,983)
Change in cash, cash equivalents, and restricted cash	(176)	(1,229)
Cash, cash equivalents, and restricted cash at beginning of period	9,158	10,866
Cash, cash equivalents, and restricted cash at end of period	$ 8,982	$ 9,637

Supplemental Cash Flow and Noncash Information		
Cash paid for interest, net of interest capitalized	$ 15,298	$ 15,878
Supplemental disclosure of noncash activities:		
Accretion of liability	$ 7,266	$ 8,034
Derivative valuation adjustment	$ 279	$ 836
Mortgage loan assumptions	$ 7,166	$ —
Issuance of OP units	$ 4,782	$ —

See accompanying notes to the unaudited consolidated financial statements.

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CUBESMART, L.P. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands)

	March 31, 2018 (unaudited)	December 31, 2017
ASSETS		
Storage properties	$ 4,201,909	$ 4,161,715
Less: Accumulated depreciation	(785,010)	(752,925)
Storage properties, net (including VIE assets of $268,343 and $291,496, respectively)	3,416,899	3,408,790
Cash and cash equivalents	6,036	5,268
Restricted cash	2,946	3,890
Loan procurement costs, net of amortization	1,463	1,592
Investment in real estate ventures, at equity	99,085	91,206
Other assets, net	39,105	34,590
Total assets	$ 3,565,534	$ 3,545,336
LIABILITIES AND CAPITAL		
Unsecured senior notes, net	$ 1,142,726	$ 1,142,460
Revolving credit facility	136,400	81,700
Unsecured term loans, net	299,497	299,396
Mortgage loans and notes payable, net	110,635	111,434
Accounts payable, accrued expenses and other liabilities	122,703	143,344
Distributions payable	55,382	55,297
Deferred revenue	22,671	21,529
Security deposits	486	486
Total liabilities	1,890,500	1,855,646
Limited Partnership interests of third parties	57,705	54,320
Commitments and contingencies		
Capital		
Operating Partner	1,610,083	1,629,131
Accumulated other comprehensive income	279	3
Total CubeSmart, L.P. capital	1,610,362	1,629,134
Noncontrolling interests in subsidiaries	6,967	6,236
Total capital	1,617,329	1,635,370
Total liabilities and capital	$ 3,565,534	$ 3,545,336

See accompanying notes to the unaudited consolidated financial statements.

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CUBESMART, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per common unit data)

(unaudited)

	Three Months Ended March 31, 2018	2017
REVENUES		
Rental income	$ 124,161	$ 117,057
Other property related income	14,247	12,983
Property management fee income	4,469	2,997
Total revenues	142,877	133,037
OPERATING EXPENSES		
Property operating expenses	48,754	44,874
Depreciation and amortization	34,966	38,119
General and administrative	8,744	9,494
Acquisition related costs	—	159
Total operating expenses	92,464	92,646
OPERATING INCOME	50,413	40,391
OTHER (EXPENSE) INCOME		
Interest:		
Interest expense on loans	(15,155)	(13,599)
Loan procurement amortization expense	(579)	(706)
Equity in losses of real estate ventures	(184)	(772)
Other	304	(108)
Total other expense	(15,614)	(15,185)
NET INCOME	34,799	25,206
NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS		
Noncontrolling interest in subsidiaries	7	57
NET INCOME ATTRIBUTABLE TO CUBESMART L.P.	34,806	25,263
Operating Partnership interests of third parties	(383)	(277)
NET INCOME ATTRIBUTABLE TO COMMON UNITHOLDERS	$ 34,423	$ 24,986
Basic earnings per unit attributable to common unitholders	$ 0.19	$ 0.14
Diluted earnings per unit attributable to common unitholders	$ 0.19	$ 0.14
Weighted-average basic units outstanding	182,274	180,165
Weighted-average diluted units outstanding	183,222	181,265

See accompanying notes to the unaudited consolidated financial statements.

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CUBESMART, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(unaudited)

	Three Months Ended March 31,	
	2018	2017
NET INCOME	$ 34,799	$ 25,206
Other comprehensive income:		
Unrealized gains on interest rate swaps	60	141
Reclassification of realized losses on interest rate swaps	219	695
OTHER COMPREHENSIVE INCOME	279	836
COMPREHENSIVE INCOME	35,078	26,042
Comprehensive income attributable to Operating Partnership interests of third parties	(383)	(277)
Comprehensive loss attributable to noncontrolling interest in subsidiaries	7	57
COMPREHENSIVE INCOME ATTRIBUTABLE TO OPERATING PARTNER	$ 34,702	$ 25,822

See accompanying notes to the unaudited consolidated financial statements.

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CUBESMART, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CAPITAL

(in thousands)

(unaudited)

	Number of Common OP Units Outstanding	Operating Partner	Accumulated Other Comprehensive Income	Total CubeSmart L.P. Capital	Noncontrolling Interests in Subsidiaries	Total Capital	Operating Partnership Interest of Third Part
Balance at December 31, 2017	182,216	$ 1,629,131	$ 3	$ 1,629,134	$ 6,236	$ 1,635,370	$ 54,320
Contributions from noncontrolling interests in subsidiaries					738	738	
Issuance of common OP units		(44)		(44)		(44)	
Issuance of restricted OP units	64	1		1		1	
Issuance of OP units							4,782
Exercise of OP unit options		2		2		2	
Amortization of restricted OP units		(242)		(242)		(242)	
OP unit compensation expense		423		423		423	
Adjustment for Limited Partnership interests of third parties		1,169		1,169		1,169	(1,169)
Net income (loss)		34,423		34,423	(7)	34,416	383
Other comprehensive			276	276		276	3

income, net							
Common OP unit distributions		(54,780)		(54,780)		(54,780)	(614)
Balance at March 31, 2018	182,280	$ 1,610,083	$ 279	$ 1,610,362	$ 6,967	$ 1,617,329	$ 57,705

	Number of Common OP Units Outstanding	Operating Partner	Accumulated Other Comprehensive (Loss) Income	Total CubeSmart L.P. Capital	Noncontrolling Interests in Subsidiaries	Total Capital	Operating Partnership Interest of Third Part
Balance at December 31, 2016	180,083	$ 1,657,232	$ (1,850)	$ 1,655,382	$ 5,855	$ 1,661,237	$ 54,407
Contributions from noncontrolling interests in subsidiaries					410	410	
Issuance of common OP units		(73)		(73)		(73)	
Issuance of restricted OP units	88	1		1		1	
Conversion from units to shares	1	25		25		25	(25)
Exercise of OP unit options	2	30		30		30	
Amortization of restricted OP units		(1,021)		(1,021)		(1,021)	
OP unit compensation expense		375		375		375	
Adjustment for Operating Partnership interests of third parties		1,385		1,385		1,385	(1,385)
Net income (loss)		24,986		24,986	(57)	24,929	277
Other comprehensive income, net			827	827		827	9
Common OP unit distributions		(48,707)		(48,707)		(48,707)	(548)
	180,174	$ 1,634,233	$ (1,023)	$ 1,633,210	$ 6,208	$ 1,639,418	$ 52,735

Balance at
March 31, 2017

See accompanying notes to the unaudited consolidated financial statements.

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CUBESMART, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Three Months Ended March 31,	
	2018	2017
Operating Activities		
Net income	$ 34,799	$ 25,206
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	35,545	38,825
Equity in losses of real estate ventures	184	772
Equity compensation expense	1,592	1,355
Accretion of fair market value adjustment of debt	(183)	(129)
Changes in other operating accounts:		
Other assets	(1,352)	(1,626)
Accounts payable and accrued expenses	(5,558)	2,595
Other liabilities	1,105	909
Net cash provided by operating activities	$ 66,132	$ 67,907
Investing Activities		
Acquisitions of storage properties	(4,034)	(600)
Additions and improvements to storage properties	(5,394)	(6,671)
Development costs	(39,663)	(15,856)
Investment in real estate ventures, at equity	(10,320)	(116)
Cash distributed from real estate ventures	2,257	2,090
Net cash used in investing activities	$ (57,154)	$ (21,153)
Financing Activities		
Proceeds from:		
Revolving credit facility	156,700	147,000
Principal payments on:		
Revolving credit facility	(102,000)	(137,300)
Mortgage loans and notes payable	(7,831)	(6,811)
Proceeds from issuance of common OP units	(43)	(72)
Cash paid upon vesting of restricted OP units	(1,411)	(2,001)
Exercise of OP unit options	2	30
Contributions from noncontrolling interests in subsidiaries	738	410
Distributions paid to common OP unitholders	(55,309)	(49,239)
Net cash used in financing activities	$ (9,154)	$ (47,983)
Change in cash, cash equivalents, and restricted cash	(176)	(1,229)
Cash, cash equivalents, and restricted cash at beginning of period	9,158	10,866
Cash, cash equivalents, and restricted cash at end of period	$ 8,982	$ 9,637
Supplemental Cash Flow and Noncash Information		

Cash paid for interest, net of interest capitalized	$ 15,298	$ 15,878
Supplemental disclosure of noncash activities:		
Accretion of liability	$ 7,266	$ 8,034
Derivative valuation adjustment	$ 279	$ 836
Mortgage loan assumptions	$ 7,166	$ —
Issuance of OP units	$ 4,782	$ —

See accompanying notes to the unaudited consolidated financial statements.

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CUBESMART AND CUBESMART, L.P.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND NATURE OF OPERATIONS

CubeSmart (the "Parent Company") operates as a self-managed and self-administered real estate investment trust ("REIT") with its operations conducted solely through CubeSmart, L.P. and its subsidiaries. CubeSmart, L.P., a Delaware limited partnership (the "Operating Partnership"), operates through an umbrella partnership structure, with the Parent Company, a Maryland REIT, as its sole general partner. In the notes to the consolidated financial statements, we use the terms "the Company", "we" or "our" to refer to the Parent Company and the Operating Partnership together, unless the context indicates otherwise. As of March 31, 2018, the Company owned self-storage properties located in 23 states throughout the United States and the District of Columbia that are presented under one reportable segment: the Company owns, operates, develops, manages and acquires self-storage properties.

As of March 31, 2018, the Parent Company owned approximately 98.9% of the partnership interests ("OP Units") of the Operating Partnership. The remaining OP Units, consisting exclusively of limited partner interests, are held by persons who contributed their interests in properties to the Operating Partnership in exchange for OP Units. Under the partnership agreement, these persons have the right to tender their OP Units for redemption to the Operating Partnership at any time (except, as disclosed in note 4, in the case of the Class C OP Units issued on April 12, 2017, such right became exercisable on October 12, 2017 and, in the case of the 440,160 OP Units and 168,011 OP Units issued on May 9, 2017 and January 31, 2018, respectively, such rights may be exercised at any time on or after May 9, 2018 or February 28, 2019, respectively) for cash equal to the fair value of an equivalent number of common shares of the Parent Company or, in the case of Class C OP Units, the stated value of such Class C OP Units. In lieu of delivering cash, however, the Parent Company, as the Operating Partnership's general partner, may, at its option, choose to acquire any OP Units so tendered by issuing common shares in exchange for the tendered OP Units. If the Parent Company so chooses, its common shares will be exchanged for OP Units on a one-for-one basis or, in the case of Class C OP Units, for common shares with a fair value equal to the stated value of such Class C OP Units. This one-for-one exchange ratio is subject to adjustment to prevent dilution. With each such exchange or redemption, the Parent Company's percentage ownership in the Operating Partnership will increase. In addition, whenever the Parent Company issues common or other classes of its shares, it contributes the net proceeds it receives from the issuance to the Operating Partnership and the Operating Partnership issues to the Parent Company an equal number of OP Units or other partnership interests having preferences and rights that mirror the preferences and rights of the shares issued. This structure is commonly referred to as an umbrella partnership REIT or "UPREIT".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the SEC regarding interim financial reporting and, in the opinion of each of the Parent Company's and Operating Partnership's respective management, include all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of financial position, results of operations and cash flows for each respective company for the interim periods presented in accordance with generally accepted accounting principles in the United States ("GAAP"). Accordingly, readers of this Quarterly Report on Form 10-Q should refer to the Parent Company's and the Operating Partnership's audited financial statements prepared in accordance with GAAP, and the related notes thereto, for the year ended December 31, 2017, which are included in the Parent Company's and the Operating Partnership's Annual Report on Form 10-K for the fiscal year ended December 31, 2017. The results of operations for the three months ended March 31, 2018 and 2017 are not necessarily indicative of the results of operations to be expected for any future period or the full year.

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

Reclassifications

Certain amounts from the prior year have been reclassified to conform to current year presentation as described below.

On January 1, 2018, the Company adopted ASU No. 2016-15: Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments, which requires retrospective application for a number of cash flow classification items for which there was diversity in practice. See Recent Accounting Pronouncements below for the specific cash flow areas addressed by the new standard. As a result of adopting the new guidance, $0.2 million of proceeds received from the settlement of insurance claims during the three months ended March 31, 2017 have been reclassified from operating activities to investing activities within the consolidated statements of cash flows.

On January 1, 2018, the Company also adopted ASU No. 2016-18: Statement of Cash Flows (Topic 230) – Restricted Cash, which requires restricted cash to be included with cash and cash equivalents as part of the reconciliation of beginning and end of period balances within the consolidated statements of cash flows. As a result of adopting the new guidance, $0.2 million and $1.5 million of restricted cash, which were previously included as operating cash outflows and investing cash inflows within the consolidated statements of cash flows for the three months ended March 31, 2017, respectively, have been removed and are now included in the cash, cash equivalents, and restricted cash line items at the beginning and the end of period.

Restricted cash consists of purchase deposits and cash deposits required for debt service requirements, capital replacement, and expense reserves in connection with the requirements of the Company's loan agreements.

Recent Accounting Pronouncements

In August 2017, the Financial Accounting Standards Board ("FASB") issued ASU No. 2017-12 – Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The purpose of this updated guidance is to better align a company's financial reporting for hedging activities with the economic objectives of those activities. The transition guidance provides companies with the option of early adopting the new standard using a modified retrospective transition method in any interim period after issuance of the update, or alternatively requires adoption for fiscal years beginning after December 15, 2018. This adoption method will require the Company to recognize the cumulative effect of initially applying the new guidance as an adjustment to accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings as of the beginning of the fiscal year that the Company adopts the update. The Company is in the process of evaluating the impact of this new guidance.

In February 2017, as part of the new revenue standard, the FASB issued ASU No. 2017-05 – Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance, which focuses on recognizing gains and losses from the transfer of nonfinancial assets in contracts with non-customers. Specifically, the new guidance defines "in substance nonfinancial asset", unifies guidance related to partial sales of nonfinancial assets, eliminates rules specifically addressing sales of real estate, removes exceptions to the financial asset derecognition model, and clarifies the accounting for contributions of nonfinancial assets to joint ventures. The new guidance became effective on January 1, 2018 when the Company adopted the new revenue standard. Upon adoption, the majority of the Company's sale transactions are now treated as dispositions of nonfinancial assets rather than dispositions of a business given the FASB's recently revised definition of a business (see ASU No. 2017-01 below). Additionally, in partial sale transactions where the Company sells a controlling interest in real estate but retains a noncontrolling interest, the Company will now fully recognize a gain or loss on the fair value measurement of the retained interest as the new guidance eliminates the partial profit recognition model. The adoption of this guidance did not have a material impact on the Company's consolidated financial position or results of operations.

In January 2017, the FASB issued ASU 2017-01 - Business Combinations (Topic 805): Clarifying the Definition of a Business, which changes the definition of a business to include an input and a substantive process that together significantly contribute to the ability to create outputs. A framework is provided to evaluate when an input and a substantive process are present. The new guidance also narrows the definition of outputs, which are defined as the results of inputs and substantive processes that provide goods or services to customers, other revenue, or investment income. The standard became effective on January 1, 2018. Upon adoption of the new guidance, the majority of the Company's future property acquisitions will now be considered asset acquisitions, resulting in the capitalization of acquisition related costs incurred in connection with these transactions and the allocation of purchase price and acquisition related costs to the assets acquired based on their relative fair values. The adoption of this guidance did not have a material impact on the Company's consolidated financial position or results of operations.

In November 2016, the FASB issued ASU No. 2016-18 - Statement of Cash Flows (Topic 230): Restricted Cash, which requires the statement of cash flows to explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The new guidance also requires entities to reconcile such total to amounts on the balance sheet and disclose the nature of the restrictions. The standard became effective on January 1, 2018 and requires the use of the retrospective transition method. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements as the update primarily relates to financial statement presentation and disclosures as discussed in "Reclassifications" above.

In August 2016, the FASB issued ASU No. 2016-15 – Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The eight items that the ASU provides classification guidance on include (1) debt prepayment and extinguishment costs, (2) settlement of zero-coupon debt instruments, (3) contingent consideration payments made after a business combination, (4) proceeds from the settlement of insurance claims, (5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, (6) distributions received from equity method investments, (7) beneficial interests in securitization transactions, and (8) separately identifiable cash flows and application of the predominance principle. The standard became effective on January 1, 2018 and requires the use of the retrospective transition method. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements as the update primarily relates to financial statement presentation and disclosures as discussed in "Reclassifications" above.

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

In May 2014, the FASB issued ASU No. 2014-09 - Revenue from Contracts with Customers (Topic 606), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The new guidance outlines a five-step process for customer contract revenue recognition that focuses on transfer of control as opposed to transfer of risk and rewards. The new guidance also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenues and cash flows from contracts with customers. In May 2016, the FASB issued ASU No. 2016-12 - Revenue from Contracts with Customers (Topic 606):

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Narrow-Scope Improvements and Practical Expedients, which amends ASU No. 2014-09 and is intended to address implementation issues that were raised by stakeholders. ASU No. 2016-12 provides practical expedients on collectability, noncash consideration, presentation of sales tax and contract modifications and completed contracts in transition. Both standards became effective on January 1, 2018. The Company finalized the impact of the adoption of ASU No. 2014-09 and ASU No. 2016-12 on the Company’s consolidated financial statements and related disclosures and adopted the standards using the modified retrospective transition method. The standards did not have a material impact on the Company’s consolidated statements of financial position or results of operations primarily because most of its revenue is derived from lease contracts, which are excluded from the scope of the new guidance. The Company’s insurance fee revenue, property management fee revenue, and merchandise sale revenue are included in the scope of the new guidance, however, the Company identified similar performance obligations under this standard as compared with deliverables and separate units of account identified under its previous revenue recognition methodology. Accordingly, revenue recognized under the new guidance does not differ materially from revenue recognized under previous guidance and there is no material prior year impact.

3. STORAGE PROPERTIES

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

	March 31, 2018	December 31, 2017
	(in thousands)	
Land	$ 718,584	$ 711,140
Buildings and improvements	3,135,382	3,086,252
Equipment	184,904	182,958
Construction in progress	163,039	181,365
Storage properties	4,201,909	4,161,715
Less: Accumulated depreciation	(785,010)	(752,925)
Storage properties, net	$ 3,416,899	$ 3,408,790

The following table summarizes the Company’s acquisition and disposition activity during the period beginning on January 1, 2017 through March 31, 2018:

Asset/Portfolio	Market	Transaction Date	Number of Stores	Purchase / Sale Price (in thousands)
2018 Acquisitions:				
Texas Asset	Texas Markets - Major	January 2018	1	$ 12,200

			1	$	12,200
2017 Acquisitions:					
Illinois Asset	Chicago	April 2017	1	$	11,200
Maryland Asset	Baltimore / DC	May 2017	1		18,200
California Asset	Sacramento	May 2017	1		3,650
Texas Asset	Texas Markets - Major	October 2017	1		4,050
Florida Asset	Florida Markets - Other	October 2017	1		14,500
Illinois Asset	Chicago	November 2017	1		11,300
Florida Asset	Florida Markets - Other	December 2017	1		17,750
			7	$	80,650

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4. INVESTMENT ACTIVITY

2018 Acquisitions

During the three months ended March 31, 2018, the Company acquired one store located in Texas for $12.2 million. In conjunction with the acquisition, the Company assumed a $7.2 million mortgage loan that was immediately repaid by the Company. The remainder of the purchase price was funded with $0.2 million of cash and $4.8 million through the issuance of 168,011 OP Units (see note 12). Following a 13-month lock-up period, the holder may tender the OP Units for redemption by the Operating Partnership for a cash amount per OP Unit equal to the market value of an equivalent number of common shares of the Company. The Company has the right, but not the obligation, to assume and satisfy the redemption obligation of the Operating Partnership by issuing one common share in exchange for each OP Unit tendered for redemption. In connection with the acquisition, the Company allocated the purchase price and acquisition related costs to the tangible and intangible assets acquired based on fair value. Intangible assets consist of in-place leases, which aggregated $0.4 million at the time of the acquisition and prior to any amortization of such amounts. The estimated life of these in-place leases was 12 months, and the amortization expense that was recognized during 2018 was approximately $0.1 million.

The following table summarizes the Company’s revenue and earnings associated with the 2018 acquisition from the acquisition date, that are included in the consolidated statements of operations for the three months ended March 31, 2018:

	Three Months Ended March 31, 2018 (in thousands)
Total revenue	$ 150
Net loss	(90)

As of March 31, 2018, the Company was under contract and had made aggregate deposits of $4.8 million associated with three stores, including two stores to be acquired after the completion of construction and the issuance of the certificate of occupancy, for an aggregate acquisition price of $74.2 million. The deposits are reflected in Other assets, net on the Company’s consolidated balance sheets. The purchase of the two stores under construction is expected to occur by the third quarter of 2018 after the completion of construction and the issuance of a certificate of occupancy. These acquisitions are subject to due diligence and other customary closing conditions and no assurance can be provided that these acquisitions will be completed on the terms described, or at all.

2017 Acquisitions

During the year ended December 31, 2017, the Company acquired six stores located throughout the United States, including two stores upon completion of construction and the issuance of a certificate of occupancy, for an aggregate purchase price of approximately $69.5 million. In connection with these acquisitions, the Company allocated a portion of the purchase price to the tangible and intangible assets acquired based on fair value. Intangible assets consist of in-place leases, which aggregated $3.2 million at the time of the acquisitions and prior to any amortization of such amounts. The estimated life of these in-place leases was 12 months, and the amortization expense that was recognized during the three months ended March 31, 2018 was approximately $0.8 million. In connection with one of the acquired stores, the Company assumed mortgage debt that was recorded at a fair value of $6.2 million, which fair value includes an outstanding principal balance totaling $5.9 million and a net premium of $0.3 million to reflect the estimated fair value of the debt at the time of assumption. As part of the acquisition of that same store, the Company issued OP Units that were valued at approximately $12.3 million as consideration for the remainder of the purchase price (see note 12).

During the year ended December 31, 2017, the Company also acquired a store in Illinois upon completion of construction and the issuance of a certificate of occupancy for $11.2 million. The purchase price was satisfied with $9.7 million of cash and 58,400 newly created Class C OP Units. Each Class C OP Unit has a stated value of $25 and bears an annual distribution rate of 3% of the stated value. The holder has the option to tender the Class C OP Units to the Operating Partnership at any time, and as of April 12, 2018, the Operating Partnership has the option to redeem the Class C OP Units, in each case at a redemption price of $25 per Class C OP Unit. The Company has the right to settle

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the redemption in cash or, at the Company's option, common shares of the Company, or a combination of cash and common shares of the Company, with the common shares of the Company valued at their closing price on the redemption date. Because the Class C OP Units represent an unconditional obligation that the Company may settle by issuing a variable number of its common shares with a monetary value that is known at inception, they have been classified as a liability in Accounts payable, accrued expenses and other liabilities on the Company's consolidated balance sheets.

Development

As of March 31, 2018, the Company had invested in joint ventures to develop seven self-storage properties located in Massachusetts (2), New Jersey (1), and New York (4). Construction for all projects is expected to be completed by the fourth quarter of 2019 (see note 12). As of March 31, 2018, development costs incurred to date for these projects totaled $146.2 million. Total construction costs for these projects are expected to be $252.7 million. These costs are capitalized to construction in progress while the projects are under development and are reflected in Storage properties on the Company's consolidated balance sheets.

The Company has completed the construction and opened for operation the following stores during the period beginning on January 1, 2017 through March 31, 2018. The costs associated with the construction of these stores are capitalized to land, building, and improvements as well as equipment and are reflected in Storage properties on the Company's consolidated balance sheets.