



self-storage trends

The Tide Is Rising

2005 Operating Expense Report

By R. Christian Sonne, MAI

The tide is rising for operating expenses of self-storage properties, a function of tightening market conditions and greater sophistication in management. According to the *2005 Self-Storage Expense GuideBook*, prepared by MiniCo, Inc. and released in September 2005, the average operating expense for a self-storage facility nationwide is \$3.47 per square foot, an increase of more than 7.5 percent over last year. As a ratio or percentage of collected income, the nationwide average is 44.31 percent.

The data, intended to serve as a guide or benchmark that can be used as a tool of analysis, is not intended to set an ideal standard of operating expenses. The data in the chart on page 17 reflects an expense category as a percentage of the total operating expenses. In this example, taxes are 15 percent of all operating expenses.

Published for the second year, the data can now be compared to the *2004 Expense GuideBook* to uncover trends in operating expenses nationwide and by

indicates a range in the average from \$3.57 to \$2.27 per square foot. Not surprising, the Western region had the highest average. Conversely, the South Central Region indicates the lowest average. The regional data is summarized in the regional operating expense table.

Based on the nationwide data, management is the highest area of operating expenses. Management is comprised of three categories: administration, on-site management, and off-site management.

described in the *2005 Self-Storage Expense GuideBook* as follows:

On-site management expenses account for full-time management including relief managers and payroll related costs. In most markets, quality on-site management is key to the success of the operation. For example, on-site management can impact occupancy and ancillary income such as merchandise sales.

Administration expenses relate primarily to office functions such as telephone, postage, and legal services. As to off-site management, ownership typically accounts for an outside entity (often third party) to audit on-site management and accounting functions. Plus, off-site management can audit procedures, independently check rental rates, and train staff. Larger owners (with at least three facilities) may create an off-site management position to oversee company operations at various locations. Nationwide firms, such as REITs, have centrally or regionally located off-site management functions.

Advertising expenses indicate a moderate rise, but this is primarily a function of spending for special events such as openings and direct mailers. Anecdotal data

Overall operating expenses have increased due to rising utility costs, rising management costs as the job descriptions broaden, and higher maintenance expense.

five key regions in the country. The data is reported in three descriptions by region and nationwide: range per square foot, average per square foot, and percentage of the collected gross income (after vacancy). The national average from each year is compared by category in the expense table.

The *Expense GuideBook* data is reported for the entire country and in five geographic regions. The regional data

These three categories are not often clearly defined and can vary dramatically by category. Therefore, as a test of reasonableness, total expenses on a price-per-square-foot basis should be compared to operating expenses as a ratio of effective or collected gross income.

Altogether, the management categories of expenses comprise over 45 percent of operating expenses. The single largest category, on-site management, is

EXPENSES

Location	Nationwide		
Year	2003	2004	% Change
Units	Varies		
Area (SF)	Varies		
Occupancy	Varies		
Scenario	Mean \$/SF	Mean \$/SF	Variance
Operating Revenues			
Rental Income	n/a*	n/a*	n/a*
Ancillary Income	n/a*	n/a*	n/a*
Effective Gross Income	n/a*	n/a*	n/a*
Operating Expenses			
Taxes	\$0.44	\$0.68	54.55%
Insurance	\$0.16	\$0.21	31.25%
Repairs & Maintenance	\$0.22	\$0.31	40.91%
Administration	\$0.27	\$0.52	92.59%
On-Site Management	\$0.74	\$0.97	31.08%
Off-Site Management	\$0.47	\$0.55	17.02%
Utilities	\$0.21	\$0.26	23.81%
Advertising	\$0.23	\$0.27	17.39%
Miscellaneous	\$0.49	\$0.81	65.31%
Total Expenses	\$3.23	\$3.47	7.43%

* Not applicable

Source: 2005 Expense GuideBook and Self Storage Economics

suggests a decline in costly *Yellow Pages* advertising in favor of Web page and Internet advertising. One regional operator in Southern California saved \$40,000 in *Yellow Pages* advertising and explained that "most of our customers find us on the Web." This will be a trend to watch over time as more people become used to finding goods and services over the Internet.

Overall operating expenses have increased due to rising utility costs, rising management costs as the job descriptions broaden, and higher maintenance expense. Self-storage does not typically have reserves for replacement, so the repairs and maintenance category can change significantly from year to year for capital expenditures such as exterior paint or roof repair. Prudent ownership will expend capital to maintain or increase the competitive position of a self-storage facility in tightening market conditions.

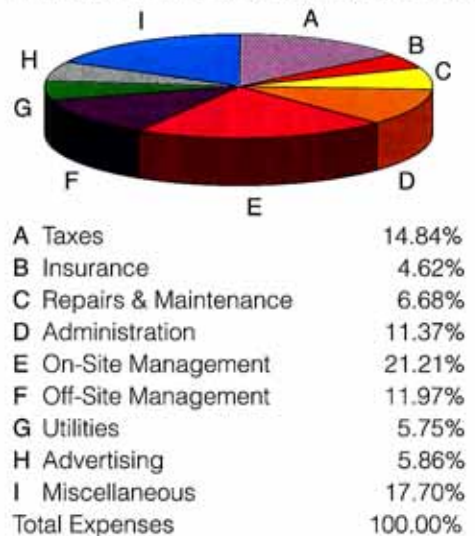
The *Expense GuideBook's* categories of accounts are summarized in the chart of accounts. As seen, self-storage properties typically operate on a full-service or gross basis, meaning all building operating expenses are paid by the owner including fixed and variable expenses. Fixed expenses do not vary with occupancy and include real estate taxes and insurance. Variable

expenses vary with the level of occupancy and include the following: repairs and maintenance, administration, on-site management, off-site management, utilities, advertising, and miscellaneous items.

The difficulty in utilizing survey research is that the scope and methods of accumulating data vary for each category. Consequently, the data can be skewed by a limited amount of directly comparable data. Moreover, this explains why there may be large variances in several categories, but the overall expenses are generally similar. The function of the comparable data and survey research is to provide a foundation for analyzing operating expenses. Expenses can vary widely, particularly when analyzed solely on a single unit of analysis such as per square foot of rentable building area.

It is important to note that the 2005 *Self-Storage Expense GuideBook* is not a substitute for local market research. As such, it is highly recommended that every developer and investor conduct his or her own research. Local research, as well as benchmark data, is critical to the accurate analysis of the self-storage market. These quantitative and qualitative tools can guide a market participant to a reasonable analysis and forecast of self-storage operating expenses. ■

NATIONAL AVERAGE OF OPERATING EXPENSES



Source: 2005 Expense GuideBook and Self Storage Economics

CHART OF ACCOUNTS

FIXED EXPENSES

- Taxes
- Insurance

VARIABLE EXPENSES

- Repairs & Maintenance
- Administration
- On-Site Management
- Off-Site Management
- Utilities
- Advertising
- Miscellaneous

Source: 2005 Expense GuideBook and Self Storage Economics

SELF-STORAGE OPERATING EXPENSES

Area	Average/SF
Nationwide	\$3.23
Western Region	\$3.57
North Central Region	\$2.68
South Central Region	\$2.27
Southeast Region	\$3.10
Northeast Region	\$3.46

Source: 2005 Expense GuideBook and Self Storage Economics

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