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

WASHINGTON, D.C. 20549

FORM 10-Q

December 30, 2016
(Mark one)

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

For the quarterly period ended June 30, 2018.

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to .

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

CUBESMART

CUBESMART, L.P.

(Exact Name of Registrant as Specified in its Charter)

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

5 Old Lancaster Road

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

(610) 535-5000

(Registrant's Telephone Number, Including Area Code)

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

CubeSmart	Yes	No
CubeSmart, L.P.	Yes	No

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

CubeSmart	Yes	No
CubeSmart, L.P.	Yes	No

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

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

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

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

CubeSmart
CubeSmart, L.P.

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

CubeSmart	Yes	No
CubeSmart, L.P.	Yes	No

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

Class	Outstanding at July 25, 2018
Common shares, $0.01 par value per share, of CubeSmart	185,885,651

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended June 30, 2018 of CubeSmart (the "Parent Company" or "CubeSmart") and CubeSmart, L.P. (the "Operating Partnership"). The Parent Company is a Maryland real estate investment trust, or REIT, that owns its assets and conducts its operations through the Operating Partnership, a Delaware limited partnership, and subsidiaries of the Operating Partnership. The Parent Company, the Operating Partnership and their consolidated subsidiaries are collectively referred to in this report as the "Company". In addition, terms such as "we", "us", or "our" used in this report may refer to the Company, the Parent Company or the Operating Partnership.

The Parent Company is the sole general partner of the Operating Partnership and, as of June 30, 2018, owned a 98.9% interest in the Operating Partnership. The remaining 1.1% interest consists of common units of limited partnership interest issued by the Operating Partnership to third parties in exchange for contributions of properties to the Operating Partnership. As the sole general partner of the Operating Partnership, the Parent Company has full and complete authority over the Operating Partnership's day-to-day operations and management.

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

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

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

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

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

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

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

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

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Filing Format

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

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Forward-Looking Statements

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

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

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

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

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- potential environmental and other liabilities;

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

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

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CUBESMART AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	June 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Storage properties	$ 4,237,717	$ 4,161,715
Less: Accumulated depreciation	(807,625)	(752,925)
Storage properties, net (including VIE assets of $287,340 and $291,496, respectively)	3,430,092	3,408,790
Cash and cash equivalents	6,487	5,268
Restricted cash	3,037	3,890
Loan procurement costs, net of amortization	1,298	1,592
Investment in real estate ventures, at equity	100,614	91,206
Other assets, net	43,232	34,590
Total assets	$ 3,584,760	$ 3,545,336
LIABILITIES AND EQUITY		
Unsecured senior notes, net	$ 1,142,992	$ 1,142,460
Revolving credit facility	47,700	81,700
Unsecured term loans, net	299,598	299,396
Mortgage loans and notes payable, net	109,851	111,434
Accounts payable, accrued expenses and other liabilities	146,223	143,344
Distributions payable	56,442	55,297
Deferred revenue	23,521	21,529
Security deposits	483	486
Total liabilities	1,826,810	1,855,646
Noncontrolling interests in the Operating Partnership	64,512	54,320
Commitments and contingencies		
Equity		
Common shares $.01 par value, 400,000,000 shares authorized, 185,876,890 and 182,215,735 shares issued and outstanding at June 30, 2018 and	1,859	1,822

December 31, 2017, respectively		
Additional paid-in capital	2,458,521	2,356,620
Accumulated other comprehensive income	—	3
Accumulated deficit	(773,849)	(729,311)
Total CubeSmart shareholders’ equity	1,686,531	1,629,134
Noncontrolling interests in subsidiaries	6,907	6,236
Total equity	1,693,438	1,635,370
Total liabilities and equity	$ 3,584,760	$ 3,545,336

See accompanying notes to the unaudited consolidated financial statements.

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CUBESMART AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

(unaudited)

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
REVENUES				
Rental income	$ 127,843	$ 121,224	$ 252,004	$ 238,281
Other property related income	15,047	13,880	29,294	26,863
Property management fee income	4,925	3,455	9,394	6,452
Total revenues	147,815	138,559	290,692	271,596
OPERATING EXPENSES				
Property operating expenses	49,528	44,821	98,282	89,695
Depreciation and amortization	35,046	36,736	70,012	74,855
General and administrative	8,341	8,800	17,085	18,294
Acquisition related costs	—	668	—	827
Total operating expenses	92,915	91,025	185,379	183,671
OPERATING INCOME	54,900	47,534	105,313	87,925
OTHER (EXPENSE) INCOME				
Interest:				
Interest expense on loans	(15,451)	(13,975)	(30,606)	(27,574)
Loan procurement amortization expense	(578)	(776)	(1,157)	(1,482)
Equity in losses of real estate ventures	(309)	(253)	(493)	(1,025)
Other	189	308	493	200
Total other expense	(16,149)	(14,696)	(31,763)	(29,881)
NET INCOME	38,751	32,838	73,550	58,044
NET (INCOME) LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS				
Noncontrolling interests in the Operating Partnership	(426)	(427)	(809)	(704)
Noncontrolling interest in subsidiaries	85	47	92	104
NET INCOME ATTRIBUTABLE TO THE COMPANY’S COMMON SHAREHOLDERS	$ 38,410	$ 32,458	$ 72,833	$ 57,444
Basic earnings per share attributable to common shareholders	$ 0.21	$ 0.18	$ 0.40	$ 0.32
Diluted earnings per share attributable to common shareholders	$ 0.21	$ 0.18	$ 0.40	$ 0.32
Weighted-average basic shares outstanding	183,718	180,183	183,000	180,174
Weighted-average diluted shares outstanding	184,523	181,189	183,753	181,198

See accompanying notes to the unaudited consolidated financial statements.

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CUBESMART AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(unaudited)

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
NET INCOME	$ 38,751	$ 32,838	$ 73,550	$ 58,044
Other comprehensive (loss) income:				
Unrealized (losses) gains on interest rate swaps	—	(4)	60	137
Reclassification of realized (gains) losses on interest rate swaps	(279)	366	(60)	1,061
OTHER COMPREHENSIVE (LOSS) INCOME	(279)	362	—	1,198
COMPREHENSIVE INCOME	38,472	33,200	73,550	59,242
Comprehensive income attributable to noncontrolling interests in the Operating Partnership	(427)	(432)	(813)	(718)
Comprehensive loss attributable to noncontrolling interest in subsidiaries	85	47	92	104
COMPREHENSIVE INCOME ATTRIBUTABLE TO THE COMPANY	$ 38,130	$ 32,815	$ 72,829	$ 58,628

See accompanying notes to the unaudited consolidated financial statements.

CUBESMART AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EQUITY

(in thousands)

(unaudited)

	Common Shares		Additional Paid in	Accumulated Other Comprehensive Income	Accumulated	Total Shareholders’	Noncor Interest
	Number	Amount	Capital	(Loss)	Deficit	Equity	Subsidi
Balance at December 31, 2017	182,216	$ 1,822	$ 2,356,620	$ 3	$ (729,311)	$ 1,629,134	$ 6,23
Contributions from noncontrolling interests in subsidiaries							843
Distributions to noncontrolling interests in subsidiaries							(80)
Issuance of common shares	3,134	32	95,390			95,422	
Issuance of restricted shares	84	1				1	
Issuance of OP units							
Conversion from units to shares	44		1,342			1,342	
Exercise of stock options	399	4	3,779			3,783	
Amortization of restricted shares			623			623	
Share compensation expense			767			767	
Adjustment for noncontrolling interests in the Operating Partnership					(7,154)	(7,154)	
Net income (loss)					72,833	72,833	(92)
				(3)	405	402	

Other comprehensive (loss) income, net							
Common share distributions					(110,622)	(110,622)	
Balance at June 30, 2018	185,877	$ 1,859	$ 2,458,521	$ —	$ (773,849)	$ 1,686,531	$ 6,90

	Common Shares Number	Amount	Additional Paid in Capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Total Shareholders' Equity	Noncor Interest Subsidi
Balance at December 31, 2016	180,083	$ 1,801	$ 2,314,014	$ (1,850)	$ (658,583)	$ 1,655,382	$ 5,85
Contributions from noncontrolling interests in subsidiaries							545
Acquisition of noncontrolling interest in subsidiary			(8,626)			(8,626)	(40
Issuance of common shares			(178)			(178)	
Issuance of restricted shares	104	1				1	
Issuance of OP units							
Conversion from units to shares	1		25			25	
Exercise of stock options	9		94			94	
Amortization of restricted shares			(7)			(7)	
Share compensation expense			764			764	
Adjustment for noncontrolling interest in the Operating Partnership					6,793	6,793	
Net income (loss)					57,444	57,444	(10
Other comprehensive income, net				1,184		1,184	
Common share distributions					(97,432)	(97,432)	
Balance at June 30, 2017	180,197	$ 1,802	$ 2,306,086	$ (666)	$ (691,778)	$ 1,615,444	$ 5,88

See accompanying notes to the unaudited consolidated financial statements.

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CUBESMART AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended June 30, 2018	2017
Operating Activities		
Net income	$ 73,550	$ 58,044
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	71,169	76,337
Equity in losses of real estate ventures	493	1,025
Equity compensation expense	2,814	2,773
Accretion of fair market value adjustment of debt	(369)	(225)
Changes in other operating accounts:		
Other assets	(4,182)	(5,289)
Accounts payable and accrued expenses	10,316	12,773
Other liabilities	1,891	1,610
Net cash provided by operating activities	$ 155,682	$ 147,048
Investing Activities		
Acquisitions of storage properties	(24,929)	(13,409)
Additions and improvements to storage properties	(12,659)	(15,370)
Development costs	(53,201)	(24,752)
Investment in real estate ventures, at equity	(14,147)	(123)
Cash distributed from real estate ventures	4,246	4,023
Net cash used in investing activities	$ (100,690)	$ (49,631)
Financing Activities		
Proceeds from:		
Unsecured senior notes	—	103,192
Revolving credit facility	251,025	305,300
Principal payments on:		
Revolving credit facility	(285,025)	(288,600)
Unsecured term loans	—	(100,000)
Mortgage loans and notes payable	(8,479)	(7,400)
Loan procurement costs	—	(953)
Acquisition of noncontrolling interest in subsidiary	—	(7,533)
Proceeds from issuance of common shares, net	95,423	(177)
Cash paid upon vesting of restricted shares	(1,424)	(2,016)
Exercise of stock options	3,783	94
Contributions from noncontrolling interests in subsidiaries	843	545
Distributions paid to noncontrolling interests in subsidiaries	(80)	—
Distributions paid to common shareholders	(109,515)	(97,397)
Distributions paid to noncontrolling interests in Operating Partnership	(1,177)	(1,097)

Net cash used in financing activities	$ (54,626)	$ (96,042)
Change in cash, cash equivalents, and restricted cash	366	1,375
Cash, cash equivalents, and restricted cash at beginning of period	9,158	10,866
Cash, cash equivalents, and restricted cash at end of period	$ 9,524	$ 12,241
Supplemental Cash Flow and Noncash Information		
Cash paid for interest, net of interest capitalized	$ 33,101	$ 31,410
Supplemental disclosure of noncash activities:		
Accretion of liability	$ 14,072	$ 16,068
Derivative valuation adjustment	$ 406	$ 1,198
Mortgage loan assumptions	$ 7,166	$ 6,201
Issuance of OP units	$ 4,782	$ 12,324
Liability for acquisition of storage property	$ —	$ 1,470
Liability for acquisition of noncontrolling interest in subsidiary	$ —	$ 1,500

See accompanying notes to the unaudited consolidated financial statements.

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CUBESMART, L.P. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(in thousands)

	June 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Storage properties	$ 4,237,717	$ 4,161,715
Less: Accumulated depreciation	(807,625)	(752,925)
Storage properties, net (including VIE assets of $287,340 and $291,496, respectively)	3,430,092	3,408,790
Cash and cash equivalents	6,487	5,268
Restricted cash	3,037	3,890
Loan procurement costs, net of amortization	1,298	1,592
Investment in real estate ventures, at equity	100,614	91,206
Other assets, net	43,232	34,590
Total assets	$ 3,584,760	$ 3,545,336
LIABILITIES AND CAPITAL		
Unsecured senior notes, net	$ 1,142,992	$ 1,142,460
Revolving credit facility	47,700	81,700
Unsecured term loans, net	299,598	299,396
Mortgage loans and notes payable, net	109,851	111,434
Accounts payable, accrued expenses and other liabilities	146,223	143,344
Distributions payable	56,442	55,297
Deferred revenue	23,521	21,529
Security deposits	483	486
Total liabilities	1,826,810	1,855,646
Limited Partnership interests of third parties	64,512	54,320
Commitments and contingencies		
Capital		
Operating Partner	1,686,531	1,629,131
Accumulated other comprehensive income	—	3
Total CubeSmart, L.P. capital	1,686,531	1,629,134
Noncontrolling interests in subsidiaries	6,907	6,236
Total capital	1,693,438	1,635,370
Total liabilities and capital	$ 3,584,760	$ 3,545,336

See accompanying notes to the unaudited consolidated financial statements.

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CUBESMART, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per common unit data)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
REVENUES				
Rental income	$ 127,843	$ 121,224	$ 252,004	$ 238,281
Other property related income	15,047	13,880	29,294	26,863
Property management fee income	4,925	3,455	9,394	6,452
Total revenues	147,815	138,559	290,692	271,596
OPERATING EXPENSES				
Property operating expenses	49,528	44,821	98,282	89,695
Depreciation and amortization	35,046	36,736	70,012	74,855
General and administrative	8,341	8,800	17,085	18,294
Acquisition related costs	—	668	—	827
Total operating expenses	92,915	91,025	185,379	183,671
OPERATING INCOME	54,900	47,534	105,313	87,925
OTHER (EXPENSE) INCOME				
Interest:				
Interest expense on loans	(15,451)	(13,975)	(30,606)	(27,574)
Loan procurement amortization expense	(578)	(776)	(1,157)	(1,482)
Equity in losses of real estate ventures	(309)	(253)	(493)	(1,025)
Other	189	308	493	200
Total other expense	(16,149)	(14,696)	(31,763)	(29,881)
NET INCOME	38,751	32,838	73,550	58,044
NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS				
Noncontrolling interest in subsidiaries	85	47	92	104
NET INCOME ATTRIBUTABLE TO CUBESMART L.P.	38,836	32,885	73,642	58,148
Operating Partnership interests of third parties	(426)	(427)	(809)	(704)
NET INCOME ATTRIBUTABLE TO COMMON UNITHOLDERS	$ 38,410	$ 32,458	$ 72,833	$ 57,444
Basic earnings per unit attributable to common unitholders	$ 0.21	$ 0.18	$ 0.40	$ 0.32
Diluted earnings per unit attributable to common unitholders	$ 0.21	$ 0.18	$ 0.40	$ 0.32

Weighted-average basic units outstanding	183,718	180,183	183,000	180,174
Weighted-average diluted units outstanding	184,523	181,189	183,753	181,198

See accompanying notes to the unaudited consolidated financial statements.

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CUBESMART, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
NET INCOME	$ 38,751	$ 32,838	$ 73,550	$ 58,044
Other comprehensive (loss) income:				
Unrealized (losses) gains on interest rate swaps	—	(4)	60	137
Reclassification of realized (gains) losses on interest rate swaps	(279)	366	(60)	1,061
OTHER COMPREHENSIVE (LOSS) INCOME	(279)	362	—	1,198
COMPREHENSIVE INCOME	38,472	33,200	73,550	59,242
Comprehensive income attributable to Operating Partnership interests of third parties	(427)	(432)	(813)	(718)
Comprehensive loss attributable to noncontrolling interest in subsidiaries	85	47	92	104
COMPREHENSIVE INCOME ATTRIBUTABLE TO OPERATING PARTNER	$ 38,130	$ 32,815	$ 72,829	$ 58,628

See accompanying notes to the unaudited consolidated financial statements.

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CUBESMART, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CAPITAL

(in thousands)

(unaudited)

	Number of Common OP Units Outstanding	Operating Partner	Accumulated Other Comprehensive Income (Loss)	Total CubeSmart L.P. Capital	Noncontrolling Interests in Subsidiaries	Total Capital	Operating Partnership Interest of Third Parti
Balance at December 31, 2017	182,216	$ 1,629,131	$ 3	$ 1,629,134	$ 6,236	$ 1,635,370	$ 54,320
Contributions from noncontrolling interests in subsidiaries					843	843	
Distributions from noncontrolling interests in subsidiaries					(80)	(80)	
Issuance of common OP units	3,134	95,422		95,422		95,422	
Issuance of restricted OP units	84	1		1		1	
Issuance of OP units							4,782
Conversion from OP units to shares	44	1,342		1,342		1,342	(1,342)
Exercise of OP unit options	399	3,783		3,783		3,783	
Amortization of restricted OP units		623		623		623	
OP unit compensation expense		767		767		767	

Adjustment for Limited Partnership interests of third parties		(7,154)		(7,154)		(7,154)	7,154
Net income (loss)		72,833		72,833	(92)	72,741	809
Other comprehensive income (loss), net		405	(3)	402		402	4
Common OP unit distributions		(110,622)		(110,622)		(110,622)	(1,215)
Balance at June 30, 2018	185,877	$ 1,686,531	$ —	$ 1,686,531	$ 6,907	$ 1,693,438	$ 64,512

	Number of Common OP Units Outstanding	Operating Partner	Accumulated Other Comprehensive (Loss) Income	Total CubeSmart L.P. Capital	Noncontrolling Interests in Subsidiaries	Total Capital	Operating Partnership Interest of Third Parti
Balance at December 31, 2016	180,083	$ 1,657,232	$ (1,850)	$ 1,655,382	$ 5,855	$ 1,661,237	$ 54,407
Contributions from noncontrolling interests in subsidiaries					545	545	
Acquisition of noncontrolling interest in subsidiary		(8,626)		(8,626)	(407)	(9,033)	
Issuance of common OP units		(178)		(178)		(178)	
Issuance of restricted OP units	104	1		1		1	
Issuance of OP units							12,324
Conversion from units to shares	1	25		25		25	(25)
Exercise of OP unit options	9	94		94		94	
Amortization of restricted OP units		(7)		(7)		(7)	
		764		764		764	

OP unit compensation expense							
Adjustment for Operating Partnership interests of third parties		6,793		6,793		6,793	(6,793)
Net income (loss)		57,444		57,444	(104)	57,340	704
Other comprehensive income, net			1,184	1,184		1,184	14
Common OP unit distributions		(97,432)		(97,432)		(97,432)	(1,215)
Balance at June 30, 2017	180,197	$ 1,616,110	$ (666)	$ 1,615,444	$ 5,889	$ 1,621,333	$ 59,416

See accompanying notes to the unaudited consolidated financial statements.

CUBESMART, L.P. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended June 30,	
	2018	2017
Operating Activities		
Net income	$ 73,550	$ 58,044
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	71,169	76,337
Equity in losses of real estate ventures	493	1,025
Equity compensation expense	2,814	2,773
Accretion of fair market value adjustment of debt	(369)	(225)
Changes in other operating accounts:		
Other assets	(4,182)	(5,289)
Accounts payable and accrued expenses	10,316	12,773
Other liabilities	1,891	1,610
Net cash provided by operating activities	$ 155,682	$ 147,048
Investing Activities		
Acquisitions of storage properties	(24,929)	(13,409)
Additions and improvements to storage properties	(12,659)	(15,370)
Development costs	(53,201)	(24,752)
Investment in real estate ventures, at equity	(14,147)	(123)
Cash distributed from real estate ventures	4,246	4,023
Net cash used in investing activities	$ (100,690)	$ (49,631)
Financing Activities		
Proceeds from:		
Unsecured senior notes	—	103,192
Revolving credit facility	251,025	305,300
Principal payments on:		
Revolving credit facility	(285,025)	(288,600)
Unsecured term loans	—	(100,000)
Mortgage loans and notes payable	(8,479)	(7,400)
Loan procurement costs	—	(953)
Acquisition of noncontrolling interest in subsidiary	—	(7,533)
Proceeds from issuance of common OP units	95,423	(177)
Cash paid upon vesting of restricted OP units	(1,424)	(2,016)
Exercise of OP unit options	3,783	94
Contributions from noncontrolling interests in subsidiaries	843	545
Distributions paid to noncontrolling interests in subsidiaries	(80)	—
Distributions paid to common OP unitholders	(110,692)	(98,494)
Net cash used in financing activities	$ (54,626)	$ (96,042)

Change in cash, cash equivalents, and restricted cash	366	1,375
Cash, cash equivalents, and restricted cash at beginning of period	9,158	10,866
Cash, cash equivalents, and restricted cash at end of period	$ 9,524	$ 12,241
Supplemental Cash Flow and Noncash Information		
Cash paid for interest, net of interest capitalized	$ 33,101	$ 31,410
Supplemental disclosure of noncash activities:		
Accretion of liability	$ 14,072	$ 16,068
Derivative valuation adjustment	$ 406	$ 1,198
Mortgage loan assumptions	$ 7,166	$ 6,201
Issuance of OP units	$ 4,782	$ 12,324
Liability for acquisition of storage property	$ —	$ 1,470
Liability for acquisition of noncontrolling interest in subsidiary	$ —	$ 1,500

See accompanying notes to the unaudited consolidated financial statements.

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CUBESMART AND CUBESMART, L.P.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND NATURE OF OPERATIONS

CubeSmart (the "Parent Company") operates as a self-managed and self-administered real estate investment trust ("REIT") with its operations conducted solely through CubeSmart, L.P. and its subsidiaries. CubeSmart, L.P., a Delaware limited partnership (the "Operating Partnership"), operates through an umbrella partnership structure, with the Parent Company, a Maryland REIT, as its sole general partner. In the notes to the consolidated financial statements, we use the terms "the Company", "we" or "our" to refer to the Parent Company and the Operating Partnership together, unless the context indicates otherwise. As of June 30, 2018, the Company owned self-storage properties located in 23 states throughout the United States and the District of Columbia that are presented under one reportable segment: the Company owns, operates, develops, manages and acquires self-storage properties.

As of June 30, 2018, the Parent Company owned approximately 98.9% of the partnership interests ("OP Units") of the Operating Partnership. The remaining OP Units, consisting exclusively of limited partner interests, are held by persons who contributed their interests in properties to the Operating Partnership in exchange for OP Units. Under the partnership agreement, these persons have the right to tender their OP Units for redemption to the Operating Partnership at any time following a specified restricted period for cash equal to the fair value of an equivalent number of common shares of the Parent Company or, in the case of Class C OP Units, the stated value of such Class C OP Units (see note 16). In lieu of delivering cash, however, the Parent Company, as the Operating Partnership's general partner, may, at its option, choose to acquire any OP Units so tendered by issuing common shares in exchange for the tendered OP Units. If the Parent Company so chooses, its common shares will be exchanged for OP Units on a one-for-one basis or, in the case of Class C OP Units, for common shares with a fair value equal to the stated value of such Class C OP Units. This one-for-one exchange ratio is subject to adjustment to prevent dilution. With each such exchange or redemption, the Parent Company's percentage ownership in the Operating Partnership will increase. In addition, whenever the Parent Company issues common or other classes of its shares, it contributes the net proceeds it receives from the issuance to the Operating Partnership and the Operating Partnership issues to the Parent Company an equal number of OP Units or other partnership interests having preferences and rights that mirror the preferences and rights of the shares issued. This structure is commonly referred to as an umbrella partnership REIT or "UPREIT".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared pursuant to the rules and regulations of the SEC regarding interim financial reporting and, in the opinion of each of the Parent Company's and Operating Partnership's respective management, include all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of financial position, results of operations and cash flows for each respective company for the interim periods presented in accordance with generally accepted accounting principles in the United States ("GAAP"). Accordingly, readers of this Quarterly Report on Form 10-Q should refer to the Parent Company's and the Operating Partnership's audited financial statements prepared in accordance with GAAP, and the related notes thereto, for the year ended December 31, 2017, which are included in the Parent Company's and the Operating Partnership's Annual Report on Form 10-K for the fiscal year ended December 31, 2017. The results of operations for the three and six months ended June 30, 2018 and 2017 are not necessarily indicative of the results of operations to be expected for any future period or the full year.

The Operating Partnership meets the criteria as a variable interest entity. The Parent Company's sole significant asset is its investment in the Operating Partnership. As a result, substantially all of the Parent Company's assets and liabilities represent those assets and liabilities of the Operating Partnership. All of the Parent Company's debt is an obligation of the Operating Partnership.

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Reclassifications

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

On January 1, 2018, the Company adopted ASU No. 2016-15: Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments, which requires retrospective application for a number of cash flow classification items for which there was diversity in practice. See Recent Accounting Pronouncements below for the specific cash flow areas addressed by the new standard. As a result of adopting the new guidance, $0.4 million of proceeds received from the settlement of insurance claims during the six months ended June 30, 2017 have been reclassified from operating activities to investing activities within the consolidated statements of cash flows.

On January 1, 2018, the Company also adopted ASU No. 2016-18: Statement of Cash Flows (Topic 230) – Restricted Cash, which requires restricted cash to be included with cash and cash equivalents as part of the reconciliation of beginning and end of period balances within the consolidated statements of cash flows. As a result of adopting the new guidance, $3.7 million of restricted cash, which was previously included as an investing cash inflow within the consolidated statements of cash flows for the six months ended June 30, 2017, has been removed and is now included in the cash, cash equivalents, and restricted cash line items at the beginning and the end of period.

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

Recent Accounting Pronouncements

In August 2017, the Financial Accounting Standards Board ("FASB") issued ASU No. 2017-12 – Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The purpose of this updated guidance is to better align a company's financial reporting for hedging activities with the economic objectives of those activities. The transition guidance provides companies with the option of early adopting the new standard using a modified retrospective transition method in any interim period after issuance of the update, or alternatively requires adoption for fiscal years beginning after December 15, 2018. This adoption method will require the Company to recognize the cumulative effect of initially applying the new guidance as an adjustment to accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings as of the beginning of the fiscal year that the Company adopts the update. The adoption of this guidance is not expected to have an impact on the Company's consolidated financial statements as the Company currently does not have any outstanding derivative financial instruments.

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

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

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

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

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

In May 2014, the FASB issued ASU No. 2014-09 - Revenue from Contracts with Customers (Topic 606), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The new guidance outlines a five-step process for customer contract revenue recognition that focuses on transfer of control as opposed to transfer of risk and rewards. The new guidance also requires enhanced disclosures regarding the nature, amount, timing, and uncertainty of revenues and cash flows from contracts with customers. In May 2016, the FASB issued ASU No. 2016-12 - Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which amends ASU No. 2014-09 and is intended to address implementation issues that were raised by stakeholders. ASU No. 2016-12 provides practical expedients on collectability, noncash consideration, presentation of sales tax and contract modifications and completed contracts in transition. Both standards became effective on January 1, 2018. The Company finalized the impact of the adoption of ASU No. 2014-09 and ASU No. 2016-12 on the Company’s consolidated financial statements and related disclosures and adopted the standards using the modified retrospective transition method. The standards did not have a material

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impact on the Company's consolidated statements of financial position or results of operations primarily because most of its revenue is derived from lease contracts, which are excluded from the scope of the new guidance. The Company's insurance fee revenue, property management fee revenue, and merchandise sale revenue are included in the scope of the new guidance, however, the Company identified similar performance obligations under this standard as compared with deliverables and separate units of account identified under its previous revenue recognition methodology. Accordingly, revenue recognized under the new guidance does not differ materially from revenue recognized under previous guidance and there is no material prior year impact.

3. STORAGE PROPERTIES

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

	June 30, 2018	December 31, 2017
	(in thousands)	
Land	$ 723,851	$ 711,140
Buildings and improvements	3,153,744	3,086,252
Equipment	175,846	182,958
Construction in progress	184,276	181,365
Storage properties	4,237,717	4,161,715
Less: Accumulated depreciation	(807,625)	(752,925)
Storage properties, net	$ 3,430,092	$ 3,408,790

The following table summarizes the Company's acquisition and disposition activity during the period beginning on January 1, 2017 through June 30, 2018:

Asset/Portfolio	Market	Transaction Date	Number of Stores	Purchase / Sale Price (in thousands)
2018 Acquisitions:				
Texas Asset	Texas Markets - Major	January 2018	1	$ 12,200
Texas Asset	Texas Markets - Major	May 2018	1	19,000
			2	$ 31,200
2017 Acquisitions:				
Illinois Asset	Chicago	April 2017	1	$ 11,200

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

4. INVESTMENT ACTIVITY

2018 Acquisitions

During the six months ended June 30, 2018, the Company acquired two stores located in Texas, for an aggregate purchase price of approximately $31.2 million. In connection with these acquisitions, the Company allocated the purchase price and acquisition related costs to the tangible and intangible assets acquired based on fair value. Intangible assets consist of in-place leases, which aggregated $0.8 million at the time of the acquisitions and prior to any

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amortization of such amounts. The estimated life of these in-place leases was 12 months, and the amortization expense that was recognized during the three and six months ended June 30, 2018 was approximately $0.1 million and $0.2 million, respectively. In connection with one of the acquired stores, the Company assumed a $7.2 million mortgage loan that was immediately repaid by the Company. The remainder of the purchase price was funded with $0.2 million of cash and $4.8 million through the issuance of 168,011 OP Units (see note 12). Following a 13-month lock-up period, the holder may tender the OP Units for redemption by the Operating Partnership for a cash amount per OP Unit equal to the market value of an equivalent number of common shares of the Company. The Company has the right, but not the obligation, to assume and satisfy the redemption obligation of the Operating Partnership by issuing one common share in exchange for each OP Unit tendered for redemption.

The following table summarizes the Company's revenue and earnings associated with the 2018 acquisitions from the acquisition date, that are included in the consolidated statements of operations for the three and six months ended June 30, 2018:

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
	(in thousands)	
Total revenue	$ 318	$ 468
Net loss	(199)	(289)

As of June 30, 2018, the Company was under contract and had made aggregate deposits of $6.8 million associated with four stores, including two stores to be acquired after the completion of construction and the issuance of the certificate of occupancy, for an aggregate acquisition price of $111.2 million. The deposits are reflected in Other assets, net on the Company's consolidated balance sheets. The purchase of the two stores under construction is expected to occur by the fourth quarter of 2018 after the completion of construction and the issuance of a certificate of occupancy. These acquisitions are subject to due diligence and other customary closing conditions and no assurance can be provided that these acquisitions will be completed on the terms described, or at all.

2017 Acquisitions

During the year ended December 31, 2017, the Company acquired six stores located throughout the United States, including two stores upon completion of construction and the issuance of a certificate of occupancy, for an aggregate purchase price of approximately $69.5 million. In connection with these acquisitions, the Company allocated a portion of the purchase price to the tangible and intangible assets acquired based on fair value. Intangible assets consist of in-place leases, which aggregated $3.2 million at the time of the acquisitions and prior to any amortization of such amounts. The estimated life of these in-place leases was 12 months, and the amortization expense that was recognized during the three and six months ended June 30, 2018 was approximately $0.5 million and $1.3 million, respectively. In connection with one of the acquired stores, the Company assumed mortgage debt that was recorded at a fair value of $6.2 million, which fair value includes an outstanding principal balance totaling $5.9 million and a net premium of $0.3 million to reflect the estimated fair value of the debt at the time of assumption. As part of the acquisition of that same store, the Company issued OP Units that were valued at approximately $12.3 million as consideration for the remainder of the purchase price (see note 12).

During the year ended December 31, 2017, the Company also acquired a store in Illinois upon completion of construction and the issuance of a certificate of occupancy for $11.2 million. The purchase price was satisfied with $9.7 million of cash and 58,400 newly created Class C OP Units. Each Class C OP Unit has a stated value of $25 and bears an annual distribution rate of 3% of the stated value. The holder has the option to tender the Class C OP Units to the Operating Partnership at any time, and as of April 12, 2018, the Operating Partnership has the option to redeem the Class C OP Units, in each case at a redemption price of $25 per Class C OP Unit. The Company has the right to settle the redemption in cash or, at the Company's option, common shares of the Company, or a combination of cash and common shares of the Company, with the common shares of the Company valued at their closing price as of the redemption date (see note 16). Because the Class C OP Units represent an unconditional obligation that the Company may settle by issuing a variable number of its common shares with a monetary value that is known at inception, they have been classified as a liability in Accounts payable, accrued expenses and other liabilities on the Company's consolidated balance sheets.

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Development

As of June 30, 2018, the Company had invested in joint ventures to develop seven self-storage properties located in Massachusetts (2), New Jersey (1), and New York (4). Construction for all projects is expected to be completed by the fourth quarter of 2019 (see note 12). As of June 30, 2018, development costs incurred to date for these projects totaled \$165.5 million. Total construction costs for these projects are expected to be \$252.7 million. These costs are capitalized to construction in progress while the projects are under development and are reflected in Storage properties on the Company's consolidated balance sheets.

The Company has completed the construction and opened for operation the following stores during the period beginning on January 1, 2017 through June 30, 2018. The costs associated with the construction of these stores are capitalized to land, building, and improvements as well as equipment and are reflected in Storage properties on the Company's consolidated balance sheets.

Store Location	Number of Stores	Date Opened	CubeSmart Ownership Interest	Total Construction Costs (in thousands)
Brooklyn, NY (1)	1	Q4 2017	100%	$ 49,300
Washington, D.C.	1	Q3 2017	100%	27,800
New York, NY	1	Q3 2017	90%	81,200
North Palm Beach, FL	1	Q1 2017	100%	9,700
	4			$ 168,000

(1) This property was previously owned by a consolidated joint venture, in which the Company had a 51% ownership interest. On March 28, 2018, the noncontrolling member in the venture put its 49% interest in the venture to the Company for \$20.4 million, which is included in Development costs in the consolidated statements of cash flows.

During the fourth quarter of 2015, the Company, through a joint venture in which the Company owned a 90% interest and previously consolidated, completed the construction and opened for operation a store located in Brooklyn, NY. On June 2, 2017, the Company acquired the noncontrolling member's 10% interest in the venture for \$9.0 million, of which \$7.5 million was initially paid. The remaining \$1.5 million was paid upon completion of certain development obligations during the third quarter of 2017. Prior to this transaction, the noncontrolling member's interest was reported in Noncontrolling interests in subsidiaries on the consolidated balance sheets. Since the Company retained its controlling interest in the joint venture and the store is now wholly owned, this transaction was accounted for as an equity transaction. The carrying amount of the noncontrolling interest was reduced to zero to reflect the purchase, and the \$8.6 million difference between the purchase price paid by the Company and the carrying amount of the noncontrolling interest was recorded as an adjustment to equity attributable to the Company. In conjunction with the

Company’s acquisition of the noncontrolling interest, the $9.8 million related party loan extended by the Company to the venture during the construction period was repaid in full.

5. INVESTMENT IN UNCONSOLIDATED REAL ESTATE VENTURES

191 IV CUBE LLC (“HVP IV”)

On October 16, 2017, the Company acquired a self-storage property located in Texas for $9.4 million, which it then contributed to a newly-formed joint venture on November 1, 2017. In return for contributing the property to HVP IV, the Company received approximately $7.5 million in cash and a 20% ownership interest in the venture. During the six months ended June 30, 2018, HVP IV acquired eight additional stores located in Arizona (2), Florida (2), Georgia (1), Maryland (1), and Texas (2) for an aggregate purchase price of $93.9 million, of which the Company has contributed $14.1 million. On May 16, 2018, HVP IV received a $43.7 million initial advance on its $107.0 million loan facility, which encumbers the first six stores that were acquired by the venture. The loan bears interest at LIBOR plus 1.70% and

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matures on May 16, 2021 with options to extend the maturity date through May 16, 2023, subject to satisfaction of certain conditions and payment of the extension fees as stipulated in the loan agreement.

CUBE HHF Northeast Venture LLC (“HHFNE”)

On December 15, 2016, the Company invested a 10% ownership interest in a newly-formed joint venture that acquired 13 self-storage properties located in Connecticut (3), Massachusetts (6), Rhode Island (2), and Vermont (2). HHFNE paid $87.5 million for these stores, of which $6.0 million was allocated to the value of the in-place lease intangible. The acquisition was funded primarily through an advance totaling $44.5 million on the venture’s loan facility. The remainder of the purchase price was contributed pro-rata by the Company and its unaffiliated joint venture partner. The Company’s total contribution to HHFNE related to this portfolio acquisition was $3.8 million. The loan bears interest at LIBOR plus 1.90% and matures on December 15, 2019 with options to extend the maturity date through December 15, 2021, subject to satisfaction of certain conditions and payment of the extension fees as stipulated in the loan agreement.

191 III CUBE LLC (“HVP III”)

During the fourth quarter of 2015, the Company invested a 10% ownership interest in a newly-formed joint venture that agreed to acquire a property portfolio comprised of 37 self-storage properties located in Michigan (17), Tennessee (10), Massachusetts (7), and Florida (3). HVP III paid $242.5 million for these 37 stores, of which $18.9 million was allocated to the value of the in-place lease intangible. HVP III acquired 30 of the stores on December 8, 2015 for $193.7 million, one of the stores on January 26, 2016 for $5.7 million, five of the stores on April 21, 2016 for $36.1 million, and one store on June 15, 2016 for $7.0 million. In connection with six of the acquired stores, HVP III assumed mortgage debt that was recorded at a fair value of $25.3 million, which includes an outstanding principal balance totaling $23.7 million and a net premium of $1.6 million to reflect the estimated fair value of the debt at the time of assumption. The remainder of the purchase price was funded through advances totaling $116.0 million on the venture’s $122.0 million loan facility and amounts contributed pro-rata by the Company and its unaffiliated joint venture partner. The Company’s total contribution to HVP III related to this portfolio acquisition was $10.7 million. The loan facility bears interest at LIBOR plus 2.00% per annum and matures on December 7, 2018 with options to extend the maturity date through December 7, 2020, subject to satisfaction of certain conditions and payment of the extension fees as stipulated in the loan agreement.

During the first quarter of 2016, HVP III agreed to acquire a property portfolio comprised of 31 self-storage properties located in South Carolina (22), Georgia (5), and North Carolina (4) that were previously managed by the Company. HVP III paid $115.5 million for these 31 stores, of which $10.6 million was allocated to the value of the in-place lease intangible. HVP III acquired 30 of the stores on March 30, 2016 for $112.8 million and one of the stores on November 2, 2016 for $2.7 million. In conjunction with the acquisitions, HVP III refinanced its existing loan facility by entering into an increased amended and restated loan facility not to exceed $185.5 million. The acquisitions were funded primarily through advances totaling $63.5 million on the venture’s amended and restated loan facility. The remainder of the purchase price was contributed pro-rata by the Company and its unaffiliated joint venture partner. The Company’s total contribution to HVP III related to this portfolio acquisition was $5.4 million, bringing its total investment in HVP III to $16.1 million as of September 30, 2017. The amended and restated loan facility bears interest at LIBOR plus 2.00% per annum. The initial maturity date was extended to March 30, 2019 with options to extend through March 30, 2021, subject to satisfaction of certain conditions and payment of the extension fees as stipulated in the amended and restated loan agreement.

CUBE HHF Limited Partnership (“HHF”)

On December 10, 2013, the Company invested a 50% ownership interest in a newly-formed joint venture that acquired 35 self-storage properties located in Texas (34) and North Carolina (1). HHF paid $315.7 million for these stores, of which $12.1 million was allocated to the value of the in-place lease intangible. The Company and the unaffiliated joint venture partner, collectively the “HHF Partners”, each contributed cash equal to 50% of the capital required to fund the acquisition. On May 1, 2014, HHF obtained a $100.0 million loan secured by the 34 self-storage properties located in Texas that are owned by the venture. There is no recourse to the Company, subject to customary exceptions to non-recourse provisions. The loan bears interest at 3.59% per annum and matures on April 30, 2021. This financing

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completed the planned capital structure of HHF and proceeds (net of closing costs) of $99.2 million were distributed proportionately to the partners.

Based upon the facts and circumstances at formation of HVP IV, HHFNE, HVP III, and HHF (the “Ventures”), the Company determined that the Ventures are not VIEs in accordance with the accounting standard for the consolidation of VIEs. As a result, the Company used the voting interest model under the accounting standard for consolidation in order to determine whether to consolidate the Ventures. Based upon each member's substantive participating rights over the activities of each entity as stipulated in the operating agreements, the Ventures are not consolidated by the Company and are accounted for under the equity method of accounting. The Company’s investments in the Ventures are included in Investment in real estate ventures, at equity on the Company’s consolidated balance sheets and the Company’s earnings from its investments in the Ventures are presented in Equity in losses of real estate ventures on the Company’s consolidated statements of operations.

The amounts reflected in the following table are based on the historical financial information of the real estate ventures.

The following is a summary of the financial position of the Ventures as of June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018	December 31, 2017
Assets		
Storage properties, net	$ 722,609	$ 647,668
Other assets	33,258	8,284
Total assets	$ 755,867	$ 655,952
Liabilities and equity		
Other liabilities	$ 11,198	$ 6,853
Debt	389,299	346,475
Equity		
CubeSmart	100,614	91,206
Joint venture partners	254,756	211,418
Total liabilities and equity	$ 755,867	$ 655,952

The following is a summary of results of operations of the Ventures for the three and six months ended June 30, 2018 and 2017 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Total revenues	$ 22,291	$ 20,196	$ 43,201	$ 39,618
Operating expenses	9,482	8,410	18,686	16,977
Other expenses	372	143	566	543
Interest expense, net	3,123	2,919	6,021	5,818
Depreciation and amortization	10,369	10,682	19,818	24,400
Net loss	$ (1,055)	$ (1,958)	$ (1,890)	$ (8,120)
Company’s share of net loss	$ (309)	$ (253)	$ (493)	$ (1,025)

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6. UNSECURED SENIOR NOTES

The Company's unsecured senior notes are summarized as follows (collectively referred to as the "Senior Notes"):

Unsecured Senior Notes	June 30, 2018 (in thousands)	December 31, 2017	Effective Interest Rate		Issuance Date	Maturity Date
$250M 4.800% Guaranteed Notes due 2022	$ 250,000	$ 250,000	4.82	%	Jun-12	Jul-22
$300M 4.375% Guaranteed Notes due 2023 (1)	300,000	300,000	4.33	%	Various (1)	Dec-23
$300M 4.000% Guaranteed Notes due 2025 (2)	300,000	300,000	3.99	%	Various (2)	Nov-25
$300M 3.125% Guaranteed Notes due 2026	300,000	300,000	3.18	%	Aug-16	Sep-26
Principal balance outstanding	1,150,000	1,150,000				
Less: Discount on issuance of unsecured senior notes, net	(593)	(617)				
Less: Loan procurement costs, net	(6,415)	(6,923)				
Total unsecured senior notes, net	$ 1,142,992	$ 1,142,460				

(1) On April 4, 2017, the Operating Partnership issued $50.0 million of its 4.375% senior notes due 2023, which are part of the same series as the $250.0 million principal amount of the Operating Partnership's 4.375% senior notes due December 15, 2023 issued on December 17, 2013. The $50.0 million and $250.0 million traunches were priced at 105.040% and 98.995%, respectively, of the principal amount to yield 3.495% and 4.501%, respectively, to maturity. The combined weighted-average effective interest rate of the 2023 notes is 4.330%.

(2) On April 4, 2017, the Operating Partnership issued $50.0 million of its 4.000% senior notes due 2025, which are part of the same series as the $250.0 million principal amount of the Operating Partnership's 4.000% senior notes due November 15, 2025 issued on October 26, 2015. The $50.0 million and $250.0 million traunches were priced at 101.343% and 99.735%, respectively, of the principal amount to yield 3.811% and 4.032%, respectively, to maturity. The combined weighted-average effective interest rate of the 2025 notes is 3.994%.

The indenture under which the Senior Notes were issued restricts the ability of the Operating Partnership and its subsidiaries to incur debt unless the Operating Partnership and its consolidated subsidiaries comply with a leverage ratio not to exceed 60% and an interest coverage ratio of more than 1.5:1 after giving effect to the incurrence of the debt. The indenture also restricts the ability of the Operating Partnership and its subsidiaries to incur secured debt unless the Operating Partnership and its consolidated subsidiaries comply with a secured debt leverage ratio not to exceed 40% after giving effect to the incurrence of the debt. The indenture also contains other financial and customary covenants, including a covenant not to own unencumbered assets with a value less than 150% of the unsecured indebtedness of the Operating Partnership and its consolidated subsidiaries. As of June 30, 2018, the Operating Partnership was in compliance with all of the financial covenants under the Senior Notes.

7. REVOLVING CREDIT FACILITY AND UNSECURED TERM LOANS

On December 9, 2011, the Company entered into a credit agreement (the “Credit Facility”), which was subsequently amended on April 5, 2012, June 18, 2013, and April 22, 2015 to provide for, amongst other things, a $500.0 million unsecured revolving facility (the “Revolver”) with a maturity date of April 22, 2020. Pricing on the Revolver is dependent on the Company’s unsecured debt credit ratings. At the Company’s current Baa2/BBB level, amounts drawn under the Revolver are priced at 1.25% over LIBOR, inclusive of a facility fee of 0.15%. As of June 30, 2018, $451.6 million was available for borrowing under the Revolver. The available balance under the Revolver is reduced by an outstanding letter of credit of $0.7 million. As of June 30, 2018, the Company also had a $200.0 million unsecured term loan outstanding under the Credit Facility, which is included in the table below.

On June 20, 2011, the Company entered into an unsecured term loan agreement (the “Term Loan Facility”), which was subsequently amended on June 18, 2013 and August 5, 2014, consisting of a $100.0 million unsecured term loan with a five-year maturity and a $100.0 million unsecured term loan with a seven-year maturity. On April 6, 2017, the Company used the net proceeds from the issuance of $50.0 million of its 4.375% Senior Notes due 2023 and $50.0

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million of its 4.000% Senior Notes due 2025 to repay all of the outstanding indebtedness under its five-year $100.0 million unsecured term loan that was scheduled to mature in June 2018.

The Company's unsecured term loans under the Credit Facility and Term Loan Facility are summarized below:

Unsecured Term Loans	Carrying Value as of: June 30, 2018	December 31, 2017	Effective Interest Rate as of June 30, 2018 (1)	Maturity Date
	(in thousands)			
Credit Facility				
Unsecured term loan	$ 200,000	$ 200,000	3.39 %	Jan-19
Term Loan Facility				
Unsecured term loan	100,000	100,000	3.24 %	Jan-20
Principal balance outstanding	300,000	300,000		
Less: Loan procurement costs, net	(402)	(604)		
Total unsecured term loans, net	$ 299,598	$ 299,396		

(1) Pricing on the Term Loan Facility and the unsecured term loan under the Credit Facility is dependent on the Company's unsecured debt credit ratings. At the Company's current Baa2/BBB level, amounts drawn under the term loan scheduled to mature in January 2019 are priced at 1.30% over LIBOR, while amounts drawn under the term loan scheduled to mature in January 2020 are priced at 1.15% over LIBOR. As of June 30, 2018, borrowings under the Credit Facility, inclusive of the Revolver, and Term Loan Facility, as amended, had an effective weighted average interest rate of 3.34%.

The Term Loan Facility and the unsecured term loan under the Credit Facility were fully drawn at June 30, 2018 and no further borrowings may be made under the term loans. The Company's ability to borrow under the Revolver is subject to ongoing compliance with certain financial covenants which include:

· Maximum total indebtedness to total asset value of 60.0% at any time;

· Minimum fixed charge coverage ratio of 1.50:1.00; and

· Minimum tangible net worth of $821,211,200 plus 75% of net proceeds from equity issuances after June 30, 2010.

Further, under the Credit Facility and Term Loan Facility, the Company is restricted from paying distributions on the Parent Company's common shares in excess of the greater of (i) 95% of funds from operations, and (ii) such amount as may be necessary to maintain the Parent Company's REIT status.

As of June 30, 2018, the Company was in compliance with all of its financial covenants and anticipates being in compliance with all of its financial covenants through the terms of the Credit Facility and Term Loan Facility.

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8. MORTGAGE LOANS AND NOTES PAYABLE

The Company's mortgage loans and notes payable are summarized as follows:

Mortgage Loans and Notes Payable	Carrying Value as of: June 30, 2018 (in thousands)	December 31, 2017	Effective Interest Rate		Maturity Date
YSI 33	$ 9,383	$ 9,547	6.42	%	Jul-19
YSI 26	8,126	8,228	4.56	%	Nov-20
YSI 57	2,853	2,889	4.61	%	Nov-20
YSI 55	22,276	22,508	4.85	%	Jun-21
YSI 24	25,300	25,700	4.64	%	Jun-21
YSI 65	2,387	2,411	3.85	%	Jun-23
YSI 66	31,450	31,727	3.51	%	Jun-23
YSI 68	5,707	5,786	3.78	%	May-24
Principal balance outstanding	107,482	108,796			
Plus: Unamortized fair value adjustment	2,918	3,286			
Less: Loan procurement costs, net	(549)	(648)			
Total mortgage loans and notes payable, net	$ 109,851	$ 111,434			

As of June 30, 2018 and December 31, 2017, the Company's mortgage loans payable were secured by certain of its self-storage properties with net book values of approximately $233.8 million and $236.9 million, respectively. The following table represents the future principal payment requirements on the outstanding mortgage loans and notes payable as of June 30, 2018 (in thousands):

2018	$ 1,336
2019	11,652
2020	12,791
2021	45,057
2022	923
2023 and thereafter	35,723
Total mortgage payments	107,482
Plus: Unamortized fair value adjustment	2,918
Less: Loan procurement costs, net	(549)
Total mortgage loans and notes payable, net	$ 109,851

9. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table summarizes the changes in accumulated other comprehensive income by component for the six months ended June 30, 2018 (in thousands):

	Unrealized Gains (Losses) on Interest Rate Swaps	
Other comprehensive gain before reclassifications	$ 59	
Amounts reclassified from accumulated other comprehensive income	(62)	(1)
Net current-period other comprehensive loss	(3)	
Balance at December 31, 2017	3	
Balance at June 30, 2018	$ —	