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2010

SELF-STORAGE EXPENSE GUIDEBOOK

Publisher's Note

The *2010 Self-Storage Expense GuideBook* is the result of many requests received from market participants for more information regarding operating expense data for self-storage properties. As such, this leading source of operating expense information offers ranges and averages by region in the seven to nine major expense categories.



Real estate professionals, investors, brokers, owners, managers, researchers, appraisers, governmental agencies, and market observers across the country have turned to MiniCo Publishing for more than 19 years to answer many questions regarding self-storage data, statistics, and information. This data can be of great worth to many users, if accurately interpreted and applied correctly.

Market participants in the self-storage sector typically utilize two tools of cash flow analysis: trailing net operating income and stabilized net operating income. Trailing net operating income is the actual income and expense history of property (not including debt service or depreciation). Stabilized net operating income is a forecast of the subject at current market rents with current operating expenses. Typically, both tools are analyzed and considered in evaluating a self-storage property. For example, the expenses in this guidebook represent trailing expenses for 2009.

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Publisher's Note (Continued)

Typically, stabilized expenses reflect a property operating at stabilized occupancy and income, adjusted for inflation and/or to current market standards.

In the *2010 Self-Storage Expense GuideBook*, operating expenses are expressed as a ratio of effective gross income (collected income or income after vacancy). This can be another test of reasonableness of operating expenses analyzed on a price per

square foot basis. This year's edition also includes the change from the average in last year's guide. Both units of analysis—expenses per square foot and expenses as a ratio of effective gross income—can be powerful tools in the analysis of a self-storage facility. In addition, *The Expense GuideBook* provides data on the Average Concession Cost (as a percentage) and Average Vacancy Cost (as a percentage) for each region.

Scope Of Research

The data in this publication is reported in three descriptions: range per square foot, average per square foot, and percentage of the total. It is important to remember that the data is intended to serve as a guide or benchmark that can be used as a tool of analysis, but is not intended to set an "ideal" standard of operating expenses. Primarily, the data can be used as a comparison tool. No two properties will have the exact same expenses and it is important to consider operating expenses in terms of the individual chart of accounts, total expenses, total expenses per square foot, and total expenses as a ratio of collected income (effective gross income).

This study is based on information gathered in connection with the *2010 Self-Storage Almanac Survey* prepared by the Publishing Division of MiniCo, Inc. From a mailing to approximately 7,500 facilities across the country, 573 surveys were usable. Furthermore, the data does not reflect any one property, but a compilation of the survey research. The data was reviewed for qualified responses, so some were omitted in the final totals. For example, some expenses were reflected in terms of annual totals, but did not reflect the rentable area. Consequently, some data was unusable. The data is reported for the entire country and in five geographic regions as reflected in the table below.

Regional Breakdown

West

Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana Nevada, New Mexico, Oregon, Utah, Washington, Wyoming

South Central

Alabama, Arkansas, Kentucky, Louisiana, Mississippi Oklahoma, Tennessee, Texas

North Central

Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin

Southeast

Delaware, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, Washington, D.C., West Virginia

Northeast

Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont



Definitions

Rentable Area—The amount of space on which the rent is based; calculated according to local practice (*The Dictionary of Real Estate*, 3rd Edition, page 20). This means the area of storage units that can be rented. It does not include hallways, utility rooms, office area, or on-site apartment.

Average or Mean (arithmetic mean)—The sum of a series of values divided by the number of values in the group. It is the simplest, most commonly used average, but its value may be distorted by extreme figures (*The Dictionary of Real Estate*, 3rd Edition, page 20). In some cases, data was excluded for outliers that may distort the average, depending upon the sample size in a particular expense category.

Range—The difference between the smallest and the largest sample observation in a statistical distribution (*The Dictionary of Real Estate*, 3rd Edition, page 290).

Operating expenses are complex for self-storage properties. A clear chart of accounts or expense categories is established in this publication in the hope of clarifying the accounting of expense data. This data should be considered a benchmark or one tool of analysis, not a standard or ideal. Expenses can also be analyzed in relation to other variables of analysis such as effective gross income (percentage) and overall capitalization rate (relationship between Effective Gross Income Multiplier and Expense Ratio).

It is important to note, the *2010 Self-Storage Expense Guidebook* is not a substitute for local market research. As noted in the *Almanac*, it is highly recommended that each and every developer and investor conduct his or her own research. Local research, as well as benchmark data from the Publishing Division of MiniCo, Inc., 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.



Chart Of Accounts

The chart of accounts is the description of the expense category. Self-storage property typically operates 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



Chart Of Accounts (Continued)

level of occupancy and include the following: repairs and maintenance, administration, on-site management, off-site management, utilities, advertising; and miscellaneous items. Self-storage property rarely incurs reserves for replacement. Due to a relatively low break-even point with respect to occupancy, self-storage expenses tend to be relatively inelastic or stable (in terms of total amount after absorption).

Data is analyzed on the rentable area per square foot and as a percentage of the total. The difficulty in utilizing survey research is 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. The chart of accounts is summarized by category as follows.

Taxes—Taxes account for real property taxes only. In most forecasts of income and expenses, real estate taxes are adjusted to market value according to an iterative process that multiplies market value against the tax rate. Consequently, there tends to be a “lag effect” in the data. That is, current

taxes tend to be higher than historical data. In this regard, local statutes must be carefully analyzed and considered in estimating property taxes.

Insurance—Insurance includes both building and liability insurance expenses. It is important to note the significant variables involved with underwriting insurance and dynamic industry changes. Lower rates can be achieved by blanket policies with significant rate reductions (it is best to forecast insurance for a single property, unless there are special circumstances such as portfolio analysis). Insurance expenses are likely to rise over the next year due to poor yields by industry investment (in equities), concerns over real estate security, and flat rates over the past decade. Consequently, a current insurance forecast is often above historical data. Other items to consider about insurance are property specific technology in fire, life, and safety construction and design (such as sprinklers).

Repairs and Maintenance—This expense category includes elements typical to self-storage maintenance such as all contracts, rubbish removal, sweeping and landscaping, pest control, gate repairs, plumbing and electrical repairs, elevator repairs, demising wall repairs, roof, and maintenance of alarms and monitors. Appropriate budgeting in this category should reflect the age, quality, and condition of the subject property. In a competitive



Chart Of Accounts (Continued)

environment, a long run view is best and warrants a realistic assessment. Reserves are not considered as an operating expense, causing upward pressure on the repairs and maintenance category.

Administration—Administration expenses relate to office functions such as telephone, postage, bank charges, credit reports, subscriptions, copy machine, office supplies, printing, professional fees including legal services (eviction costs), data processing, and other expenses incurred in the operation of a self-storage property.

Administration is the first of three management-related expenses: administration, on-site management, and off-site management. 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 survey research.

On-Site Management—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.

Off-Site Management—Prudent ownership will incur management fees for outside management and overhead expenses, calculated as two

percent to five percent of the effective gross income (collected income) for self-storage properties. Self-storage market participants estimate off-site management fees are a function of property size and income. In some markets, however, these expenses can be expressed as administration expenses. In general, it is best to separate expenses as incurred. A forecast must consider the interdependence of management expenses in all three categories: off-site management, on-site management, and administration. Off-site management fees (calculated as a ratio of effective gross income) should be compared on a per square foot basis with the survey research as a test of reasonableness.

Utilities—Utility expenses include natural gas, electricity, water and sewer service, and trash pick-up (telephone, cable, and Internet access are most often part of Administration). The actual expense is a function of the physical facility: design (such as number of levels that increases lighting costs and elevator operating costs) and operation of the specific facility. Newer facilities have motion detectors to reduce lighting costs. Single level properties with outside-access-only units indicate utility expense at the low end of the survey range.

Advertising—This expense element is crucial for the successful operation of a self-storage property, particularly for new properties in the absorption phase. Expenses include *Yellow Pages*

Chart Of Accounts (Continued)

advertisements (including Internet), signs, promotion and marketing costs, periodic newspaper advertising, and publication of auction notices. Other than street exposure and management, advertising results in tenancy. Advertising expenses are not related to rent incentives, such as free rent.

Miscellaneous—This category accounts for all other variables, such as merchant associations' charges or expenses that are not considered in other categories. In general, this category is related more to allocation than accrual of expenses. For example,

as a ratio, the expenses may have wide ranges in individual expense categories. Considering all factors, some miscellaneous expense is typical of self-storage property.

Expense Data—The expense data is presented in the following pages. Please note the tables represent expenses for each region (discreet) as follows: National, Western Region, North Central Region, South Central Region, Northeast Region, and Southeast Region (Compare each region to the Regional Breakdown table on page 3).

2009 National Operating Expenses				
	Range		Average \$/SF	% of Expenses
	Low \$/SF	High \$/SF		
Taxes	\$0.03	\$3.54	\$0.52	14.17%
Insurance	\$0.01	\$2.33	\$0.18	4.75%
Repairs & Maintenance	\$0.01	\$3.14	\$0.24	6.49%
Administration	\$0.01	\$4.76	\$0.44	11.91%
On-Site Management	\$0.01	\$5.58	\$0.86	23.30%
Off-Site Management	\$0.01	\$2.12	\$0.49	13.19%
Utilities	\$0.01	\$5.59	\$0.30	8.16%
Advertising	\$0.01	\$4.80	\$0.25	6.85%
Miscellaneous	\$0.01	\$5.62	\$0.41	11.19%
Total Expenses	\$0.09	\$37.48	\$3.69	100.00%
Expense/Income Ratio*			41.80%	
\$/SF Change from 2008:			-9.73%	
Total Facilities Responding		572		
Total Rentable Area (SF)		29,509,563		
Average Rentable Area (SF)		51,590		
Average Concessions Cost (%)		4.49%		
Average Vacancy Cost(%)		11.27%		

*The data as expressed as a percentage of income is indicated in a range and average.

2009 Western Region Operating Expenses

	Range		Average \$/SF	% of Expenses
	Low \$/SF	High \$/SF		
Taxes	\$0.05	\$6.69	\$0.70	17.44%
Insurance	\$0.02	\$1.39	\$0.19	4.64%
Repairs & Maintenance	\$0.02	\$3.33	\$0.33	8.18%
Administration	\$0.01	\$1.67	\$0.37	9.11%
On-Site Management	\$0.07	\$5.58	\$0.77	19.19%
Off-Site Management	\$0.07	\$1.87	\$0.55	13.81%
Utilities	\$0.01	\$5.59	\$0.31	7.69%
Advertising	\$0.01	\$1.39	\$0.28	6.98%
Miscellaneous	\$0.02	\$7.29	\$0.52	12.96%
Total Expenses	\$0.26	\$34.81	\$4.01	100.00%
Expense/Income Ratio*			37.61%	
\$/SF Change from 2008:			-7.76%	
Total Facilities Responding		144		
Total Rentable Area (SF)		8,613,391		
Average Rentable Area (SF)		59,815		
Average Concessions Cost (%)		2.21%		
Average Vacancy Cost(%)		14.76%		

*The data as expressed as a percentage of income is indicated in a range and average.

2009 North Central Region Operating Expenses

	Range		Average \$/SF	% of Expenses
	Low \$/SF	High \$/SF		
Taxes	\$0.03	\$1.84	\$0.58	15.44%
Insurance	\$0.03	\$0.49	\$0.14	3.73%
Repairs & Maintenance	\$0.01	\$3.14	\$0.27	7.11%
Administration	\$0.03	\$1.59	\$0.49	13.04%
On-Site Management	\$0.14	\$1.98	\$0.87	23.16%
Off-Site Management	\$0.20	\$0.60	\$0.38	10.12%
Utilities	\$0.03	\$3.19	\$0.27	7.19%
Advertising	\$0.01	\$4.80	\$0.29	7.70%
Miscellaneous	\$0.02	\$2.62	\$0.47	12.51%
Total Expenses	\$0.49	\$20.24	\$3.76	100.00%
Expense/Income Ratio*			43.51%	
\$/SF Change from 2008:			-9.26%	
Total Facilities Responding		101		
Total Rentable Area (SF)		3,905,142		
Average Rentable Area (SF)		38,665		
Average Concessions Cost (%)		4.62%		
Average Vacancy Cost(%)		12.46%		

*The data as expressed as a percentage of income is indicated in a range and average.

2009 South Central Region Operating Expenses

	Range		Average \$/SF	% of Expenses
	Low \$/SF	High \$/SF		
Taxes	\$0.04	\$1.55	\$0.36	12.61%
Insurance	\$0.01	\$0.54	\$0.15	5.25%
Repairs & Maintenance	\$0.01	\$0.58	\$0.13	4.47%
Administration	\$0.01	\$2.00	\$0.33	11.43%
On-Site Management	\$0.07	\$2.38	\$0.63	21.97%
Off-Site Management	\$0.02	\$1.10	\$0.43	14.83%
Utilities	\$0.01	\$1.94	\$0.27	9.33%
Advertising	\$0.02	\$1.14	\$0.21	7.17%
Miscellaneous	\$0.02	\$2.62	\$0.37	12.93%
Total Expenses	\$0.20	\$13.85	\$2.88	100.00%
Expense/Income Ratio *			41.67%	
\$/SF Change from 2008:			3.60%	
Total Facilities Responding		110		
Total Rentable Area (SF)		5,983,669		
Average Rentable Area (SF)		54,397		
Average Concessions Cost (%)		3.09%		
Average Vacancy Cost(%)		13.36%		

*The data as expressed as a percentage of income is indicated in a range and average.

2009 Southeast Region Operating Expenses

	Range		Average \$/SF	% of Expenses
	Low \$/SF	High \$/SF		
Taxes	\$0.04	\$3.54	\$0.62	14.55%
Insurance	\$0.02	\$1.52	\$0.21	4.96%
Repairs & Maintenance	\$0.02	\$0.88	\$0.26	6.14%
Administration	\$0.01	\$1.99	\$0.48	11.28%
On-Site Management	\$0.09	\$3.05	\$1.09	25.44%
Off-Site Management	\$0.08	\$1.92	\$0.58	13.60%
Utilities	\$0.04	\$3.29	\$0.39	9.04%
Advertising	\$0.01	\$1.81	\$0.29	6.76%
Miscellaneous	\$0.02	\$2.55	\$0.35	8.23%
Total Expenses	\$0.33	\$20.55	\$4.28	100.00%
Expense/Income Ratio *			47.11%	
\$/SF Change from 2008:			5.41%	
Total Facilities Responding		129		
Total Rentable Area (SF)		7,127,423		
Average Rentable Area (SF)		55,251		
Average Concessions Cost (%)		8.41%		
Average Vacancy Cost(%)		13.29%		

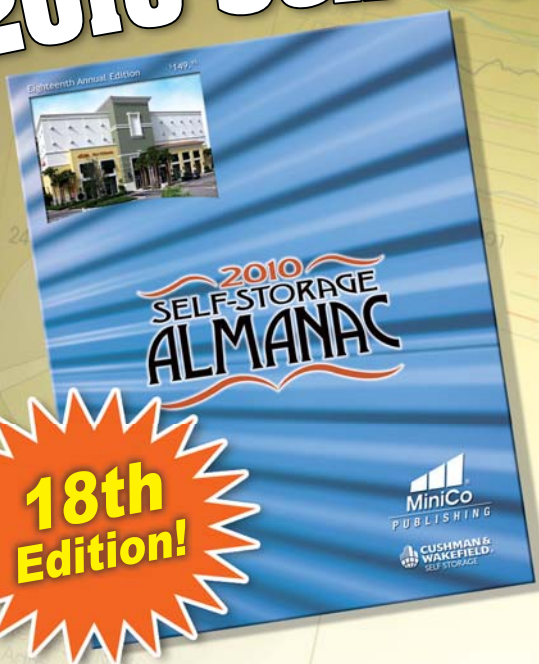
*The data as expressed as a percentage of income is indicated in a range and average.

2009 Northeast Region Operating Expenses

	Range		Average \$/SF	% of Expenses
	Low \$/SF	High \$/SF		
Taxes	\$0.07	\$1.59	\$0.61	17.11%
Insurance	\$0.02	\$0.34	\$0.14	3.95%
Repairs & Maintenance	\$0.01	\$0.98	\$0.21	5.71%
Administration	\$0.01	\$2.27	\$0.52	14.48%
On-Site Management	\$0.09	\$2.21	\$0.88	24.48%
Off-Site Management	\$0.04	\$0.59	\$0.36	9.88%
Utilities	\$0.02	\$1.00	\$0.23	6.52%
Advertising	\$0.01	\$0.80	\$0.23	6.51%
Miscellaneous	\$0.01	\$3.25	\$0.41	11.36%
Total Expenses	\$0.29	\$13.03	\$3.59	100.00%
Expense/Income Ratio*			43.89%	
\$/SF Change from 2008:			-9.97%	
Total Facilities Responding		88		
Total Rentable Area (SF)		3,879,938		
Average Rentable Area (SF)		44,090		
Average Concessions Cost (%)		5.69%		
Average Vacancy Cost(%)		11.69%		

*The data as expressed as a percentage of income is indicated in a range and average.

For More Statistical Information, Order the
2010 Self-Storage Almanac!



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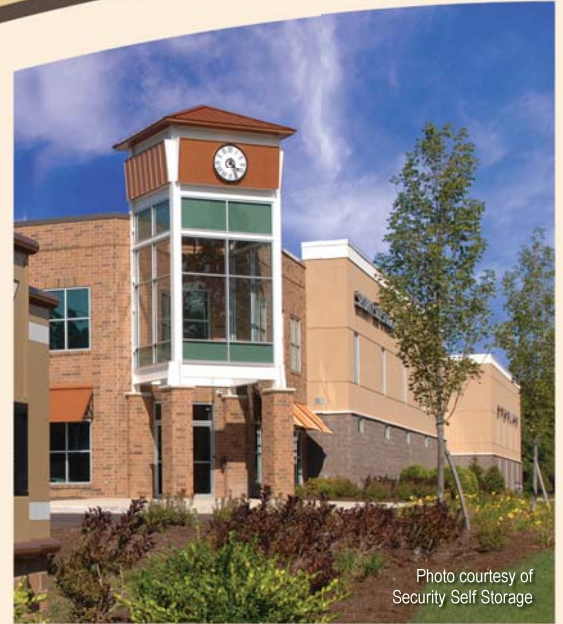


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Cushman & Wakefield's Self Storage Industry Group is a worldwide full-service real estate appraisal team specializing in the self storage asset class. We provide local experience combined with international resources and expertise. Our econometric model forecasts the depth of demand for self storage and has been used in over 100 major metropolitan markets and all 50 states. We author the *Self Storage Investor Survey* and the *Self Storage Expense Guidebook* and have been published in multiple industry publications.

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