Building and Refining a Budget for Your Self-Storage Business
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Benjamin Franklin famously said that "if you fail to plan, you plan to fail." The success of any business depends heavily on the planning process, and that begins with creating and maintaining an accurate and detailed budget. Understanding your revenue and expenses will allow owners to make informed financial decisions and forecast growth. A detailed budget is a valuable tool to determine the health of a business and forces management to think critically about what decisions need to be made to continue growing profitability. It allows owners to set and meet objectives, measure performance, manage cash flow and keep you from spending money you don't have. As with most daunting tasks, knowing where to begin is often the most difficult hurdle to overcome. Thankfully, it's easy to create a sophisticated tool in a simple excel spreadsheet.

The first step in creating a budget is to gather historical data and make a list of all the ways money has come in, and gone out, of the business. The further back you go into your empirical data the better. This will establish the most realistic baseline and provide the best insight and opportunity to spot trends and identify areas for improvement. You can't know where you're going if you don't know where you've been.

Revenue

At the top of every budget is revenue. To better understand where and how the money is coming in, be specific and list revenue streams as separate line items. In addition to unit rentals, be sure to include income from truck rentals, security deposits, administrative, late and lien fees, tenant insurance, merchandise, and sales tax. For revenue items that are less predictable, looking at prior year's activity as a percent of rental income can be a good guideline to follow. When listing revenue sources that have a cost of goods associated with them, don't forget to subtract those to get an accurate gross profit.

Now that you have a good idea of how the revenue is being generated, take the time to look for trends. This will keep your forecasting realistic and help you avoid the dangers of over-estimating projected revenue. This will also allow you to see ways to improve revenue. Are you offering Tenant Protection? What is your total penetration? Have merchandise sales dropped? Can you identify why?

When forecasting rental income, don't forget to plan for rate increases. The first step in this process is to complete a market study to understand where your rates are in comparison to the market. If you are charging less than your competitors, you're leaving money on the table. Next, do an audit of your current renters. You might be surprised to see what each person is paying. There may be renters who are still getting a long expired promotional rate. Because it's acceptable to increase individual rates twice per year, make a plan that will ensure all tenants will be paying what they should. Continue this process until you are maximizing the earning potential of every unit.

Expenses
Controlling expenses is one of the most important aspects of operating a successful and thriving business. Like revenue, they should be categorized in groupings that allow for maximum insight. For example, to really understand what is being spent on Repair and Maintenance, all expenses that contribute to the upkeep of the facility should be listed under that heading. It should include all building, landscape and sweeping repair and maintenance, as well as all equipment R&M, pest control supplies and service, and all security and monitoring. It's only by knowing what you're truly paying for, that you can determine if it's realistic and necessary.

The same concept applies to payroll. Be sure to incorporate all costs associated with hiring, training, and retaining an employee. It's easy to overlook expenses that are not recurring. If you're experiencing industry level turnover, you know that these costs of background checks and job postings can add up quickly. Assessing how much staffing is required to meet your financial goals can fluctuate depending on where the property is in the stabilization process. If the property just opened and needs to increase occupancy, you would increase staffing to meet the leasing demand. If the property is well leased with stable occupancy, you can scale back the staffing needs.

Tracking variable expenses will provide valuable insight. If your expenses are higher than the industry standard of 30%, you may need to make some changes. Is it time to shop for new vendors or renegotiate with the ones you have? Are there recurring charges for services you no longer use? Listing expenses and studying them over time will bring waste into focus.

Consult with your insurance brokers to help understand what is going on in the market and how that impacts expenses. Insurance, particularly in California, has been very volatile and the best people who know what your insurance will cost when it comes up for renewal, are the people who work in the industry every day, so reach out to the experts for guidance.
Finally, avoid making the mistake of not forecasting costs associated with inflation. Because we are experiencing the highest inflation in 40 years, the cost of everything from wages, insurance, taxes, utilities, and licenses will increase. Planning for that now will protect you from surprises down the road.

Net Operating Income – NOI
Net Operating Income is the most referenced number to evaluate the performance of a property and is the difference between operating revenue and operating expenses. If an owner can predict what they expect NOI to be in the next year, through a detailed budget, they can determine what price they can pay to meet their return-on-investment thresholds, known as a capitalization rate, or Cap rate. If a property is forecast to make $400,000 in NOI, and an owner needs to earn a 4.0% return-on-investment, the owner can afford to pay $10,000,000 for the property. A detailed budget becomes an essential tool to analyze NOI and identify if rents need to be increased, or expenses reduced to achieve investment goals.

Below the Line

Items that are “Below the Line”, are expenditures that are not dictated by the operations of the property and appear on the Income Statement below NOI. Below the Line expenditures include items like Capex projects, mortgage interest payments, etc. While these expenditures do not impact NOI, and are excluded from the valuation of a property, they are important to include in the process. Including these items in the budget will project the cash position of the company and aid in decisions regarding owner distribution payments or whether capital injections will be needed to finance projects.

Investing in your Investment

Once you have a complete financial picture of your facility, you can begin to make informed decisions about the improvements you would like to make and the big projects that need to be done. A Solar System seems like a good investment, however, utilizing your robust budgetary tool will tell you the immediate financial impact and the time it will take to pay for itself.

Staying on Track

Once you’ve created a budget, make sure you compare it to what occurred during the period, on a monthly, quarterly, or year to date basis. If you are off in your projections, figuring out why will make you more informed about the operations of your property and help you identify areas where more attention should be paid during the next budgeting process. Because your budget is a living thing, being proactive and adjusting will ensure you aren’t caught off guard and are prepared for the future.