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Property Taxes Soar for Self-Storage REITs

By Vicki Robbins, Dallas

Publicly traded self-storage REITs are being hit with substantial property tax increases. In fact, real estate taxes have become the biggest driver of operating expenses for the self-storage sector. They account for about one-third of all operating costs.

IMPACT ON NOI

Ongoing increases in property taxes, along with an escalation in labor costs and an upswing in self-storage supply will chip away at same-store Net Operating Growth for self-storage REITs this year, Matt Kopsky with Edward Jones told SquareFoot.com.

For example, Extra Space Storage Inc. forecasts same-store NOI growth of 3 percent to 4.5 percent in 2018, compared with 6.9 percent in 2017. Meanwhile, CubeSmart predicts same-store NOI growth of 1.5 percent to 3 percent in 2018, down from 5.1 percent last year.

NATIONWIDE TREND

Higher property taxes are being felt at self-storage REITs across the country. The 2017 property tax bill for Public Storage totaled \$199.6 billion, up 4 percent from the previous year. Another 4.5 percent spike is projected for 2018.

It was a similar story for CubeSmart, whose property tax burden edged up by 4.3 percent from 2016-2017—from \$46.8 million to \$48.9 million. CubeSmart is forecasting expenses, including property taxes, to grow by 3.5 percent to 4.5 percent in 2018.

CubeSmart CFO Tim Martin said the REIT is feeling the biggest property tax hit in Florida, Illinois, and Texas, with “broad pressure” across most of its markets. It appears the pain of property tax increases will linger for the next couple of years, Martin said.

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The tax hikes are even more pronounced at Life Storage Inc. The company reported a 6.6 percent increase in property taxes last year, from nearly \$38 million in 2016 to \$49.5 million in 2017. Life Storage is projecting another 5.5 percent to 6.5 percent hike in property taxes in 2018.

As property taxes consume a bigger share of self-storage companies' profits, proactive tax management is more important than ever before. Thorough research and proactive assessment appeals are the best way to hold the line on rapidly increasing property taxes.