

CBRE Self Storage Operating Expense Report – Q1 2018

Key National Observations

- Self storage expenses averaged \$4.03 per rentable square foot in the United States with an average expense ratio of 34.34% (applied to effective gross income).
- Reserves are not considered operating expenses, but are calculated below the NOI line to reflect unleveraged cash flow in a discounted cash flow analysis. A typical amount for reserves is one percent of effective gross income.
- Off site-management fees average 5.41% on a nationwide basis. However, this includes all classes of the sector. Recent survey research shows a range of 5% to 6% off site management (calculated on EGI). The variance is a function of accounting (for example, allocating some off site fees to other categories is common in smaller operators).
- Real estate taxes account for 28.44% of all operating expenses in the sector based on national data. Off and on site or management expenses cumulative account for 37.48% of all operating expenses on a national basis for the asset class.
- Expense ratios are forecast to decline over the next year due to higher ancillary income (mostly from tenant insurance), continued emphasis on revenue management, and more controls on operating costs as markets tighten.

Scope of Research

Self storage 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 can vary with the level of occupancy and include the following:

- repairs and maintenance
- administration
- on-site management
- off-site management
- utilities
- -advertising;
- miscellaneous.

Due to a relatively low breakeven point with respect to occupancy, self storage expenses tend to be relatively inelastic or stable (in terms of total amount during absorption). Data is analyzed in terms of the rentable area per square foot and as a percentage of the Effective Gross Income (EGI).

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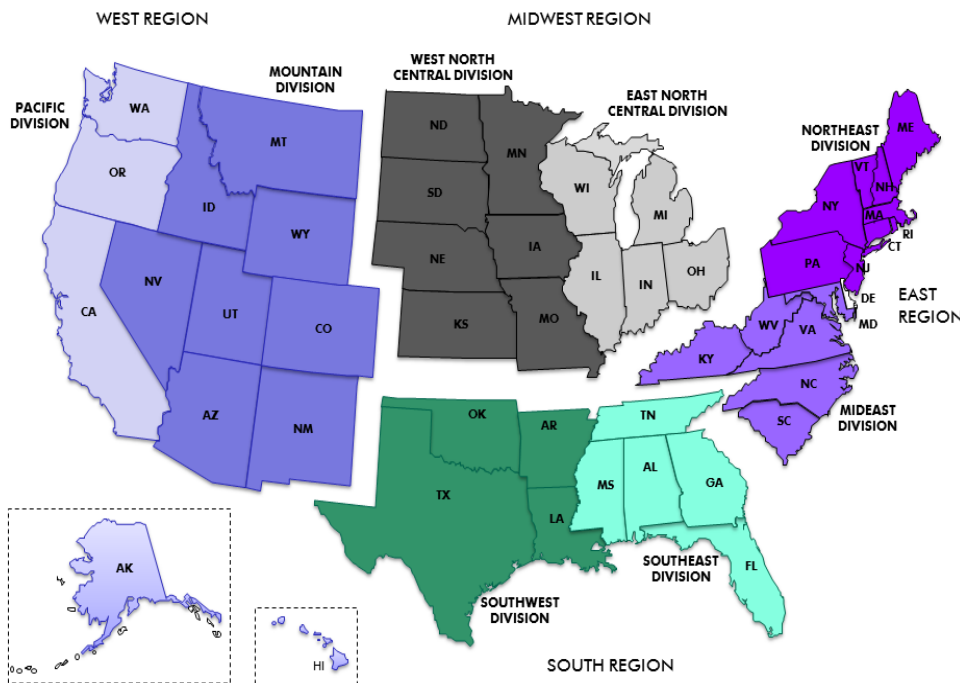
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The following 2017 data has been compiled by CBRE Self Storage Valuation Group from operating facilities across the US. Data is aggregated from 808 facilities accounting for over seventy five million rentable square feet.

CBRE SELF STORAGE EXPENSE REPORT - SAMPLE SIZE									
	National	East		Midwest		South		West	
		Mideast	Northeast	East North Central	West North Central	Southeast	Southwest	Mountain	Pacific
Facilities	808	53	171	70	21	160	79	41	213
Rentable SF	76,185,435	3,836,205	12,610,834	4,647,592	1,108,611	13,532,059	4,579,719	2,587,737	33,282,679
Units	525,043	39,260	129,236	39,416	8,862	102,784	38,021	23,258	144,206

Source: CBRE

The data and sample size is presented nationally and by region/division, defined by the National Council of Real Estate Investment Fiduciaries (NCREIF). The NCREIF regions and divisions are represented on the map below:



Data is aggregated from 808 facilities accounting for over seventy five million rentable square feet.

Taxes

Real estate taxes account for real property taxes and direct assessments. Market participants express concern with real estate tax increases based on a property or portfolio sale. A typical way to model taxes is to adjust the assessment to 70% of the value or purchase price to the tax rate, unless delineated by state law. Tax comparable data can also be used to measure potential tax liability if there is a sale

transaction. Typically, real estate taxes are at least 1% of value.

Insurance

Insurance includes both building and liability insurance expenses. Lower rates can be achieved by blanket policies, with significant rate reductions. Insurance expenses may rise due to tenant insurance costs.

Insurance (cont.)

An individual property may vary according to the building type and technology in fire, life, and safety construction and design. Many operators are now selling tenant insurance, and sometimes the administrative costs associated with that may appear to inflate the actual cost of insurance coverage.

Repairs & Maintenance

This expense category includes elements typical to self storage maintenance such as all contracts, rubbish removal, sweeping and landscaping, pest control, gate repairs and other general maintenance of the building. In a competitive environment, a long run view is best and warrants a reasonable forecast. Appropriate budgeting in this category should reflect the class, age, quality and condition of a property.

Administration

Administration expenses relate to office functions such as telephone, postage, bank charges, credit reports, and professional fees including legal services, data processing and other expenses incurred in the operation of a self storage property.

On-Site Management

On-site management expenses account for full time management including relief managers and payroll related costs. Quality on-site management is key to the success of the operation, including customer service and merchandise and tenant insurance sales. The definition of “market value” assumes competent management.

Off-Site Management

Prudent ownership will incur management fees for outside management and overhead expenses, calculated as a ratio of the effective gross income for self storage properties. Based on CBRE research and survey of management companies we found the range of fees was generally 4%-6% of EGI, with the most common response (mode) was 5.5%. Anecdotally,

interviews indicate competent management charges have been declining in recent years to 5.5%. In the new era of revenue enhancement or management, off-site management fee relating to platform (WEB page optimization, on-line reservations, social media and brand) is critical to cash flow management. Sitelink remains the most common software for self storage.

Utilities

Utility expenses vary according to design, such as the number of levels and climate control, which increase operating expenses. It includes electricity, water and sewer service, trash pick-up and natural gas. Some operators use solar panels to reduce over-head. Market estimates are that climate control rental rates should be 15%-30% higher than non-climate control rental rates.

Advertising

This expense element is crucial for the successful operation of a self storage property, particularly for properties in the absorption phase. Expenses include website optimization costs, social media campaigns, pay-per-click and other promotions. A strong advertising campaign can lead to as many as 50% of customers finding a facility on-line.

Miscellaneous

This category accounts for variables not considered in other categories. If expenses are allocated to the correct chart of account, the miscellaneous amount is typically very low or less than \$0.05 per rentable square foot.

In the new era of revenue enhancement, off-site management related to platform is critical to cash flow management.

Advertising expenses include Internet WEB page and optimization costs.

CBRE SELF STORAGE OPERATING EXPENSE REPORT - 1Q 2018

Expense Category	National	East		Midwest		South		West	
		Midwest	Northeast	East North Central	West North Central	Southeast	Southwest	Mountain	Pacific
Real Estate Taxes	\$1.15	\$1.57	\$2.41	\$1.43	\$2.08	\$1.13	\$1.28	\$0.80	\$0.56
Property Insurance	\$0.16	\$0.11	\$0.13	\$0.12	\$0.13	\$0.25	\$0.20	\$0.10	\$0.14
Utilities	\$0.23	\$0.30	\$0.38	\$0.23	\$0.40	\$0.30	\$0.22	\$0.25	\$0.12
Repairs & Maintenance	\$0.30	\$0.43	\$0.54	\$0.38	\$0.26	\$0.30	\$0.26	\$0.34	\$0.19
Administration	\$0.47	\$0.63	\$0.76	\$0.51	\$0.83	\$0.52	\$0.56	\$0.53	\$0.28
Off-Site Management	\$0.64	\$1.05	\$1.03	\$0.66	\$0.66	\$0.68	\$0.66	\$0.62	\$0.41
On-Site Management	\$0.88	\$1.18	\$1.33	\$1.06	\$1.29	\$0.93	\$1.03	\$1.10	\$0.57
Advertising	\$0.22	\$0.33	\$0.31	\$0.26	\$0.32	\$0.30	\$0.23	\$0.30	\$0.13
Miscellaneous	\$0.00	\$0.01	\$0.00	\$0.01	\$0.01	\$0.01	\$0.00	\$0.00	\$0.00
Total Expenses (\$F):	\$4.03	\$5.61	\$6.90	\$4.64	\$5.98	\$4.42	\$4.45	\$4.05	\$2.40
Effective Gross Income (\$F):	\$11.74	\$18.59	\$19.30	\$11.64	\$12.70	\$11.93	\$11.78	\$12.39	\$7.94
Operating Expense Ratio:	34.34%	30.16%	35.76%	39.87%	47.10%	37.05%	37.75%	32.68%	30.21%
Sample Size	808	53	171	70	21	160	79	41	213