

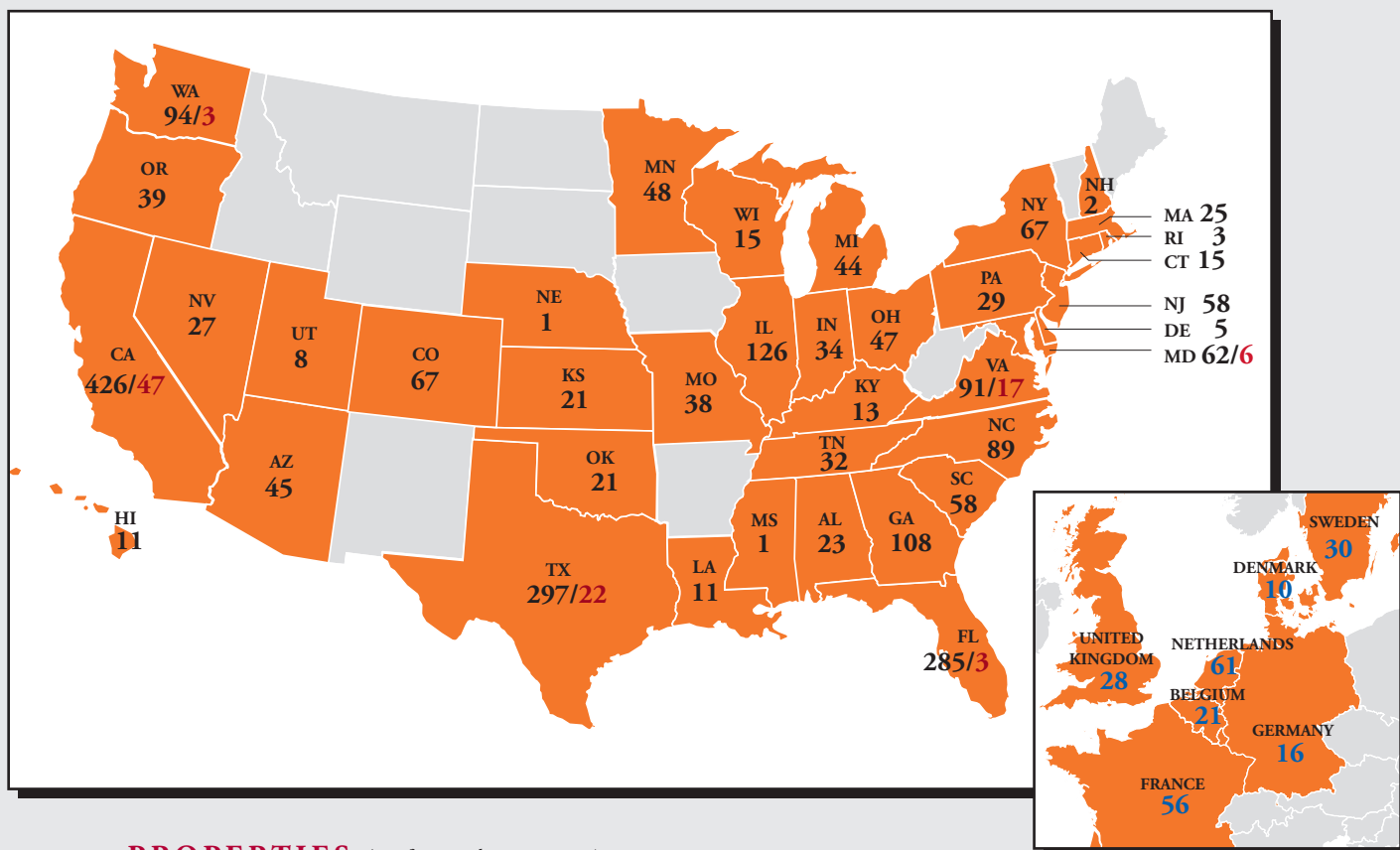


PUBLIC STORAGE

2 0 1 7

A N N U A L

R E P O R T



PROPERTIES (as of December 31, 2017)

	Number of Properties	Net Rentable Square Feet
Public Storage		
Alabama	23	935,000
Arizona	45	2,975,000
California	426	29,282,000
Colorado	67	4,379,000
Connecticut	15	966,000
Delaware	5	324,000
Florida	285	19,341,000
Georgia	108	7,129,000
Hawaii	11	801,000
Illinois	126	7,952,000
Indiana	34	2,152,000
Kansas	21	1,268,000
Kentucky	13	722,000
Louisiana	11	777,000
Maryland	62	3,761,000
Massachusetts	25	1,691,000
Michigan	44	2,869,000
Minnesota	48	3,359,000
Mississippi	1	63,000
Missouri	38	2,236,000
Nebraska	1	46,000
Nevada	27	1,818,000
New Hampshire	2	132,000
New Jersey	58	3,863,000
New York	67	4,672,000
North Carolina	89	6,281,000
Ohio	47	3,081,000
Oklahoma	21	1,477,000
Oregon	39	2,040,000
Pennsylvania	29	1,993,000
Rhode Island	3	155,000
South Carolina	58	3,229,000

	Number of Properties	Net Rentable Square Feet
Public Storage (cont.)		
Tennessee	32	1,952,000
Texas	297	21,280,000
Utah	8	517,000
Virginia	91	5,593,000
Washington	94	6,438,000
Wisconsin	15	968,000
	2,386	158,517,000
Shurgard Europe		
Belgium	21	1,267,000
Denmark	10	572,000
France	56	2,929,000
Germany	16	889,000
Netherlands	61	3,112,000
Sweden	30	1,659,000
United Kingdom	28	1,640,000
	222	12,068,000
Self-storage totals	2,608	170,585,000
PS Business Parks, Inc.		
California	47	11,233,000
Florida	3	3,866,000
Maryland	6	2,578,000
Texas	22	5,044,000
Virginia	17	3,917,000
Washington	3	1,390,000
	98	28,028,000
Grand Totals	2,706	198,613,000

SELECTED FINANCIAL HIGHLIGHTS

	For the year ended December 31,				
	2017	2016	2015	2014	2013
	<i>(Amounts in thousands, except share and per share data)</i>				
Operating Revenue	\$ 2,668,528	\$ 2,560,549	\$ 2,381,696	\$ 2,177,296	\$ 1,964,942
Operating Expenses:					
Cost of operations	707,978	669,083	635,502	613,324	559,759
Depreciation and amortization	454,526	433,314	426,008	437,114	387,402
General and administrative	82,882	83,656	88,177	71,459	66,679
	<u>1,245,386</u>	<u>1,186,053</u>	<u>1,149,687</u>	<u>1,121,897</u>	<u>1,013,840</u>
Operating income	1,423,142	1,374,496	1,232,009	1,055,399	951,102
Interest and other income	18,771	15,138	16,544	17,638	33,979
Interest expense	(12,690)	(4,210)	(610)	(6,781)	(6,444)
Equity in earnings of unconsolidated real estate entities	75,655	56,756	50,937	88,267	57,579
Foreign currency exchange (loss) gain	(50,045)	17,570	306	(7,047)	17,082
Casualty loss	(7,789)	—	—	—	—
Gain on real estate investment sales	1,421	689	18,503	2,479	4,233
Net income	1,448,465	1,460,439	1,317,689	1,149,955	1,057,531
Net income allocated to noncontrolling equity interests	(6,248)	(6,863)	(6,445)	(5,751)	(5,078)
Net income allocable to Public Storage shareholders	<u>\$ 1,442,217</u>	<u>\$ 1,453,576</u>	<u>\$ 1,311,244</u>	<u>\$ 1,144,204</u>	<u>\$ 1,052,453</u>
Per Common Share:					
Distributions	\$ 8.00	\$ 7.30	\$ 6.50	\$ 5.60	\$ 5.15
Net income - Basic	\$ 6.75	\$ 6.84	\$ 6.10	\$ 5.27	\$ 4.92
Net income - Diluted	\$ 6.73	\$ 6.81	\$ 6.07	\$ 5.25	\$ 4.89
Weighted average common shares - Basic	173,613	173,091	172,699	172,251	171,640
Weighted average common shares - Diluted	174,151	173,878	173,510	173,138	172,688
Balance Sheet Data:					
Total assets	\$10,732,892	\$10,130,338	\$ 9,778,232	\$ 9,818,676	\$ 9,876,266
Total debt	\$ 1,431,322	\$ 390,749	\$ 319,016	\$ 64,364	\$ 839,053
Total preferred equity	\$ 4,025,000	\$ 4,367,500	\$ 4,055,000	\$ 4,325,000	\$ 3,562,500
Public Storage shareholders' equity	\$ 8,940,009	\$ 9,411,910	\$ 9,170,641	\$ 9,480,796	\$ 8,791,730
Permanent noncontrolling interests' equity	\$ 24,360	\$ 29,744	\$ 26,997	\$ 26,375	\$ 27,125
Net Cash Flow:					
Provided by operating activities	\$ 1,975,679	\$ 1,945,336	\$ 1,748,279	\$ 1,603,542	\$ 1,438,407
Used in investing activities	\$ (739,854)	\$ (699,111)	\$ (456,135)	\$ (194,331)	\$(1,415,638)
Used in financing activities	\$ (992,219)	\$ (1,148,826)	\$(1,391,283)	\$(1,236,864)	\$ (24,228)

Fellow Shareholders,

We had a good year at Public Storage. We completed several key initiatives, all of our businesses had positive revenue and net operating income (NOI)¹ growth and we are well positioned for growth in 2018. While our growth rates were positive, they slowed from 2016.

As a shareholder, you should be focused on free cash flow per share¹ and how much of that cash was paid to you in dividends. Last year free cash flow per share was a record \$9.60, 2.2% higher than 2016. Our dividend was \$8.00 per share, almost 10% higher than 2016.

Let's review our business results. We have four principal businesses: U.S. self-storage, conducted under the Public Storage brand, European self-storage, conducted under the Shurgard brand, commercial properties, conducted under the PS Business Parks, Inc. (PSB) brand and ancillary businesses, primarily reinsurance of policies sold to our self-storage customers conducted under the Orange Door brand. We don't own 100% of either Shurgard or PSB, but hold a significant equity interest. Below are the revenues and NOI for each business.

(Amounts in millions)

Revenues¹

	<u>2017</u>	<u>2016</u>	<u>2015</u>
U.S. self-storage	\$ 2,512	\$ 2,406	\$ 2,236
European self-storage	233	225	208
Commercial properties	414	399	387
Ancillary businesses	191	187	176
Total	<u>\$ 3,350</u>	<u>\$ 3,217</u>	<u>\$ 3,007</u>

Net Operating Income

	<u>2017</u>	<u>2016</u>	<u>2015</u>
U.S. self-storage	\$ 1,855	\$ 1,788	\$ 1,649
European self-storage	139	132	120
Commercial properties	287	274	264
Ancillary businesses	136	130	122
Total	<u>\$ 2,417</u>	<u>\$ 2,324</u>	<u>\$ 2,155</u>
Public Storage's share	<u>\$ 2,171</u>	<u>\$ 2,090</u>	<u>\$ 1,935</u>

¹ See accompanying schedule "Supplemental Non-GAAP Disclosures."

Overall, our revenues increased by about \$130 million, to a record \$3.4 billion, and our NOI increased to a record \$2.4 billion. Our share was \$2.2 billion. I will review separately the challenges and opportunities faced by each business.

Public Storage

Under the Public Storage brand we own and operate about 160 million square feet of space in 2,400 properties, more than our next three largest competitors combined. Our name and ubiquitous orange signage and doors give us tremendous brand recognition, especially on the internet, where most of our customers now shop. While we are in 38 states across America, most of our NOI is generated in ten states, with California by far the largest. In those states, we are in or near their major metropolitan centers including Los Angeles, San Francisco/San Jose, Seattle, Dallas, Houston, Miami, Orlando, the boroughs of New York and Chicago. In our business, scale is important not only for operational efficiency, but to cost-effectively market on the internet. Also, big cities have more potential customers with smaller living spaces and greater need for storage space.

We measure our results in two ways:

First, the performance of our “same store” pool (stores that have been owned and operated on a stabilized level of occupancy, revenues and cost of operations for three years). Their results reflect the performance of our core business without the addition of new properties.

Same Store Properties

(Amounts in millions, except sq. ft. occupancy and REVPAF)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Revenues	\$ 2,196	\$ 2,133	\$ 2,016
Costs of operations	<u>559</u>	<u>541</u>	<u>527</u>
Net operating income	<u>\$ 1,637</u>	<u>\$ 1,592</u>	<u>\$ 1,489</u>
Sq. ft. occupancy	93.8%	94.5%	94.4%
Revenue per available foot (REVPAF)	\$ 16.11	\$ 15.63	\$ 14.75

Our revenue growth rate has slowed from 6.6% in 2015 to 3.0% in 2017, resulting in a lower NOI growth rate of 8.5% in 2015 to 2.8% in 2017. As discussed under “Industry conditions and outlook,” several factors have impacted the self-storage industry. Other factors have impacted specific markets. Markets with strong job growth, such as Seattle, San Francisco/San Jose and Los Angeles, enjoyed higher growth rates (combined revenue and NOI growth of 4.9% and 5.2%, respectively). Conversely, markets with low job growth or impacted by the slowdown in the oil and gas industry, such as Houston, Chicago and Denver, had negative growth rates (combined revenue and NOI growth rate of -0.8% and -3.6%, respectively).

Our operations group, led by Joe Russell, achieved a number of milestones in 2017. They implemented our internally developed property software system called “Web Champ 2,” which is a major upgrade from “Web Champ 1.” The new system is easier for our property managers to learn and use, is more “customer focused” and will enhance our use of technology. In addition, Joe and his team managed through two major hurricanes, Irma and Harvey (our combined hurricane losses were \$7.8 million), opened our largest property, the 4,250 unit Jersey City, New Jersey property (50% occupied in one year with more than 2,000 spaces rented) and set a record for the most spaces rented at a property in one month (547) at our Humble and Beltway property in Houston (no doubt Hurricane Harvey helped).

We also made some key changes in our operations leadership. Steven Lentin, a long time divisional manager and a 13-year Public Storage veteran, was promoted to Chief Operating Officer. Two other senior leaders, Pete Panos, a 19-year Public Storage veteran, and John Sambuco, a 26-year Public Storage veteran, were also promoted. Pete is now President of our newly established “Third Party Management” business, which will offer property management services to other self-storage property owners. Growing this business should enhance our operational and marketing scale and cost advantages. John was appointed President of Asset Management with responsibility for the “curb appeal” and proper maintenance of our properties.

Second, we continue to generate greater earnings from the acquisition and development of new properties and the redevelopment of existing stores. We have a clever name for this group of properties: Non-same stores. Last year, we added almost five million square feet of space to this group of properties, and, as they continue to lease up, net operating income from this pool grew to \$218 million, an increase of more than 10% from the prior year.

Non-Same Stores

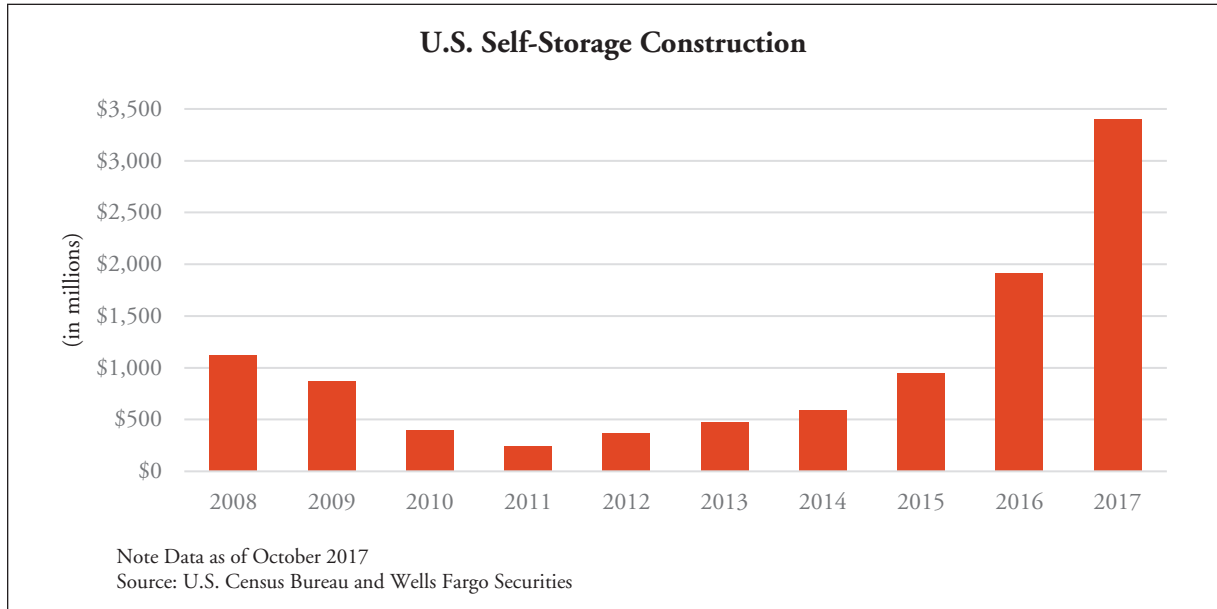
(Amounts in millions, except sq. ft. occupancy and REVPAF)

	2017	2016	2015
Revenues	\$ 316	\$ 273	\$ 220
Costs of operations	98	77	60
Net operating income	\$ 218	\$ 196	\$ 160
Sq. ft.	28.3	23.5	17.1
Sq. ft. occupancy	83.4%	87.4%	90.3%
REVPAF	\$ 12.02	\$ 13.09	\$ 13.55

In 2018, this group of properties will grow as we complete construction on newly developed and redeveloped properties and acquire new properties.

Industry conditions and outlook

Between 2011 and 2016, our same store revenue growth rate averaged 5.4%, well above our 20-year historical average of 3.7%. The absence of new supply after the 2008/2009 financial crisis and strong job growth were “tailwinds” for the self-storage business. In 2016, however, our revenue growth declined for the first time in six years to 5.8%, and in 2017 decelerated to 3.0%. As reflected in the chart below, construction of new properties, including those we are building, has increased significantly over the last three years.



As with any real estate business, when it is cheaper to build than to buy and the return on investment is high, developers will build. The strong revenue growth in 2011 to 2016 combined with low interest rates and an abundance of capital created the ideal environment for the development of new self-storage properties.

This level of development is a natural part of the real estate cycle. Given the liquidity in the financial markets, low interest rates and strong incentive for asset managers to invest, most financial assets, such as equity stocks, bonds and real estate, are at historically high prices. At some point it will again be cheaper to buy than to build and new supply will abate, initiating a period of strong revenue growth.

European Self-Storage

Our European self-storage business operates under the “Shurgard” brand. Like Public Storage in the U.S., it is the leading owner and operator of self-storage in the Western European market. Self-storage is a much smaller business in Western Europe with less than 2,000 properties, with nearly half in the United Kingdom. Shurgard is a leading provider of self-storage in many of its specific markets.

Shurgard delivered excellent results in 2017. Led by Marc Oursin, Shurgard’s CEO, the Company achieved improved NOI in all its markets and grew its portfolio. Accelerating cash flow from 2015 acquisitions was a big plus.

A breakdown of operating results is as follows:

Net Operating Income

(Amounts in millions, except sq. ft. occupancy and REVPAF)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Same Store	\$ 116	\$ 113	\$ 105
Acquired/developed properties	<u>23</u>	<u>19</u>	<u>15</u>
Total	<u>\$ 139</u>	<u>\$ 132</u>	<u>\$ 120</u>
Public Storage’s share	<u>\$ 68</u>	<u>\$ 65</u>	<u>\$ 59</u>
Total assets (before depreciation reserves)	\$ 1,816	\$ 1,770	\$ 1,790
Same Store:			
Sq. ft. occupancy	89.9%	90.3%	89.7%
REVPAF	\$ 20.04	\$ 19.64	\$ 18.95

During the year, Shurgard completed two new development projects in London for about \$29 million, adding 193,000 net rentable square feet. At the end of 2017, Shurgard had two developments in progress of about \$20 million in costs, adding 128,000 net rentable square feet. Similar to Public Storage, Shurgard’s non-same store properties should be a source of continued growth.

We anticipate Shurgard will grow in three ways: (1) organically by improving occupancies and revenues at the same store properties, (2) driving higher occupancies and rental rates in the recently acquired and developed properties and (3) new developments.

Commercial Properties

Our commercial properties business consists of a 42% equity interest in PSB and direct ownership of one million square feet, which is managed by PSB. Unlike Public Storage and Shurgard, PSB does not have a commanding market share, leading brand or significant scale in any market. Instead, it has a niche, focusing on small to mid-size businesses. The key to shareholder returns in this business are: (i) bargain purchases (acquiring properties well below replacement cost), (ii) minimizing capital costs, broker commissions and tenant improvements and (iii) nimble property management (keeping buildings full). This business is more economically sensitive than self-storage. If done correctly, this business can produce reasonable returns on invested capital. Maria Hawthorne, PSB's CEO, and her team once again achieved solid results in 2017 with same park revenue and NOI increasing 4.6% and 5.7%, respectively.

Net Operating Income

(Amounts in millions)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
PSB's Same Park operations	\$ 271	\$ 256	\$ 243
PSB's acquired/developed properties	9	10	11
Public Storage's owned commercial properties	<u>7</u>	<u>8</u>	<u>10</u>
Total	<u>\$ 287</u>	<u>\$ 274</u>	<u>\$ 264</u>
Public Storage's share	<u>\$ 126</u>	<u>\$ 120</u>	<u>\$ 116</u>
Total assets (before depreciation reserves)	\$ 3,125	\$ 3,086	\$ 3,097

In many markets in which PSB operates, older suburban office buildings are becoming obsolete and are being converted to higher/better uses. PSB has several office parks where there is an opportunity to both increase the density and improve the usage. The poster child is its 45-acre, 700,000 square foot office park in Tysons Corner, Northern Virginia. In 2013, PSB started the conversion of an office building to apartments and in 2017, this project called "The Mile" opened with 395 units and 435,000 square feet. Over time, we expect to convert the remaining office buildings at Tysons Corner into over three million square feet of apartments. Maria Hawthorne deserves much of the credit for securing the rezoning and the master planning. The long term impact on PSB's free cash flow per share and enterprise value should be significant.

Ancillary Businesses

We have four ancillary businesses—merchandise (locks and boxes sold to self-storage customers), customer reinsurance (reinsurance of policies sold to our self-storage customers by a third-party insurance company), third-party property management (fees received for managing other owners' properties) and European ancillary businesses (Shurgard's sales of merchandise and insurance commissions) that complement our self-storage business. Each generates respectable revenue and cash flow with no significant capital investment.

While modest in relative size, each ancillary business meaningfully contributes to Public Storage's overall profitability. By far, the largest of these businesses is customer reinsurance, managed by Capri Haga. Once again this business had a solid year as revenues and NOI increased by 3.3% and 2.8%, respectively.

Net Operating Income

(Amounts in millions)

	2017	2016	2015
Customer reinsurance	\$ 92	\$ 90	\$ 84
European ancillary businesses	27	24	22
Merchandise	14	14	14
Third-party management	3	2	2
Total	\$ 136	\$ 130	\$ 122
Public Storage's share	\$ 122	\$ 117	\$ 111
Total assets	\$ 10	\$ 10	\$ 10

As noted above we hope to significantly expand our third-party management business under the leadership of Pete Panos. If successful, this will lead to additional sales of our customer reinsurance and Public Storage merchandise products. However, we don't expect significant NOI from this business in the near term as we take an aggressive approach to pricing and making investments to establish the business.

Development Program

Our property development program continued to grow in 2017 and the team delivered solid results. They invested \$312 million in 16 newly constructed properties consisting of 2.0 million net rentable square feet and 0.7 million square feet of redevelopment. These properties generated a combined operating loss of approximately \$1 million in 2017, but are filling up ahead of projection. Over time, we expect them to yield about 9% on costs. This yield does not reflect income from ancillary services, such as merchandise sales and tenant reinsurance. Properties of similar quality and location would trade in the market at yields below 5%. In other words, at these ratios, 9% and 5%, each dollar we invest in these new properties is worth about \$1.80 were we to sell them.

A summary of our development program to date is as follows:

	\$ Amounts in millions				
	2017	2016	2015	2014	2013
Cumulative average amount invested	\$612	\$341	\$169	\$ 96	\$ 29
Annual NOI from properties opened	\$ 27	\$ 17	\$ 9	\$ 3	\$ —
Return on invested capital	4%	5%	5%	3%	n/m

The table below disaggregates our returns on capital by year, demonstrating that for the most part we are achieving our targeted returns.

Development year	Investment (000's)	Sq. ft. (000's)	Occupancy at 12/31/17	Annualized yield	
				2017	2016
2013	\$ 66,378	386	93.5%	9.5%	8.9%
2014	51,364	529	88.7%	10.4%	9.0%
2015	119,258	1,242	88.3%	8.0%	5.4%
2016	257,585	2,141	67.1%	2.3%	-0.2%
2017	232,946	2,040	36.7%	-0.1%	n/a
Total	\$ 727,531	6,338	64.8%	4.4%	4.9%

Our development program is expensive. Our team of about 60 professionals costs about \$15 million per year. About 60% of these costs are capitalized as part of building costs and the balance is expensed. In addition, we must fund the capital invested. Through 2017, we had invested about \$725 million, which earned \$27 million. Assuming a 5% cost of money and the \$6 million of “expensed” development group costs, in 2017, our development program lost about \$10 million. Since inception of this program in 2013, we have lost a cumulative \$36 million.

	\$ Amounts in millions				
	2017	2016	2015	2014	2013
Annual costs of development team	\$ 15.5	\$ 15.1	\$ 15.2	\$ 10.9	\$ 7.5
Amounts capitalized	(9.4)	(8.5)	(8.1)	(5.0)	(3.1)
Net amount expensed	6.1	6.6	7.1	5.9	4.4

Our \$36 million loss contrasts with the almost \$600 million of “value” created, using the \$1.80 of value to every one dollar invested noted earlier. This value created is not reflected in our reported earnings, but over time should produce higher returns on invested capital.

Given the potential significant value created from developing properties, the high level of new construction (as noted earlier) is understandable. Over time, these new developments will drive returns lower such that developing new properties won't make sense. This is already starting to happen in some markets. Accordingly, we are transitioning our development team towards more redevelopment of our existing properties, which generally produces higher returns on capital with lower risks.

What is Public Storage worth?

“Businesses logically are worth far more than their net tangible assets when they can be expected to produce earnings on such assets considerably in excess of market rates of return. The capitalized value of this excess return is economic goodwill” (Buffett, 1983).

In the real estate industry, including the self-storage business, real estate values are often quoted in “cap rates,” that is, property net operating income divided by the cost or value of the property. Cap rates are simply the inverse of P/E ratios. A P/E ratio of 20 translates into a 5% cap rate. The cap rate

is the “earnings yield” associated with the investment. Many analysts and investors in real estate benchmark different companies using different cap rates, usually within a band of 3%, depending on the building type. Hotels tend to have a higher cap rate (8%) compared with office and industrial properties (5%). The applicable cap rate is applied to net operating income to determine a net asset value or intrinsic value per share. While this methodology is relatively simple, it does not reflect the earnings (NOI) on invested capital. Is the business generating “excess returns,” “market returns” or “below market” returns on invested capital? Is the business or management team creating or destroying economic goodwill?

How does Public Storage compare to its three largest public competitors and other types of real estate with respect to returns on invested capital? Our return on assets compared to both our self-storage competitors and to the leading companies in several other types of real estate are as follows:

Return on Assets¹

Compared to self-storage competitors

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Public Storage	9.9%	10.4%	11.2%	11.5%	11.9%	12.7%	13.3%	13.1%
Competitor average	6.4%	6.9%	7.4%	7.8%	8.6%	8.6%	8.5%	8.3%

Compared to other real estate types

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Public Storage	9.9%	10.4%	11.2%	11.5%	11.9%	12.7%	13.3%	13.1%
Office	7.7%	7.9%	7.7%	7.4%	7.5%	7.7%	7.7%	7.4%
Apartments	5.4%	6.0%	6.3%	6.8%	6.1%	6.3%	6.6%	6.5%
Industrial	3.1%	4.4%	4.7%	4.2%	4.5%	5.4%	5.9%	6.3%

As you can see, self-storage is an excellent business and Public Storage in particular generates an “in excess of market return” on its assets.

Public Storage possesses significant “economic goodwill.” This economic goodwill derives from an excellent brand, operating efficiency and scale as well as disciplined capital allocation.

¹ See accompanying schedule “Supplemental Non-GAAP Disclosures.”

Financing

John Reyes, our CFO, again demonstrated impeccable timing in raising capital—completing our inaugural public bond offering of \$1 billion with two \$500 million tranches, 5-year notes with an annual interest rate of 2.37% and 10-year notes with an annual interest rate of 3.094%. Not only did these bonds achieve greater than expected demand, but they were issued at the lowest spread to U.S. Treasuries by any REIT at that time.

We also issued two preferred series totaling \$580 million with a weighted average annual coupon of 5.1% and redeemed two series totaling \$923 million with a weighted average coupon of 5.83%. Our average coupon is now down to 5.37%, lowest in our history.

Succession Plan

In February, we announced the transition of company leadership to Joe Russell as CEO, effective January 1, 2019. Also, Tom Boyle will be succeeding John Reyes as CFO at the same time. Joe was formally the CEO of PS Business Parks and I have worked closely with him for over 15 years. Joe clearly understands and is part of the “PS” culture and is well known in our organization. His character and business acumen are excellent and he is a well respected leader. I will remain Chairman of the Board and John Reyes has agreed to join the Board in January 2019.

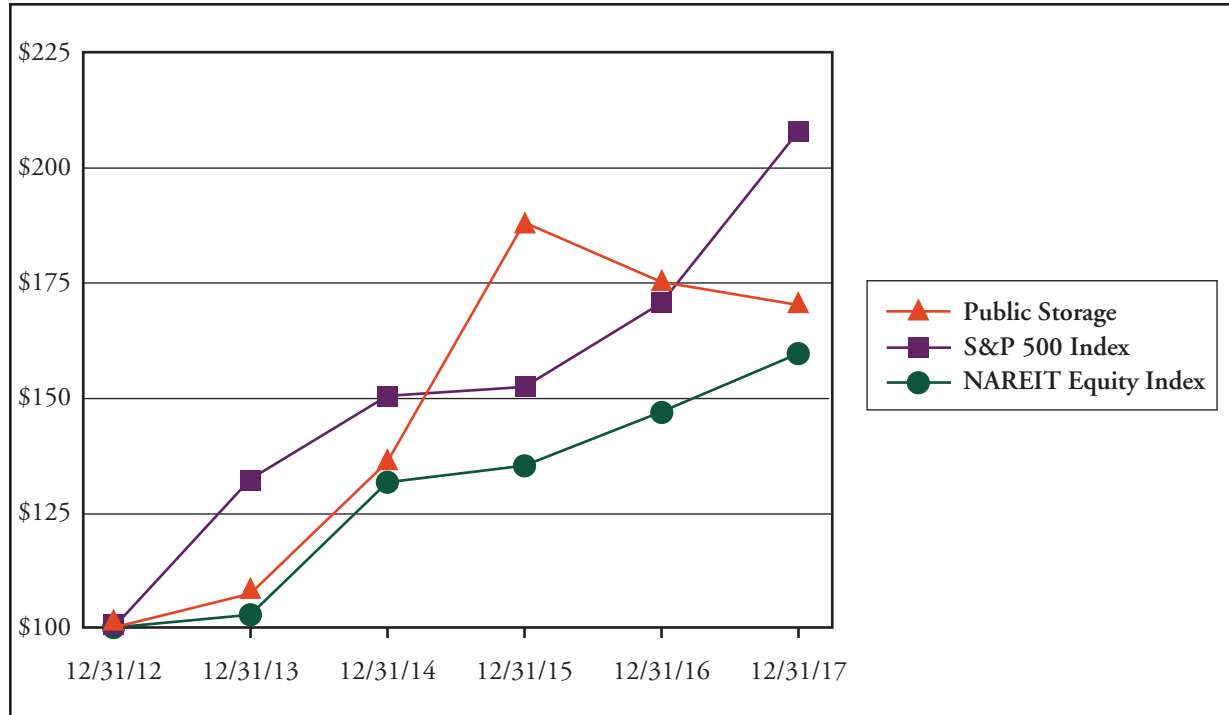
Conclusion

Although we continue to face a challenging operating environment for U.S. self-storage, we are well positioned going into 2018. We have tremendous opportunities to grow our great business. Our financial strength, operating skills and leadership should continue to deliver value to you, our shareholders.

Ronald L. Havner, Jr.
Chairman of the Board and Chief Executive Officer
February 28, 2018

CUMULATIVE TOTAL RETURN

Public Storage, S&P 500 Index and NAREIT Equity Index
December 31, 2012 - December 31, 2017



	12/31/12	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17
Public Storage	\$100.00	\$107.41	\$136.23	\$188.45	\$175.45	\$170.38
S&P 500 Index	\$100.00	\$132.39	\$150.51	\$152.59	\$170.84	\$208.14
NAREIT Equity Index	\$100.00	\$102.86	\$131.68	\$135.40	\$147.09	\$159.85

The graph set forth above compares the yearly change in the Company's cumulative total shareholder return on its Common Shares for the five-year period ended December 31, 2017 to the cumulative total return of the Standard & Poor's 500 Stock Index ("S&P 500 Index") and the National Association of Real Estate Investment Trusts Equity Index ("NAREIT Equity Index") for the same period (total shareholder return equals price appreciation plus dividends). The stock price performance graph assumes that the value of the investment in the Company's Common Shares and each index was \$100 on December 31, 2012 and that all dividends were reinvested. The share price performance shown in the graph is not necessarily indicative of future price performance.

Supplemental Non-GAAP Disclosures (unaudited)

Core funds from operations per share (“Core FFO”) represents diluted net income per share (“EPS”) before the impact of i) depreciation expense and disposition gains or losses and ii) foreign currency gains and losses, the application of EITF D-42, and certain other items. Free cash flow per share (“Free Cash Flow”) represents Core FFO, less per share capital expenditures and non-cash stock based compensation and other expense. Core FFO and Free Cash Flow are not substitutes for EPS and may not be comparable with other REITs due to calculation differences; however, we believe they are helpful measures for investors and REIT analysts to understand our performance. Net Operating Income (“NOI”) represents revenues less pre-depreciation cost of operations earned directly at our properties, and we believe is a useful performance measure that we and the investment community use to evaluate performance and real estate values. Each of these non-GAAP measures exclude the impact of depreciation, which is based upon historical cost and assumes the value of buildings diminish ratably over time, while we believe that real estate values fluctuate due to market conditions. We also present supplemental measures of our revenues and NOI including PSB and Shurgard Europe as if we owned them, to provide a measure of the performance of all the businesses we have a significant interest in. However, the inclusion of these entities in these supplemental measures does not substitute for “equity in earnings of unconsolidated real estate entities” on our income statement.

Reconciliation of Core FFO and Free Cash Flow per Share

	For the year ended December 31,		
	2017	2016	2015
EPS	\$ 6.73	\$ 6.81	\$ 6.07
Eliminate noncore items (including our equity share):			
Depreciation expense	3.00	2.90	2.89
Real estate gains	(0.03)	(0.01)	(0.17)
Foreign currency, EITF D-42, and other noncore items	0.53	0.09	0.11
Core FFO per share	\$ 10.23	\$ 9.79	\$ 8.90
Deduct capital expenditures and adjust non-cash comp/other	(0.63)	(0.40)	(0.34)
Free Cash Flow per share	\$ 9.60	\$ 9.39	\$ 8.56

Reconciliation of Revenues including PSB and Shurgard Europe

(Amounts in millions)

	For the year ended December 31,		
	2017	2016	2015
Consolidated revenues	\$ 2,669	\$ 2,561	\$ 2,382
Commercial and property management included in interest and other income	15	15	17
PSB’s revenues	402	387	373
Shurgard Europe’s revenues	264	254	235
Revenues as if we owned PSB and Shurgard Europe	\$ 3,350	\$ 3,217	\$ 3,007

Reconciliation of NOI

(Amounts in millions)

	For the year ended December 31,		
	2017	2016	2015
Operating income on our income statement	\$ 1,423	\$ 1,374	\$ 1,232
Commercial and property management included in interest and other income	11	11	13
Eliminate depreciation and G&A expense	538	517	514
Add - PSB and Shurgard Europe NOI	445	422	396
Total net operating income	2,417	2,324	2,155
Less - NOI of Shurgard Europe and PSB allocable to others	(246)	(234)	(220)
Public Storage’s share of NOI	\$ 2,171	\$ 2,090	\$ 1,935

Supplemental Non-GAAP Disclosures (unaudited)

Return on Assets

We present “Return on Assets,” which is a non-GAAP measure. Return on Assets represents the ratio of (i) Net Operating Income less G&A (NOI, described below) to (ii) the average undepreciated cost of our real estate facilities. We believe that this measure is useful in evaluating our earnings relative to the associated accumulated investment over time.

NOI is a non-GAAP financial measure that represents self-storage and ancillary operating income on our income statement, excluding depreciation and amortization expense. Depreciation and amortization expense is excluded because it is based upon historical real estate costs and assumes that building values diminish ratably over time, while we believe that real estate values fluctuate due to market conditions. We utilize NOI in determining our current property values, evaluating property performance, and in evaluating operating trends.

We believe that investors and analysts utilize NOI in a similar manner. NOI is not a substitute for net income, net operating cash flow, or other related GAAP financial measures, in evaluating our operating results.

The following table reconciles operating income on our income statement to NOI, and sets forth the calculations of Return on Assets (amounts in thousands):

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Operating income on our income statement (which is net of depreciation and G&A expense)		\$ 682,809	\$ 753,625	\$ 860,763	\$ 951,102	\$ 1,055,399	\$ 1,232,009	\$ 1,374,496	\$ 1,423,142
Add back: depreciation expense		353,245	357,969	357,781	387,402	437,114	426,008	433,314	454,526
NOI less G&A		\$ 1,036,054	\$ 1,111,594	\$ 1,218,544	\$ 1,338,504	\$ 1,492,513	\$ 1,658,017	\$ 1,807,810	\$ 1,877,668
Amounts at end of period:									
Land	\$ 2,717,368	\$ 2,789,227	\$ 2,811,515	\$ 2,863,464	\$ 3,321,236	\$ 3,476,883	\$ 3,564,810	\$ 3,781,479	\$ 3,947,123
Buildings	7,575,587	7,798,120	7,966,061	8,170,355	8,965,020	9,386,352	9,640,451	10,181,750	10,718,866
Undepreciated real estate cost	10,292,955	10,587,347	10,777,576	11,033,819	12,286,256	12,863,235	13,205,261	13,963,229	14,665,989
Calculation of Average Undepreciated Real Estate Cost:									
Amount at beginning of year		\$10,292,955	\$10,587,347	\$10,777,576	\$11,033,819	\$12,286,256	\$12,863,235	\$13,205,261	\$13,963,229
Amount at end of year		10,587,347	10,777,576	11,033,819	12,286,256	12,863,235	13,205,261	13,963,229	14,665,989
Average		\$10,440,151	\$10,682,462	\$10,905,698	\$11,660,038	\$12,574,746	\$13,034,248	\$13,584,245	\$14,314,609
Return on Assets (NOI less G&A divided by the average undepreciated real estate cost)		9.9%	10.4%	11.2%	11.5%	11.9%	12.7%	13.3%	13.1%

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2017.

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____.
Commission File Number: 001-33519

PUBLIC STORAGE

(Exact name of Registrant as specified in its charter)

Maryland

95-3551121

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

701 Western Avenue, Glendale, California 91201-2349

(Address of principal executive offices) (Zip Code)

(818) 244-8080

(Registrant's telephone number, including area code)

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

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

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

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

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

Yes No

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

Yes No

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

Yes 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>	Emerging growth company <input type="checkbox"/>
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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. []

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

Yes []

No [X]

The aggregate market value of the voting and non-voting common shares held by non-affiliates of the Registrant as of June 30, 2017:

Common Shares, \$0.10 Par Value Per Share – \$31,047,469,000 (computed on the basis of \$208.53 per share, which was the reported closing sale price of the Company's Common Shares on the New York Stock Exchange (the "NYSE") on June 30, 2017).

As of February 26, 2018, there were 174,215,770 outstanding Common Shares, \$.10 par value per share.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement to be filed in connection with the Annual Meeting of Shareholders to be held in 2017 are incorporated by reference into Part III of this Annual Report on Form 10-K to the extent described therein.

PART I

ITEM 1. Business

Forward Looking Statements

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

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

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

- risks associated with the self-insurance of certain business risks, including property and casualty insurance, employee health insurance and workers compensation liabilities;
- difficulties in raising capital at a reasonable cost;
- delays in the development process;
- ongoing litigation and other legal and regulatory actions which may divert management’s time and attention, require us to pay damages and expenses or restrict the operation of our business; and
- economic uncertainty due to the impact of war or terrorism.

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

General

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

At December 31, 2017, our principal business activities were as follows:

- (i) **Self-storage Operations**: We acquire, develop, own and operate self-storage facilities, which offer storage spaces for lease on a month-to-month basis, for personal and business use. We are the largest owner and operator of self-storage facilities in the U.S. We have direct and indirect equity interests in 2,386 self-storage facilities that we consolidate (an aggregate of 159 million net rentable square feet of space) located in 38 states within the U.S. operating under the “Public Storage” brand name. We also own one self-storage facility in London, England which is managed by Shurgard Europe (defined below).
- (ii) **Ancillary Operations**: We reinsure policies against losses to goods stored by customers in our self-storage facilities and sell merchandise, primarily locks and cardboard boxes, at our self-storage facilities.
- (iii) **Investment in PS Business Parks**: We have a 42% equity interest in PS Business Parks, Inc. (“PSB”), a publicly held REIT that owns, operates, acquires and develops commercial properties, primarily multi-tenant flex, office, and industrial parks. At December 31, 2017, PSB owns and operates 28.0 million rentable square feet of commercial space.
- (iv) **Investment in Shurgard Europe**: We have a 49% equity interest in Shurgard Self Storage Europe Limited (“Shurgard Europe”) which owns 221 self-storage facilities (twelve million net rentable square feet) located in seven countries in Western Europe operated under the “Shurgard” brand name. We believe Shurgard Europe is the largest owner and operator of self-storage facilities in Western Europe.

We also manage approximately 27 self-storage facilities for third parties. We are seeking to expand our third-party management operations to further increase our economies of scale and leverage our brand; however, there is no assurance that we will be able to do so. We also own 0.9 million net rentable square feet of commercial space which is managed primarily by PSB.

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

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

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

Competition

We believe that our customers generally store their goods within a five mile radius of their home or business. Our facilities compete with nearby self-storage facilities owned by other operators using marketing channels similar to ours, including Internet advertising, signage, and banners and offer services similar to ours. As a result, competition is significant and affects the occupancy levels, rental rates, rental income and operating expenses of our facilities. There has been an increase in supply of newly constructed self-storage facilities in several of our markets, most notably Atlanta, Austin, Charlotte, Chicago, Dallas, Denver, Houston, and New York.

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

We generally own facilities in major markets. We believe that we have significant market share and concentration in major metropolitan centers, with approximately 71% of our 2017 same-store revenues generated in the 20 Metropolitan Statistical Areas (each, an “MSA”, as defined by the U.S. Census Bureau) with the highest population levels. We believe this is a competitive advantage relative to other self-storage operators, which do not have our geographic concentration and market share.

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

Business Attributes

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

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

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

- ***Our Desktop and Mobile Websites:*** The online marketing channel is a key source of customers. Approximately 69% of our move-ins in 2017 were sourced through our websites and we believe that many of our other customers who reserved directly through our call center or arrived at a facility and moved in without a reservation, have reviewed our pricing and availability online through our websites. We invest extensively in advertising on the Internet to attract potential customers, primarily through the use of search engines, and we regularly update our websites to enhance their productivity.
- ***Our Call Center:*** Our call center is staffed by skilled sales specialists. Customers primarily reach our call center by calling our advertised toll-free telephone numbers provided on search engines or our website. We believe giving customers the option to interact with a call center agent, despite the higher marginal cost relative to a reservation made on our website enhances our ability to close sales with potential customers.
- ***Our Properties:*** Customers can also shop at any one of our facilities. Property managers access the same information that is available on our website and to our call center agents, and can inform the customer of available space at that site or our other nearby storage facilities. Property managers are trained to maximize the conversion of such “walk in” shoppers into customers.

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

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

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

Growth and Investment Strategies

Our growth strategies consist of: (i) improving the operating performance of our existing self-storage facilities, (ii) acquiring more facilities, (iii) developing new facilities and adding more self-storage space to existing facilities, (iv) participating in the growth of our investment in PSB, and (v) participating in the growth of our investment in Shurgard Europe. While our long-term strategy includes each of these elements, in the short run the level of growth in our asset base in any period is dependent upon the cost and availability of capital, as well as the relative attractiveness of available investment alternatives.

Improve the operating performance of existing facilities: We seek to increase the net cash flow of our existing self-storage facilities by (i) regularly analyzing our call volume, reservation activity, Internet activity, move-in/move-out rates and other market supply and demand factors and responding by adjusting our marketing and promotional activities and rental rates charged to new and existing customers, (ii) attempting to maximize revenues

through evaluating the appropriate balance between occupancy, rental rates, and promotional discounting and (iii) controlling operating costs. We believe that our property management personnel, information technology, our convenient shopping options for the customer, our economies of scale, and our Internet marketing and advertising programs will continue to enhance our ability to meet these goals.

Acquire properties owned by others in the U.S.: We seek to capitalize on the fragmentation of the self-storage business through acquiring attractively priced, well-located existing self-storage facilities. We believe our presence in and knowledge of substantially all of the major markets in the U.S. enhances our ability to identify attractive acquisition opportunities. Data on the rental rates and occupancy levels of our existing facilities provides us an advantage in evaluating the potential of acquisition opportunities. Self-storage owners decide whether to market their facilities for sale based upon many factors, including potential reinvestment returns, expectations of future growth, estimated value, the cost of debt financing, as well as personal considerations. Our aggressiveness in bidding for particular marketed facilities depends upon many factors including the potential for future growth, the quality of construction and location, the cash flow we expect from the facility when operated on our platform, how well the facility fits into our current geographic footprint, as well as our yield expectations. During 2017, 2016 and 2015, we acquired 22, 55 and 17 facilities, respectively, from third parties for approximately \$150 million, \$429 million and \$169 million, respectively, primarily through one to five property portfolio acquisitions. On December 31, 2017, we acquired the remaining 74.25% of the interests which we did not own in a limited partnership that owns 12 self-storage facilities for a total cost of approximately \$136 million. We will continue to seek to acquire properties in 2018; however, there is significant competition to acquire existing facilities. As a result, there can be no assurance as to the level of facilities we may acquire.

Develop new self-storage facilities and expansion of existing facilities: The development of new self-storage locations and the expansion of existing facilities has been an important source of growth. Since the beginning of 2013, we have expanded our development efforts due in part to the significant increase in prices being paid for existing facilities, in many cases well above the cost of developing new facilities. At December 31, 2017, we had a development pipeline to develop new self-storage facilities and, to a lesser extent, expand existing self-storage facilities, which will add approximately 4.6 million net rentable square feet of self-storage space, at a total cost of \$613.8 million. Some of these projects are subject to significant contingencies such as entitlement approval. We expect to continue to seek additional development projects; however, the level of future development may be limited due to various constraints such as difficulty in finding projects that meet our risk-adjusted yield expectations, challenges in obtaining building permits for self-storage activities in certain municipalities, as well as challenges in sourcing quality construction materials, labor, and design elements.

Participate in the growth of PS Business Parks, Inc.: Our investment in PSB provides diversification into another asset type. PSB is a stand-alone public company traded on the NYSE. As of December 31, 2017, we have a 42% equity interest in PSB.

PSB seeks to grow its asset base in favorable markets as well as increase the cash flows from its existing portfolio. As of December 31, 2017, PSB owned and operated approximately 28.0 million rentable square feet of commercial space, and had an enterprise value of approximately \$5.4 billion (based upon the trading price of PSB's common stock combined with the liquidation value of its preferred stock as of December 31, 2017).

Participate in the growth of Shurgard Europe: We believe Shurgard Europe is the largest self-storage company in Western Europe. It owns and operates 221 self-storage facilities with approximately 12 million net rentable square feet in: France (principally Paris), Sweden (principally Stockholm), the United Kingdom (principally London), the Netherlands, Denmark (principally Copenhagen), Belgium and Germany. We own 49% of Shurgard Europe, with the other 51% owned by a large U.S. institutional investor.

Customer awareness and availability of self-storage is significantly lower in Europe than in the U.S. However, with more awareness and product supply, we believe there is potential for increased demand for storage space in Europe. In the long run, we believe Shurgard Europe could capitalize on potential increased demand through the development of new facilities or, to a lesser extent, acquiring existing facilities. From 2014 through 2017, Shurgard Europe acquired 28 facilities with an approximate 1.4 million net rentable square feet in Germany, the Netherlands, the United Kingdom and France for an aggregate purchase price of approximately \$266.0 million. In

addition, from 2014 through 2017, Shurgard Europe opened six development properties in the United Kingdom containing 507,000 net rentable square feet at a cost of \$81.1 million.

Financing of the Company's Growth Strategies

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

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

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

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

We do not expect to use joint venture financing or the sale of properties as sources of capital; however, there can be no assurance that we will not.

We select among the sources of capital available to us based upon relative cost, availability, the desire for leverage, as well as intangibles such as covenants in the case of debt.

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

Preferred equity: As noted above, we view preferred equity as an important source of capital over the long term. However, rates and market conditions for the issuance of preferred securities can be volatile or inefficient from time to time, particularly so in the last few years. Since 2013, we have issued preferred securities at fixed rates ranging from 4.900% to 6.375%. Most recently, in August 2017, we issued \$300 million of preferred securities at a fixed rate of 5.050%. We believe that the market coupon rate of our preferred securities is influenced by long-term interest rates, as well as demand specifically from retail investors. Institutional investors are generally not buyers of our preferred securities. At December 31, 2017, we have approximately \$4.0 billion in preferred securities outstanding with an average coupon rate of 5.4% and an average market yield of 5.3%. As of February 28, 2018, we have four series of preferred securities that are eligible for redemption, at our option and with 30 days' notice; our 5.625% Series U Preferred Shares, with \$287.5 million outstanding, our 5.375% Series V Preferred Shares with \$495.0 million outstanding, our 5.200% Series W Preferred Shares with \$500.0 million outstanding and our 5.200% Series X Preferred Shares with \$225.0 million outstanding. Redemption of such preferred shares will depend upon many

factors, including the rate at which we could issue replacement preferred securities. None of our preferred securities are redeemable at the option of the holders.

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

At December 31, 2017, we have \$1.0 billion of U.S. Dollar Notes, as noted above, and approximately €342 million of Euro-denominated senior unsecured notes (the “Euro Notes”) outstanding, which were issued to institutional investors in 2015 and 2016.

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

Bridge financing: We have a \$500.0 million revolving line of credit which we occasionally use as temporary “bridge” financing, along with short-term bank loans, until we are able to raise longer-term capital. As of December 31, 2017, there were no borrowings outstanding on our revolving line of credit and no short-term bank loans.

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

We have participated in joint ventures with institutional investors in the past to acquire, develop, and operate self-storage facilities, most notably Shurgard Europe, in which we own a 49% interest and an institutional investor owns the remaining 51%. We do not expect joint venture financing to be a material source of capital in the future because we have other sources of capital that are less expensive and because of potential constraints resulting from joint management. However, there can be no assurance that we will not.

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

Investments in Real Estate and Unconsolidated Real Estate Entities

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

- Our investments primarily consist of direct ownership of self-storage facilities (the nature of our self-storage facilities is described in Item 2, “Properties”), as well as partial interests in entities that own self-storage facilities.
- Our partial ownership interests primarily reflect general and limited partnership interests in entities that we control that own self-storage facilities that are managed by us under the “Public Storage” brand name in the U.S., as well as storage facilities located in Europe managed by Shurgard Europe under the “Shurgard” brand name.
- Additional acquired interests in real estate (other than the acquisition of properties from third parties) will include common equity interests in entities in which we already have an interest.

- To a lesser extent, we have interests in existing commercial properties (described in Item 2, “Properties”), containing commercial and industrial rental space, primarily through our investment in PSB.

Facilities Owned by Unconsolidated Real Estate Entities

At December 31, 2017, we had ownership interests in PSB and Shurgard Europe (each discussed above), which we do not control or consolidate. On December 31, 2017, we acquired the remaining 74.25% of the interests which we did not own in a partnership owning 12 self-storage facilities.

PSB and Shurgard Europe, have debt and other obligations that we do not consolidate in our financial statements. Such debt or other obligations have no recourse to us. See Note 4 to our December 31, 2017 financial statements for further disclosure regarding the assets, liabilities and operating results of PSB and Shurgard Europe, as well as PSB’s public filings which are available at its website, www.psbusinessparks.com and on the SEC website.

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

At December 31, 2017, B. Wayne Hughes, our former Chairman and his daughter, Tamara Hughes Gustavson, a member of our Board of Trustees together owned and controlled 58 self-storage facilities in Canada. These facilities operate under the “Public Storage” tradename, which we license to the owners of these facilities for use in Canada on a royalty-free, non-exclusive basis. We have no ownership interest in these facilities and we do not own or operate any facilities in Canada. If we chose to acquire or develop our own facilities in Canada, we would have to share the use of the “Public Storage” name in Canada. We have a right of first refusal, subject to limitations, to acquire the stock or assets of the corporation engaged in the operation of these facilities if their owners agree to sell them. Our subsidiaries reinsure risks relating to loss of goods stored by customers in these facilities, and have received approximately \$1.1 million, \$848,000 and \$562,000 for the years ended December 31, 2017, 2016 and 2015, respectively. Our right to continue receiving these premiums may be qualified.

Limitations on Debt

Our revolving credit facility, U.S. Dollar Notes and Euro Notes contain various customary financial covenants, including limitations on our ability to encumber our properties with mortgages and limitations on the level of indebtedness. We believe we were in compliance with each of these covenants as of December 31, 2017.

Employees

We had approximately 5,600 employees in the U.S. at December 31, 2017 who are engaged primarily in property operations.

Seasonality

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

Insurance

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

We reinsure a program that provides insurance to our customers from an independent third-party insurer. This program covers tenant claims for losses to goods stored at our facilities as a result of specific named perils (earthquakes are not covered by this program), up to a maximum limit of \$5,000 per storage unit. We reinsure all risks in this program, but purchase insurance to cover this exposure for a limit of \$15.0 million for losses in excess of \$5.0 million per occurrence. The program is subject to licensing requirements and regulations in several states. Customers participate in the program at their option. At December 31, 2017, there were approximately 900,000 certificates held by our self-storage customers, representing aggregate coverage of approximately \$2.8 billion.

ITEM 1A. Risk Factors

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

We have significant exposure to real estate risk.

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

Natural disasters or terrorist attacks could cause damage to our facilities, resulting in increased costs and reduced revenues. Natural disasters, such as earthquakes, hurricanes and floods, or terrorist attacks could cause significant damage and require significant repair costs, and make facilities temporarily uninhabitable, reducing our revenues. Damage and business interruption losses could exceed the aggregate limits of our insurance coverage. In addition, because we self-insure a portion of our risks, losses below a certain level may not be covered by insurance. See Note 13 to our December 31, 2017 financial statements for a description of the risks of losses that are not covered by third-party insurance contracts. We may not have sufficient insurance coverage for losses caused by a terrorist attack, or such insurance may not be maintained, available or cost-effective. In addition, significant natural disasters, terrorist attacks, threats of future terrorist attacks, or resulting wider armed conflicts could have negative impacts on the U.S. economy, reducing storage demand.

Operating costs, including property taxes, could increase. We could be subject to increases in insurance premiums, property or other taxes, repair and maintenance costs, payroll, utility costs, workers compensation, and other operating expenses due to various factors such as inflation, labor shortages, commodity and energy price increases, weather, increases to minimum wage rates, changes to governmental safety and real estate use limitations, as well as other governmental actions. Our property tax expense, which totaled approximately \$236.4 million during the year ended December 31, 2017, generally depends upon the assessed value of our real estate facilities as determined by assessors and government agencies, and accordingly could be subject to substantial increases if such agencies changed their valuation approaches or opinions or if new laws are enacted.

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

Development of self-storage facilities can subject us to risks. At December 31, 2017, we have a pipeline of development projects totaling \$614 million (subject to contingencies), and we expect to continue to seek additional development projects. There are significant risks involved in developing self-storage facilities, such as delays or cost

increases due to changes in or failure to meet government or regulatory requirements, failure of revenue to meet our underwriting estimates, weather issues, unforeseen site conditions, or personnel problems. Self-storage space is generally not pre-leased, and rent-up of newly developed space can be delayed or ongoing cash flow yields can be reduced due to competition, reductions in storage demand, or other factors.

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

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

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

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

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

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

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

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

We own a 49% equity interest in Shurgard Europe, with our investment having a \$324 million book value at December 31, 2017, and \$25.9 million in equity in earnings in 2017. As a result, we are exposed to additional risks related to international operations that may adversely impact our business and financial results, including the following:

- *Currency risks:* Currency fluctuations can impact the fair value of our equity investment in Shurgard Europe, as well as future repatriation of cash.
- *Legislative, tax, and regulatory risks:* We are subject to complex foreign laws and regulations related to

permitting and land use, the environment, labor, and other areas, as well as income, property, sales, value added and employment tax laws. These laws can be difficult to apply or interpret and can vary in each country or locality, and are subject to unexpected changes in their form and application due to regional, national, or local political uncertainty and other factors. Such changes, or Shurgard's failure to comply with these laws, could subject it to penalties or other sanctions, adverse changes in business processes, as well as potentially adverse income tax, property tax, or other tax burdens.

- *Impediments to capital repatriation could negatively impact the realization of our investment in Shurgard Europe:* Laws in Europe and the U.S. may create, impede or increase our cost to repatriate capital or earnings from Shurgard Europe.
- *Risks of collective bargaining and intellectual property:* Collective bargaining, which is prevalent in certain areas in Europe, could negatively impact Shurgard Europe's labor costs or operations. Many of Shurgard Europe's employees participate in various national unions.
- *Potential operating and individual country risks:* Economic slowdowns or extraordinary political or social change in the countries in which it operates have posed, and could continue to pose, challenges or result in future reductions of Shurgard Europe's operating cash flows.
- *Impediments of Shurgard Europe's joint venture structure:* Shurgard Europe's strategic decisions, involving activities such as borrowing money, capital contributions, raising capital from third parties, as well as selling or acquiring significant assets, require the consent of our joint venture partner. As a result, Shurgard Europe may be precluded from taking advantage of opportunities that we would find attractive but that we may not be able to pursue economically outside the joint venture. In addition, our 49% equity investment may not be easily sold or readily accepted as collateral by potential lenders to Public Storage due to the joint venture structure.

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

At December 31, 2017, B. Wayne Hughes, our former Chairman and his family, which includes his daughter, Tamara Hughes Gustavson and his son, B. Wayne Hughes, Jr., who are both members of our Board of Trustees (collectively, the "Hughes Family"), owned approximately 14.3% of our aggregate outstanding common shares. Our declaration of trust permits the Hughes Family to own up to 35.66% of our outstanding common shares while it generally restricts the ownership by other persons and entities to 3% of our outstanding common shares. Consequently, the Hughes Family may significantly influence matters submitted to a vote of our shareholders, including electing trustees, amending our organizational documents, dissolving and approving other extraordinary transactions, such as a takeover attempt, resulting in an outcome that may not be favorable to other shareholders.

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

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

- Provisions of Maryland law may impose limitations that may make it more difficult for a third party to negotiate or effect a business combination transaction or control share acquisition with Public Storage. Currently, the Board has opted not to subject the Company to these provisions of Maryland law, but it could choose to do so in the future without shareholder approval.
- To protect against the loss of our REIT status due to concentration of ownership levels, our declaration of trust generally limits the ability of a person, other than the Hughes Family or "designated investment entities" (each as defined in our declaration of trust), to own, actually or constructively, more than 3% of our outstanding common shares or 9.9% of the outstanding shares of any class or series of preferred or equity shares. Our Board may grant a specific exemption.

These limits could discourage, delay or prevent a transaction involving a change in control of the Company not approved by our Board.

- Similarly, current provisions of our declaration of trust and powers of our Board could have the same effect, including (1) limitations on removal of trustees, (2) restrictions on the acquisition of our shares of beneficial interest, (3) the power to issue additional common shares, preferred shares or equity shares on terms approved by the Board without obtaining shareholder approval, (4) the advance notice provisions of our bylaws and (5) the Board's ability under Maryland law, without obtaining shareholder approval, to implement takeover defenses that we may not yet have and to take, or refrain from taking, other actions that could have the effect of delaying, deterring or preventing a transaction or a change in control.

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

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

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

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

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

Recent and potential changes in tax laws could negatively impact us.

The United States Treasury Department and Congress frequently review federal income tax legislation, regulations and other guidance. We cannot predict whether, when or to what extent new federal tax laws, regulations, interpretations or rulings will be adopted. Any legislative action may prospectively or retroactively modify our tax treatment and, therefore, may adversely affect taxation of us or our shareholders. In particular, the legislation passed last December, commonly referred to as the Tax Cuts and Jobs Act (the "TCJA"), which was signed into law on December 22, 2017 and which generally takes effect for taxable years beginning on or after January 1, 2018 (subject to certain exceptions), makes many significant changes to the federal income tax laws that will profoundly impact the taxation of individuals and corporations (both regular C corporations as well as corporations that have elected REIT status). A number of changes that affect non-corporate taxpayers will expire at the end of 2025 unless Congress acts to extend them. These changes will impact us and our shareholders in various ways, some of which are potentially

adverse compared to prior law. To date, the IRS has issued only limited guidance with respect to certain of the new provisions, and there are numerous interpretive issues that will require guidance. It is highly likely that technical corrections legislation will be needed to clarify certain aspects of the new law and give proper effect to Congressional intent. There can be no assurance, however, that technical corrections needed to prevent unintended or unforeseen tax consequences will be enacted by Congress in the near future or that any corrections made may not have further adverse, unintended or unforeseen tax consequences.

Changes made by the TCJA will limit our ability to deduct compensation in excess of \$1 million paid to certain senior executives. This could require us to increase distributions to our shareholders in order to avoid paying tax and to maintain our REIT status.

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

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

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

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

We have over 5,500 employees and 1.5 million customers at any point of time, and we conduct business at facilities with 159 million net rentable square feet of storage space. As a result, we are subject to the risk of legal claims and proceedings (including class actions) and regulatory enforcement actions in the ordinary course of our business and otherwise, and we could incur significant liabilities and substantial legal fees as a result of these actions. Resolution of these claims and actions may divert time and attention by our management and could involve payment of damages or expenses by us, all of which may be significant. In addition, any such resolution could involve our agreement to terms that restrict the operation of our business. The results of legal proceedings cannot be predicted with certainty. We cannot guarantee losses incurred in connection with any current or future legal or regulatory proceedings or actions will not exceed any provisions we may have set aside in respect of such proceedings or actions or will not exceed any available insurance coverage. The impact of any such legal claims, proceedings, and regulatory enforcement actions and could negatively impact our operating results, cash flow available for distribution or reinvestment, and or the price of our common shares.

We are heavily dependent on computer systems, telecommunications and the Internet to process transactions, summarize results and manage our business. Security breaches or a failure of such networks, systems or technology could adversely impact our business, customer, and employee relationships.

We are heavily dependent upon automated information technology and Internet commerce, with more than half of our new customers coming from the telephone or over the Internet, and the nature of our business involves the receipt and retention of personal information about our customers. We also maintain personally identifiable information about our employees. We centrally manage significant components of our operations with our computer systems, including our financial information, and we also rely extensively on third-party vendors to retain data, process transactions and provide other systems services. These systems are subject to damage or interruption from power outages, computer and telecommunications failures, computer worms, viruses and other destructive or disruptive security breaches and catastrophic events.

As a result, our operations could be severely impacted by a natural disaster, terrorist attack or other circumstance that results in a significant outage of our systems or those of our third party providers, despite our use of back up and redundancy measures. Our or our customers' or employees' confidential information could be compromised or misappropriated, due to a breach of our network security. Such cybersecurity and data security breaches as well as systems disruptions and shutdowns could result in additional costs to repair or replace such networks or information systems and possible legal liability, including government enforcement actions and private litigation. In addition, our customers could lose confidence in our ability to protect their personal information, which could cause them to discontinue leasing our self-storage facilities. Such events could lead to lost future revenues and adversely affect our results of operations and could result in remedial and other costs, fines or lawsuits, which could be in excess of any available insurance that we have procured.

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

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

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

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

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

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

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

At December 31, 2017, we had direct and indirect ownership interests in 2,386 self-storage facilities located in 38 states within the U.S. and 222 (including one wholly-owned facility) storage facilities located in seven Western European nations:

	At December 31, 2017	
	Number of Storage Facilities (a)	Net Rentable Square Feet (in thousands)
U.S.:		
California		
Southern	248	18,225
Northern	178	11,057
Texas	297	21,280
Florida	285	19,341
Illinois	126	7,952
Georgia	108	7,129
Washington	94	6,438
North Carolina	89	6,281
Virginia	91	5,593
New York	67	4,672
Colorado	67	4,379
New Jersey	58	3,863
Maryland	62	3,761
Minnesota	48	3,359
South Carolina	58	3,229
Ohio	47	3,081
Arizona	45	2,975
Michigan	44	2,869
Missouri	38	2,236
Indiana	34	2,152
Oregon	39	2,040
Pennsylvania	29	1,993
Tennessee	32	1,952
Nevada	27	1,818
Massachusetts	25	1,691
Oklahoma	21	1,477
Kansas	21	1,268
Other states (12 states)	108	6,406
	<hr/>	<hr/>
Total - U.S.	2,386	158,517
Europe (b):		
Netherlands	61	3,112
France	56	2,929
Sweden	30	1,659
United Kingdom	28	1,640
Belgium	21	1,267
Germany	16	889
Denmark	10	572
	<hr/>	<hr/>
Total - Europe	222	12,068
	<hr/>	<hr/>
Grand Total	2,608	170,585

- (a) See Schedule III: Real Estate and Accumulated Depreciation in the Company's 2017 financials, for a summary of land, building, and accumulated depreciation by market.
- (b) The facilities located in Europe include one facility in the United Kingdom that we wholly own, as well as the facilities owned by Shurgard Europe.

We seek to maximize our facilities' cash flow through the regular review and adjustment of rents charged and promotions granted to our existing and new incoming customers, and controlling expenses. For the year ended December 31, 2017, the weighted average occupancy level and the average realized rent per occupied square foot for our self-storage facilities were approximately 92.1% and \$16.78, respectively, in the U.S. and 86.7% and \$22.15, respectively, in Europe.

At December 31, 2017, 30 of our U.S. facilities with a net book value of \$118 million were encumbered by an aggregate of \$29 million in mortgage notes payable.

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

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

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

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

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

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

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

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

Description of Commercial Properties: We have an interest in PSB, which, as of December 31, 2017, owns and operates approximately 28.0 million rentable square feet of commercial space in six states. At December 31,

2017, the \$400.1 million book value and \$1.8 billion market value, respectively, of our investment in PSB represents approximately 4% and 17%, respectively, of our total book value assets. We also directly own 0.9 million net rentable square feet of commercial space managed primarily by PSB.

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

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

ITEM 3. Legal Proceedings

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

ITEM 4. Mine Safety Disclosures

Not applicable.

PART II

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

a. Market Information of the Registrant’s Common Equity:

Our Common Shares of beneficial interest (the “Common Shares”) (NYSE: PSA) have been listed on the NYSE since October 19, 1984. The following table sets forth the high and low sales prices of our Common Shares on the NYSE composite tapes for the applicable periods.

Year	Quarter	Range	
		High	Low
2016	1 st	276.83	224.71
	2 nd	277.60	234.98
	3 rd	260.83	212.69
	4 th	224.40	200.65
2017	1 st	231.25	212.50
	2 nd	232.21	202.00
	3 rd	219.86	192.15
	4 th	219.37	198.12

As of February 26, 2018, there were approximately 12,795 holders of record of our Common Shares. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

b. Dividends

We have continuously paid quarterly distributions to our shareholders since 1981, our first full year of operations. During 2017 we paid distributions to our common shareholders of \$2.00 per common share for each of the quarters ended March 31, June 30, September 30 and December 31, representing an aggregate of \$1.388 billion or \$8.00 per share. During 2016 we paid distributions to our common shareholders of \$1.70 per common share for the quarter ended March 31, \$1.80 per common share for each of the quarters ended June 30 and September 30 and \$2.00 per common share for the quarter ended December 31, representing an aggregate of \$1.263 billion or \$7.30 per share. During 2015 we paid distributions to our common shareholders of \$1.40 per common share for the quarter ended March 31 and \$1.70 per common share for each of the quarters ended June 30, September 30 and December 31, representing an aggregate of \$1.122 billion or \$6.50 per share.

Holders of common shares are entitled to receive distributions when and if declared by our Board out of any funds legally available for that purpose. As a REIT, we do not incur federal income tax on our REIT taxable income (generally, net rents and gains from real property, dividends, and interest) that is fully distributed each year (for this purpose, certain distributions paid in a subsequent year may be considered), and if we meet certain organizational and operational rules. We believe we have met these requirements in all periods presented herein, and we expect to continue to elect and qualify as a REIT.

For Federal income tax purposes, distributions to shareholders are treated as ordinary income, capital gains, return of capital or a combination thereof. For 2017, 0.0743%, 0.0805% and 0.5352% of the dividends paid in the first, second and fourth quarters, respectively, were classified as long-term capital gain, with the remainder and all other dividends being classified as 100% ordinary income. For 2016, the dividends paid on common shares and preferred shares were all classified as 100% ordinary income.

c. Equity Shares

We are authorized to issue 100,000,000 equity shares from time to time in one or more series and our Board has broad authority to fix the dividend and distribution rights, conversion and voting rights, redemption provisions and liquidation rights of each series of equity shares. We had no equity shares outstanding for any period in the years ended December 31, 2017, 2016 or 2015. We have no plans to issue equity shares.

d. Common Share Repurchases

Our Board has authorized management to repurchase up to 35,000,000 of our common shares on the open market or in privately negotiated transactions. From the inception of the repurchase program through February 28, 2018, we have repurchased a total of 23,721,916 common shares (all purchased prior to 2010) at an aggregate cost of approximately \$679.1 million. Our common share repurchase program does not have an expiration date and there are 11,278,084 common shares that may yet be repurchased under our repurchase program as of December 31, 2017. We have no current plans to repurchase shares; however, future levels of common share repurchases will be dependent upon our available capital, investment alternatives, and the trading price of our common shares.

e. Preferred Share Redemptions

We had no preferred redemptions during the three months ended December 31, 2017.

ITEM 6. Selected Financial Data

	For the year ended December 31,				
	2017	2016	2015	2014	2013
	(Amounts in thousands, except share and per share data)				
Revenues	\$ 2,668,528	\$ 2,560,549	\$ 2,381,696	\$ 2,177,296	\$ 1,964,942
Expenses:					
Cost of operations	707,978	669,083	635,502	613,324	559,759
Depreciation and amortization	454,526	433,314	426,008	437,114	387,402
General and administrative	82,882	83,656	88,177	71,459	66,679
	<u>1,245,386</u>	<u>1,186,053</u>	<u>1,149,687</u>	<u>1,121,897</u>	<u>1,013,840</u>
Operating income	1,423,142	1,374,496	1,232,009	1,055,399	951,102
Interest and other income	18,771	15,138	16,544	17,638	33,979
Interest expense	(12,690)	(4,210)	(610)	(6,781)	(6,444)
Equity in earnings of unconsolidated real estate entities	75,655	56,756	50,937	88,267	57,579
Foreign currency exchange (loss) gain	(50,045)	17,570	306	(7,047)	17,082
Casualty loss	(7,789)	-	-	-	-
Gain on real estate investment sales	1,421	689	18,503	2,479	4,233
Net income	<u>1,448,465</u>	<u>1,460,439</u>	<u>1,317,689</u>	<u>1,149,955</u>	<u>1,057,531</u>
Net income allocated to noncontrolling equity interests	(6,248)	(6,863)	(6,445)	(5,751)	(5,078)
Net income allocable to Public Storage shareholders	<u>\$ 1,442,217</u>	<u>\$ 1,453,576</u>	<u>\$ 1,311,244</u>	<u>\$ 1,144,204</u>	<u>\$ 1,052,453</u>

Per Common Share:

Distributions	\$8.00	\$7.30	\$6.50	\$5.60	\$5.15
Net income – Basic	\$6.75	\$6.84	\$6.10	\$5.27	\$4.92
Net income – Diluted	\$6.73	\$6.81	\$6.07	\$5.25	\$4.89
Weighted average common shares – Basic	173,613	173,091	172,699	172,251	171,640
Weighted average common shares – Diluted	174,151	173,878	173,510	173,138	172,688

Balance Sheet Data:

Total assets	\$ 10,732,892	\$ 10,130,338	\$ 9,778,232	\$ 9,818,676	\$ 9,876,266
Total debt	\$ 1,431,322	\$ 390,749	\$ 319,016	\$ 64,364	\$ 839,053
Total preferred equity	\$ 4,025,000	\$ 4,367,500	\$ 4,055,000	\$ 4,325,000	\$ 3,562,500
Public Storage shareholders' equity	\$ 8,940,009	\$ 9,411,910	\$ 9,170,641	\$ 9,480,796	\$ 8,791,730
Permanent noncontrolling interests' equity	\$ 24,360	\$ 29,744	\$ 26,997	\$ 26,375	\$ 27,125

Net cash flow:

Provided by operating activities	\$ 1,975,679	\$ 1,945,336	\$ 1,748,279	\$ 1,603,542	\$ 1,438,407
Used in investing activities	\$ (739,854)	\$ (699,111)	\$ (456,135)	\$ (194,331)	\$ (1,415,638)
Used in financing activities	\$ (992,219)	\$ (1,148,826)	\$ (1,391,283)	\$ (1,236,864)	\$ (24,228)

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

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

Critical Accounting Policies

Our MD&A discusses our financial statements, which have been prepared in accordance with United States (“U.S.”) generally accepted accounting principles (“GAAP”), and are affected by our judgments, assumptions and estimates. The notes to our December 31, 2017 financial statements, primarily Note 2, summarize our significant accounting policies.

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

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

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

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

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

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

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

materially different conclusions as to the estimated fair values, which would result in different depreciation and amortization expense, gains and losses on sale of real estate assets, and real estate and intangible assets.

Overview

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

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

We plan on growing organically as well as through the acquisition and development of additional facilities. Since the beginning of 2013 through December 31, 2017, we acquired a total of 271 facilities with 19.0 million net rentable square feet from third parties for approximately \$2.5 billion, and we opened newly developed and redeveloped self-storage space for a total cost of \$887.4 million, adding approximately 8.1 million net rentable square feet.

Subsequent to December 31, 2017, we acquired or were under contract to acquire (subject to customary closing conditions) two self-storage facilities for \$18.3 million. We will continue to seek to acquire properties; however, there is significant competition to acquire existing facilities and there can be no assurance as to the level of facilities we may acquire.

As of December 31, 2017, we had additional development and redevelopment projects in process which will add approximately 4.6 million net rentable square feet at a total cost of approximately \$613.8 million. We expect to continue to seek additional development projects; however, the level of such activity may be limited due to various constraints such as difficulty in finding available sites that meet our risk-adjusted yield expectations, as well as challenges in obtaining building permits for self-storage activities in certain municipalities.

We believe that our development and redevelopment activities are beneficial to our business over the long run. However, in the short run, such activities dilute our earnings due to the three to four year period that it takes to fill up newly developed and redeveloped storage facilities and reach a stabilized level of cash flows offset by the cost of capital to fund the cost, combined with related overhead expenses flowing through general and administrative expense. We believe this dilution will increase in 2018 and beyond, because of an increased level of net rentable square feet being added to our portfolio due to continued development and redevelopment efforts.

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

As of December 31, 2017, our capital resources over the next year are expected to be approximately \$1.2 billion which exceeds our current planned capital needs over the next year of approximately \$378.9 million. Our capital resources include: (i) \$433.4 million of cash as of December 31, 2017, (ii) \$483.9 million of available borrowing capacity on our revolving line of credit, and (iii) approximately \$200 million to \$300 million of expected retained operating cash flow for the next twelve months. Retained operating cash flow represents our expected cash flow provided by operating activities, less shareholder distributions and capital expenditures to maintain our real estate facilities.

Our planned capital needs over the next year consist of (i) \$349.4 million of remaining spend on our current development pipeline, (ii) \$18.3 million in property acquisitions currently under contract, and (iii) \$11.2 million in principal repayments on existing debt. Our capital needs may increase significantly over the next year as we expect

to increase our development pipeline and acquire additional properties. In addition to other investment activities, we may also redeem outstanding preferred securities or repurchase shares of our common stock in the future.

In August and September of 2017, due to Hurricanes Harvey and Irma, we recorded a \$7.8 million casualty loss due to damaged buildings and associated expenses, as well as \$5.2 million in incremental ancillary cost of operations representing claims costs resulting from the hurricanes with respect to tenants covered under our tenant reinsurance program. Current loss estimates (including business interruption) are less than our insurance deductibles, as a result, we do not expect to receive any insurance proceeds.

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

Results of Operations

Operating results for 2017 and 2016

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

The \$66.9 million increase in self-storage net operating income is a result of a \$44.6 million increase in our Same Store Facilities (as defined below) and a \$22.3 million increase in our Non Same Store Facilities (as defined below). Revenues for the Same Store Facilities increased 3.0% or \$63.0 million in 2017 as compared to 2016, due primarily to higher realized annual rent per occupied square foot. Cost of operations for the Same Store Facilities increased by 3.4% or \$18.4 million in 2017 as compared to 2016, due primarily to increased property taxes, advertising and selling expense and repairs and maintenance costs, offset partially by lower snow removal costs. The increase in net operating income for the Non Same Store Facilities is due primarily to the impact of 345 self-storage facilities acquired, developed or expanded since January 2015.

Operating results for 2016 and 2015

In 2016, net income allocable to our common shareholders was \$1,183.9 million or \$6.81 per diluted common share, compared to \$1,053.1 million or \$6.07 per share in 2015 representing an increase of \$130.8 million or \$0.74 per share. The increase is primarily due to (i) a \$139.1 million increase in self-storage net operating income and (ii) a \$17.3 million increase in foreign exchange translation gains associated with our euro denominated debt offset partially by (iii) a \$29.0 million reduction in gains on sales of real estate investments, including our equity share and (iv) a \$20.0 million increase in EITF D-42 charges, including our equity share, as a result of preferred redemption activities.

The \$139.1 million increase in self-storage net operating income is a result of a \$104.6 million increase in our Same Store Facilities and a \$34.5 million increase in our Non Same Store Facilities. Revenues for the Same Store Facilities increased 5.8% or \$117.6 million in the year ended December 31, 2016 as compared to 2015, due primarily to higher realized annual rent per occupied square foot. Cost of operations for the Same Store Facilities increased by 2.5% or \$13.1 million in the year ended December 31, 2016 as compared to 2015, due primarily to increased property taxes, on-site property manager payroll and repairs and maintenance, offset partially by lower snow removal costs. The increase in net operating income for the Non Same Store Facilities is due primarily to the impact of 295 self-storage facilities acquired, developed or expanded in 2015 and 2016.

Funds from Operations and Core Funds from Operations

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

For each of the years ended December 31, 2017 and 2016, FFO was \$9.70 per diluted common share, as compared to \$8.79 for the same period in 2015, representing an increase in 2016 of 10.4%, or \$0.91 per diluted common share.

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

	Year Ended December 31,		
	2017	2016	2015
	(Amounts in thousands, except per share data)		
<u>Reconciliation of Diluted Earnings per Share to FFO per Share:</u>			
Diluted Earnings per Share	\$ 6.73	\$ 6.81	\$ 6.07
Eliminate amounts per share excluded from FFO:			
Depreciation and amortization allocable to common shareholders	3.00	2.90	2.89
Gains on sale of real estate investments, including our equity share from investments, and other	(0.03)	(0.01)	(0.17)
FFO per share	<u>\$ 9.70</u>	<u>\$ 9.70</u>	<u>\$ 8.79</u>
<u>Computation of FFO per Share:</u>			
Net income allocable to common shareholders	\$ 1,171,609	\$ 1,183,879	\$ 1,053,050
Eliminate items excluded from FFO:			
Depreciation and amortization	454,526	433,314	426,008
Depreciation from unconsolidated real estate investments	71,931	74,407	78,985
Depreciation allocated to noncontrolling interests and restricted share unitholders	(3,567)	(3,549)	(3,519)
Gains on sale of real estate investments, including our equity share from investments	(4,908)	(768)	(29,721)
FFO allocable to common shares	<u>\$ 1,689,591</u>	<u>\$ 1,687,283</u>	<u>\$ 1,524,803</u>
Diluted weighted average common shares	<u>174,151</u>	<u>173,878</u>	<u>173,510</u>
FFO per share	<u>\$ 9.70</u>	<u>\$ 9.70</u>	<u>\$ 8.79</u>

We also present “Core FFO per share,” a non-GAAP measure that represents FFO per share excluding the impact of (i) foreign currency exchange gains and losses, (ii) EITF D-42 charges related to the redemption of preferred securities, (iii) reversals of accruals with respect to share based awards forfeited by executive officers and (iv) certain

other non-cash and/or nonrecurring income or expense items. We review Core FFO per share to evaluate our ongoing operating performance, and we believe it is used by investors and REIT analysts in a similar manner. However, Core FFO per share is not a substitute for net income per share. Because other REITs may not compute Core FFO per share in the same manner as we do, may not use the same terminology or may not present such a measure, Core FFO per share may not be comparable among REITs.

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

	Year Ended December 31,			Year Ended December 31,		
	2017	2016	Percentage Change	2016	2015	Percentage Change
FFO per share	\$ 9.70	\$ 9.70	0.0%	\$ 9.70	\$ 8.79	10.4%
Eliminate the per share impact of items excluded from Core FFO, including our equity share from investments:						
Foreign currency exchange loss (gain)	0.29	(0.11)		(0.11)	(0.01)	
Application of EITF D-42	0.19	0.17		0.17	0.06	
Casualty losses and tenant claims due to hurricanes	0.07	-		-	-	
Reversals of accruals on forfeited executive share-based awards	(0.03)	-		-	-	
Other items	0.01	0.03		0.03	0.06	
Core FFO per share	<u>\$ 10.23</u>	<u>\$ 9.79</u>	<u>4.5%</u>	<u>\$ 9.79</u>	<u>\$ 8.90</u>	10.0%

Analysis of Net Income by Reportable Segment

The following discussion and analysis is presented and organized in accordance with Note 11 to our December 31, 2017 financial statements, "Segment Information." Accordingly, refer to the tables presented in Note 11 in order to reconcile such amounts to our total net income and for further information on our reportable segments.

Self-Storage Operations

Our self-storage operations are analyzed in two groups: (i) the 2,042 facilities that we have owned and operated on a stabilized basis since January 1, 2015 (the "Same Store Facilities"), and (ii) all other facilities, which are newly acquired, newly developed, or recently redeveloped (the "Non Same Store Facilities"). See Note 11 to our December 31, 2017 financial statements "Segment Information," for a reconciliation of the amounts in the tables below to our total net income.

Self-Storage Operations

Summary

	Year Ended December 31,			Year Ended December 31,		
	2017	2016	Percentage Change	2016	2015	Percentage Change
(Dollar amounts in thousands)						
Revenues:						
Same Store Facilities	\$ 2,196,373	\$ 2,133,356	3.0%	\$ 2,133,356	\$ 2,015,713	5.8%
Non Same Store Facilities	316,060	272,472	16.0%	272,472	219,812	24.0%
	<u>2,512,433</u>	<u>2,405,828</u>	4.4%	<u>2,405,828</u>	<u>2,235,525</u>	7.6%
Cost of operations:						
Same Store Facilities	558,939	540,524	3.4%	540,524	527,452	2.5%
Non Same Store Facilities	98,694	77,381	27.5%	77,381	59,244	30.6%
	<u>657,633</u>	<u>617,905</u>	6.4%	<u>617,905</u>	<u>586,696</u>	5.3%
Net operating income (a):						
Same Store Facilities	1,637,434	1,592,832	2.8%	1,592,832	1,488,261	7.0%
Non Same Store Facilities	217,366	195,091	11.4%	195,091	160,568	21.5%
Total net operating income	<u>1,854,800</u>	<u>1,787,923</u>	3.7%	<u>1,787,923</u>	<u>1,648,829</u>	8.4%
Depreciation and amortization expense:						
Same Store Facilities	(352,037)	(357,240)	(1.5)%	(357,240)	(375,415)	(4.8)%
Non Same Store Facilities	(102,489)	(76,074)	34.7%	(76,074)	(50,593)	50.4%
Total depreciation and amortization expense	<u>(454,526)</u>	<u>(433,314)</u>	4.9%	<u>(433,314)</u>	<u>(426,008)</u>	1.7%
Net income:						
Same Store Facilities	1,285,397	1,235,592	4.0%	1,235,592	1,112,846	11.0%
Non Same Store Facilities	114,877	119,017	(3.5)%	119,017	109,975	8.2%
Total net income	<u>\$ 1,400,274</u>	<u>\$ 1,354,609</u>	3.4%	<u>\$ 1,354,609</u>	<u>\$ 1,222,821</u>	10.8%
Number of facilities at period end:						
Same Store Facilities	2,042	2,042	-	2,042	2,042	-
Non Same Store Facilities	345	295	16.9%	295	224	31.7%
Net rentable square footage at period end (in thousands):						
Same Store Facilities	130,264	130,264	-	130,264	130,264	-
Non Same Store Facilities	28,312	23,494	20.5%	23,494	17,098	37.4%

- (a) Net operating income or "NOI" is a non-GAAP financial measure that excludes the impact of depreciation and amortization expense, which is based upon historical real estate costs and assumes that building values diminish ratably over time, while we believe that real estate values fluctuate due to market conditions. We utilize NOI in determining current property values, evaluating property performance, and in evaluating property operating trends. We believe that investors and analysts utilize NOI in a similar manner. NOI is not a substitute for net income, net operating cash flow, or other related GAAP financial measures, in evaluating our operating results. See Note 11 to our December 31, 2017 financial statements for a reconciliation of NOI to our total net income for all periods presented.

Net operating income from our self-storage operations has increased 3.7% in 2017 as compared to 2016 and 8.4% in 2016 as compared to 2015. These increases are due to higher revenues in our Same Store Facilities, as well as the acquisition and development of new facilities and the fill-up of unstabilized facilities.

Same Store Facilities

The Same Store Facilities represent those facilities that have been owned and operated at a stabilized level of occupancy, revenues and cost of operations since January 1, 2015. We review the operations of our Same Store Facilities, which excludes facilities whose operating trends are significantly affected by factors such as casualty events, as well as recently developed or acquired facilities, to more effectively evaluate the ongoing performance of our self-storage portfolio in 2015, 2016, and 2017. We believe the Same Store information is used by investors and analysts in a similar manner. The following table summarizes the historical operating results of these 2,042 facilities (130.3 million net rentable square feet) that represent approximately 82% of the aggregate net rentable square feet of our U.S. consolidated self-storage portfolio at December 31, 2017.

Selected Operating Data for the Same Store Facilities (2,042 facilities)

	Year Ended December 31,			Year Ended December 31,		
	2017	2016	Percentage Change	2016	2015	Percentage Change
(Dollar amounts in thousands, except weighted average amounts)						
Revenues:						
Rental income	\$ 2,098,780	\$ 2,035,701	3.1%	\$ 2,035,701	\$ 1,921,990	5.9%
Late charges and administrative fees	97,593	97,655	(0.1)%	97,655	93,723	4.2%
Total revenues (a)	2,196,373	2,133,356	3.0%	2,133,356	2,015,713	5.8%
Cost of operations:						
Property taxes	199,628	191,912	4.0%	191,912	183,136	4.8%
On-site property manager payroll	107,535	106,460	1.0%	106,460	102,928	3.4%
Supervisory payroll	38,041	36,966	2.9%	36,966	35,932	2.9%
Repairs and maintenance	46,294	44,178	4.8%	44,178	46,745	(5.5)%
Utilities	39,135	39,424	(0.7)%	39,424	40,873	(3.5)%
Advertising and selling expense	28,443	25,824	10.1%	25,824	25,714	0.4%
Other direct property costs	57,853	55,797	3.7%	55,797	53,884	3.6%
Allocated overhead	42,010	39,963	5.1%	39,963	38,240	4.5%
Total cost of operations (a)	558,939	540,524	3.4%	540,524	527,452	2.5%
Net operating income	1,637,434	1,592,832	2.8%	1,592,832	1,488,261	7.0%
Depreciation and amortization expense	(352,037)	(357,240)	(1.5)%	(357,240)	(375,415)	(4.8)%
Net income	\$ 1,285,397	\$ 1,235,592	4.0%	\$ 1,235,592	\$ 1,112,846	11.0%
Gross margin (before depreciation and amortization expense)	74.6%	74.7%	(0.1)%	74.7%	73.8%	1.2%
Weighted average for the period:						
Square foot occupancy	93.8%	94.5%	(0.7)%	94.5%	94.4%	0.1%
Realized annual rental income per (b):						
Occupied square foot	\$ 17.19	\$ 16.54	3.9%	\$ 16.54	\$ 15.63	5.8%
Available square foot	\$ 16.11	\$ 15.63	3.1%	\$ 15.63	\$ 14.75	6.0%
At December 31:						
Square foot occupancy	91.2%	92.5%	(1.4)%	92.5%	92.8%	(0.3)%
Annual contract rent per occupied square foot (c)	\$ 17.97	\$ 17.44	3.0%	\$ 17.44	\$ 16.63	4.9%

- (a) Revenues and cost of operations do not include tenant reinsurance and merchandise sale revenues and expenses generated at the facilities.
- (b) Realized annual rent per occupied square foot is computed by dividing rental income, before late charges and administrative fees, by the weighted average occupied square feet for the period. Realized annual rent per available square foot (“REVPAF”) is computed by dividing rental income, before late charges and administrative fees, by the total available net rentable square feet for the period. These measures exclude late charges and administrative fees in order to provide a better measure of our ongoing level of revenue. Late charges are dependent upon the level of delinquency, and administrative fees are dependent upon the level of move-ins. In addition, the rates charged for late charges and administrative fees can vary independently from rental rates. These measures take into consideration promotional discounts, which reduce rental income.
- (c) Annual contract rent represents the agreed upon monthly rate that is paid by our tenants in place at the time of measurement. Contract rates are initially set in the lease agreement upon move-in, and we adjust them from time to time with notice. Contract rent excludes other fees that are charged on a per-item basis, such as late charges and administrative fees, does not reflect the impact of promotional discounts, and does not reflect the impact of rents that are written off as uncollectible.

Analysis of Same Store Revenue

Revenues generated by our Same Store Facilities increased by 3.0% in 2017 as compared to 2016 and by 5.8% in 2016 as compared to 2015, due primarily to increases of 3.9% and 5.8% in 2017 and 2016, respectively, as compared to the year prior for the respective periods in realized annual rental income per occupied square foot.

Year-over-year growth in our Same Store revenues has declined from 5.8% in 2016 as compared to 2015, to 3.0% in 2017 as compared to 2016. Growth trends were decelerating throughout 2017, with year over year revenue growth at 4.0% for the three months ended March 31, 2017, 3.4% for the three months ended June 30, 2017, 2.4% for the three months ended September 30, 2017, and 2.1% for the three months ended December 31, 2017. We are experiencing softness in demand in substantially all of our major markets, which has led to lower move-in volumes combined with a lack of pricing power with respect to new tenants. We attribute some of this softness to local economic conditions and, in some markets most notably Atlanta, Austin, Charlotte, Chicago, Dallas, Denver, Houston, and New York, increased supply of newly constructed self-storage facilities.

Same Store weighted average square foot occupancy remained strong at 93.8%, 94.5% and 94.4% during 2017, 2016 and 2015, respectively, as move-out volumes declined in 2017, partially offsetting lower move-in volume.

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

Increasing rental rates to existing tenants, generally on an annual basis, is a key component of our revenue growth. We determine the level of rental increases based upon our expectations regarding the impact of existing tenant rate increases on incremental move-outs. Rental rate increases to existing tenants in 2017 have been similar to 2016, and we expect rate increases to existing tenants in 2018 to be similar to 2017.

Annual contract rent per occupied foot increased 3.0% from December 31, 2016 to December 31, 2017, as compared to a 4.9% increase from December 31, 2015 to December 31, 2016. These year-over-year increases were primarily driven by annual rate increases given to existing tenants, partially offset by the net impact of replacing vacating tenants with new tenants with lower contract rates, or “rent roll down.” The reduction in the year over year growth in average contract rent per occupied foot to 3.0% from 4.9% is due primarily to a greater degree of rent roll down.

During 2017 and 2016, the annual contract rent for tenants who moved in was flat at \$14.67 per foot, and the annual contract rent for tenants who moved out increased 2.8% to \$16.10 per foot as compared to \$15.66 per foot for 2016. During 2016, the annual contract rent for tenants who moved in increased 1.4% to \$14.67 per foot as compared to \$14.47 in 2015, and the annual contract rent for tenants who moved out increased 4.1% to \$15.66 per foot as compared to \$15.05 per foot for 2015.

In order to stimulate move-in volume, we often give promotional discounts, generally in the form of a "\$1.00 rent for the first month" offer. Promotional discounts, based upon the move-in contractual rates for the related promotional period, totaled \$83.6 million, \$87.1 million and \$86.6 million for 2017, 2016 and 2015, respectively, and are recorded as a reduction to revenue.

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

We believe rental growth in 2018 will come primarily from continued annual rent increases to existing tenants. Our future rental growth will also be dependent upon many factors for each market that we operate in, including demand for self-storage space, the level of new supply of self-storage space and the average length of stay of our tenants.

We believe that the current trends in move-in, move-out, in place contractual rents and occupancy levels are consistent with continued moderate revenue growth in 2018. However, there can be no assurance of continued revenue growth, because current trends, when viewed in the short-run, are volatile and not necessarily predictive of our revenues going forward because they are subject to many short-term factors. Such factors include initial move-in rates, seasonal factors, the unit size and geographical mix of the specific tenants moving in or moving out, the length of stay of the tenants moving in or moving out, changes in our pricing strategies, the level of consumer demand, competition from newly developed facilities, and the degree and timing of rate increases previously passed to existing tenants.

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

Analysis of Same Store Cost of Operations

Cost of operations (excluding depreciation and amortization) increased 3.4% in 2017 as compared to 2016, due primarily to increased property tax expense, advertising and selling expense, and repairs and maintenance expense (excluding snow removal cost), partially offset by reduced snow removal cost. Cost of operations increased by 2.5% in 2016 as compared to 2015, due primarily to increased property tax expense, on-site property manager payroll, and repairs and maintenance expense (excluding snow removal cost), partially offset by reduced snow removal cost.

Property tax expense increased 4.0% in 2017 as compared to 2016 and by 4.8% in 2016 as compared to 2015, due primarily to higher assessed values. We expect property tax expense growth of approximately 4.5% in 2018 due primarily to higher assessed values and changes in tax rates.

On-site property manager payroll expense increased 1.0% in 2017 as compared to 2016 due primarily to higher wage rates and by 3.4% in 2016 as compared to 2015, due primarily to reductions in prior estimates of workers compensation costs recorded in 2015, higher employee health care expenses experienced in 2016 and higher wage rates. We expect on-site property manager payroll expense to increase on an inflationary basis in 2018.

Supervisory payroll expense, which represents compensation paid to the management personnel who directly and indirectly supervise the on-site property managers, increased 2.9% in 2017 as compared to 2016 and in 2016 as compared to 2015, due primarily to higher wage rates and increased headcount. We expect inflationary increases in wage rates and stable headcount in 2018.

Repairs and maintenance expense increased 4.8% in 2017 as compared to 2016 and decreased 5.5% in 2016 as compared to 2015. Repair and maintenance costs include snow removal expense totaling \$3.1 million, \$4.2 million and \$9.8 million in 2017, 2016 and 2015, respectively. Excluding snow removal costs, repairs and maintenance increased 8.2% in 2017 as compared to 2016 and 8.0% in 2016 as compared to 2015.

Repairs and maintenance expense levels are dependent upon many factors such as weather conditions, which can impact repair and maintenance needs including snow removal, inflation in material and labor costs, and random events. We expect inflationary increases in repairs and maintenance expense in 2018, excluding snow removal expense, which is primarily weather dependent and not predictable.

Our utility expenses are comprised primarily of electricity costs, which are dependent upon energy prices and usage levels. Changes in usage levels are driven primarily by weather and temperature. Utility expense decreased 0.7% in 2017 as compared to 2016 and 3.5% in 2016 as compared to 2015. The decrease in 2016 over 2015 is due primarily to lower usage as a result of milder weather. It is difficult to estimate future utility costs, because weather, temperature, and energy prices are volatile and not predictable.

Advertising and selling expense is comprised principally of Internet advertising, television advertising and the operating costs of our telephone reservation center. Advertising and selling expense varies based upon demand, occupancy levels, and other factors. Television and Internet advertising, in particular, can increase or decrease significantly in the short term. Advertising and selling expenses increased 10.1% in 2017 as compared to 2016 due primarily to increased Internet marketing expenditures. Advertising and selling expenses increased 0.4% in 2016 as compared to 2015. We expect moderate increases in advertising and selling expense in 2018.

Other direct property costs include administrative expenses incurred at the self-storage facilities, such as property insurance, business license costs, bank charges related to processing the facilities' cash receipts, credit card fees, and the cost of operating each property's rental office. These costs increased 3.7% in 2017 as compared to 2016 and 3.6% in 2016 as compared to 2015. The increases were due primarily to higher credit card fees, due to a higher proportion of collections being received from credit cards and higher revenues. We expect inflationary increases in other direct property costs in 2018.

Allocated overhead represents administrative expenses for shared general corporate functions, which are allocated to self-storage property operations to the extent their efforts are devoted to self-storage operations. Such functions include information technology, human resources, operational accounting and finance, marketing, and costs of senior executives (other than the Chief Executive Officer and Chief Financial Officer, which are included in general and administrative expense). Allocated overhead increased 5.1% in 2017 as compared to 2016, due to increased headcount and information technology expenses, offset partially by the timing of our annual sales conference. Allocated overhead increased 4.5% in 2016 as compared to 2015 due primarily to additional costs of our annual field staff sales meetings and increased compensation costs. We expect greater than inflationary increases in allocated overhead in 2018 due primarily to increased information technology expenses.

Analysis of Same Store Depreciation and Amortization

Depreciation and amortization for Same Store Facilities decreased 1.5% in 2017 as compared to 2016 and 4.8% in 2016 as compared to 2015. We expect depreciation to be flat in 2018 as compared to 2017.

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

	For the Quarter Ended				Entire Year
	March 31	June 30	September 30	December 31	
	(Amounts in thousands, except for per square foot amounts)				
Total revenues:					
2017	\$ 533,706	\$ 546,543	\$ 564,394	\$ 551,730	\$ 2,196,373
2016	\$ 512,971	\$ 528,820	\$ 551,418	\$ 540,147	\$ 2,133,356
2015	\$ 480,263	\$ 497,560	\$ 523,090	\$ 514,800	\$ 2,015,713
Total cost of operations:					
2017	\$ 148,032	\$ 146,341	\$ 147,498	\$ 117,068	\$ 558,939
2016	\$ 142,437	\$ 138,788	\$ 145,145	\$ 114,154	\$ 540,524
2015	\$ 146,256	\$ 133,147	\$ 136,510	\$ 111,539	\$ 527,452
Property taxes:					
2017	\$ 55,889	\$ 56,200	\$ 55,874	\$ 31,665	\$ 199,628
2016	\$ 53,555	\$ 53,765	\$ 53,479	\$ 31,113	\$ 191,912
2015	\$ 51,170	\$ 51,151	\$ 50,674	\$ 30,141	\$ 183,136
Repairs and maintenance:					
2017	\$ 11,639	\$ 11,341	\$ 11,380	\$ 11,934	\$ 46,294
2016	\$ 11,420	\$ 10,590	\$ 11,042	\$ 11,126	\$ 44,178
2015	\$ 16,487	\$ 9,219	\$ 10,467	\$ 10,572	\$ 46,745
Advertising and selling expense:					
2017	\$ 6,741	\$ 8,052	\$ 6,901	\$ 6,749	\$ 28,443
2016	\$ 5,187	\$ 5,678	\$ 7,693	\$ 7,266	\$ 25,824
2015	\$ 6,339	\$ 5,694	\$ 7,113	\$ 6,568	\$ 25,714
REVPAF:					
2017	\$ 15.65	\$ 16.05	\$ 16.56	\$ 16.18	\$ 16.11
2016	\$ 15.01	\$ 15.52	\$ 16.14	\$ 15.83	\$ 15.63
2015	\$ 14.06	\$ 14.59	\$ 15.30	\$ 15.06	\$ 14.75
Weighted average realized annual rent per occupied square foot:					
2017	\$ 16.83	\$ 17.00	\$ 17.52	\$ 17.40	\$ 17.19
2016	\$ 16.04	\$ 16.29	\$ 16.95	\$ 16.89	\$ 16.54
2015	\$ 15.08	\$ 15.32	\$ 16.06	\$ 16.07	\$ 15.63
Weighted average occupancy levels for the period:					
2017	93.1%	94.6%	94.5%	93.1%	93.8%
2016	93.6%	95.4%	95.3%	93.8%	94.5%
2015	93.3%	95.3%	95.3%	93.8%	94.4%

Analysis of Market Trends

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

Same Store Facilities Operating Trends by Market

	Year Ended December 31,			Year Ended December 31,		
	2017	2016	Change	2016	2015	Change
(Amounts in thousands, except for weighted average data)						
Revenues:						
Los Angeles (201 facilities)	\$ 333,020	\$ 315,958	5.4%	\$ 315,958	\$ 294,027	7.5%
San Francisco (123 facilities)	183,969	177,075	3.9%	177,075	165,907	6.7%
New York (84 facilities)	141,535	138,055	2.5%	138,055	133,213	3.6%
Chicago (129 facilities)	120,500	120,344	0.1%	120,344	117,848	2.1%
Washington DC (84 facilities)	107,096	105,602	1.4%	105,602	102,529	3.0%
Miami (76 facilities)	102,509	101,350	1.1%	101,350	95,587	6.0%
Atlanta (98 facilities)	82,052	79,840	2.8%	79,840	73,861	8.1%
Seattle-Tacoma (69 facilities)	81,327	77,575	4.8%	77,575	71,201	9.0%
Houston (74 facilities)	67,798	69,061	(1.8)%	69,061	67,843	1.8%
Dallas-Ft. Worth (81 facilities)	67,098	66,277	1.2%	66,277	61,851	7.2%
Philadelphia (56 facilities)	54,087	51,908	4.2%	51,908	49,275	5.3%
Orlando-Daytona (62 facilities)	51,123	48,556	5.3%	48,556	45,143	7.6%
West Palm Beach (41 facilities)	50,096	48,069	4.2%	48,069	44,196	8.8%
Minneapolis-St Paul (44 facilities)	44,514	43,300	2.8%	43,300	41,425	4.5%
Portland (40 facilities)	38,529	37,410	3.0%	37,410	34,559	8.2%
All other markets (780 facilities)	671,120	652,976	2.8%	652,976	617,248	5.8%
Total revenues	<u>\$ 2,196,373</u>	<u>\$ 2,133,356</u>	<u>3.0%</u>	<u>\$ 2,133,356</u>	<u>\$ 2,015,713</u>	<u>5.8%</u>
Net operating income:						
Los Angeles	\$ 277,084	\$ 261,287	6.0%	\$ 261,287	\$ 240,762	8.5%
San Francisco	150,483	144,860	3.9%	144,860	134,913	7.4%
New York	102,579	99,886	2.7%	99,886	96,222	3.8%
Chicago	70,445	71,264	(1.1)%	71,264	68,433	4.1%
Washington DC	80,674	80,684	(0.0)%	80,684	78,339	3.0%
Miami	78,112	77,667	0.6%	77,667	72,264	7.5%
Atlanta	60,724	59,360	2.3%	59,360	53,723	10.5%
Seattle-Tacoma	64,139	61,393	4.5%	61,393	55,750	10.1%
Houston	44,712	46,698	(4.3)%	46,698	46,876	(0.4)%
Dallas-Ft. Worth	47,662	47,300	0.8%	47,300	43,292	9.3%
Philadelphia	38,290	36,866	3.9%	36,866	33,856	8.9%
Orlando-Daytona	37,847	35,457	6.7%	35,457	32,277	9.9%
West Palm Beach	37,196	35,927	3.5%	35,927	32,591	10.2%
Minneapolis-St. Paul	30,969	30,221	2.5%	30,221	28,679	5.4%
Portland	30,174	29,351	2.8%	29,351	26,890	9.2%
All other markets	486,344	474,611	2.5%	474,611	443,394	7.0%
Total net operating income	<u>\$ 1,637,434</u>	<u>\$ 1,592,832</u>	<u>2.8%</u>	<u>\$ 1,592,832</u>	<u>\$ 1,488,261</u>	<u>7.0%</u>

**Same Store Facilities Operating
Trends by Market (Continued)**

	Year Ended December 31,			Year Ended December 31,		
	2017	2016	Change	2016	2015	Change
Weighted average square foot occupancy:						
Los Angeles	95.7%	96.0%	(0.3)%	96.0%	95.6%	0.4%
San Francisco	95.4%	96.0%	(0.6)%	96.0%	96.0%	0.0%
New York	94.3%	94.6%	(0.3)%	94.6%	94.7%	(0.1)%
Chicago	91.2%	92.3%	(1.2)%	92.3%	92.7%	(0.4)%
Washington DC	92.7%	93.2%	(0.5)%	93.2%	92.7%	0.5%
Miami	93.5%	94.9%	(1.5)%	94.9%	94.7%	0.2%
Atlanta	93.5%	94.7%	(1.3)%	94.7%	94.3%	0.4%
Seattle-Tacoma	94.8%	95.9%	(1.1)%	95.9%	95.3%	0.6%
Houston	91.6%	92.3%	(0.8)%	92.3%	94.2%	(2.0)%
Dallas-Ft. Worth	93.2%	94.8%	(1.7)%	94.8%	95.0%	(0.2)%
Philadelphia	94.7%	94.5%	0.2%	94.5%	93.8%	0.7%
Orlando-Daytona	95.0%	95.1%	(0.1)%	95.1%	95.1%	0.0%
West Palm Beach	94.7%	95.4%	(0.7)%	95.4%	95.1%	0.3%
Minneapolis-St. Paul	92.4%	92.7%	(0.3)%	92.7%	92.4%	0.3%
Portland	95.3%	96.6%	(1.3)%	96.6%	96.5%	0.1%
All other markets	93.7%	94.4%	(0.7)%	94.4%	94.2%	0.2%
Total weighted average square foot occupancy	<u>93.8%</u>	<u>94.5%</u>	<u>(0.7)%</u>	<u>94.5%</u>	<u>94.4%</u>	<u>0.1%</u>
Realized annual rent per occupied square foot:						
Los Angeles	\$ 24.72	\$ 23.35	5.9%	\$ 23.35	\$ 21.79	7.2%
San Francisco	25.38	24.25	4.7%	24.25	22.68	6.9%
New York	24.78	24.08	2.9%	24.08	23.18	3.9%
Chicago	15.56	15.33	1.5%	15.33	14.96	2.5%
Washington DC	21.15	20.70	2.2%	20.70	20.21	2.4%
Miami	19.93	19.35	3.0%	19.35	18.29	5.8%
Atlanta	12.85	12.33	4.2%	12.33	11.45	7.7%
Seattle-Tacoma	18.97	17.85	6.3%	17.85	16.46	8.4%
Houston	13.95	14.03	(0.6)%	14.03	13.53	3.7%
Dallas-Ft. Worth	13.37	12.99	2.9%	12.99	12.09	7.4%
Philadelphia	15.66	15.04	4.1%	15.04	14.38	4.6%
Orlando-Daytona	13.33	12.61	5.7%	12.61	11.72	7.6%
West Palm Beach	17.92	17.00	5.4%	17.00	15.67	8.5%
Minneapolis-St. Paul	14.66	14.19	3.3%	14.19	13.62	4.2%
Portland	18.56	17.76	4.5%	17.76	16.41	8.2%
All other markets	14.00	13.50	3.7%	13.50	12.78	5.6%
Total realized rent per occupied square foot	<u>\$ 17.19</u>	<u>\$ 16.54</u>	<u>3.9%</u>	<u>\$ 16.54</u>	<u>\$ 15.63</u>	<u>5.8%</u>

**Same Store Facilities Operating
Trends by Market (Continued)**

	Year Ended December 31,			Year Ended December 31,		
	2017	2016	Change	2016	2015	Change
REVPAF:						
Los Angeles	\$ 23.64	\$ 22.42	5.4%	\$ 22.42	\$ 20.84	7.6%
San Francisco	24.20	23.29	3.9%	23.29	21.78	6.9%
New York	23.37	22.78	2.6%	22.78	21.96	3.7%
Chicago	14.19	14.16	0.2%	14.16	13.88	2.0%
Washington DC	19.61	19.28	1.7%	19.28	18.74	2.9%
Miami	18.63	18.37	1.4%	18.37	17.32	6.1%
Atlanta	12.01	11.68	2.8%	11.68	10.80	8.1%
Seattle-Tacoma	17.98	17.12	5.0%	17.12	15.69	9.1%
Houston	12.77	12.96	(1.5)%	12.96	12.74	1.7%
Dallas-Ft. Worth	12.45	12.31	1.1%	12.31	11.48	7.2%
Philadelphia	14.83	14.22	4.3%	14.22	13.49	5.4%
Orlando-Daytona	12.67	12.00	5.6%	12.00	11.15	7.6%
West Palm Beach	16.96	16.23	4.5%	16.23	14.91	8.9%
Minneapolis-St. Paul	13.55	13.15	3.0%	13.15	12.58	4.5%
Portland	17.69	17.15	3.1%	17.15	15.83	8.3%
All other markets	13.11	12.74	2.9%	12.74	12.03	5.9%
Total REVPAF	<u>\$ 16.11</u>	<u>\$ 15.63</u>	<u>3.1%</u>	<u>\$ 15.63</u>	<u>\$ 14.75</u>	<u>6.0%</u>

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

Non Same Store Facilities

The Non Same Store Facilities at December 31, 2017 represent 345 facilities that were not stabilized with respect to occupancies or rental rates since January 1, 2015, or that we did not own as of January 1, 2015. As a result of the stabilization process and timing of when facilities were newly acquired or development activities were completed, year-over-year changes can be significant.

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

**NON SAME STORE
FACILITIES**

	Year Ended December 31,			Year Ended December 31,		
	2017	2016	Change	2016	2015	Change
	(Dollar amounts in thousands, except square foot amounts)					
Revenues:						
2017 acquisitions	\$ 5,577	\$ -	\$ 5,577	\$ -	\$ -	\$ -
2016 acquisitions	36,336	18,174	18,162	18,174	-	18,174
2015 acquisitions	16,935	15,574	1,361	15,574	6,255	9,319
Developed facilities	42,301	23,405	18,896	23,405	9,460	13,945
Other facilities	214,911	215,319	(408)	215,319	204,097	11,222
Total revenues	<u>316,060</u>	<u>272,472</u>	<u>43,588</u>	<u>272,472</u>	<u>219,812</u>	<u>52,660</u>
Cost of operations:						
2017 acquisitions	2,006	-	2,006	-	-	-
2016 acquisitions	13,693	6,455	7,238	6,455	-	6,455
2015 acquisitions	5,298	5,010	288	5,010	2,067	2,943
Developed facilities	19,526	10,932	8,594	10,932	3,934	6,998
Other facilities	58,171	54,984	3,187	54,984	53,243	1,741
Total cost of operations	<u>98,694</u>	<u>77,381</u>	<u>21,313</u>	<u>77,381</u>	<u>59,244</u>	<u>18,137</u>
Net operating income:						
2017 acquisitions	3,571	-	3,571	-	-	-
2016 acquisitions	22,643	11,719	10,924	11,719	-	11,719
2015 acquisitions	11,637	10,564	1,073	10,564	4,188	6,376
Developed facilities	22,775	12,473	10,302	12,473	5,526	6,947
Other facilities	156,740	160,335	(3,595)	160,335	150,854	9,481
Net operating income	<u>217,366</u>	<u>195,091</u>	<u>22,275</u>	<u>195,091</u>	<u>160,568</u>	<u>34,523</u>
Depreciation and amortization expense	<u>(102,489)</u>	<u>(76,074)</u>	<u>(26,415)</u>	<u>(76,074)</u>	<u>(50,593)</u>	<u>(25,481)</u>
Net income	<u>\$ 114,877</u>	<u>\$ 119,017</u>	<u>\$ (4,140)</u>	<u>\$ 119,017</u>	<u>\$ 109,975</u>	<u>\$ 9,042</u>
At December 31:						
Square foot occupancy:						
2017 acquisitions	87.3%	-	-	-	-	-
2016 acquisitions	85.9%	82.9%	3.6%	82.9%	-	-
2015 acquisitions	92.4%	90.8%	1.8%	90.8%	85.3%	6.4%
Developed facilities	63.5%	58.6%	8.4%	58.6%	70.0%	(16.3)%
Other facilities	82.8%	89.0%	(7.0)%	89.0%	90.3%	(1.4)%
	<u>79.9%</u>	<u>82.8%</u>	<u>(3.5)%</u>	<u>82.8%</u>	<u>87.7%</u>	<u>(5.6)%</u>
Annual contract rent per occupied square foot:						
2017 acquisitions	\$ 14.63	\$ -	-	\$ -	\$ -	-
2016 acquisitions	10.23	9.99	2.4%	9.99	-	-
2015 acquisitions	14.17	13.73	3.2%	13.73	12.87	6.7%
Developed facilities	13.33	13.51	(1.3)%	13.51	12.45	8.5%
Other facilities	17.16	16.89	1.6%	16.89	16.17	4.5%
	<u>\$ 15.03</u>	<u>\$ 15.07</u>	<u>(0.3)%</u>	<u>\$ 15.07</u>	<u>\$ 15.61</u>	<u>(3.5)%</u>

NON SAME STORE FACILITIES (Continued)	Year Ended December 31,			Year Ended December 31,		
	2017	2016	Change	2016	2015	Change
Number of facilities:						
2017 acquisitions	34	-	34	-	-	-
2016 acquisitions	55	55	-	55	-	55
2015 acquisitions	17	17	-	17	17	-
Developed facilities	52	36	16	36	20	16
Other facilities	187	187	-	187	187	-
	<u>345</u>	<u>295</u>	<u>50</u>	<u>295</u>	<u>224</u>	<u>71</u>
Net rentable square feet (in thousands):						
2017 acquisitions	2,114	-	2,114	-	-	-
2016 acquisitions	4,177	4,121	56	4,121	-	4,121
2015 acquisitions	1,285	1,285	-	1,285	1,285	-
Developed facilities	6,059	4,019	2,040	4,019	1,878	2,141
Other facilities	14,677	14,069	608	14,069	13,935	134
	<u>28,312</u>	<u>23,494</u>	<u>4,818</u>	<u>23,494</u>	<u>17,098</u>	<u>6,396</u>

The facilities included above under “2017 acquisitions” include 22 facilities acquired from third parties in 2017 at an aggregate cost of \$149.8 million, and 12 stabilized facilities previously owned by a legacy institutional partnership. We began consolidating the 12 facilities effective December 31, 2017 when we acquired the remaining 74.25% interest that we did not own in the partnership for \$135.5 million. For periods prior to December 31, 2017, our existing 25.75% interest in the partnership was reflected as Equity in Earnings of Real Estate Entities, and fees for managing these properties were included in Interest and Other Income on our income statements.

The facilities under “2016 acquisitions” and “2015 acquisitions” were acquired from third parties at a cost of \$429.1 million and \$168.8 million, respectively.

For the year ended December 31, 2017, the weighted average annualized yield on cost, based upon net operating income, for the facilities acquired in each of 2016 and 2015 was 5.3% and 6.9%, respectively. The yields for the facilities acquired in the year ended December 31, 2017 were not meaningful due to our limited ownership period.

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

Since the beginning of 2013, we have opened newly developed facilities with a total cost of \$678.6 million and redeveloped existing facilities, expanding their square footage, for a total cost of \$208.8 million. The newly developed facilities are included in “Developed facilities” and the redeveloped facilities are included in “Other facilities” in the table above. We believe that our real estate development activities are beneficial to our business over the long run. However, in the short run, development activities dilute our earnings due to the three to four year period to reach a stabilized level of cash flows and the cost of capital to fund development, combined with general and administrative expenses associated with development. We believe this dilution will increase in 2018 because of an increased level of net rentable square feet being added to our portfolio.

We expect the Non Same Store Facilities to continue to provide increased net operating income in 2018 as these facilities approach stabilized occupancy levels and the earnings of the 2017 acquisitions are reflected in our operations for a longer period in 2018 as compared to 2017.

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

As of December 31, 2017, we had development and redevelopment projects which will add approximately 4.6 million net rentable square feet of storage space at a total cost of approximately \$613.8 million. Some of these projects are subject to significant contingencies such as entitlement approval. We expect to continue to seek additional development projects; however, the level of future development may be limited due to various constraints such as difficulty in finding projects that meet our risk-adjusted yield expectations and challenges in obtaining building permits for self-storage activities in certain municipalities.

Subsequent to December 31, 2017, we acquired or were under contract to acquire (subject to customary closing conditions) two self-storage facilities for \$18.3 million. We will continue to seek to acquire properties; however, there is significant competition to acquire existing facilities and therefore the dollar value of acquisitions is unpredictable.

Depreciation and amortization with respect to the Non Same Store Facilities totaled \$102.5 million, \$76.1 million and \$50.6 million in 2017, 2016 and 2015, respectively. These amounts include i) depreciation of the buildings acquired or developed, which is recorded generally on a straight line basis, and ii) amortization of cost allocated to the tenants in place upon acquisition of a facility, which is recorded based upon the benefit of such existing tenants to each period and thus is highest when the facility is first acquired and declines as such tenants vacate. With respect to Non Same Store Facilities owned at December 31, 2017, depreciation of buildings and amortization of tenant intangibles is expected to total \$100.8 million and \$12.0 million, respectively, in 2018. The level of future depreciation and amortization will also depend upon the level of acquisitions of facilities and the level of newly developed storage space.

Ancillary Operations

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

	Year Ended December 31,			Year Ended December 31,		
	2017	2016	Change	2016	2015	Change
	(Amounts in thousands)					
Revenues:						
Tenant reinsurance premiums	\$ 122,852	\$ 118,911	\$ 3,941	\$ 118,911	\$ 109,836	\$ 9,075
Merchandise	33,243	35,810	(2,567)	35,810	36,335	(525)
Total revenues	<u>156,095</u>	<u>154,721</u>	<u>1,374</u>	<u>154,721</u>	<u>146,171</u>	<u>8,550</u>
Cost of Operations:						
Tenant reinsurance	30,554	29,145	1,409	29,145	25,997	3,148
Merchandise	19,791	22,033	(2,242)	22,033	22,809	(776)
Total cost of operations	<u>50,345</u>	<u>51,178</u>	<u>(833)</u>	<u>51,178</u>	<u>48,806</u>	<u>2,372</u>
Net income						
Tenant reinsurance	92,298	89,766	2,532	89,766	83,839	5,927
Merchandise	<u>13,452</u>	<u>13,777</u>	<u>(325)</u>	<u>13,777</u>	<u>13,526</u>	<u>251</u>
Total net income	<u>\$ 105,750</u>	<u>\$ 103,543</u>	<u>\$ 2,207</u>	<u>\$ 103,543</u>	<u>\$ 97,365</u>	<u>\$ 6,178</u>

Tenant reinsurance operations: Our tenants have the option of purchasing insurance from a non-affiliated insurance company to cover certain losses to their goods stored at our facilities. A wholly-owned, consolidated subsidiary of Public Storage fully reinsures such policies, and thereby assumes all risk of losses under these policies

from the insurance company. The subsidiary receives reinsurance premiums, substantially equal to the premiums collected from our tenants, from the non-affiliated insurance company. Such reinsurance premiums are shown as “Tenant reinsurance premiums” in the above table.

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

Tenant reinsurance revenue increased from \$109.8 million in 2015 to \$118.9 million in 2016, and to \$122.9 million in 2017, due primarily to an increase in our tenant base due to newly acquired and developed facilities and, with respect to the increase from 2015 to 2016, increased average premiums per insured tenant resulting from higher average policy limits.

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

Cost of operations primarily includes claims paid that are not covered by our outside third-party insurers, as well as claims adjustment expenses. Claims expenses vary based upon the level of insured tenants, and the level events affecting claims at particular properties (such as burglary) as well as catastrophic weather events affecting multiple properties such as hurricanes and floods. Cost of operations increased from \$26.0 million in 2015, to \$29.1 million in 2016, and to \$30.6 million in 2017. Amounts for 2016 includes flooding in Houston and South Carolina, while claims cost for 2017 includes the impact of Hurricanes Harvey and Irma.

Merchandise sales: We sell locks, boxes, and packing supplies at our self-storage facilities, and the level of sales of these items is primarily impacted by the level of move-ins and other customer traffic at our self-storage facilities. We do not expect any significant changes in revenues or profitability from our merchandise sales in 2018.

Equity in earnings of unconsolidated real estate entities

At December 31, 2017, we have equity investments in PSB and Shurgard Europe, which we account for on the equity method and record our pro-rata share of the net income of these entities for each period. The following table, and the discussion below, sets forth the significant components of our equity in earnings of unconsolidated real estate entities:

	Year Ended December 31,			Year Ended December 31,		
	2017	2016	Change	2016	2015	Change
	(Amounts in thousands)					
Equity in earnings:						
PSB	\$ 46,544	\$ 31,707	\$ 14,837	\$ 31,707	\$ 34,155	\$ (2,448)
Shurgard Europe	25,948	22,324	3,624	22,324	14,272	8,052
Disposed Investment (a)	3,163	2,725	438	2,725	2,510	215
Total equity in earnings	<u>\$ 75,655</u>	<u>\$ 56,756</u>	<u>\$ 18,899</u>	<u>\$ 56,756</u>	<u>\$ 50,937</u>	<u>\$ 5,819</u>

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

Investment in PSB: At December 31, 2017 and 2016, we had approximately a 42% common equity interest in PS Business Parks, Inc. (“PSB”), comprised of our ownership of 7,158,354 shares of PSB’s common stock and 7,305,355 limited partnership units in an operating partnership controlled by PSB. The limited partnership units are convertible at our option, subject to certain conditions, on a one-for-one basis into PSB common stock.

At December 31, 2017, PSB wholly-owned approximately 28 million rentable square feet of commercial space and had an interest in 395 apartments. PSB also manages commercial space that we own pursuant to property management agreements.

Equity in earnings from PSB increased \$14.8 million in 2017, as compared to 2016, due primarily to improved real estate facility operating results, reduced depreciation expense, a gain on sale of real estate in 2017, and lower interest expense due to the repayment of debt. Equity in earnings from PSB decreased \$2.4 million in 2016 as compared to 2015, due primarily to our \$11.3 million equity share of gains on dispositions recorded by PSB in 2015, offset partially by our equity share of improved property operations. See Note 4 to our December 31, 2017 financial statements for selected financial information on PSB, as well as PSB's filings and selected financial information that can be accessed through the SEC, and on PSB's website, www.psbbusinessparks.com.

Investment in Shurgard Europe: We have a 49% equity share in Shurgard Europe's net income. At December 31, 2017, Shurgard Europe's operations are comprised of 221 wholly-owned facilities with 12 million net rentable square feet. See Note 4 to our December 31, 2017 financial statements for selected financial data on Shurgard Europe for the years ended December 31, 2017, 2016 and 2015. As described in more detail in Note 4, we receive trademark license fees from Shurgard Europe.

Our equity in earnings from Shurgard Europe increased \$3.6 million in 2017 as compared to 2016, and \$8.1 million in 2016 as compared to 2015, due primarily to improved same-store operating results and increased earnings from newly acquired properties.

In 2017, Shurgard Europe opened two newly developed facilities in the United Kingdom with an aggregate total cost of \$28.8 million. In 2016, Shurgard Europe opened a newly developed facility in the United Kingdom with a total cost of \$12.9 million and in 2015, Shurgard Europe opened three newly developed facilities in the United Kingdom with a total cost of \$39.4 million.

In June 2015, Shurgard Europe acquired 21 facilities in the Netherlands (0.9 million net rentable square feet), for approximately \$146 million (€132 million).

In each of July 2014 and June 2015, Shurgard Europe issued €300 million of unsecured senior notes in various tranches due between July 2021 and June 2030, with an average interest rate of approximately 2.9%.

Unlike our operations in the U.S., Shurgard Europe operates through taxable corporations in each of the countries in which it does business and incurs tax expense. Our equity share of such income tax expense was approximately \$8.6 million, \$5.2 million and \$5.3 million in 2017, 2016 and 2015, respectively.

For purposes of recording our equity in earnings from Shurgard Europe, the Euro was translated at exchange rates of approximately 1.198 U.S. Dollars per Euro at December 31, 2017 (1.052 at December 31, 2016), and average exchange rates of 1.129 for 2017, 1.107 for 2016 and 1.110 for 2015.

Our future earnings from Shurgard Europe will be affected primarily by the operating results of its existing facilities, the exchange rate between the U.S. Dollar and currencies in the countries in which Shurgard Europe conducts its business (principally the Euro), the impact of income taxes, and the degree to which Shurgard Europe reinvests the cash it generates from operations into real estate investments or distributes the amounts to its shareholders.

Analysis of items not allocated to segments

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

	Year Ended December 31,			Year Ended December 31,		
	2017	2016	Change	2016	2015	Change
	(Amounts in thousands)					
Share-based compensation expense	\$ 37,548	\$ 37,483	\$ 65	\$ 37,483	\$ 32,570	\$ 4,913
Costs of senior executives	5,872	6,052	(180)	6,052	5,552	500
Development and acquisition costs	8,193	9,721	(1,528)	9,721	10,006	(285)
Tax compliance costs and taxes paid	4,795	3,859	936	3,859	5,372	(1,513)
Legal costs	6,995	7,305	(310)	7,305	18,366	(11,061)
Public company costs	4,145	3,768	377	3,768	3,632	136
Other costs	15,334	15,468	(134)	15,468	12,679	2,789
Total	<u>\$ 82,882</u>	<u>\$ 83,656</u>	<u>\$ (774)</u>	<u>\$ 83,656</u>	<u>\$ 88,177</u>	<u>\$ (4,521)</u>

Share-based compensation expense includes the amortization of restricted share units and stock options granted to employees and trustees, as well as related employer taxes. Share-based compensation expense varies based upon the level of grants and their related vesting and amortization periods, forfeitures, as well as the Company's common share price on the date of grant. Share-based compensation costs in 2017 include a \$5.4 million reversal of previously amortized costs, due to the forfeiture of share-based compensation resulting from the retirement of certain senior executives in the quarter ended June 30, 2017.

We expect a \$23.6 million increase in share-based compensation expense in 2018 with respect to share-based grants to our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") as of December 31, 2017, who are expected to retire at the end of 2018 and then serve as Trustees of the Company for the foreseeable future. While the actual vesting of such share-based compensation will not accelerate, and will continue to vest under the original schedule only if they continue to serve as trustees, GAAP indicates that the respective service periods for their previous grants while CEO and CFO effectively end on the date of their retirement as CEO and CFO. As a result, the remaining unamortized expense on outstanding grants at December 31, 2017 will be recognized through December 31, 2018, increasing 2018 expense \$23.6 million above what it would have been without the acceleration of amortization. Any additional grants to our CEO and CFO in 2018 will also be amortized through December 31, 2018 and further increase our share-based compensation expense for 2018. See Note 10 to our December 31, 2017 financial statements for further information on our share-based compensation.

Costs of senior executives represent the cash compensation paid to our chief executive officer and chief financial officer.

Development and acquisition costs primarily represent internal and external expenses related to our development activities and the acquisition of real estate facilities and varies primarily based upon the level of development activities undertaken. The amounts in the above table are net of \$9.4 million, \$8.5 million and \$8.1 million for 2017, 2016 and 2015, respectively, in development costs that were capitalized to newly developed and redeveloped self-storage facilities. Development and acquisition costs are expected to increase modestly in 2018.

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

Legal costs include internal personnel as well as fees paid to legal firms and other third parties with respect to general corporate legal matters and risk management, and varies based upon the level of legal activity. The decrease of \$11.1 million in 2016 as compared to 2015, is due primarily to legal fees and expenses associated with certain

litigated matters in 2015, including \$3.5 million accrued in 2015 in connection with the settlement of a legal matter. The future level of legal costs is not determinable.

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

Other costs represent professional and consulting fees, payroll and overhead that are not directly attributable to our property operations. Such costs vary depending upon the level of corporate activities and initiatives and, as such, are not predictable.

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

Interest and other income: Interest and other income is comprised primarily of the net income from our commercial operations and property management operations and to a lesser extent interest earned on cash balances, trademark license fees received from Shurgard Europe, as well as sundry other income items that are received from time to time in varying amounts. Amounts attributable to our commercial operations and property management operations totaled \$10.9 million, \$10.6 million and \$12.0 million in 2017, 2016 and 2015, respectively. We do not expect any significant changes in interest and other income in 2018.

Interest expense: For 2017, 2016 and 2015, we incurred \$17.1 million, \$9.4 million, and \$3.3 million, respectively, of interest on our outstanding debt. In determining interest expense, these amounts were offset by capitalized interest of \$4.4 million, \$5.1 million and \$2.7 million during 2017, 2016, and 2015, respectively, associated with our development activities. On September 18, 2017, we completed a public offering of \$1.0 billion notes (the "U.S. Dollar Notes") bearing an average annual interest rate of 2.732%. At December 31, 2017, we had \$1.4 billion of debt outstanding, with an average interest rate of 2.6%. See Note 6 to our December 31, 2017 financial statements for further information on our debt balances. Future interest expense will be dependent upon the level of outstanding debt and the amount of in-process development costs.

Foreign Exchange Gain (Loss): For 2017, we recorded a foreign currency translation loss of \$50.0 million representing the change in the U.S. Dollar equivalent of our Euro-denominated unsecured notes due to fluctuations in exchange rates (gains of \$17.6 million and \$306,000 for 2016 and 2015, respectively). The Euro was translated at exchange rates of approximately 1.198 U.S. Dollars per Euro at December 31, 2017, 1.052 at December 31, 2016 and 1.091 at December 31, 2015. Future gains and losses on foreign currency translation will be dependent upon changes in the relative value of the Euro to the U.S. Dollar, and the level of Euro-denominated debt outstanding.

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

Gain on Real Estate Investment Sales: In 2017, 2016 and 2015, we recorded gains totaling \$1.4 million, \$689,000 and \$18.5 million, respectively, primarily in connection with the partial sale of real estate facilities pursuant to eminent domain proceedings.

Net Income Allocable to Preferred Shareholders: Net income allocable to preferred shareholders based upon distributions decreased in 2017 as compared to 2016 and in 2016 as compared to 2015, due primarily to lower average rates offset partially by higher weighted average preferred shares outstanding. We also allocated \$29.3 million, \$26.9 million and \$8.9 million of income from our common shareholders to the holders of our preferred shares in 2017, 2016 and 2015, respectively, in connection with the redemption of our preferred shares. Based upon our preferred shares outstanding at December 31, 2017, our quarterly distribution to our preferred shareholders is expected to be approximately \$54.1 million.

Liquidity and Capital Resources

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

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

We have a \$500.0 million revolving line of credit which we occasionally use as temporary "bridge" financing until we are able to raise longer term capital. As of December 31, 2017 and February 28, 2018, there were no borrowings outstanding on the revolving line of credit, however, we do have approximately \$16.1 million of outstanding letters of credit which limits our borrowing capacity to \$483.9 million.

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

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

As of December 31, 2017, our capital resources over the next year are expected to be approximately \$1.2 billion which exceeds our current planned capital needs over the next year of approximately \$378.9 million. Our capital resources include: (i) \$433.4 million of cash as of December 31, 2017, (ii) \$483.9 million of available borrowing capacity on our revolving line of credit, and (iii) approximately \$200 million to \$300 million of expected retained operating cash flow for the next twelve months. Retained operating cash flow represents our expected cash flow provided by operating activities, less shareholder distributions and capital expenditures to maintain our real estate facilities.

Our planned capital needs over the next year consist of (i) \$349.4 million of remaining spend on our current development pipeline, (ii) \$18.3 million in property acquisitions currently under contract, and (iii) \$11.2 million in principal repayments on existing debt. Our capital needs may increase over the next year as we expect to increase our development pipeline and acquire additional properties. In addition to other investment activities, we may also redeem outstanding preferred securities or repurchase shares of our common stock in the future.

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

Required Debt Repayments: As of December 31, 2017, our outstanding debt totaled approximately \$1.4 billion, consisting of \$29.2 million of secured debt, \$409.7 million of Euro-denominated unsecured debt and \$1.0 billion of U.S. Dollar denominated unsecured debt. Approximate principal maturities are as follows (amounts in thousands):

2018	\$	11,241
2019		1,505
2020		1,585
2021		1,503
2022		502,071
Thereafter		921,024
	\$	<u>1,438,929</u>

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

Capital expenditures totaled \$124.8 million in 2017 and are expected to be approximately \$100 million in 2018. However, we are evaluating the potential upgrade of climate control, offices, lighting, and elevator units in certain facilities, which could result in additional capital expenditure amounts in 2018. For the last four years, capital expenditures have ranged between approximately \$0.45 and \$0.75 per net rentable square foot per year.

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

Distributions paid during 2017 totaled \$1.6 billion, consisting of \$236.5 million to preferred shareholders and \$1.4 billion to common shareholders and restricted share unitholders. All of these distributions were REIT qualifying distributions.

We estimate the annual distribution requirements with respect to our Preferred Shares outstanding at December 31, 2017, to be approximately \$216.3 million per year.

On February 20, 2018, our Board declared a regular common quarterly dividend of \$2.00 per common share. Our consistent, long-term dividend policy has been to distribute only our taxable income. Future quarterly distributions with respect to the common shares will continue to be determined based upon our REIT distribution requirements after taking into consideration distributions to the preferred shareholders and will be funded with cash provided by operating activities.

We estimate we will pay approximately \$8.0 million per year in distributions to noncontrolling interests outstanding at December 31, 2017.

Real Estate Investment Activities: Subsequent to December 31, 2017, we acquired or were under contract to acquire (subject to customary closing conditions) two self-storage facilities for \$18.3 million. We will continue to seek to acquire properties; however, there is significant competition to acquire existing facilities and there can be no assurance as to the level of facilities we may acquire.

As of December 31, 2017 we had development and redevelopment projects at a total cost of approximately \$613.8 million. A total of \$264.4 million of these costs were incurred through December 31, 2017, with the remaining cost to complete of \$349.4 million expected to be incurred primarily in the next 18 months. Some of these projects are subject to significant contingencies such as entitlement approval. We expect to continue to seek additional projects; however, the level of future development and redevelopment may be limited due to various constraints such

as difficulty in finding projects that meet our risk-adjusted yield expectations and challenges in obtaining building permits for self-storage activities in certain municipalities.

Redemption of Preferred Securities: Historically, we have taken advantage of refinancing higher coupon preferred securities with lower coupon preferred securities. In the future, we may also elect to finance the redemption of preferred securities with proceeds from the issuance of debt. As of February 28, 2018, we have four series of preferred securities that are eligible for redemption, at our option and with 30 days' notice; our 5.625% Series U Preferred Shares with \$287.5 million outstanding, our 5.375% Series V Preferred Shares with \$495.0 million outstanding, our 5.200% Series W Preferred Shares with \$500.0 million outstanding and our 5.200% Series X Preferred Shares with \$225.0 million outstanding. Redemption of such preferred shares will depend upon many factors. None of our preferred securities are redeemable at the option of the holders.

Repurchases of Common Shares: Our Board has authorized management to repurchase up to 35,000,000 of our common shares on the open market or in privately negotiated transactions. During 2017, we did not repurchase any of our common shares. From the inception of the repurchase program through February 28, 2018, we have repurchased a total of 23,721,916 common shares at an aggregate cost of approximately \$679.1 million. Future levels of common share repurchases will be dependent upon our available capital, investment alternatives and the trading price of our common shares.

Contractual Obligations

Our significant contractual obligations at December 31, 2017 and their impact on our cash flows and liquidity are summarized below for the years ending December 31 (amounts in thousands):

	Total	2018	2019	2020	2021	2022	Thereafter
Interest and principal payments on debt (1)	\$ 1,708,113	\$ 47,870	\$ 37,788	\$ 37,788	\$ 37,619	\$ 534,660	\$ 1,012,388
Operating leases (2)	86,650	4,352	4,416	4,542	4,674	4,101	64,565
Construction commitments (3)	159,750	127,800	31,950	-	-	-	-
Total	\$ 1,954,513	\$ 180,022	\$ 74,154	\$ 42,330	\$ 42,293	\$ 538,761	\$ 1,076,953

- (1) Represents contractual principal and interest payments. Amounts with respect to certain Euro-denominated debt are based upon exchange rates at December 31, 2017. See Note 6 to our December 31, 2017 financial statements for further information.
- (2) Represents future contractual payments on land, equipment and office space under various operating leases.
- (3) Represents future expected payments for construction under contract at December 31, 2017.

We estimate the annual distribution requirements with respect to our Preferred Shares outstanding at December 31, 2017 to be approximately \$216.3 million per year. Dividends are paid when and if declared by our Board and accumulate if not paid.

Off-Balance Sheet Arrangements: At December 31, 2017, we had no material off-balance sheet arrangements as defined under Regulation S-K 303(a)(4) and the instructions thereto.

ITEM 7A. Quantitative and Qualitative Disclosures about Market Risk

To limit our exposure to market risk, we are capitalized primarily with preferred and common equity. Our preferred shares are redeemable at our option generally five years after issuance, but the holder has no redemption option. Our debt is our only market-risk sensitive portion of our capital structure, which totals approximately \$1.4 billion and represents 16.0% of the book value of our equity at December 31, 2017.

We have foreign currency exposure at December 31, 2017 related to i) our investment in Shurgard Europe, with a book value of \$324.0 million and ii) €342.0 million (\$409.7 million) of Euro-denominated unsecured notes payable.

The fair value of our fixed rate debt at December 31, 2017 is approximately \$1.4 billion. The table below summarizes the annual maturities of our fixed rate debt, which had a weighted average effective rate of 2.6% at December 31, 2017. See Note 6 to our December 31, 2017 financial statements for further information regarding our fixed rate debt (amounts in thousands).

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>Thereafter</u>	<u>Total</u>
Fixed rate debt	\$ 11,241	\$ 1,505	\$ 1,585	\$ 1,503	\$ 502,071	\$ 921,024	\$ 1,438,929

ITEM 9A. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

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

As of December 31, 2017, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2017, at a reasonable assurance level.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control-Integrated Framework* issued by the Committee on Sponsoring Organizations of the Treadway Commission (2013 Framework). Based on our evaluation under the framework in *Internal Control-Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2017.

The effectiveness of internal control over financial reporting as of December 31, 2017, has been audited by Ernst & Young LLP, an independent registered public accounting firm. Ernst & Young LLP's report on our internal control over financial reporting appears below.

Changes in Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth quarter of 2017 to which this report relates that have materially affected, or are reasonable likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Trustees of Public Storage

Opinion on Internal Control over Financial Reporting

We have audited Public Storage's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Public Storage (the Company) maintained, in all material aspects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of Public Storage as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, equity and cash flows, for each of the three years in the period ended December 31, 2017 and the related notes and financial statement schedule listed in the Index at Item 15(a) of the Company and our report dated February 28, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Ernst & Young LLP

Los Angeles, California
February 28, 2018

ITEM 9B. Other Information

None.

PART III

ITEM 10. Trustees, Executive Officers and Corporate Governance

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

Ronald L. Havner, Jr., age 60, has been Chairman and Chief Executive Officer of Public Storage since August 2011 and November 2002, respectively. Mr. Havner joined Public Storage in 1986 and has held a variety of senior management positions. Mr. Havner has been Chairman of the Board of Public Storage's affiliate, PS Business Parks, Inc. ("PSB") since March 1998. As previously disclosed, effective January 1, 2019, Mr. Havner will step down from his position as CEO. He will remain Chairman of the Board.

John Reyes, age 57, has served as Senior Vice President and Chief Financial Officer of Public Storage since 1996, having joined the Company in 1990. Effective January 1, 2019, Mr. Reyes will step down as CFO and will join the Board as a trustee.

Joseph D. Russell, Jr., age 58, has been President of Public Storage since July 2016. Prior to joining Public Storage, Mr. Russell was Chief Executive Officer of PS Business Parks, Inc. from August 2003 to July 2016. Mr. Russell was President of PS Business Parks, Inc. from September 2003 until August 2015. Mr. Russell has also served as a director of PS Business Parks, Inc. since August 2003. Effective January 1, 2019, Mr. Russell will be appointed CEO and will join the Board as a trustee, in addition to his role as President.

Lily Y. Hughes, age 54, became Senior Vice President, Chief Legal Officer and Corporate Secretary in January 2015. Prior to joining Public Storage, Ms. Hughes was Vice President and Associate General Counsel-Corporate, M&A and Finance at Ingram Micro Inc., a Fortune 100 NYSE company with operations in 39 countries, which she joined in 1997.

Other information required by this item is hereby incorporated by reference to the material appearing in the Notice and Proxy Statement for the 2016 Annual Meeting of Shareholders, to be filed pursuant to Regulation 14A under the Exchange Act.

ITEM 11. Executive Compensation

The information required by this item is hereby incorporated by reference to the material appearing in the Notice and Proxy Statement for the 2018 Annual Meeting of Shareholders, to be filed pursuant to Regulation 14A under the Exchange Act.

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

The following table sets forth information as of December 31, 2017 on the Company's equity compensation plans:

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders (a)	3,208,046 (b)	\$192.12 (d)	1,556,829
Equity compensation plans not approved by security holders (c)...	-	-	-

- a) The Company's stock option and stock incentive plans are described more fully in Note 10 to the December 31, 2017 financial statements. All plans were approved by the Company's shareholders.
- b) Includes 799,129 restricted share units that, if and when vested, will be settled in common shares of the Company on a one for one basis.
- c) There are no securities available for future issuance or currently outstanding under plans not approved by the Company's shareholders as of December 31, 2017.
- d) Represents the average exercise price of 2,408,917 stock options outstanding at December 31, 2017. We also have 799,129 restricted share units outstanding at December 31, 2017 that vest for no consideration.

Other information required by this item is hereby incorporated by reference to the material appearing in the Notice and Proxy Statement for the 2018 Annual Meeting of Shareholders, to be filed pursuant to Regulation 14A under the Exchange Act.

ITEM 13. Certain Relationships and Related Transactions and Trustee Independence

The information required by this item is hereby incorporated by reference to the material appearing in the Notice and Proxy Statement for the 2018 Annual Meeting of Shareholders, to be filed pursuant to Regulation 14A under the Exchange Act.

ITEM 14. Principal Accountant Fees and Services

The information required by this item is hereby incorporated by reference to the material appearing in the Notice and Proxy Statement for the 2018 Annual Meeting of Shareholders, to be filed pursuant to Regulation 14A under the Exchange Act of 1934.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

a. 1. Financial Statements

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

2. Financial Statement Schedules

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

3. Exhibits

See Index to Exhibits contained herein.

b. Exhibits:

See Index to Exhibits contained herein.

c. Financial Statement Schedules

Not applicable.

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

- 3.1 Articles of Amendment and Restatement of Declaration of Trust of Public Storage, a Maryland real estate investment trust. Filed with the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009 and incorporated by reference herein.
- 3.2 Bylaws of Public Storage, a Maryland real estate investment trust. Filed with the Registrant's Current Report on Form 8-K dated May 6, 2010 and incorporated by reference herein.
- 3.3 Articles Supplementary for Public Storage 5.625% Cumulative Preferred Shares, Series U. Filed with the Registrant's Current Report on Form 8-K dated June 6, 2012 and incorporated by reference herein.
- 3.4 Articles Supplementary for Public Storage 5.375% Cumulative Preferred Shares, Series V. Filed with the Registrant's Current Report on Form 8-K dated September 11, 2012 and incorporated by reference herein.
- 3.5 Articles Supplementary for Public Storage 5.20% Cumulative Preferred Shares, Series W. Filed with the Registrant's Current Report on Form 8-K dated January 7, 2013 and incorporated by reference herein.
- 3.6 Articles Supplementary for Public Storage 5.20% Cumulative Preferred Shares, Series X. Filed with the Registrant's Current Report on Form 8-K dated March 4, 2013 and incorporated by reference herein.
- 3.7 Articles Supplementary for Public Storage 6.375% Cumulative Preferred Shares, Series Y. Filed with the Registrant's Current Report on Form 8-K dated March 10, 2014 and incorporated by reference herein.
- 3.8 Articles Supplementary for Public Storage 6.375% Cumulative Preferred Shares, Series Y. Filed with the Registrant's Current Report on Form 8-K dated April 9, 2014 and incorporated by reference herein.
- 3.9 Articles Supplementary for Public Storage 6.00% Cumulative Preferred Shares, Series Z. Filed with the Registrant's Current Report on Form 8-K dated May 28, 2014 and incorporated by reference herein.
- 3.10 Articles Supplementary for Public Storage 5.875% Cumulative Preferred Shares, Series A. Filed with the Registrant's Current Report on Form 8-K/A dated November 24, 2014 and incorporated by reference herein.
- 3.11 Articles Supplementary for Public Storage 5.400% Cumulative Preferred Shares, Series B. Filed with the Registrant's Current Report on Form 8-K dated January 12, 2016 and incorporated by reference herein.
- 3.12 Articles Supplementary for Public Storage 5.125% Cumulative Preferred Shares, Series C. Filed with the Registrant's Current Report on Form 8-K dated May 10, 2016 and incorporated by reference herein.
- 3.13 Articles Supplementary for Public Storage 4.950% Cumulative Preferred Shares, Series D. Filed with the Registrant's Current Report on Form 8-K dated July 13, 2016 and incorporated by reference herein.

- 3.14 Articles Supplementary for Public Storage 4.900% Cumulative Preferred Shares, Series E. Filed with the Registrant’s Current Report on Form 8-K dated October 6, 2016 and incorporated by reference herein.
- 3.15 Articles Supplementary for Public Storage 5.150% Cumulative Preferred Shares, Series F. Filed with the Registrant’s Current Report on Form 8-K dated May 23, 2017 and incorporated by reference herein.
- 3.16 Articles Supplementary for Public Storage 5.05% Cumulative Preferred Shares, Series G. Filed with the Registrant’s Current Report on Form 8-K dated July 31, 2017 and incorporated by reference herein.
- 4.1 Master Deposit Agreement, dated as of May 31, 2007. Filed with the Registrant’s Current Report on Form 8-K dated June 6, 2007 and incorporated by reference herein.
- 10.1 Amended Management Agreement between Registrant and Public Storage Commercial Properties Group, Inc. dated as of February 21, 1995. Filed with Public Storage Inc.’s (“PSI”) Annual Report on Form 10-K for the year ended December 31, 1994 (SEC File No. 001-0839) and incorporated herein by reference.
- 10.2 Second Amended and Restated Management Agreement by and among Registrant and the entities listed therein dated as of November 16, 1995. Filed with PS Partners, Ltd.’s Annual Report on Form 10-K for the year ended December 31, 1996 (SEC File No. 001-11186) and incorporated herein by reference.
- 10.3 Agreement of Limited Partnership of PS Business Parks, L.P. Filed with PS Business Parks, Inc.’s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1998 (SEC File No. 001-10709) and incorporated herein by reference.
- 10.4 Amended and Restated Agreement of Limited Partnership of Storage Trust Properties, L.P. (March 12, 1999). Filed with PSI’s Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1999 (SEC File No. 001-0839) and incorporated herein by reference.
- 10.5 Amended and Restated Credit Agreement by and among Registrant, Wells Fargo Securities, LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated as joint lead arrangers, Wells Fargo Bank, National Association, as administrative agent, and the other financial institutions party thereto, dated as of March 21, 2012. Filed with PSI’s Current Report on Form 8-K on March 27, 2012 (SEC File No. 001-0839) and incorporated herein by reference.
- 10.5.1 Second Amendment to Amended and Restated Credit Agreement, dated as of July 17, 2013, by and among Public Storage, the Lenders party thereto and Wells Fargo Bank, National Association. Filed with the Registrant’s Current Report on Form 8-K on July 18, 2013 and incorporated herein by reference.
- 10.5.2 Third Amendment to the Amended and Restated Credit Agreement, dated as of March 31, 2015, among Public Storage, the lenders party thereto and Wells Fargo Bank, National Association, as agent. Filed as Exhibit 10.1 to the Company’s Current Report on Form 8-K on April 2, 2015 (“April 2015 8-K”) and incorporated herein by reference.
- 10.5.3 Copy of the Amended and Restated Credit Agreement dated as of March 21, 2012, consolidating all amendments made by the Letter Agreement, dated as of April 12, 2012, the Second Amendment to Amended and Restated Credit Agreement, dated as of July 17, 2013, and the Third Amendment to Amended and Restated Credit Agreement, dated as of March 31, 2015. This conformed copy was filed as Exhibit 10.2 to the April 2015 8-K for ease of reference and was qualified in its entirety by reference to the Third Amendment and incorporated herein by reference.
- 10.5.4 Fourth Amendment to the Amended and Restated Credit Agreement, dated as of December 22, 2015, among Public Storage, the lenders party thereto and Wells Fargo Bank, National Association, as agent. Filed as Exhibit 10.5.4 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 and incorporated herein by reference.

- 10.6* Shurgard Storage Centers, Inc. 2004 Long Term Incentive Compensation Plan. Filed as Appendix A of Definitive Proxy Statement dated June 7, 2004 filed by Shurgard (SEC File No. 001-11455) and incorporated herein by reference.
- 10.7* Public Storage, Inc. 2001 Stock Option and Incentive Plan (the “2001 Plan”). Filed with PSI’s Registration Statement on Form S-8 (SEC File No. 333-59218) and incorporated herein by reference.
- 10.8* Form of 2001 Plan Non-qualified Stock Option Agreement. Filed with PSI’s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004 (SEC File No. 001-0839) and incorporated herein by reference.
- 10.9* Form of 2001 Plan Restricted Share Unit Agreement. Filed with PSI’s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004 (SEC File No. 001-0839) and incorporated herein by reference.
- 10.10* Form of 2001 Plan Non-Qualified Outside Director Stock Option Agreement. Filed with PSI’s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004 (SEC File No. 001-0839) and incorporated herein by reference.
- 10.11* Form of 2007 Plan Restricted Stock Unit Agreement. Filed as Exhibit 10.11 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 and incorporated herein by reference.
- 10.12* Form of 2007 Plan Restricted Stock Unit Agreement – deferral of receipt of shares. Filed as Exhibit 10.12 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 and incorporated herein by reference.
- 10.13* Form of 2007 Plan Stock Option Agreement. Filed as Exhibit 10.13 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 and incorporated herein by reference.
- 10.14* Form of 2007 Plan Trustee Stock Option Agreement. Filed as Exhibit 10.14 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 and incorporated herein by reference.
- 10.15* Form of 2016 Plan Restricted Stock Unit Agreement. Filed as Exhibit 10.15 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2016 and incorporated herein by reference.
- 10.16* Form of 2016 Plan Restricted Stock Unit Agreement – deferral of receipt of shares. Filed as Exhibit 10.16 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2016 and incorporated herein by reference.
- 10.17* Form of 2016 Plan Non-Qualified Stock Option Agreement. Filed as Exhibit 10.17 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2016 and incorporated herein by reference.
- 10.18* Form of 2016 Plan Trustee Non-Qualified Stock Option Agreement. Filed as Exhibit 10.18 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2016 and incorporated herein by reference.
- 10.19 Form of Trustee and Officer Indemnification Agreement. Filed as Exhibit 10.19 to the Company’s Annual Report on Form 10-K for the year ended December 31, 2016 and incorporated herein by reference.

- 10.20 Term Loan Agreement, by and among Public Storage, Wells Fargo Securities, LLC as Lead Arranger and Wells Fargo National Bank N.A. as Administrative Agent, dated as of December 2, 2013. Filed with Registrant's Current Report on Form 8-K dated December 2, 2013 and incorporated herein by reference.
- 10.21* Public Storage 2007 Equity and Performance-Based Incentive Compensation Plan, as Amended. Filed with Registrant's Current Report on Form 8-K dated May 1, 2014 and incorporated herein by reference.
- 10.22* Public Storage 2016 Equity and Performance-Based Incentive Compensation Plan. Filed as Appendix A to the Company's 2016 Proxy Statement dated March 16, 2016 and incorporated herein by reference.
- 10.23 Note Purchase Agreement, dated as of November 3, 2015, by and among Public Storage and the signatories thereto. Filed with Registrant's Current Report on Form 8-K dated November 3, 2015 and incorporated herein by reference.
- 10.24 Note Purchase Agreement, dated as of April 12, 2016, by and among Public Storage and the signatories thereto. Filed with Registrant's Current Report on Form 8-K dated April 12, 2016 and incorporated herein by reference.
- 10.25 Indenture, dated as of September 18, 2017, between Public Storage and Wells Fargo Bank, National Association, as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed on September 18, 2017 and incorporated herein by reference).
- 10.26 First Supplemental Indenture, dated as of September 18, 2017, between Public Storage and Wells Fargo Bank, National Association, as trustee, including the form of Global Note representing the 2022 Notes and the form of Global Note representing the 2027 Notes (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K filed on September 18, 2017 and incorporated herein by reference).
- 12 Statement Re: Computation of Ratio of Earnings to Fixed Charges and Ratio of Earnings to Combined Fixed Charges and Preferred Share Income Allocations. Filed herewith.
- 23.1 Consent of Ernst & Young LLP. Filed herewith.
- 31.1 Rule 13a – 14(a) Certification. Filed herewith.
- 31.2 Rule 13a – 14(a) Certification. Filed herewith.
- 32 Section 1350 Certifications. Filed herewith.
- 101 .INS XBRL Instance Document. Filed herewith.
- 101 .SCH XBRL Taxonomy Extension Schema. Filed herewith.
- 101 .CAL XBRL Taxonomy Extension Calculation Linkbase. Filed herewith.
- 101 .DEF XBRL Taxonomy Extension Definition Linkbase. Filed herewith.
- 101 .LAB XBRL Taxonomy Extension Label Linkbase. Filed herewith.
- 101 .PRE XBRL Taxonomy Extension Presentation Link. Filed herewith.

_ (1) SEC File No. 001-33519 unless otherwise indicated.

* Denotes management compensatory plan agreement or arrangement.

PUBLIC STORAGE
INDEX TO FINANCIAL STATEMENTS
AND SCHEDULES

(Item 15 (a))

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All other schedules have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the financial statements or notes thereto.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Trustees of Public Storage

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Public Storage (the Company) as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2017 and 2016, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 28, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Security and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company’s auditor since 1980.

Los Angeles, California
February 28, 2018

**PUBLIC STORAGE
BALANCE SHEETS**
(Amounts in thousands, except share data)

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
<u>ASSETS</u>		
Cash and equivalents	\$ 433,376	\$ 183,688
Real estate facilities, at cost:		
Land	3,947,123	3,781,479
Buildings	<u>10,718,866</u>	<u>10,181,750</u>
	14,665,989	13,963,229
Accumulated depreciation	<u>(5,700,331)</u>	<u>(5,270,963)</u>
	8,965,658	8,692,266
Construction in process	<u>264,441</u>	<u>230,310</u>
	9,230,099	8,922,576
Investments in unconsolidated real estate entities	724,173	689,207
Goodwill and other intangible assets, net	214,957	212,719
Other assets	<u>130,287</u>	<u>122,148</u>
Total assets	<u>\$ 10,732,892</u>	<u>\$ 10,130,338</u>
<u>LIABILITIES AND EQUITY</u>		
Notes payable	\$ 1,431,322	\$ 390,749
Accrued and other liabilities	<u>337,201</u>	<u>297,935</u>
Total liabilities	1,768,523	688,684
Commitments and contingencies (Note 13)		
Equity:		
Public Storage shareholders' equity:		
Preferred Shares, \$0.01 par value, 100,000,000 shares authorized, 161,000 shares issued (in series) and outstanding, (174,700 at December 31, 2016), at liquidation preference	4,025,000	4,367,500
Common Shares, \$0.10 par value, 650,000,000 shares authorized, 173,853,370 shares issued and outstanding (173,288,787 shares at December 31, 2016)	17,385	17,329
Paid-in capital	5,648,399	5,609,768
Accumulated deficit	(675,711)	(487,581)
Accumulated other comprehensive loss	<u>(75,064)</u>	<u>(95,106)</u>
Total Public Storage shareholders' equity	8,940,009	9,411,910
Noncontrolling interests	<u>24,360</u>	<u>29,744</u>
Total equity	<u>8,964,369</u>	<u>9,441,654</u>
Total liabilities and equity	<u>\$ 10,732,892</u>	<u>\$ 10,130,338</u>

See accompanying notes.

PUBLIC STORAGE
STATEMENTS OF INCOME
(Amounts in thousands, except per share amounts)

	For the Years Ended December 31,		
	2017	2016	2015
Revenues:			
Self-storage facilities	\$ 2,512,433	\$ 2,405,828	\$ 2,235,525
Ancillary operations	156,095	154,721	146,171
	<u>2,668,528</u>	<u>2,560,549</u>	<u>2,381,696</u>
Expenses:			
Self-storage cost of operations	657,633	617,905	586,696
Ancillary cost of operations	50,345	51,178	48,806
Depreciation and amortization	454,526	433,314	426,008
General and administrative	82,882	83,656	88,177
	<u>1,245,386</u>	<u>1,186,053</u>	<u>1,149,687</u>
Operating income	1,423,142	1,374,496	1,232,009
Interest and other income	18,771	15,138	16,544
Interest expense	(12,690)	(4,210)	(610)
Equity in earnings of unconsolidated real estate entities	75,655	56,756	50,937
Foreign currency exchange (loss) gain	(50,045)	17,570	306
Casualty loss	(7,789)	-	-
Gain on real estate investment sales	1,421	689	18,503
Net income	1,448,465	1,460,439	1,317,689
Allocation to noncontrolling interests	(6,248)	(6,863)	(6,445)
Net income allocable to Public Storage shareholders	1,442,217	1,453,576	1,311,244
Allocation of net income to:			
Preferred shareholders - distributions	(236,535)	(238,214)	(245,097)
Preferred shareholders - redemptions (Note 8)	(29,330)	(26,873)	(8,897)
Restricted share units	(4,743)	(4,610)	(4,200)
Net income allocable to common shareholders	<u>\$ 1,171,609</u>	<u>\$ 1,183,879</u>	<u>\$ 1,053,050</u>
Net income per common share:			
Basic	<u>\$ 6.75</u>	<u>\$ 6.84</u>	<u>\$ 6.10</u>
Diluted	<u>\$ 6.73</u>	<u>\$ 6.81</u>	<u>\$ 6.07</u>
Basic weighted average common shares outstanding	<u>173,613</u>	<u>173,091</u>	<u>172,699</u>
Diluted weighted average common shares outstanding	<u>174,151</u>	<u>173,878</u>	<u>173,510</u>

See accompanying notes.

PUBLIC STORAGE
STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in thousands)

	For the Years Ended December 31,		
	2017	2016	2015
Net income	\$ 1,448,465	\$ 1,460,439	\$ 1,317,689
Other comprehensive income (loss):			
Aggregate foreign currency exchange loss	(30,003)	(8,047)	(20,086)
Adjust for aggregate foreign currency exchange gain in equity in earnings of unconsolidated real estate entities	-	(941)	-
Adjust for aggregate foreign currency exchange loss (gain) included in net income	50,045	(17,570)	(306)
Other comprehensive income (loss)	20,042	(26,558)	(20,392)
Total comprehensive income	1,468,507	1,433,881	1,297,297
Allocation to noncontrolling interests	(6,248)	(6,863)	(6,445)
Comprehensive income allocable to Public Storage shareholders	\$ 1,462,259	\$ 1,427,018	\$ 1,290,852

See accompanying notes.

**PUBLIC STORAGE
STATEMENTS OF EQUITY**
(Amounts in thousands, except share and per share amounts)

	Cumulative Preferred Shares	Common Shares	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Public Storage Shareholders' Equity	Noncontrolling Interests	Total Equity
Balances at December 31, 2014	\$ 4,325,000 (270,000)	\$ 17,245	\$ 5,561,530	\$ (374,823)	\$ (48,156)	\$ 9,480,796 (270,000)	\$ 26,375	\$ 9,507,171 (270,000)
Redemption of 10,800 preferred shares (Note 8)	-	-	-	-	-	-	-	-
Issuance of common shares in connection with share-based compensation (475,687 shares) (Note 10)	-	48	29,615	-	-	29,663	-	29,663
Share-based compensation expense, net of cash paid in lieu of common shares (Note 10)	-	-	15,793	-	-	15,793	-	15,793
Acquisition of noncontrolling interests	-	-	(5,432)	-	-	(5,432)	(60)	(5,492)
Contributions by noncontrolling interests	-	-	-	-	-	-	1,562	1,562
Net income	-	-	-	1,317,689	-	1,317,689	-	1,317,689
Net income allocated to noncontrolling interests	-	-	-	(6,445)	-	(6,445)	6,445	-
Distributions to equity holders:								
Preferred shares (Note 8)	-	-	-	(245,097)	-	(245,097)	-	(245,097)
Noncontrolling interests	-	-	-	-	-	-	(7,325)	(7,325)
Common shares and restricted share units (\$6.50 per share)	-	-	-	(1,125,934)	-	(1,125,934)	-	(1,125,934)
Other comprehensive loss (Note 2)	-	-	-	-	(20,392)	(20,392)	-	(20,392)
Balances at December 31, 2015	4,055,000	17,293	5,601,506	(434,610)	(68,548)	9,170,641	26,997	9,197,638
Cumulative effect of a change in accounting principle (Note 10)	-	-	789	(789)	-	-	-	-
Balances at December 31, 2015, as adjusted	\$ 4,055,000	\$ 17,293	\$ 5,602,295	\$ (435,399)	\$ (68,548)	\$ 9,170,641	\$ 26,997	\$ 9,197,638
Issuance of 47,000 preferred shares (Note 8)	1,175,000	-	(38,797)	-	-	1,136,203	-	1,136,203
Redemption of 34,500 preferred shares (Note 8)	(862,500)	-	-	-	-	(862,500)	-	(862,500)
Issuance of common shares in connection with share-based compensation (367,546 shares) (Note 10)	-	36	25,505	-	-	25,541	-	25,541
Share-based compensation expense, net of cash paid in lieu of common shares (Note 10)	-	-	20,765	-	-	20,765	-	20,765
Contributions by noncontrolling interests	-	-	-	-	-	-	3,470	3,470
Net income	-	-	-	1,460,439	-	1,460,439	-	1,460,439
Net income allocated to noncontrolling interests	-	-	-	(6,863)	-	(6,863)	6,863	-

See accompanying notes.
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PUBLIC STORAGE
STATEMENTS OF EQUITY
(Amounts in thousands, except share and per share amounts)

	Cumulative Preferred Shares	Common Shares	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Public Storage Shareholders' Equity	Noncontrolling Interests	Total Equity
Distributions to equity holders:								
Preferred shares (Note 8)	-	-	-	(238,214)	-	(238,214)	-	(238,214)
Noncontrolling interests	-	-	-	-	-	-	(7,586)	(7,586)
Common shares and restricted share units (\$7.30 per share)	-	-	-	(1,267,544)	-	(1,267,544)	-	(1,267,544)
Other comprehensive loss (Note 2)	-	-	-	-	(26,558)	(26,558)	-	(26,558)
Balances at December 31, 2016	\$ 4,367,500	\$ 17,329	\$ 5,609,768	\$ (487,581)	\$ (95,106)	\$ 9,411,910	\$ 29,744	\$ 9,441,654
Issuance of 23,200 preferred shares (Note 8)	580,000	-	(18,823)	-	-	561,177	-	561,177
Redemption of 36,900 preferred shares (Note 8)	(922,500)	-	-	-	-	(922,500)	-	(922,500)
Issuance of common shares in connection with share-based compensation (564,583 shares) (Note 10)	-	56	42,444	-	-	42,500	-	42,500
Share-based compensation expense, net of cash paid in lieu of common shares (Note 10)	-	-	22,711	-	-	22,711	-	22,711
Acquisition of noncontrolling interests	-	-	(7,701)	-	-	(7,701)	(6,724)	(14,425)
Contributions by noncontrolling interests	-	-	-	-	-	-	2,484	2,484
Net income	-	-	-	1,448,465	-	1,448,465	-	1,448,465
Net income allocated to noncontrolling interests	-	-	-	(6,248)	-	(6,248)	6,248	-
Distributions to equity holders:								
Preferred shares (Note 8)	-	-	-	(236,535)	-	(236,535)	-	(236,535)
Noncontrolling interests	-	-	-	-	-	-	(7,392)	(7,392)
Common shares and restricted share units (\$8.00 per share)	-	-	-	(1,393,812)	-	(1,393,812)	-	(1,393,812)
Other comprehensive income (Note 2)	-	-	-	-	20,042	20,042	-	20,042
Balances at December 31, 2017	\$ 4,025,000	\$ 17,385	\$ 5,648,399	\$ (675,711)	\$ (75,064)	\$ 8,940,009	\$ 24,360	\$ 8,964,369

See accompanying notes.
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PUBLIC STORAGE
STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	For the Years Ended December 31,		
	2017	2016	2015
Cash flows from operating activities:			
Net income	\$ 1,448,465	\$ 1,460,439	\$ 1,317,689
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on real estate investment sales	(1,421)	(689)	(18,503)
Assets damaged due to hurricanes	3,286	-	-
Depreciation and amortization	454,526	433,314	426,008
Equity in earnings of unconsolidated real estate entities	(75,655)	(56,756)	(50,937)
Distributions from retained earnings of unconsolidated real estate entities	53,749	84,397	35,695
Foreign currency exchange loss (gain)	50,045	(17,570)	(306)
Share-based compensation expense	37,548	37,483	32,570
Other	5,136	4,718	6,063
Total adjustments	<u>527,214</u>	<u>484,897</u>	<u>430,590</u>
Net cash provided by operating activities	<u>1,975,679</u>	<u>1,945,336</u>	<u>1,748,279</u>
Cash flows from investing activities:			
Capital expenditures to maintain real estate facilities	(122,199)	(81,435)	(65,594)
Construction in process	(338,479)	(269,916)	(228,478)
Acquisition of real estate facilities and intangible assets	(285,279)	(416,178)	(177,076)
Distributions in excess of retained earnings from unconsolidated real estate entities	-	67,420	-
Proceeds from sale of real estate investments	6,103	998	15,013
Net cash used in investing activities	<u>(739,854)</u>	<u>(699,111)</u>	<u>(456,135)</u>
Cash flows from financing activities:			
Repayments on notes payable	(1,701)	(36,459)	(17,237)
Issuance of notes payable	992,077	113,620	264,255
Issuance of preferred shares	561,177	1,136,203	-
Issuance of common shares	42,500	25,541	29,663
Redemption of preferred shares	(922,500)	(862,500)	(270,000)
Cash paid upon vesting of restricted share units	(14,092)	(15,357)	(15,678)
Acquisition of noncontrolling interests	(14,425)	-	(5,492)
Contributions by noncontrolling interests	2,484	3,470	1,562
Distributions paid to Public Storage shareholders	(1,630,347)	(1,505,758)	(1,371,031)
Distributions paid to noncontrolling interests	(7,392)	(7,586)	(7,325)
Net cash used in financing activities	<u>(992,219)</u>	<u>(1,148,826)</u>	<u>(1,391,283)</u>
Net increase (decrease) in cash, equivalents, and restricted cash	243,606	97,399	(99,139)
Net effect of foreign exchange translation	(126)	(381)	(318)
Cash, equivalents, and restricted cash at beginning of the period	<u>212,573</u>	<u>115,555</u>	<u>215,012</u>
Cash, equivalents, and restricted cash at end of the period	<u>\$ 456,053</u>	<u>\$ 212,573</u>	<u>\$ 115,555</u>

See accompanying notes.

PUBLIC STORAGE
STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	For the Years Ended December 31,		
	2017	2016	2015
Supplemental schedule of non-cash investing and financing activities:			
Foreign currency translation adjustment:			
Real estate facilities, net of accumulated depreciation	\$ (659)	\$ 1,317	\$ 500
Investments in unconsolidated real estate entities	(19,370)	24,099	19,583
Notes payable	49,906	(17,750)	(315)
Accumulated other comprehensive loss	(30,003)	(8,047)	(20,086)
Reclassification of existing investment to real estate in connection with property acquisition (Note 3):			
Real estate facilities	(6,310)	-	-
Investments in unconsolidated real estate entities	6,310	-	-
Real estate acquired in exchange for assumption of notes payable	-	(12,945)	(8,311)
Notes payable assumed in connection with acquisition of real estate	-	12,945	8,311
Accrued development costs and capital expenditures:			
Capital expenditures to maintain real estate facilities	(2,581)	(4,612)	2,525
Construction in process	(11,233)	(18,238)	(9,623)
Accrued and other liabilities	13,814	22,850	7,098

See accompanying notes.

PUBLIC STORAGE
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

1. Description of the Business

Public Storage (referred to herein as “the Company,” “we,” “us,” or “our”), a Maryland real estate investment trust (“REIT”), was organized in 1980. Our principal business activities include the ownership and operation of self-storage facilities which offer storage spaces for lease, generally on a month-to-month basis, for personal and business use, ancillary activities such as merchandise sales and tenant reinsurance to the tenants at our self-storage facilities, as well as the acquisition and development of additional self-storage space.

At December 31, 2017, we have direct and indirect equity interests in 2,386 self-storage facilities (with approximately 159 million net rentable square feet) located in 38 states in the United States (“U.S.”) operating under the “Public Storage” name. We also own one self-storage facility in London, England and we have a 49% interest in Shurgard Europe, which owns 221 self-storage facilities (with approximately 12 million net rentable square feet) located in seven Western European countries, all operating under the “Shurgard” name. We also have direct and indirect equity interests in approximately 29 million net rentable square feet of commercial space located in seven states in the U.S. primarily owned and operated by PS Business Parks, Inc. (“PSB”) under the “PS Business Parks” name. At December 31, 2017, we have an approximate 42% common equity interest in PSB.

Disclosures of the number and square footage of facilities, as well as the number and coverage of tenant reinsurance policies (Note 13) are unaudited and outside the scope of our independent registered public accounting firm’s review of our financial statements in accordance with the standards of the Public Company Accounting Oversight Board (U.S.).

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements are presented on an accrual basis in accordance with U.S. generally accepted accounting principles (“GAAP”) as defined in the Financial Accounting Standards Board Accounting Standards Codification (the “Codification”).

Consolidation and Equity Method of Accounting

We consider entities to be Variable Interest Entities (“VIEs”) when they have insufficient equity to finance their activities without additional subordinated financial support provided by other parties, or the equity holders as a group do not have a controlling financial interest. We consolidate VIEs when we have (i) the power to direct the activities most significantly impacting economic performance, and (ii) either the obligation to absorb losses or the right to receive benefits from the VIE. We have no involvement with any material VIEs. We consolidate all other entities when we control them through voting shares or contractual rights. The entities we consolidate, for the period in which the reference applies, are referred to collectively as the “Subsidiaries,” and we eliminate intercompany transactions and balances.

We account for our investments in entities that we do not consolidate but have significant influence over using the equity method of accounting. These entities, for the periods in which the reference applies, are referred to collectively as the “Unconsolidated Real Estate Entities”, eliminating intra-entity profits and losses and amortizing any differences between the cost of our investment and the underlying equity in net assets against equity in earnings as if the Unconsolidated Real Estate Entity were a consolidated subsidiary. Equity in earnings of unconsolidated real estate entities represents our pro-rata share of the earnings of the Unconsolidated Real Estate Entities.

PUBLIC STORAGE
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

When we begin consolidating an entity, we include the book value of our preexisting equity interest as part of the acquisition cost. All changes in consolidation status are reflected prospectively.

Collectively, at December 31, 2017, the Company and the Subsidiaries own 2,386 self-storage facilities in the U.S., one self-storage facility in London, England and three commercial facilities in the U.S. At December 31, 2017, the Unconsolidated Real Estate Entities are comprised of PS and Shurgard Europe.

Use of Estimates

The financial statements and accompanying notes reflect our estimates and assumptions. Actual results could differ from those estimates and assumptions.

Income Taxes

We have elected to be treated as a REIT, as defined in the Internal Revenue Code of 1986, as amended (the "Code"). As a REIT, we do not incur U.S. federal income tax if we distribute 100% of our REIT taxable income each year, and if we meet certain organizational and operational rules. We believe we have met these REIT requirements for all periods presented herein. Accordingly, we have recorded no U.S. federal income tax expense related to our REIT taxable income.

Our merchandise and tenant reinsurance operations are subject to corporate income tax and such taxes are included in ancillary cost of operations. We also incur income and other taxes in certain states, which are included in general and administrative expense.

We recognize tax benefits of uncertain income tax positions that are subject to audit only if we believe it is more likely than not that the position would ultimately be sustained assuming the relevant taxing authorities had full knowledge of the relevant facts and circumstances of our positions. As of December 31, 2017, we had no tax benefits that were not recognized.

Real Estate Facilities

Real estate facilities are recorded at cost. We capitalize all costs incurred to acquire, develop, construct, renovate and improve facilities, including interest and property taxes incurred during the construction period and, effective October 1, 2016, the external transaction costs associated with acquisitions of real estate. Prior to October 1, 2016, transaction costs for acquisitions were included in general and administrative expense on our income statements. This change was made due to a change in GAAP, which results in real estate facility acquisitions generally being considered acquisitions of assets rather than business combinations. We allocate the net acquisition cost of acquired real estate facilities to the underlying land, buildings, and identified intangible assets based upon their respective individual estimated fair values.

Costs associated with dispositions of real estate, as well as repairs and maintenance costs, are expensed as incurred. We depreciate buildings and improvements on a straight-line basis over estimated useful lives ranging generally between 5 to 25 years.

Other Assets

Other assets primarily consist of rents receivable from our tenants, prepaid expenses and restricted cash.

PUBLIC STORAGE
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Accrued and Other Liabilities

Accrued and other liabilities consist primarily of rents prepaid by our tenants, trade payables, accrued interest, property tax accruals, accrued payroll, accrued tenant reinsurance losses, and accruals for probable and estimable contingent losses. We believe the fair value of our accrued and other liabilities approximates book value, due to the short period until repayment. We disclose the nature of significant unaccrued losses that are reasonably possible of occurring and, if estimable, a range of exposure.

Cash Equivalents, Restricted Cash, Marketable Securities and Other Financial Instruments

Cash equivalents represent highly liquid financial instruments such as money market funds with daily liquidity or short-term commercial paper or treasury securities maturing within three months of acquisition. Cash and equivalents which are restricted from general corporate use are included in other assets. We believe that the book value of all such financial instruments for all periods presented approximates fair value, due to the short period to maturity.

Cash, equivalents, and restricted cash presented on our statements of cash flows totaling \$456.1 million, \$212.6 million, \$115.6 million, and \$215.0 million at December 31, 2017, 2016, 2015, and 2014, respectively, include \$433.4 million, \$183.7 million, \$104.3 million, and \$187.7 million in cash and equivalents, and \$22.7 million, \$28.9 million, \$11.3 million, and \$27.3 million in restricted cash included in other assets.

Fair Value

As used herein, the term “fair value” is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Our estimates of fair value involve considerable judgment and are not necessarily indicative of the amounts that could be realized in current market exchanges.

We estimate the fair value of our cash and equivalents, marketable securities, other assets, debt, and other liabilities by applying a discount rate to the future cash flows of the financial instrument. The discount rate is based upon quoted interest rates for securities that have similar characteristics such as credit quality and time to maturity; such quoted interest rates are referred to generally as “Level 2” inputs.

Currency and Credit Risk

Financial instruments that are exposed to credit risk consist primarily of cash and equivalents, certain portions of other assets including rents receivable from our tenants and restricted cash. Cash equivalents we invest in are either money market funds with a rating of at least AAA by Standard & Poor’s, commercial paper that is rated A1 by Standard & Poor’s or deposits with highly rated commercial banks.

At December 31, 2017, due primarily to our investment in Shurgard Europe (Note 4) and our notes payable denominated in Euros (Note 6), our operating results and financial position are affected by fluctuations in currency exchange rates between the Euro, and to a lesser extent, other European currencies, against the U.S. Dollar.

Goodwill and Other Intangible Assets

Intangible assets are comprised of goodwill, the “Shurgard” trade name, acquired customers in place, and leasehold interests in land.

PUBLIC STORAGE
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Goodwill totaled \$174.6 million at December 31, 2017 and 2016. The “Shurgard” trade name, which is used by Shurgard Europe pursuant to a fee-based licensing agreement, has a book value of \$18.8 million at December 31, 2017 and 2016. Goodwill and the “Shurgard” trade name have indefinite lives and are not amortized.

Acquired customers in place and leasehold interests in land are finite-lived assets and are amortized relative to the benefit of the customers in place or the benefit to land lease expense to each period. At December 31, 2017, these intangibles had a net book value of \$21.5 million (\$19.3 million at December 31, 2016). Accumulated amortization totaled \$31.0 million at December 31, 2017 (\$54.0 million at December 31, 2016), and amortization expense of \$15.0 million, \$21.7 million and \$26.1 million was recorded in 2017, 2016 and 2015, respectively. The estimated future amortization expense for our finite-lived intangible assets at December 31, 2017 is approximately \$12.5 million in 2018, \$3.5 million in 2019 and \$5.5 million thereafter. During 2017, 2016 and 2015, intangibles increased \$17.2 million, \$23.0 million and \$8.9 million, respectively, in connection with the acquisition of self-storage facilities (Note 3).

Evaluation of Asset Impairment

We evaluate our real estate and finite-lived intangible assets for impairment each quarter. If there are indicators of impairment and we determine that the asset is not recoverable from future undiscounted cash flows to be received through the asset’s remaining life (or, if earlier, the expected disposal date), we record an impairment charge to the extent the carrying amount exceeds the asset’s estimated fair value or net proceeds from expected disposal.

We evaluate our investments in unconsolidated real estate entities for impairment on a quarterly basis. We record an impairment charge to the extent the carrying amount exceeds estimated fair value, when we believe any such shortfall is other than temporary.

We evaluate goodwill for impairment annually and whenever relevant events, circumstances and other related factors indicate that fair value of the related reporting unit may be less than the carrying amount. If we determine that the fair value of the reporting unit exceeds the aggregate carrying amount, no impairment charge is recorded. Otherwise, we record an impairment charge to the extent the carrying amount of the goodwill exceeds the amount that would be allocated to goodwill if the reporting unit were acquired for estimated fair value.

We evaluate other indefinite-lived intangible assets, such as the “Shurgard” trade name for impairment at least annually and whenever relevant events, circumstances and other related factors indicate that the fair value is less than the carrying amount. When we conclude that it is likely that the asset is not impaired, we do not record an impairment charge and no further analysis is performed. Otherwise, we record an impairment charge to the extent the carrying amount exceeds the asset’s estimated fair value.

No impairments were recorded in any of our evaluations for any period presented herein.

Casualty Loss

We record casualty losses for i) the book value of assets destroyed and ii) incremental repair, clean-up, and other costs associated with the casualty. Insurance proceeds are recorded as a reduction in casualty loss when all uncertainties of collection are satisfied. During 2017, we incurred casualty losses totaling \$7.8 million, comprised of \$3.3 million in book value of assets damaged and \$4.5 million in repairs and maintenance incurred in connection with Hurricanes Harvey and Irma.

PUBLIC STORAGE
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

Revenue and Expense Recognition

Revenues from self-storage facilities, which are primarily composed of rental income earned pursuant to month-to-month leases, as well as associated late charges and administrative fees, are recognized as earned. Promotional discounts reduce rental income over the promotional period, which is generally one month. Ancillary revenues and interest and other income are recognized when earned.

We accrue for property tax expense based upon actual amounts billed and, in some circumstances, estimates when bills or assessments have not been received from the taxing authorities. If these estimates are incorrect, the timing and amount of expense recognition could be incorrect. Cost of operations (including advertising expenditures), general and administrative expense, and interest expense are expensed as incurred.

Foreign Currency Exchange Translation

The local currency (primarily the Euro) is the functional currency for our interests in foreign operations. The related balance sheet amounts are translated into U.S. Dollars at the exchange rates at the respective financial statement date, while amounts on our statements of income are translated at the average exchange rates during the respective period. When financial instruments denominated in a currency other than the U.S. Dollar are expected to be settled in cash in the foreseeable future, the impact of changes in the U.S. Dollar equivalent are reflected in current earnings. The Euro was translated at exchange rates of approximately 1.198 U.S. Dollars per Euro at December 31, 2017 (1.052 at December 31, 2016), and average exchange rates of 1.129, 1.107 and 1.110 for the years ended December 31, 2017, 2016 and 2015, respectively. Cumulative translation adjustments, to the extent not included in cumulative net income, are included in equity as a component of accumulated other comprehensive income (loss).

Comprehensive Income

Total comprehensive income represents net income, adjusted for changes in other comprehensive income (loss) for the applicable period. The aggregate foreign currency exchange gains and losses reflected on our statements of comprehensive income are comprised primarily of foreign currency exchange gains and losses on our investment in Shurgard Europe and our notes payable denominated in Euros.

Net Income per Common Share

Net income is allocated to (i) noncontrolling interests based upon their share of the net income of the Subsidiaries, (ii) preferred shareholders, to the extent redemption cost exceeds the related original net issuance proceeds (an "EITF D-42 allocation"), and (iii) the remaining net income is allocated to each of our equity securities based upon the dividends declared or accumulated during the period, combined with participation rights in undistributed earnings.

Basic and diluted net income per common share are each calculated based upon net income allocable to common shareholders presented on the face of our income statement, divided by (i) in the case of basic net income per common share, weighted average common shares, and (ii) in the case of diluted income per share, weighted average common shares adjusted for the impact, if dilutive, of stock options outstanding (Note 10). The following table reconciles from basic to diluted common shares outstanding:

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	For the Years Ended December 31,		
	2017	2016	2015
<u>Weighted average common shares and equivalents</u>			
<u>outstanding:</u>			
Basic weighted average common shares outstanding	173,613	173,091	172,699
Net effect of dilutive stock options - based on treasury stock method	538	787	811
Diluted weighted average common shares outstanding	174,151	173,878	173,510

3. Real Estate Facilities

Activity in real estate facilities during 2017, 2016 and 2015 is as follows:

	For the Years Ended December 31,		
	2017	2016	2015
	(Amounts in thousands)		
Operating facilities, at cost:			
Beginning balance	\$ 13,963,229	\$ 13,205,261	\$ 12,863,235
Capital expenditures to maintain real estate facilities	124,780	86,047	63,069
Acquisitions	274,115	406,154	176,444
Dispositions	(1,092)	-	(19,970)
Assets damaged due to hurricanes	(8,226)	-	-
Developed or redeveloped facilities opened for operation	311,559	268,905	123,484
Impact of foreign exchange rate changes	1,624	(3,138)	(1,001)
Ending balance	14,665,989	13,963,229	13,205,261
Accumulated depreciation:			
Beginning balance	(5,270,963)	(4,866,738)	(4,482,520)
Depreciation expense	(433,466)	(406,046)	(393,605)
Dispositions	123	-	8,886
Assets damaged due to hurricanes	4,940	-	-
Impact of foreign exchange rate changes	(965)	1,821	501
Ending balance	(5,700,331)	(5,270,963)	(4,866,738)
Construction in process:			
Beginning balance	230,310	219,190	104,573
Current development	349,712	288,154	238,101
Developed or redeveloped facilities opened for operation	(311,559)	(268,905)	(123,484)
Dispositions and transfers to other assets	(4,022)	(8,129)	-
Ending balance	264,441	230,310	219,190
Total real estate facilities at December 31, 2017	\$ 9,230,099	\$ 8,922,576	\$ 8,557,713

During 2017, we acquired 22 self-storage facilities from third parties (1,365,000 net rentable square feet), for a total cost of \$149.8 million, in cash. Approximately \$8.2 million of the total cost was allocated to

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intangible assets. On December 31, 2017, we acquired the remaining 74.25% of the interests which we did not own in one of the unconsolidated entities that owned 12 self-storage facilities (749,000 net rentable square feet) for a total cost of \$135.5 million in cash. Approximately \$9.0 million of the \$141.8 million acquisition cost (which includes the \$6.3 million book value of our existing investment) was allocated to intangible assets and \$0.3 million was allocated to other assets.

We completed development and redevelopment activities during 2017, adding 2.7 million net rentable square feet of self-storage space, at an aggregate cost of \$311.6 million. Construction in process at December 31, 2017 consists of projects to develop new self-storage facilities and redevelop existing self-storage facilities, which will add a total of 4.6 million net rentable square feet of storage space at an aggregate estimated cost of approximately \$613.8 million (unaudited). During 2017, we sold real estate for a total of approximately \$6.4 million in cash proceeds, of which \$0.3 million was collected in 2016, and recorded a related gain on real estate investment sales of approximately \$1.4 million in 2017.

During 2016, we acquired 55 self-storage facilities (4,121,000 net rentable square feet), for a total cost of \$429.1 million, consisting of \$416.2 million in cash and the assumption of \$12.9 million in mortgage notes. Approximately \$23.0 million of the total cost was allocated to intangible assets. We completed development and redevelopment activities during 2016, adding 2,275,000 net rentable square feet of self-storage space, at an aggregate cost of \$268.9 million. During 2016, we also transferred \$8.1 million of accumulated construction costs to other assets, with respect to a development project that was suspended.

During 2015, we acquired 17 self-storage facilities (1,285,000 net rentable square feet) and the leasehold interest in the land of one of our existing self-storage facilities, for a total cost of \$185.4 million, consisting of \$177.1 million in cash and the assumption of \$8.3 million in mortgage notes. Approximately \$8.9 million of the total cost was allocated to intangible assets. We completed expansion and development activities during 2015, adding 1,312,000 net rentable square feet of self-storage space, at an aggregate cost of \$123.5 million. During 2015, we sold one commercial facility and two self-storage facilities in connection with eminent domain proceedings for a total of \$29.7 million in cash proceeds, of which \$14.7 million was collected in 2014, and recorded related gains on real estate sales totaling \$18.5 million.

At December 31, 2017, the adjusted basis of real estate facilities for U.S. federal tax purposes was approximately \$9.8 billion (unaudited).

4. Investments in Unconsolidated Real Estate Entities

The following table sets forth our investments in, and equity in earnings of, the Unconsolidated Real Estate Entities (amounts in thousands):

	Investments in Unconsolidated Real Estate Entities at December 31,		Equity in Earnings of Unconsolidated Real Estate Entities for the Year Ended December 31,		
	2017	2016	2017	2016	2015
PSB	\$ 400,133	\$ 402,765	\$ 46,544	\$ 31,707	\$ 34,155
Shurgard Europe	324,040	280,019	25,948	22,324	14,272
Other Investments	-	6,423	3,163	2,725	2,510
Total	<u>\$ 724,173</u>	<u>\$ 689,207</u>	<u>\$ 75,655</u>	<u>\$ 56,756</u>	<u>\$ 50,937</u>

During 2017, 2016 and 2015, we received cash distributions from our investments in the Unconsolidated Real Estate Entities totaling \$53.7 million, \$151.8 million and \$35.7 million, respectively. For 2016, \$67.4 million of the distributions received exceeded the retained earnings of the Unconsolidated Real Estate

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Entities and are presented as an investing activity on our statement of cash flows. At December 31, 2017, the cost of our investment in the Unconsolidated Real Estate Entities exceeds our pro rata share of the underlying equity by approximately \$67.3 million (\$69.9 million at December 31, 2016). This differential is being amortized as a reduction in equity in earnings of the Unconsolidated Real Estate Entities based upon allocations to the underlying net assets. Such amortization was approximately \$1.3 million, \$1.8 million and \$2.4 million during 2017, 2016 and 2015, respectively.

Investment in PSB

PSB is a REIT traded on the New York Stock Exchange. We have an approximate 42% common equity interest in PSB as of December 31, 2017 and 2016, comprised of our ownership of 7,158,354 shares of PSB's common stock and 7,305,355 limited partnership units ("LP Units") in an operating partnership controlled by PSB. The LP Units are convertible at our option, subject to certain conditions, on a one-for-one basis into PSB common stock. Based upon the closing price at December 31, 2017 (\$125.09 per share of PSB common stock), the shares and units we owned had a market value of approximately \$1.8 billion. At December 31, 2017, the adjusted tax basis of our investment in PSB approximates book value (unaudited).

The following table sets forth selected financial information of PSB. The amounts represent all of PSB's balances and not our pro-rata share.

	2017	2016	2015
	(Amounts in thousands)		
<u>For the year ended December 31,</u>			
Revenues	\$ 402,179	\$ 386,871	\$ 373,135
Costs of operations	(125,340)	(123,108)	(121,224)
Depreciation and amortization	(94,270)	(99,486)	(105,394)
General and administrative	(9,679)	(14,862)	(13,582)
Other items	(1,148)	(4,431)	(12,200)
Gain on real estate investment sales	7,574	-	28,235
Net income	179,316	144,984	148,970
Allocations to preferred shareholders and restricted share unitholders	(64,612)	(65,157)	(62,184)
Net income allocated to common shareholders and LP Unitholders	<u>\$ 114,704</u>	<u>\$ 79,827</u>	<u>\$ 86,786</u>
<u>As of December 31,</u>			
Total assets (primarily real estate)	\$ 2,100,159	\$ 2,119,371	\$ 2,186,658
Debt	-	-	250,000
Preferred stock called for redemption	130,000	230,000	-
Other liabilities	80,223	78,657	76,059
Equity:			
Preferred stock	959,750	879,750	920,000
Common equity and LP units	930,186	930,964	940,599

Investment in Shurgard Europe

For all periods presented, we had a 49% equity investment in Shurgard Europe and our joint venture partner owns the remaining 51% interest. Our equity in earnings of Shurgard Europe is comprised of our 49% share of Shurgard Europe's net income and 49% of the trademark license fees that Shurgard Europe pays to us

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for the use of the “Shurgard” trademark. The remaining 51% of the license fees are classified as interest and other income on our income statement.

Changes in foreign currency exchange rates increased our investment in Shurgard Europe by approximately \$19.4 million in 2017 and decreased it by \$24.1 million and \$19.6 million in 2016 and 2015, respectively. Included in our equity in earnings of Shurgard Europe for 2016 is a \$941,000 increase for the recognition of accumulated comprehensive income, representing a decrease to equity rather than an increase to investments in Unconsolidated Real Estate Entities.

The following table sets forth selected consolidated financial information of Shurgard Europe based upon all of Shurgard Europe’s balances for all periods, rather than our pro rata share. Such amounts are based upon our historical acquired book basis.

	2017	2016	2015
	(Amounts in thousands)		
<u>For the year ended December 31,</u>			
Self-storage and ancillary revenues	\$ 265,088	\$ 252,321	\$ 236,990
Self-storage and ancillary cost of operations	(98,510)	(97,099)	(93,575)
Depreciation and amortization	(63,282)	(62,829)	(66,665)
General and administrative	(12,465)	(13,199)	(12,619)
Interest expense on third party debt	(20,759)	(20,617)	(16,695)
Trademark license fee payable to Public Storage	(2,647)	(2,531)	(2,376)
Income tax expense	(17,601)	(10,669)	(10,799)
Costs of acquiring facilities and other	178	(1,667)	(7,359)
Foreign exchange gain (loss)	306	(681)	(150)
Net income	<u>\$ 50,308</u>	<u>\$ 43,029</u>	<u>\$ 26,752</u>
Average exchange rates of Euro to the U.S. Dollar	1.129	1.107	1.110

	2017	2016	2015
	(Amounts in thousands)		
<u>As of December 31,</u>			
Total assets (primarily self-storage facilities)	\$ 1,416,477	\$ 1,261,912	\$ 1,476,632
Total debt to third parties	726,617	666,926	662,336
Other liabilities	143,638	106,916	110,522
Equity	546,222	488,070	703,774
Exchange rate of Euro to U.S. Dollar	1.198	1.052	1.091

Other Investments

On December 31, 2017, we acquired the remaining 74.25% equity interest we did not own in the Other Investments for \$135.5 million, in cash, and began to consolidate the 12 self-storage facilities owned by the Other Investments. In 2016, we sold one of the Other Investments resulting in a \$689,000 gain on real estate investment sales on our income statement.

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5. Credit Facility

We have a revolving credit agreement (the “Credit Facility”) with a \$500 million borrowing limit, which expires on March 31, 2020. Amounts drawn on the Credit Facility bear annual interest at rates ranging from LIBOR plus 0.850% to LIBOR plus 1.450% depending upon the ratio of our Total Indebtedness to Gross Asset Value (as defined in the Credit Facility) (LIBOR plus 0.850% at December 31, 2017). We are also required to pay a quarterly facility fee ranging from 0.080% per annum to 0.250% per annum depending upon the ratio of our Total Indebtedness to our Gross Asset Value (0.080% per annum at December 31, 2017). At December 31, 2017 and February 28, 2018, we had no outstanding borrowings under this Credit Facility. We had undrawn standby letters of credit, which reduce our borrowing capacity, totaling \$16.1 million at December 31, 2017 (\$15.2 million at December 31, 2016). The Credit Facility has various customary restrictive covenants, all of which we were in compliance with at December 31, 2017.

6. Notes Payable

Our notes payable at December 31, 2017 and 2016 are set forth in the table below:

	CouponEffective		Amounts at December 31, 2017				Book Value at December 31, 2016
	Rate	Rate	Principal	Unamortized Costs	Book Value	Fair Value	
(\$ amounts in thousands)							
<i>U.S. Dollar Denominated Unsecured Debt</i>							
Notes due September 2022	2.370%	2.483%	\$ 500,000	\$ (2,475)	\$ 497,525	\$ 492,088	\$ -
Notes due September 2027	3.094%	3.218%	500,000	(5,132)	494,868	493,946	-
			<u>1,000,000</u>	<u>(7,607)</u>	<u>992,393</u>	<u>986,034</u>	<u>-</u>
<i>Euro Denominated Unsecured Debt</i>							
Notes due April 2024	1.540%	1.540%	119,795	-	119,795	125,367	105,203
Notes due November 2025	2.175%	2.175%	289,921	-	289,921	305,445	254,607
			<u>409,716</u>	<u>-</u>	<u>409,716</u>	<u>430,812</u>	<u>359,810</u>
Mortgage Debt, secured by 30 real facilities with a net book value of \$118.3 million	4.054%	3.997%	29,213	-	29,213	30,355	30,939
			<u>\$ 1,438,929</u>	<u>\$ (7,607)</u>	<u>\$ 1,431,322</u>	<u>\$ 1,447,201</u>	<u>\$ 390,749</u>

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U.S. Dollar Denominated Unsecured Debt

On September 18, 2017, we issued, in a public offering, two tranches each totaling \$500.0 million of U.S. Dollar denominated unsecured notes (the “U.S. Dollar Notes”). In connection with the offering, we incurred a total of \$7.9 million in costs, which is reflected as a reduction in the principal amount and amortized, using the effective interest method, over the term of each respective note. Interest on the U.S. Dollar Notes is payable semi-annually on March 15 and September 15 of each year, commencing March 15, 2018.

The U.S. Dollar Notes have various financial covenants, all of which we were in compliance with at December 31, 2017. Included in these covenants are a) a maximum Debt to Total Assets of 65% (4.4% at December 31, 2017) and b) a minimum ratio of Adjusted EBITDA to Interest Expense of 1.5x (157.9x for the year ended December 31, 2017) as well as covenants limiting the amount we can encumber our properties with mortgage debt. These terms and all of the covenants are defined more fully in the related prospectus.

Euro Denominated Unsecured Debt

Our euro denominated unsecured notes (the “Euro Notes”) are payable to institutional investors. The Euro Notes consist of two tranches, (i) €242.0 million were issued on November 3, 2015 for \$264.3 million in net proceeds upon converting the Euros to U.S. Dollars and €100.0 million were issued on April 12, 2016 for \$113.6 million in net proceeds upon converting the Euros to U.S. Dollars. Interest is payable semi-annually. The Euro Notes have various customary financial covenants, all of which we were in compliance with at December 31, 2017.

We reflect changes in the U.S. Dollar equivalent of the amount payable, as a result of changes in foreign exchange rates as “foreign currency exchange (loss) gain” on our income statement (loss of \$50.0 million for 2017 and gains of \$17.6 million and \$306,000 for 2016 and 2015, respectively).

Mortgage Debt

Our non-recourse mortgage debt was assumed in connection with property acquisitions, and recorded at fair value with any premium or discount to the stated note balance amortized using the effective interest method.

During 2016 and 2015, we assumed mortgage notes with aggregate contractual values of \$12.9 million and \$8.3 million, respectively, and interest rates of 4.2% and 6.2%, respectively, which approximated market rates, in connection with the acquisition of real estate facilities.

At December 31, 2017, the notes contractual interest rates are fixed, ranging between 2.9% and 7.1%, and mature between November 2018 and September 2028.

At December 31, 2017, approximate principal maturities of our Notes Payable are as follows (amounts in thousands):

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	Unsecured Debt	Mortgage Debt	Total
2018	\$ -	\$ 11,241	\$ 11,241
2019	-	1,505	1,505
2020	-	1,585	1,585
2021	-	1,503	1,503
2022	500,000	2,071	502,071
Thereafter	909,716	11,308	921,024
	<u>\$ 1,409,716</u>	<u>\$ 29,213</u>	<u>\$ 1,438,929</u>
Weighted average effective rate	<u>2.6%</u>	<u>4.0%</u>	<u>2.6%</u>

Cash paid for interest totaled \$16.8 million, \$9.4 million and \$3.3 million for 2017, 2016 and 2015, respectively. Interest capitalized as real estate totaled \$4.4 million, \$5.1 million and \$2.7 million for 2017, 2016 and 2015, respectively.

7. Noncontrolling Interests

At December 31, 2017, the noncontrolling interests represent (i) third-party equity interests in subsidiaries owning 12 operating self-storage facilities and eight self-storage facilities that are under construction and (ii) 231,978 partnership units held by third-parties in a subsidiary that are convertible on a one-for-one basis (subject to certain limitations) into common shares of the Company at the option of the unitholder (collectively, the “Noncontrolling Interests”). The Noncontrolling Interests cannot require us to redeem their interests, other than pursuant to a liquidation of the subsidiary. During 2017, 2016 and 2015, we allocated a total of \$6.2 million, \$6.9 million and \$6.4 million, respectively, of income to these interests; and we paid \$7.4 million, \$7.6 million and \$7.3 million, respectively, in distributions to these interests.

During 2017, we acquired Noncontrolling Interests for \$14.4 million in cash, of which \$7.7 million was allocated to Paid-in capital and \$6.7 million as a reduction to Noncontrolling Interests. During 2015, we acquired Noncontrolling Interests for \$5.5 million in cash, substantially all of which was allocated to Paid-in-capital. During 2017, 2016 and 2015, Noncontrolling Interests contributed \$2.5 million, \$3.5 million and \$1.6 million, respectively.

8. Shareholders’ Equity

Preferred Shares

At December 31, 2017 and 2016, we had the following series of Cumulative Preferred Shares (“Preferred Shares”) outstanding:

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Series	Earliest Redemption	Dividend Rate	At December 31, 2017		At December 31, 2016	
			Shares Outstanding	Liquidation Preference	Shares Outstanding	Liquidation Preference
(Dollar amounts in thousands)						
Series S	1/12/2017	5.900%	-	\$ -	18,400	\$ 460,000
Series T	3/13/2017	5.750%	-	-	18,500	462,500
Series U	6/15/2017	5.625%	11,500	287,500	11,500	287,500
Series V	9/20/2017	5.375%	19,800	495,000	19,800	495,000
Series W	1/16/2018	5.200%	20,000	500,000	20,000	500,000
Series X	3/13/2018	5.200%	9,000	225,000	9,000	225,000
Series Y	3/17/2019	6.375%	11,400	285,000	11,400	285,000
Series Z	6/4/2019	6.000%	11,500	287,500	11,500	287,500
Series A	12/2/2019	5.875%	7,600	190,000	7,600	190,000
Series B	1/20/2021	5.400%	12,000	300,000	12,000	300,000
Series C	5/17/2021	5.125%	8,000	200,000	8,000	200,000
Series D	7/20/2021	4.950%	13,000	325,000	13,000	325,000
Series E	10/14/2021	4.900%	14,000	350,000	14,000	350,000
Series F	6/2/2022	5.150%	11,200	280,000	-	-
Series G	8/9/2022	5.050%	12,000	300,000	-	-
Total Preferred Shares			<u>161,000</u>	<u>\$ 4,025,000</u>	<u>174,700</u>	<u>\$ 4,367,500</u>

The holders of our Preferred Shares have general preference rights with respect to liquidation, quarterly distributions and any accumulated unpaid distributions. Except under certain conditions and as noted below, holders of the Preferred Shares will not be entitled to vote on most matters. In the event of a cumulative arrearage equal to six quarterly dividends, holders of all outstanding series of preferred shares (voting as a single class without regard to series) will have the right to elect two additional members to serve on our board of trustees (our “Board”) until the arrearage has been cured. At December 31, 2017, there were no dividends in arrears.

Except under certain conditions relating to the Company’s qualification as a REIT, the Preferred Shares are not redeemable prior to the dates indicated on the table above. On or after the respective dates, each of the series of Preferred Shares is redeemable at our option, in whole or in part, at \$25.00 per depositary share, plus accrued and unpaid dividends. Holders of the Preferred Shares cannot require us to redeem such shares.

Upon issuance of our Preferred Shares, we classify the liquidation value as preferred equity on our balance sheet with any issuance costs recorded as a reduction to Paid-in capital.

In 2017, we redeemed our Series S and Series T Preferred Shares, at par, for a total of \$922.5 million in cash, before payment of accrued dividends.

In 2017, we issued an aggregate 23.2 million depositary shares, each representing 1/1,000 of a share of our Series F and Series G Preferred Shares, at an issuance price of \$25.00 per depositary share, for a total of \$580.0 million in gross proceeds, and we incurred \$18.8 million in issuance costs.

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In 2016, we redeemed our Series Q and Series R Preferred Shares at par, for a total of \$862.5 million in cash, before payment of accrued dividends.

In 2016, we issued an aggregate 47.0 million depositary shares, each representing 1/1,000 of a share of our Series B, Series C, Series D and Series E Preferred Shares, at an issuance price of \$25.00 per depositary share, for a total of \$1,175.0 million in gross proceeds, and we incurred \$38.8 million in issuance costs.

In 2015, we redeemed our Series O and Series P Preferred Shares at par, for a total of \$270.0 million in cash, before payment of accrued dividends.

In 2017, 2016 and 2015, we recorded \$29.3 million, \$26.9 million \$8.9 million, respectively, in EITF D-42 allocations of income from our common shareholders to the holders of our Preferred Shares in connection with redemptions of Preferred Shares.

Common Shares

During 2017, 2016 and 2015, activity with respect to the issuance of our common shares was as follows (dollar amounts in thousands):

	2017		2016		2015	
	Shares	Amount	Shares	Amount	Shares	Amount
Employee stock-based compensation and exercise of stock options (Note 10)	564,583	\$ 42,500	367,546	\$ 25,541	475,687	\$ 29,663

Our Board previously authorized the repurchase from time to time of up to 35.0 million of our common shares on the open market or in privately negotiated transactions. Through December 31, 2017, we repurchased approximately 23.7 million shares pursuant to this authorization; none of which were repurchased during the three years ended December 31, 2017.

At December 31, 2017 and 2016, we had 3,208,046 and 2,692,081, respectively, of common shares reserved in connection with our share-based incentive plans (see Note 10), and 231,978 shares reserved for the conversion of partnership units owned by Noncontrolling Interests.

The unaudited characterization of dividends for U.S. federal income tax purposes is made based upon earnings and profits of the Company, as defined by the Code. Common share dividends including amounts paid to our common shareholders and our restricted share unitholders totaled \$1.394 billion (\$8.00 per share), \$1.268 billion (\$7.30 per share) and \$1.126 billion (\$6.50 per share) for the years ended December 31, 2017, 2016 and 2015, respectively. Preferred share dividends totaled \$236.5 million, \$238.2 million and \$245.1 million for the years ended December 31, 2017, 2016 and 2015, respectively.

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For the tax year ended December 31, 2017, distributions for the common shares and all the various series of preferred shares were classified as follows:

	2017 (unaudited)			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Ordinary Income	99.93%	99.92%	100.00%	99.46%
Long-Term Capital Gain	0.07%	0.08%	0.00%	0.54%
Total	100.00%	100.00%	100.00%	100.00%

The ordinary income dividends distributed for the tax year ended December 31, 2017 do not constitute qualified dividend income.

9. Related Party Transactions

B. Wayne Hughes, our former Chairman and his family, including his daughter Tamara Hughes Gustavson and his son B. Wayne Hughes, Jr., who are both members of our Board, collectively own approximately 14.3% of our common shares outstanding at December 31, 2017.

At December 31, 2017, B. Wayne Hughes and Tamara Hughes Gustavson together owned and controlled 58 self-storage facilities in Canada. These facilities operate under the “Public Storage” tradename, which we license to the owners of these facilities for use in Canada on a royalty-free, non-exclusive basis. We have no ownership interest in these facilities and we do not own or operate any facilities in Canada. If we chose to acquire or develop our own facilities in Canada, we would have to share the use of the “Public Storage” name in Canada with the facilities’ owners. We have a right of first refusal, subject to limitations, to acquire the stock or assets of the corporation engaged in the operation of these facilities if their owners agree to sell them. Our subsidiaries reinsure risks relating to loss of goods stored by customers in these facilities, and have received approximately \$1.1 million, \$848,000 and \$562,000 for the years ended December 31, 2017, 2016 and 2015, respectively. Our right to continue receiving these premiums may be qualified.

10. Share-Based Compensation

Under various share-based compensation plans and under terms established by our Board or a committee thereof, we grant non-qualified options to purchase the Company’s common shares, as well as restricted share units (“RSUs”), to trustees, officers, and key employees.

Stock options and RSUs are considered “granted” and “outstanding” as the terms are used herein, when (i) the Company and the recipient reach a mutual understanding of the key terms of the award, (ii) the award has been authorized, (iii) the recipient is affected by changes in the market price of our stock, and (iv) it is probable that any performance conditions will be met.

We amortize the grant-date fair value of awards as compensation expense over the service period, which begins on the grant date and ends generally on the vesting date. For awards that are earned solely upon the passage of time and continued service, the entire cost of the award is amortized on a straight-line basis over the service period. For awards with performance conditions, the individual cost of each vesting is amortized separately over each individual service period (the “accelerated attribution” method).

In amortizing share-based compensation expense, we do not estimate future forfeitures in advance. Instead, we reverse previously amortized share-based compensation expense with respect to grants that are

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forfeited in the period the employee terminates employment. We recorded a cumulative-effect adjustment of \$789,000 to increase accumulated deficit and increase paid-in capital as of January 1, 2016, representing the impact of estimated forfeitures at December 31, 2015.

Our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are expected to retire at the end of 2018 and then serve as Trustees of the Company for the foreseeable future. While the actual vesting of such share-based compensation will not accelerate, and will continue to vest under the original schedule only if they continue to serve as Trustees, their respective service periods for their previous grants while CEO and CFO effectively end on the date of their retirement as CEO and CFO. As a result, the remaining unamortized expense on outstanding grants at December 31, 2017 will be recognized through their expected retirement dates, increasing 2018 expense \$23.6 million above what it would have been without the acceleration of amortization. Any additional grants to our CEO and CFO in 2018 will also be amortized through December 31, 2018 and further increase our share-based compensation expense for 2018.

See also "net income per common share" in Note 2 for further discussion regarding the impact of RSUs and stock options on our net income per common share and income allocated to common shareholders.

Stock Options

Stock options vest over a three to five-year period, expire ten years after the grant date, and the exercise price is equal to the closing trading price of our common shares on the grant date. Employees cannot require the Company to settle their award in cash. We use the Black-Scholes option valuation model to estimate the fair value of our stock options.

Outstanding stock option grants are included on a one-for-one basis in our diluted weighted average shares, to the extent dilutive, after applying the treasury stock method (based upon the average common share price during the period) to assumed exercise proceeds and measured but unrecognized compensation.

The stock options outstanding at December 31, 2017 have an aggregate intrinsic value (the excess, if any, of each option's market value over the exercise price) of approximately \$65.1 million and remaining average contractual lives of approximately seven years. The aggregate intrinsic value of exercisable stock options at December 31, 2017 amounted to approximately \$57.6 million. Approximately 1,361,000 of the stock options outstanding at December 31, 2017, have an exercise price of more than \$200. We have 195,750 stock options exercisable at December 31, 2017, which expire through June 30, 2019, with an average exercise price per share of \$54.87.

Additional information with respect to stock options during 2017, 2016 and 2015 is as follows:

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	2017		2016		2015	
	Number of Options	Weighted Average Exercise Price per Share	Number of Options	Weighted Average Exercise Price per Share	Number of Options	Weighted Average Exercise Price per Share
Options outstanding January 1,	1,995,440	\$ 150.83	1,940,279	\$ 130.08	2,085,544	\$ 111.96
Granted	1,096,000	223.58	310,000	239.11	335,000	200.70
Exercised	(482,523)	88.07	(254,839)	100.23	(365,265)	80.99
Cancelled	(200,000)	203.64	-	-	(115,000)	163.15
Options outstanding December 31,	<u>2,408,917</u>	<u>\$ 192.12</u>	<u>1,995,440</u>	<u>\$ 150.83</u>	<u>1,940,279</u>	<u>\$ 130.08</u>
Options exercisable at December 31,	<u>848,250</u>	<u>\$ 143.55</u>	<u>1,105,433</u>	<u>\$ 108.84</u>	<u>1,150,272</u>	<u>\$ 94.18</u>

	2017	2016	2015
Stock option expense for the year (in 000's)	\$ 8,707	\$ 5,180	\$ 3,871
Aggregate exercise date intrinsic value of options exercised during the year (in 000's)	\$ 61,334	\$ 33,228	\$ 46,719

Average assumptions used in valuing options with the Black-Scholes method:

Expected life of options in years, based upon historical experience	5	5	5
Risk-free interest rate	1.9%	1.2%	1.6%
Expected volatility, based upon historical volatility	17.9%	17.9%	15.1%
Expected dividend yield	3.6%	2.9%	2.9%
Average estimated value of options granted during the year	\$ 23.49	\$ 26.18	\$ 18.39

Restricted Share Units

RSUs generally vest ratably over a five to eight-year period from the grant date. The grantee receives dividends for each outstanding RSU equal to the per-share dividends received by our common shareholders. We expense any dividends previously paid upon forfeiture of the related RSU. Upon vesting, the grantee receives common shares equal to the number of vested RSUs, less common shares withheld in exchange for tax deposits made by the Company to satisfy the grantee's statutory tax liabilities arising from the vesting.

The fair value of our RSUs is determined based upon the applicable closing trading price of our common shares.

The fair value of our RSUs outstanding at December 31, 2017 was approximately \$167.0 million. Remaining compensation expense related to RSUs outstanding at December 31, 2017 totals approximately \$130.0 million and is expected to be recognized as compensation expense over the next 2.6 years on average. The following tables set forth relevant information with respect to restricted shares (dollar amounts in thousands):

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	2017		2016		2015	
	Number of Restricted Share Units	Grant Date Aggregate Fair Value	Number of Restricted Share Units	Grant Date Aggregate Fair Value	Number of Restricted Share Units	Grant Date Aggregate Fair Value
Restricted share units outstanding January 1,	696,641	\$ 136,905	737,388	\$ 129,284	751,048	\$ 110,874
Granted	340,957	73,953	171,144	40,263	252,376	55,307
Vested	(144,473)	(25,305)	(180,050)	(26,689)	(187,342)	(24,752)
Forfeited	(93,996)	(19,409)	(31,841)	(5,953)	(78,694)	(12,145)
Restricted share units outstanding December 31,	<u>799,129</u>	<u>\$ 166,144</u>	<u>696,641</u>	<u>\$ 136,905</u>	<u>737,388</u>	<u>\$ 129,284</u>

	2017	2016	2015
Amounts for the year (in 000's, except number of shares):			
Fair value of vested shares on vesting date	\$ 31,962	\$ 41,400	\$ 38,182
Cash paid for taxes upon vesting in lieu of issuing common shares	\$ 14,092	\$ 15,357	\$ 15,678
Common shares issued upon vesting	82,060	112,707	110,422
Restricted share unit expense (a)	\$ 28,841	\$ 32,303	\$ 28,699

(a) Amounts for 2017, 2016 and 2015 include approximately \$0.7 million, \$1.4 million and \$1.1 million, respectively, in employer taxes incurred upon vesting.

11. Segment Information

Our reportable segments reflect the significant components of our operations where discrete financial information is evaluated separately by our chief operating decision maker (“CODM”). We organize our segments based primarily upon the nature of the underlying products and services, as well as the drivers of profitability growth. The net income for each reportable segment included in the tables below are in conformity with GAAP and our significant accounting policies as denoted in Note 2. The amounts not attributable to reportable segments are aggregated under “other items not allocated to segments.”

Following is a description of and basis for presentation for each of our reportable segments.

Self-Storage Operations

The Self-Storage Operations segment reflects the rental operations from all self-storage facilities we own. Our CODM reviews the net operating income (“NOI”) of this segment, which represents the related revenues less cost of operations (prior to depreciation expense), in assessing performance and making resource allocation decisions. The presentation in the tables below sets forth the NOI of this segment, as well as the depreciation expense for this segment, which while reviewed by our CODM and included in net income, is not considered by the CODM in assessing performance and decision making. For all periods presented, substantially all of our real estate facilities, goodwill and other intangible assets, other assets, and accrued and other liabilities are associated with the Self-Storage Operations segment.

Ancillary Operations

The Ancillary Operations segment reflects the sale of merchandise and reinsurance of policies against losses to goods stored by our self-storage tenants, activities which are incidental to our primary self-storage rental

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activities. Our CODM reviews the NOI of these operations in assessing performance and making resource allocation decisions.

Investment in PSB

This segment represents our 42% equity interest in PSB, a publicly-traded REIT that owns, operates, acquires and develops commercial properties, primarily multi-tenant flex, office, and industrial space. PSB has a separate management team that makes its financing, capital allocation, and other significant decisions. In making resource allocation decisions with respect to our investment in PSB, the CODM reviews PSB's net income, which is detailed in PSB's periodic filings with the SEC, and is included in Note 4. The segment presentation in the tables below includes our equity earnings from PSB.

Investment in Shurgard Europe

This segment represents our 49% equity interest in Shurgard Europe, which owns and operates self-storage facilities located in seven countries in Western Europe. Shurgard Europe has a separate management team reporting to our CODM and our joint venture partner. In making resource allocation decisions with respect to our investment in Shurgard Europe, the CODM reviews Shurgard Europe's net income, which is detailed in Note 4. The segment presentation below includes our equity earnings from Shurgard Europe.

Presentation of Segment Information

The following tables reconcile NOI (as applicable) and net income of each segment to our consolidated net income (amounts in thousands):

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For the year ended December 31, 2017

	<u>Self-Storage Operations</u>	<u>Ancillary Operations</u>	<u>Investment in PSB</u>	<u>Investment in Shurgard Europe</u>	<u>Other Items Not Allocated to Segments</u>	<u>Total</u>
	(Amounts in thousands)					
Revenues:						
Self-storage operations	\$ 2,512,433	\$ -	\$ -	\$ -	\$ -	\$ 2,512,433
Ancillary operations	-	156,095	-	-	-	156,095
	<u>2,512,433</u>	<u>156,095</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,668,528</u>
Cost of operations:						
Self-storage operations	657,633	-	-	-	-	657,633
Ancillary operations	-	50,345	-	-	-	50,345
	<u>657,633</u>	<u>50,345</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>707,978</u>
Net operating income:						
Self-storage operations	1,854,800	-	-	-	-	1,854,800
Ancillary operations	-	105,750	-	-	-	105,750
	<u>1,854,800</u>	<u>105,750</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,960,550</u>
Other components of net income (loss):						
Depreciation and amortization	(454,526)	-	-	-	-	(454,526)
General and administrative	-	-	-	-	(82,882)	(82,882)
Interest and other income	-	-	-	-	18,771	18,771
Interest expense	-	-	-	-	(12,690)	(12,690)
Equity in earnings of						
unconsolidated real estate entities	-	-	46,544	25,948	3,163	75,655
Foreign currency exchange loss	-	-	-	-	(50,045)	(50,045)
Casualty loss	-	-	-	-	(7,789)	(7,789)
Gain on real estate investment sales	-	-	-	-	1,421	1,421
Net income (loss)	<u>\$ 1,400,274</u>	<u>\$ 105,750</u>	<u>\$ 46,544</u>	<u>\$ 25,948</u>	<u>\$ (130,051)</u>	<u>\$ 1,448,465</u>

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For the year ended December 31, 2016

	<u>Self-Storage Operations</u>	<u>Ancillary Operations</u>	<u>Investment in PSB</u>	<u>Investment in Shurgard Europe</u>	<u>Other Items Not Allocated to Segments</u>	<u>Total</u>
	(Amounts in thousands)					
Revenues:						
Self-storage operations	\$ 2,405,828	\$ -	\$ -	\$ -	\$ -	\$ 2,405,828
Ancillary operations	-	154,721	-	-	-	154,721
	<u>2,405,828</u>	<u>154,721</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,560,549</u>
Cost of operations:						
Self-storage operations	617,905	-	-	-	-	617,905
Ancillary operations	-	51,178	-	-	-	51,178
	<u>617,905</u>	<u>51,178</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>669,083</u>
Net operating income:						
Self-storage operations	1,787,923	-	-	-	-	1,787,923
Ancillary operations	-	103,543	-	-	-	103,543
	<u>1,787,923</u>	<u>103,543</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,891,466</u>
Other components of net income (loss):						
Depreciation and amortization	(433,314)	-	-	-	-	(433,314)
General and administrative	-	-	-	-	(83,656)	(83,656)
Interest and other income	-	-	-	-	15,138	15,138
Interest expense	-	-	-	-	(4,210)	(4,210)
Equity in earnings of						
unconsolidated real estate entities	-	-	31,707	22,324	2,725	56,756
Foreign currency exchange gain	-	-	-	-	17,570	17,570
Gain on real estate investment sales	-	-	-	-	689	689
Net income (loss)	<u>\$ 1,354,609</u>	<u>\$ 103,543</u>	<u>\$ 31,707</u>	<u>\$ 22,324</u>	<u>\$ (51,744)</u>	<u>\$ 1,460,439</u>

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NOTES TO FINANCIAL STATEMENTS
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For the year ended December 31, 2015

	Self-Storage Operations	Ancillary Operations	Investment in PSB	Investment in Shurgard Europe	Other Items Not Allocated to Segments	Total
	(Amounts in thousands)					
Revenues:						
Self-storage operations	\$ 2,235,525	\$ -	\$ -	\$ -	\$ -	\$ 2,235,525
Ancillary operations	-	146,171	-	-	-	146,171
	<u>2,235,525</u>	<u>146,171</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,381,696</u>
Cost of operations:						
Self-storage operations	586,696	-	-	-	-	586,696
Ancillary operations	-	48,806	-	-	-	48,806
	<u>586,696</u>	<u>48,806</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>635,502</u>
Net operating income:						
Self-storage operations	1,648,829	-	-	-	-	1,648,829
Ancillary operations	-	97,365	-	-	-	97,365
	<u>1,648,829</u>	<u>97,365</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,746,194</u>
Other components of net income (loss):						
Depreciation and amortization	(426,008)	-	-	-	-	(426,008)
General and administrative	-	-	-	-	(88,177)	(88,177)
Interest and other income	-	-	-	-	16,544	16,544
Interest expense	-	-	-	-	(610)	(610)
Equity in earnings of						
unconsolidated real estate entities	-	-	34,155	14,272	2,510	50,937
Foreign currency exchange gain	-	-	-	-	306	306
Gain on real estate investment sales	-	-	-	-	18,503	18,503
Net income (loss)	<u>\$ 1,222,821</u>	<u>\$ 97,365</u>	<u>\$ 34,155</u>	<u>\$ 14,272</u>	<u>\$ (50,924)</u>	<u>\$ 1,317,689</u>

12. Recent Accounting Pronouncements and Guidance

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which requires revenue to be based upon the consideration expected from customers for promised goods or services. The FASB also added guidance with respect to the sale of our real estate facilities. The new standards, effective on January 1, 2018, permit either the retrospective or cumulative effects transition method and allowed for early adoption on January 1, 2017. We did not early adopt these new standards. We plan to adopt the new standards in the first quarter of 2018 utilizing the modified retrospective transition method applied to open contracts. We do not believe the new standards will have a material impact on our results of operations or financial condition, primarily because most of our revenue is from rental revenue, which the new standards do not cover, and because we do not provide any material products and services to our customers or sell material amounts of our real estate facilities.

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In February 2016, the FASB issued ASU 2016-02, *Leases*, which amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The new standard, effective on January 1, 2019, requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief and allows for early adoption on January 1, 2016. The Company is currently assessing the impact of the guidance on our financial statements. However, we do not believe this standard will have a material impact on our results of operations or financial condition, because substantially all of our lease revenues are derived from month-to-month self-storage leases, and we do not have material amounts of lease expense.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments*. The new standard provides guidance on certain specific cash flow issues, including the treatment of distributions received from equity method investees. The standard is effective for periods beginning after December 15, 2017, with early adoption permitted and shall be applied retrospectively where practicable. We adopted the new guidance effective January 1, 2017 and elected to use the cumulative earnings approach, whereby distributions up to the amount of cumulative equity in earnings recognized are treated as returns on investment and amounts in excess are reflected as returns of investment. The adoption of the cumulative earnings approach had no impact on our consolidated financial statements for the periods presented.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230) - Restricted Cash*, which primarily requires the statement of cash flows to explain not only the change in cash and equivalents, but also the change in restricted cash. The standard is effective on January 1, 2018, with early adoption permitted and requires the use of the retrospective transition method. The Company early adopted the new guidance during the fourth quarter of 2017 and, accordingly, net cash used in investing activities was adjusted from \$716.7 million and \$440.1 million in the years ended December 31, 2016 and 2015, respectively, in the previous presentation, to \$699.1 million and \$456.1 million, respectively, in the current presentation.

13. Commitments and Contingencies

Contingent Losses

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

Insurance and Loss Exposure

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

We reinsure a program that provides insurance to our customers from an independent third-party insurer. This program covers tenant claims for losses to goods stored at our facilities as a result of specific named perils (earthquakes are not covered by this program), up to a maximum limit of \$5,000 per storage unit. We reinsure all risks in this program, but purchase insurance to cover this exposure for a limit of \$15.0 million for losses in

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December 31, 2017

excess of \$5.0 million per occurrence. We are subject to licensing requirements and regulations in several states. Customers participate in the program at their option. At December 31, 2017, there were approximately 900,000 certificates held by our self-storage customers, representing aggregate coverage of approximately \$2.8 billion.

Construction Commitments

We have construction commitments representing future expected payments for construction under contract totaling \$159.8 million at December 31, 2017. We expect to pay approximately \$127.8 million in 2018 and \$32.0 million in 2019 for these construction commitments.

14. Supplementary Quarterly Financial Data (unaudited)

	Three Months Ended			
	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017
	(Amounts in thousands, except per share data)			
Self-storage and ancillary revenues	\$ 645,547	\$ 664,312	\$ 686,361	\$ 672,308
Self-storage and ancillary cost of operations	\$ 182,902	\$ 182,578	\$ 190,619	\$ 151,879
Depreciation and amortization	\$ 110,929	\$ 110,177	\$ 113,320	\$ 120,100
Net Income	\$ 344,021	\$ 355,207	\$ 358,274	\$ 390,963
Per Common Share				
Net income - Basic	\$ 1.62	\$ 1.59	\$ 1.61	\$ 1.92
Net income - Diluted	\$ 1.62	\$ 1.59	\$ 1.61	\$ 1.92

	Three Months Ended			
	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016
	(Amounts in thousands, except per share data)			
Self-storage and ancillary revenues	\$ 611,786	\$ 634,188	\$ 663,148	\$ 651,427
Self-storage and ancillary cost of operations	\$ 173,286	\$ 172,004	\$ 178,627	\$ 145,166
Depreciation and amortization	\$ 105,128	\$ 107,013	\$ 109,432	\$ 111,741
Net Income	\$ 317,349	\$ 358,359	\$ 369,050	\$ 415,681
Per Common Share				
Net income - Basic	\$ 1.40	\$ 1.62	\$ 1.78	\$ 2.04
Net income - Diluted	\$ 1.39	\$ 1.61	\$ 1.78	\$ 2.03

15. Subsequent Events

Subsequent to December 31, 2017, we acquired or were under contract to acquire two self-storage facilities (one each in Tennessee and Nebraska) with 181,000 net rentable square feet, for \$18.3 million.

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SCHEDULE III - REAL ESTATE
AND ACCUMULATED DEPRECIATION

Description	No. of Facilities	2017 Encumbrances	Initial Cost		Costs		Gross Carrying Amount At December 31, 2017		Accumulated Depreciation
			Land	Buildings & Improvements	Subsequent to Acquisition	Land	Buildings	Total	
Self-storage facilities by market:									
Los Angeles	220	576	504,267	904,163	282,538	501,879	1,189,089	1,690,968	632,991
New York	94	-	250,900	548,541	151,048	257,229	693,260	950,489	357,033
San Francisco	138	-	231,943	512,052	167,760	244,693	667,062	911,755	392,298
Washington DC	91	-	233,905	406,769	107,686	239,107	509,253	748,360	265,498
Miami	89	-	212,661	448,086	81,773	214,553	527,967	742,520	256,989
Seattle/Tacoma	91	-	177,451	443,495	92,336	178,107	535,175	713,282	279,770
Houston	119	-	166,793	411,023	106,484	166,252	518,048	684,300	238,549
Dallas/Ft. Worth	119	-	166,838	387,423	94,713	167,570	481,404	648,974	239,552
Chicago	130	-	137,165	352,595	110,723	140,002	460,481	600,483	319,109
Atlanta	101	-	122,880	327,975	63,069	123,242	390,682	513,924	225,677
Orlando/Daytona	72	12,450	140,411	253,375	52,494	145,892	300,388	446,280	132,531
West Palm Beach	44	-	151,323	207,388	34,358	151,908	241,161	393,069	100,920
Charlotte	53	-	75,968	186,599	50,814	83,831	229,550	313,381	97,806
Tampa	53	-	87,165	174,499	43,210	89,937	214,937	304,874	105,200
Denver	55	10,013	82,240	154,622	63,230	82,969	217,123	300,092	120,812
Minneapolis/St. Paul	48	4,702	85,484	186,528	22,090	85,649	208,453	294,102	94,282
Philadelphia	57	-	51,682	152,406	52,303	50,703	205,688	256,391	145,875
Phoenix	39	-	60,974	169,042	23,286	60,965	192,337	253,302	85,465
Detroit	41	-	62,990	159,461	21,799	63,840	180,410	244,250	93,877
Boston	25	-	61,583	158,870	20,179	62,149	178,483	240,632	77,297
Austin	31	-	51,150	115,641	37,236	53,173	150,854	204,027	72,725
Portland	43	-	51,182	126,464	25,521	51,840	151,327	203,167	88,705
San Diego	20	-	47,884	108,911	37,976	50,392	144,379	194,771	74,585
Raleigh	28	-	50,348	99,583	27,010	51,477	125,464	176,941	49,330
Honolulu	11	-	54,184	106,299	10,793	55,101	116,175	171,276	56,286
Norfolk	28	-	33,316	81,267	16,192	32,755	98,020	130,775	53,478
San Antonio	28	-	27,566	76,028	25,438	27,524	101,508	129,032	59,598
Baltimore	23	-	25,176	79,734	16,677	25,300	96,287	121,587	62,675
Sacramento	34	-	25,141	69,409	26,734	25,646	95,638	121,284	67,951
Columbus	22	-	25,341	64,746	25,712	25,448	90,351	115,799	39,438
Oklahoma City	21	-	32,708	65,664	11,088	32,708	76,752	109,460	16,871

PUBLIC STORAGE
SCHEDULE III - REAL ESTATE
AND ACCUMULATED DEPRECIATION

Description	No. of Facilities	2017 Encumbrances	Initial Cost		Costs		Gross Carrying Amount		Accumulated Depreciation
			Land	Buildings & Improvements	Subsequent to Acquisition	Land	At December 31, 2017		
							Buildings	Total	
St. Louis	26	-	20,037	56,237	20,514	20,680	76,108	96,788	58,304
Columbia	22	-	19,608	54,653	17,965	20,367	71,859	92,226	28,345
Indianapolis	22	-	21,064	57,655	12,365	22,064	69,020	91,084	40,808
Las Vegas	20	-	23,168	52,723	9,655	22,417	63,129	85,546	43,534
Kansas City	24	-	14,225	43,732	25,763	14,425	69,295	83,720	54,044
Savannah	12	-	33,094	42,465	3,237	32,738	46,058	78,796	12,094
Cincinnati	16	-	14,927	31,822	17,119	14,845	49,023	63,868	26,134
Louisville	12	-	18,800	34,861	4,185	18,799	39,047	57,846	8,899
Greensboro	13	-	12,737	29,811	12,608	14,826	40,330	55,156	22,955
Fort Myers/Naples	9	-	15,373	35,353	4,348	15,608	39,466	55,074	13,533
Milwaukee	15	1,472	13,189	32,071	9,543	13,158	41,645	54,803	27,938
Jacksonville	14	-	11,252	27,714	10,175	11,301	37,840	49,141	28,809
Charleston	10	-	10,849	31,144	6,987	11,825	37,155	48,980	17,439
Hartford/New Haven	11	-	6,778	19,959	20,623	8,443	38,917	47,360	28,197
New Orleans	9	-	9,205	30,832	5,548	9,373	36,212	45,585	22,620
Nashville/Bowling Green	14	-	10,405	24,175	9,254	10,402	33,432	43,834	24,463
Richmond	10	-	13,248	23,253	4,059	13,053	27,507	40,560	15,360
Colorado Springs	12	-	8,229	19,659	12,521	8,225	32,184	40,409	26,100
Tucson	7	-	9,403	25,491	5,390	9,884	30,400	40,284	16,866
Chattanooga	10	-	6,569	26,045	6,550	6,371	32,793	39,164	12,019
Greensville/Spartanburg/Asheville	11	-	9,036	20,767	8,970	9,965	28,808	38,773	17,705
Memphis	9	-	7,962	21,981	8,515	9,315	29,143	38,458	17,549
Monterey/Salinas	7	-	8,465	24,151	3,848	8,455	28,009	36,464	18,415
Birmingham	14	-	5,229	17,835	13,024	5,117	30,971	36,088	26,662
Reno	7	-	5,487	18,704	3,932	5,487	22,636	28,123	10,622
Salt Lake City	8	-	7,846	15,947	4,264	7,495	20,562	28,057	12,310
Buffalo/Rochester	9	-	6,785	17,954	2,986	6,783	20,942	27,725	11,987
Palm Springs	3	-	8,309	18,065	1,218	8,309	19,283	27,592	8,653
Mobile	9	-	4,257	17,441	3,883	4,084	21,497	25,581	11,124
Cleveland/Akron	6	-	3,778	13,928	4,705	4,171	18,240	22,411	9,679
London, UK	1	-	5,730	14,278	(1,921)	3,509	14,578	18,087	11,998
Wichita	7	-	2,017	6,691	6,766	2,130	13,344	15,474	10,835

PUBLIC STORAGE
SCHEDULE III - REAL ESTATE
AND ACCUMULATED DEPRECIATION

Description	No. of Facilities	2017 Encumbrances	Initial Cost		Costs		Gross Carrying Amount		Accumulated Depreciation
			Land	Buildings & Improvements	Subsequent to Acquisition	Land	At December 31, 2017		
							Buildings	Total	
Santa Barbara	2	-	5,733	9,106	338	5,733	9,444	15,177	4,730
Providence	3	-	995	11,206	2,684	995	13,890	14,885	5,252
Dayton	5	-	1,074	8,975	4,642	1,073	13,618	14,691	6,073
Evansville	4	-	1,826	8,445	1,093	1,798	9,566	11,364	2,690
Augusta	4	-	1,793	5,990	2,242	1,793	8,232	10,025	5,235
Huntsville/Decatur	3	-	1,024	3,321	2,963	971	6,337	7,308	5,822
Fort Wayne	3	-	349	3,594	3,073	349	6,667	7,016	5,733
Springfield/Holyoke	2	-	1,428	3,380	1,709	1,427	5,090	6,517	4,121
Shreveport	2	-	817	3,030	2,221	741	5,327	6,068	4,184
Rochester	2	-	1,047	2,246	1,695	980	4,008	4,988	3,571
Lansing	2	-	556	2,882	806	556	3,688	4,244	1,887
Flint	1	-	543	3,068	180	542	3,249	3,791	1,579
Topeka	2	-	225	1,419	1,756	225	3,175	3,400	2,737
Roanoke	1	-	819	1,776	569	819	2,345	3,164	2,058
Syracuse	1	-	545	1,279	744	545	2,023	2,568	1,818
Omaha	1	-	109	806	1,398	109	2,204	2,313	1,779
Joplin	1	-	264	904	939	264	1,843	2,107	1,468
Modesto/Fresno/Stockton	1	-	44	206	962	193	1,019	1,212	648
Commercial and non-operating real estate		-	11,517	26,939	24,091	12,545	50,002	62,547	39,773
		\$29,213	\$3,886,388	\$8,544,627	\$2,234,974	\$3,947,123	\$10,718,866	\$14,665,989	\$5,700,331

Note: Buildings and improvements are depreciated on a straight-line basis over estimated useful lives ranging generally between 5 to 25 years.

PUBLIC STORAGE
EXHIBIT 12 – STATEMENT RE: COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
AND RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED SHARE INCOME ALLOCATIONS

	Year Ended December 31,			
	2017	2016	2015	2014
				2013
	(Amounts in thousands, except ratios)			
Income from continuing operations	\$ 1,448,465	\$ 1,460,439	\$ 1,317,689	\$ 1,149,955
Less: Income allocated to noncontrolling interests which do not have fixed charges	(5,900)	(6,475)	(6,088)	(5,432)
Equity in earnings of unconsolidated real estate entities	(75,655)	(56,756)	(50,937)	(88,267)
Add back: Distributions from retained earnings of unconsolidated real estate entities	53,749	84,397	35,695	83,458
Interest expense	12,690	4,210	610	6,781
Total earnings available to cover fixed charges	<u>\$ 1,433,349</u>	<u>\$ 1,485,815</u>	<u>\$ 1,296,969</u>	<u>\$ 1,146,495</u>
Total fixed charges - interest expense (including capitalized interest)	<u>\$ 17,076</u>	<u>\$ 9,359</u>	<u>\$ 3,299</u>	<u>\$ 8,340</u>
Cumulative preferred share cash dividends	\$ 236,535	\$ 238,214	\$ 245,097	\$ 232,636
Allocations pursuant to EITF Topic D-42	29,330	26,873	8,897	-
Total preferred distributions	<u>\$ 265,865</u>	<u>\$ 265,087</u>	<u>\$ 253,994</u>	<u>\$ 232,636</u>
Total combined fixed charges and preferred share income allocations	<u>\$ 282,941</u>	<u>\$ 274,446</u>	<u>\$ 257,293</u>	<u>\$ 240,976</u>
Ratio of earnings to fixed charges	<u>83.94 x</u>	<u>158.76 x</u>	<u>393.14 x</u>	<u>137.47 x</u>
Ratio of earnings to fixed charges and preferred share income allocations	<u>5.07 x</u>	<u>5.41 x</u>	<u>5.04 x</u>	<u>4.76 x</u>
				<u>\$ 1,057,531</u>
				<u>\$ 1,047,383</u>
				<u>\$ 204,312</u>
				<u>\$ 204,312</u>
				<u>\$ 213,651</u>
				<u>112.15 x</u>
				<u>4.90 x</u>

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement on Form S-3ASR, as amended, (No. 333-211758) and related prospectus,
- (2) Registration Statement on Form S-8 (No. 333-210937) and related prospectus of Public Storage for the registration of common shares of beneficial interest pertaining to the Public Storage 2016 Equity and Performance-Based Incentive Compensation Plan,
- (3) Registration Statement on Form S-8 (No. 333-195646) and related prospectus of Public Storage for the registration of common shares of beneficial interest pertaining to the Public Storage 2007 Equity and Performance-Based Incentive Compensation Plan as Amended, and
- (4) Registration Statement on Form S-8 (No.333-144907) and related prospectus of Public Storage for the registration of common shares of beneficial interest pertaining to the Public Storage 2007 Equity and Performance-Based Incentive Compensation Plan;

of our reports dated February 28, 2018, with respect to the consolidated financial statements and schedule of Public Storage and the effectiveness of internal control over financial reporting of Public Storage included in this Annual Report (Form 10-K) of Public Storage for the year ended December 31, 2017.

/s/ ERNST & YOUNG LLP

February 28, 2018
Los Angeles, California

RULE 13A – 14(a) CERTIFICATION

I, Ronald L. Havner, Jr., certify that:

1. I have reviewed this Annual Report on Form 10-K of Public Storage;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Ronald L. Havner, Jr.

Name: Ronald L. Havner, Jr.

Title: Chairman and Chief Executive Officer

Date: February 28, 2018

RULE 13A – 14(a) CERTIFICATION

I, John Reyes, certify that:

1. I have reviewed this Annual Report on Form 10-K of Public Storage;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ John Reyes

Name: John Reyes

Title: Chief Financial Officer

Date: February 28, 2018

SECTION 1350 CERTIFICATION

In connection with the Annual Report on Form 10-K of Public Storage (the “Company”) for the year ended December 31, 2017, as filed with the Securities and Exchange Commission (the “SEC”) on the date hereof (the “Report”), Ronald L. Havner, Jr., as Chairman and Chief Executive Officer of the Company and John Reyes, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley”), that:

- (1) The Report fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Ronald L. Havner, Jr.

Name: Ronald L. Havner, Jr.
Title: Chairman and Chief Executive Officer
Date: February 28, 2018

/s/ John Reyes

Name: John Reyes
Title: Chief Financial Officer
Date: February 28, 2018

This certification accompanies the Report pursuant to §906 of Sarbanes-Oxley and shall not, except to the extent required by Sarbanes-Oxley, be deemed filed by the Company for purposes of §18 of the Exchange Act.

A signed original of this written statement required by §906 of Sarbanes-Oxley has been provided to the Company, and will be retained and furnished to the SEC or its staff upon request.

CORPORATE DATA *(as of February 28, 2018)*

Trustees

Ronald L. Havner, Jr. (2002)
Chairman of the Board and Chief Executive Officer

Tamara Hughes Gustavson (2008)
Real Estate Investor, Philanthropist

Uri P. Harkham (1993)
Chief Executive Officer, Harkham Family Enterprises

Leslie S. Heisz (2017)
Retired Managing Director of Lazard Frères & Co.

B. Wayne Hughes, Jr. (1998)
Founder, American Commercial Equities, LLC

Avedick B. Poladian (2010)
Retired Executive Vice President and Chief Operating Officer, Lowe Enterprises, Inc.

Gary E. Pruitt (2006)
Retired Chairman and Chief Executive Officer, Univar N.V.

Ronald P. Spogli (2010)
Co-Founder, Freeman Spogli & Co.

Daniel C. Staton (1999)
Chairman and Managing Director, Staton Capital

() = Year trustee was elected to the Board

Founder and Chairman Emeritus

B. Wayne Hughes

Certifications

The most recent certifications by our Chief Executive Officer and Chief Financial Officer pursuant to Sections 302 and 906 of the Sarbanes-Oxley Act of 2002 are filed as exhibits to our Form 10-K. Our Chief Executive Officer's most recent annual certification to the New York Stock Exchange was submitted on May 4, 2017.

Stock Exchange Listing

The Company's Common Shares trade under ticker symbol PSA on the New York Stock Exchange.



Executive Team

Ronald L. Havner, Jr.
Chief Executive Officer

Joseph D. Russell, Jr.
President

John Reyes
Senior Vice President, Chief Financial Officer

Lily Yan Hughes
Senior Vice President, Chief Legal Officer

Todd Andrews
Vice President, Controller

H. Thomas Boyle
Vice President, Chief Financial Officer, Operations

Mark A. Delcher
Senior Vice President, Chief Information Officer

Natalia N. Johnson
Senior Vice President, Human Resources

Steven H. Lentini
Vice President, Chief Operating Officer

Michael K. McGowan
Senior Vice President, Acquisitions

Timothy J. Stanley
Senior Vice President, Capital Investments

Phillip D. Williams, Jr.
Senior Vice President, Construction

Third Party Management

Peter G. Panos
President

Asset Management

John M. Sambuco
President

PS Insurance

Capri L. Haga
President

Shurgard Self Storage S.C.A. (Europe)

Marc Oursin
Chief Executive Officer

PS Business Parks, Inc.

Maria R. Hawthorne
President, Chief Executive Officer

Corporate Headquarters

701 Western Avenue
Glendale, CA 91201-2349

Investor Relations

(818) 244-8080

Transfer Agent

Computershare Trust Company, N.A.
P.O. Box 505000
Louisville, KY 40233-5000
(781) 575-3120

Shareholder website:

<http://www.computershare.com/investor>

Shareholder online inquiries:

<https://www-us.computershare.com/investor/contact>

Independent Registered Public Accounting Firm

Ernst & Young LLP
Los Angeles, CA

Annual Meeting of Shareholders

The Annual Meeting of Shareholders of Public Storage will be held on April 25, 2018 at 2:30 p.m. at the Hilton Los Angeles North/Glendale, 100 West Glenoaks Boulevard, Glendale, CA.

Additional Information Sources

The Company's website, PublicStorage.com, contains financial information of interest to shareholders, brokers and others.



Public Storage is a member and active supporter of the National Association of Real Estate Investment Trusts.



PUBLIC STORAGE

701 Western Avenue, Glendale, California 91201-2349
(818) 244-8080 • PublicStorage.com

(SKU 002CSN8BE3)