



AN ORIX COMPANY

# A DEEP DIVE INTO OPERATING EXPENSES

Karen Thigpen

Senior Market Analyst, Investment Valuation

Boston Financial

[karen.thigpen@bfim.com](mailto:karen.thigpen@bfim.com)



# Sources for Operating Expense Data

## Individual Property Expenses

- \* Subject property historical expenses if existing
- \* Boston Financial properties in existing portfolio with similar characteristics
- \* Properties in developer / management company portfolio with similar characteristics
- \* Purchase from local source, typically appraisers and brokers

## Aggregate Expenses

- \* Boston Financial properties portfolio
- \* Developer/Management Company Boston Financial portfolio
- \* Cohn Reznick 2022 database (trended 3% annually)
- \* CoStar
- \* IREM (Institute of Real Estate Management)
- \* State Agencies (KY, TX, etc.)

# Expense Categories



## EXPENSE CATEGORY

### MARKETING

Advertising

For Rent /Apartment Guide advertising typically costs \$700 - \$800 / month for a full page add. Depending on the level of competition in the market, additional advertising may be necessary. Finally, this number may actually be reduced if the management/developer uses half pages and shares costs with other properties. Overall, this per unit expense is more a function of the total \$\$\$ spent more so than the \$ per unit costs. Facebook and other online media can reduce overall costs.

### SUBTOTAL

### ADMINISTRATION

#### Turnover

Screening / Credit

10%

Apply turnover to # of units and the cost of credit check, usually between \$30-\$50/each. Sometimes reimbursed.

Legal / Collections

Apply eviction percentage to # of units and cost per eviction from market participants.

Audit

Typically range from \$5,000 - \$10,000. A quote is usually requested.

Office & Other

Supplies, software, office equipment leasing, staff training, etc.

### SUBTOTAL

# Expense Categories



## EXPENSE CATEGORY

### MAINTENANCE

#### Turnover

Painting / Turnover / Cleaning	10%	This is market and product driven (usually between \$400 - \$750/unit) and uses a market derived turnover percentage.
Repairs		Repairs can vary anywhere from \$400 - \$700/unit. Considers # of buildings, roofs, mechanicals, whether the property is family/seniors/Section 8, etc., also considers location (i.e. salt erosion, significant snow, etc.)
Supplies		Supplies can vary anywhere from \$100 - \$500/unit and considers many of the criteria above.

### SUBTOTAL

### CONTRACT SERVICES

Elevator		Generally \$800 - \$900 / stop for annual maintenance including supplies. A quote is usually requested.
Grounds		Grounds depends on market/location. Site and landscaping plans should be basis for estimate. Markets with snow plowing are more expensive. A quote is usually requested.
Pool		Pools typically cost \$500 - \$700 / month to operate. Also important to know if life guards are required and salary.
Trash		A quote or rate information is usually used. On-line quotes are available in most locations. Senior properties produce less trash.
Exterminating		Typically \$30 - \$50 / unit base with additional fees for bedbug treatments. A quote or rate information is usually used.
Security		Should be based on what the comparables are doing as reflection of security needs in the market. Consider if electronic capital improvements (i.e. gates, cameras, etc.) will reduce operating expenses. Calls to police and security companies for input and prices are typical. Also review crime scores, websites, etc.

### SUBTOTAL

# Expense Categories



## EXPENSE CATEGORY

### PAYROLL

#### # of Staff

On-site manager	#	Experienced managers can handle up to 150+/- units alone depending on market and if the tenant base is challenging or seniors. Anything under 50 +/- units can be part time. Ask managers in market what a good manager makes, also source actual job listings with salaries online for comparable positions.
Other management staff	#	Asst managers make less than managers and can be full-time or part-time depending on # of units and tenant base.
Maintenance staff	#	Well-qualified maintenance staff can handle up to 100 +/- units, again depending on tenant base and market.
Janitorial staff	#	Janitors are typically part-time and hourly.
Benefits		Vary based on location and full-time vs. part-time. Typically range from \$4,000 to \$9,000 per full-time position.
Payroll taxes		Actual

### SUBTOTAL

### UTILITIES

#### Paid by

Water & Sewer	Owner/Tenant	Compare costs of similarly aged comparable properties with similar utility structures in the same provider district. Also contact providers for rates, possible increases. They may share comparable information as well. For rehabs, it is not unusual to see 10% - 15% savings in water and sewer as well as up to 15% for the expense for heat (gas/oil/electric) assuming new mechanical systems. For water/wastewater, consider acreage and if property has irrigation. Always determine if property will participate in any efficiency program and/or has an energy/utility study. Expense and savings varies based on scope of rehab.
Electricity	Owner/Tenant	
Gas	Owner/Tenant	
Cable		

### SUBTOTAL

# Expense Categories



## EXPENSE CATEGORY

### TAXES AND INSURANCE

Insurance	Insurance has increased in recent years, so a provider quote is always required. Always ask about requirements for quake, wind, flood, etc.
Real Estate Taxes / PILOT	Contact the Assessor for RE tax expense / unit for other LIHTC properties in market. We also go through the steps of getting assessment, tax rate, and methodology to calculate taxes. Compare conclusion to comparable taxes / unit expense. Always consider PILOTs, full/partial abatements. If there is an abatement, always confirm whether there are direct assessments, bonds or other fees that would not be waived by the abatement, and if those change based on the change in valuation.

### SUBTOTAL

### MISCELLANEOUS

Replacement Reserves	Range from \$200 to \$500/unit typically. Can be set by allocating agency, lender or other third party as well. With rehabs, we always assume the reserve will be sufficient to cure any deferred maintenance and be enough to address capital repairs over the long term.
Other	Can be expenses for land lease fees, social services, PUD fees, internet provided to residents, etc.

### SUBTOTAL

### MANAGEMENT

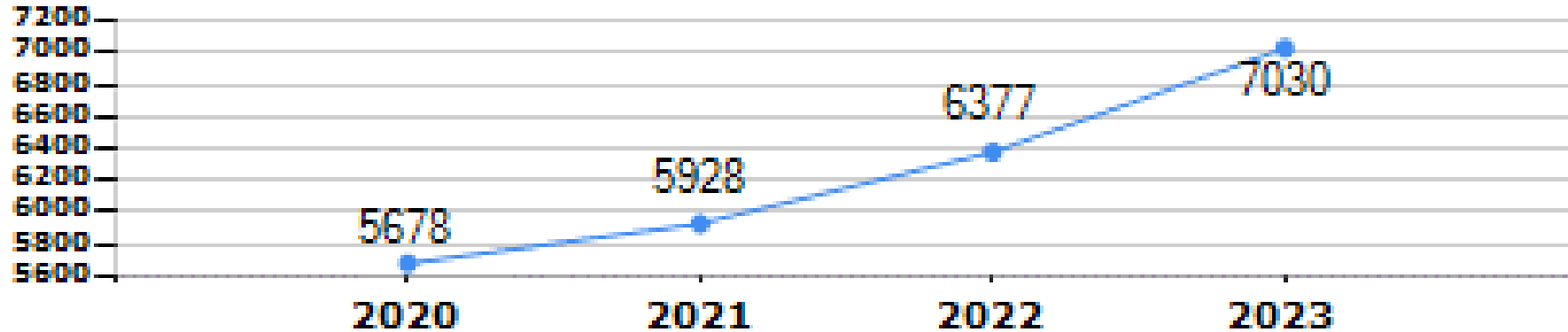
% / EGI

SUBTOTAL	%	A management agreement is requested. Typically a % of EGI, but can be a flat rate per month or per unit per month.
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# National Operating Expense Trends

Annual Gross Operation Expenses(\$)



- Gross expenses increased 23.8% between 2020 and 2023
- Cohn Reznick's 2023 CREDIT Study reported portfolio gross expenses increased 17.5% between 2020 and 2022, compared to 12.3% for BF properties over the same period

\*From 1,681 properties, over 150,000 units

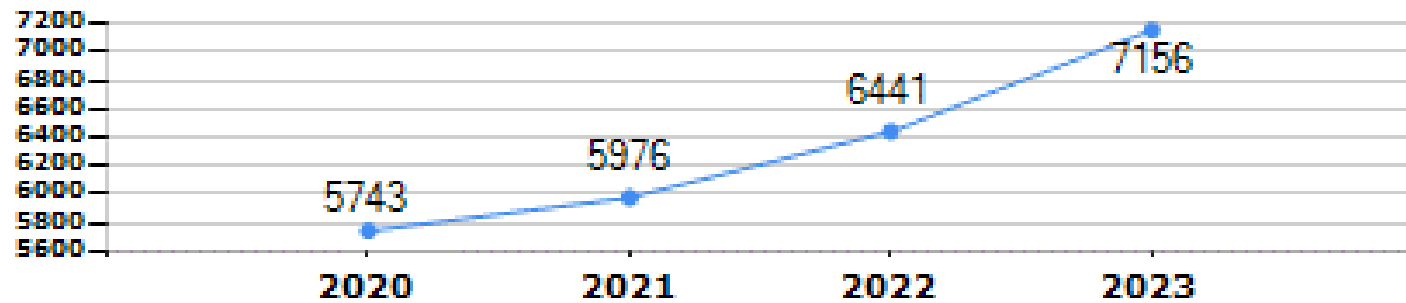
\*\$250/Per Unit Reserve for Replacement deposit



# National Operating Expense Trends

FAMILY

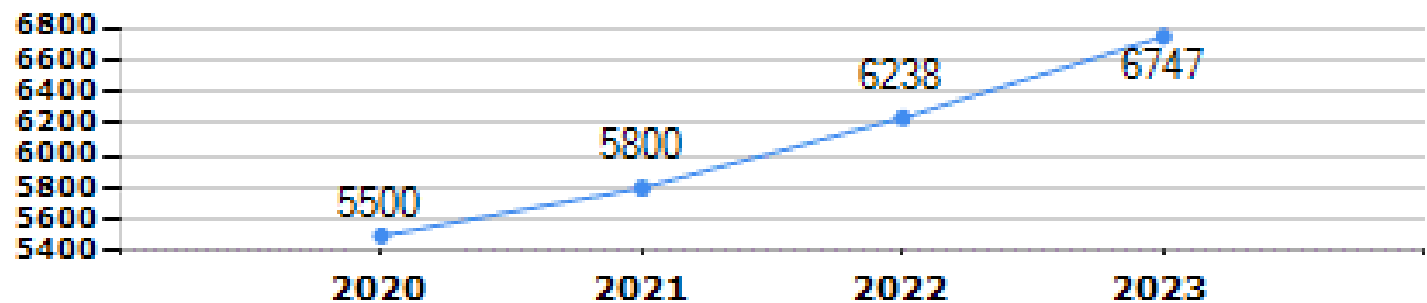
Annual Gross Operation Expenses(\$)



24.6%  
Increase

SENIOR

Annual Gross Operation Expenses(\$)



22.7%  
Increase

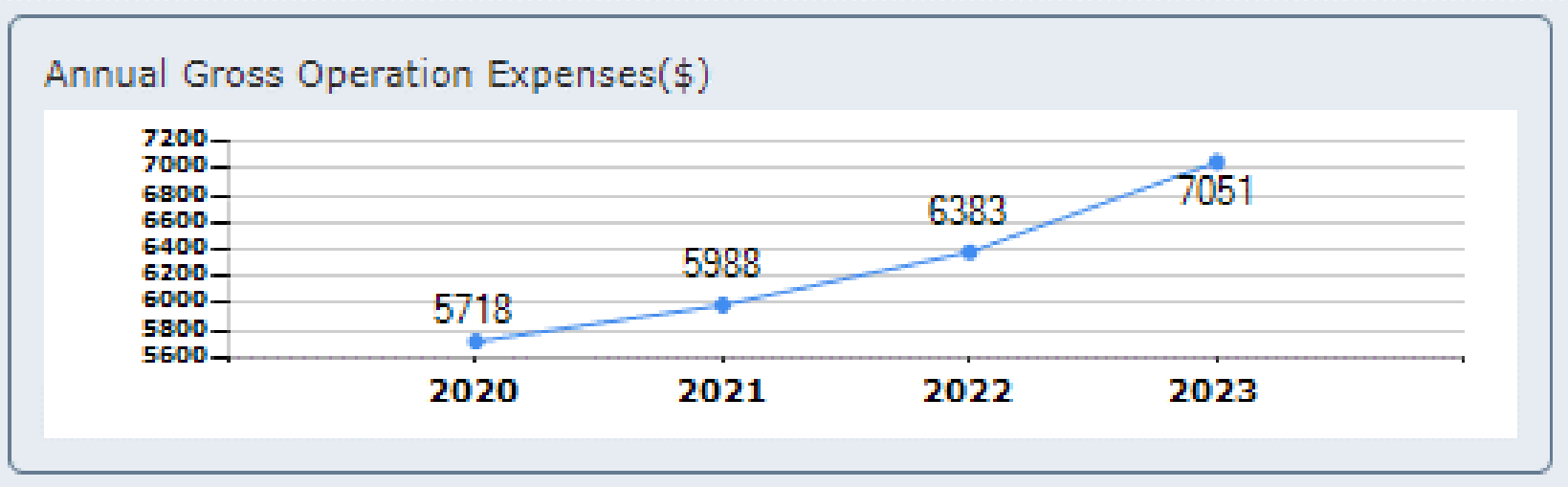
\*\$250/Per Unit Reserve for Replacement deposit



# National Operating Expense Trends

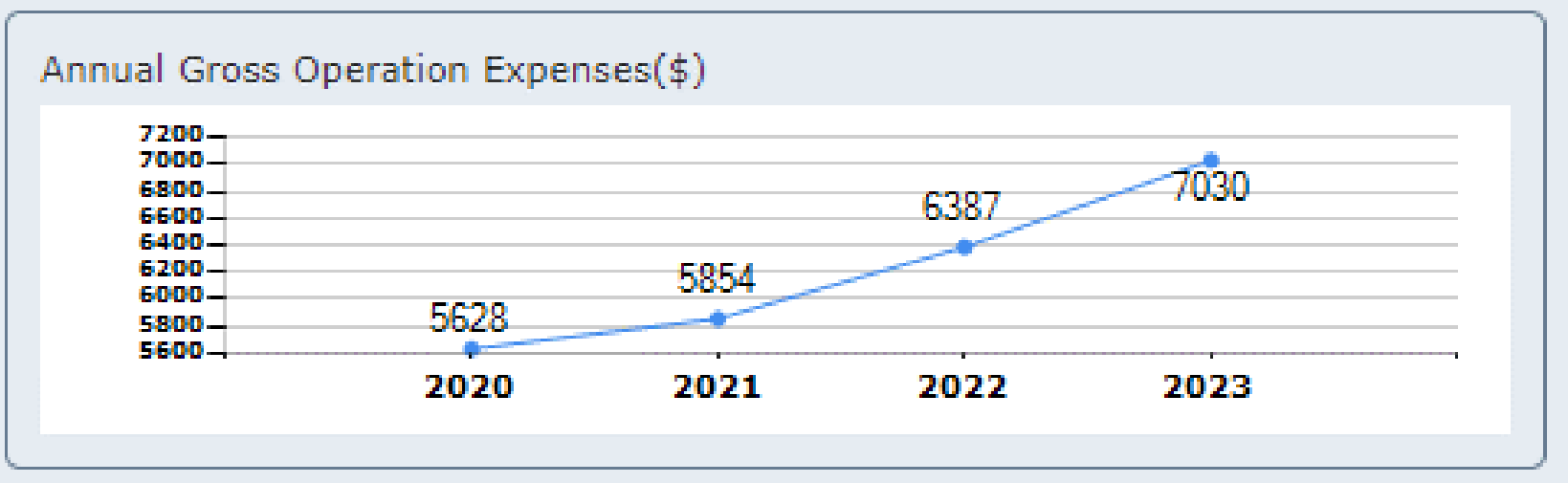


LIHTC (Full-Pay)



23.3% Increase

SUBSIDIZED



24.9% Increase

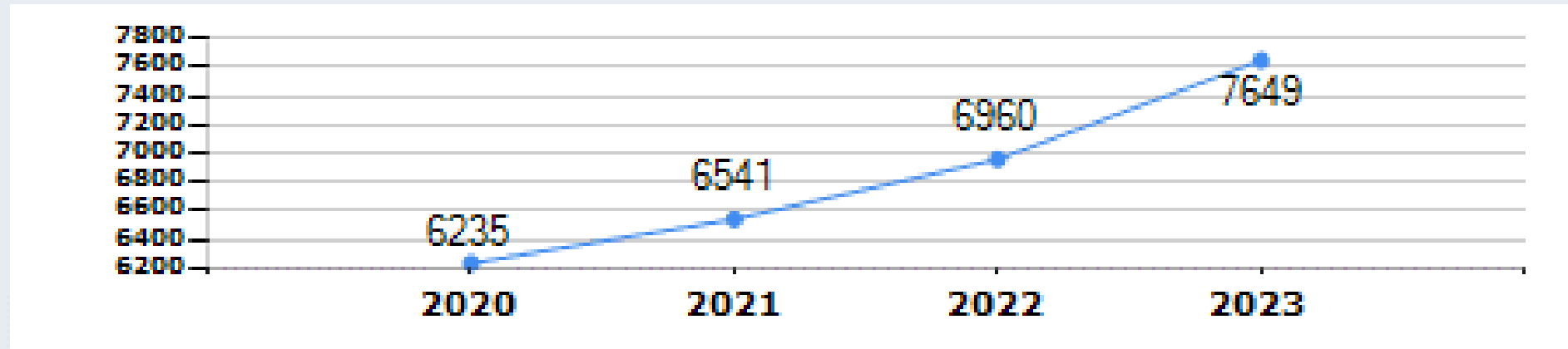
\*\$250/Per Unit Reserve for Replacement deposit

# Regional Operating Expense Trends



## Pacific\*

Annual Gross Operation Expenses(\$)



Gross expenses increased 22.7% between 2020 and 2023

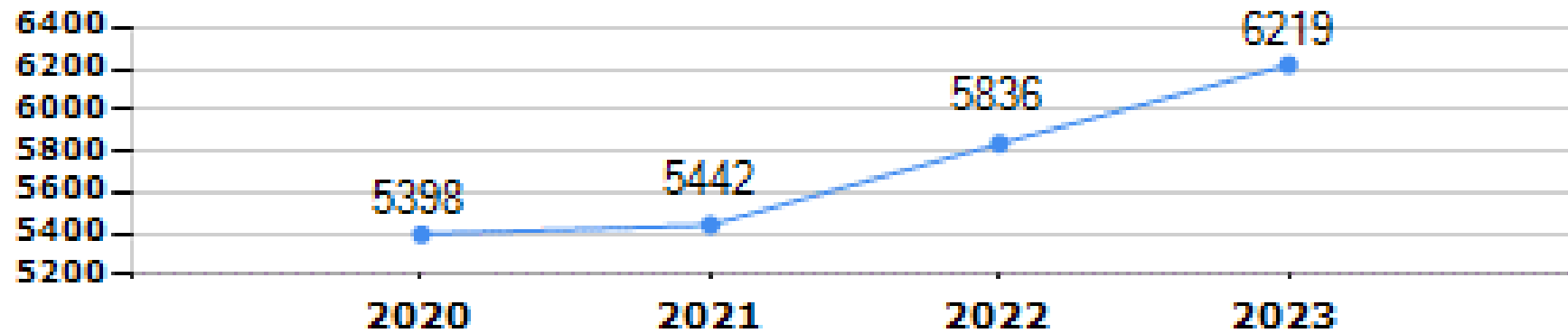
\*Includes WA, OR, CA

# Regional Operating Expense Trends



## Southwest\*

Annual Gross Operation Expenses(\$)



Gross expenses increased 15.2% between 2020 and 2023

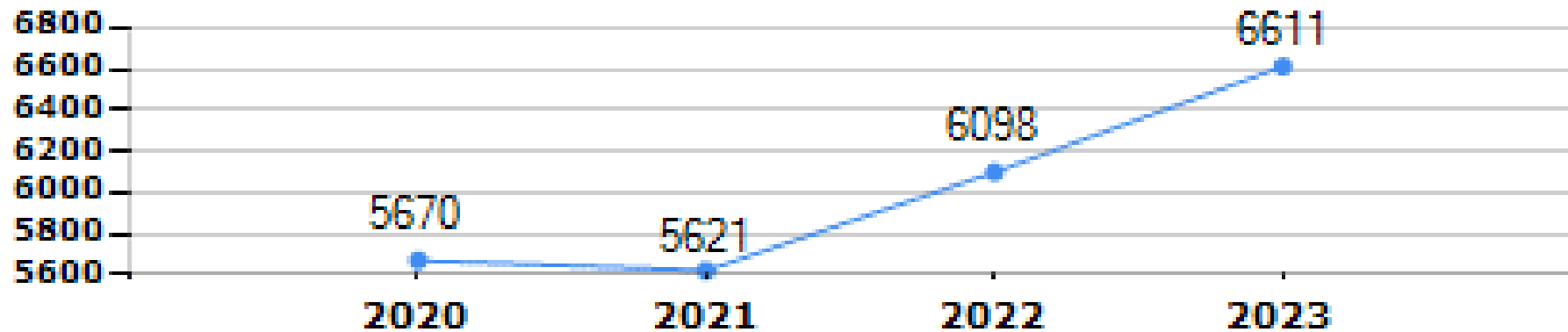
\*Includes AZ, NM, TX, OK



# Regional Operating Expense Trends

## Rocky Mountain\*

Annual Gross Operation Expenses(\$)



Gross expenses increased 16.6% between 2020 and 2023

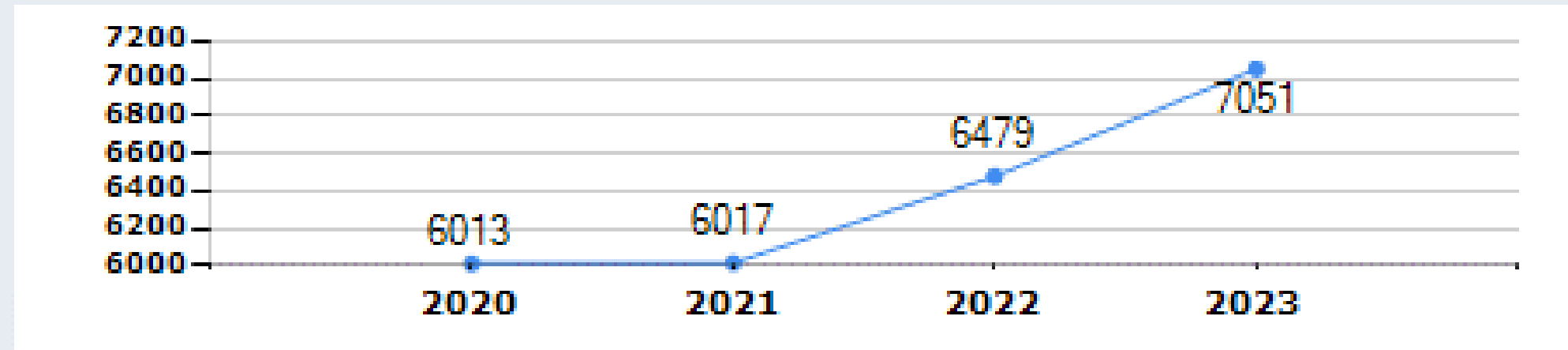
\*Includes ID, MT, NV, UT, CO, WY



# Regional Operating Expense Trends

## Midwest\*

Annual Gross Operation Expenses(\$)



Gross expenses increased 17.3% between 2020 and 2023

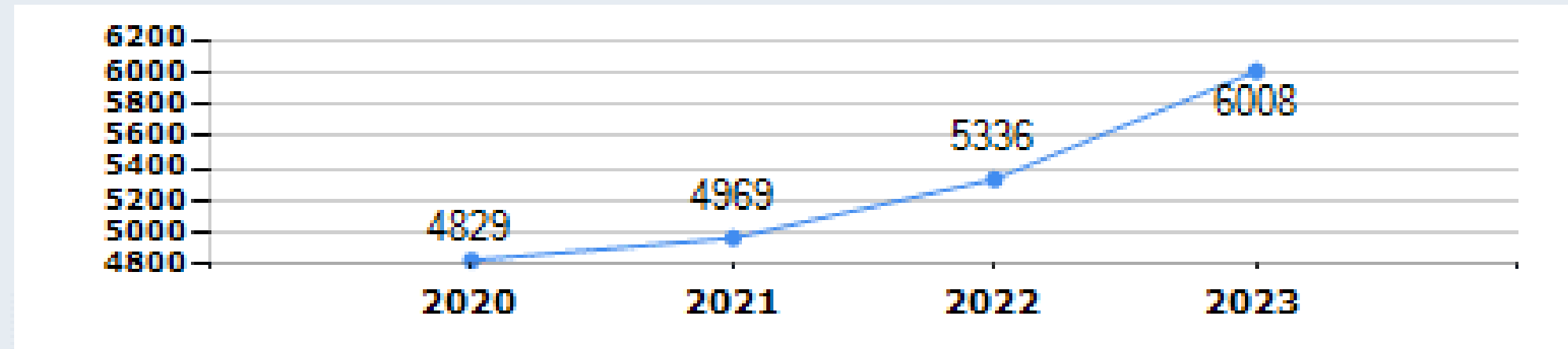
\*Includes ND, SD, NE, KS, MO, IA, MN, WI, IL, IN, OH, MI



# Regional Operating Expense Trends

## Southeast\*

Annual Gross Operation Expenses(\$)



Gross expenses increased 24.4% between 2020 and 2023

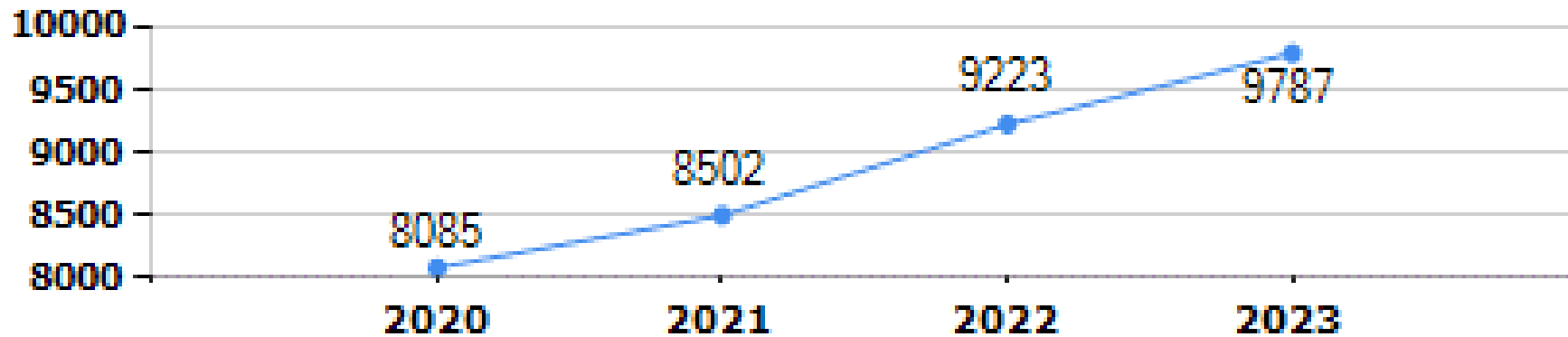
\*Includes AR, LA, MS, AL, GA, FL, SC, NC, TN, KY, VA, WV, MD, DE



# Regional Operating Expense Trends

## Northeast\*

Annual Gross Operation Expenses(\$)



Gross expenses increased 21.1% between 2020 and 2023

\*Includes ME, NH, VT, MA, CT, RI, NY, PA, NJ

# Property and Liability Insurance Trends



<b>Region</b>	<b>2020 PU Expense</b>	<b>2023 PU Expense</b>	<b>% Change</b>
National	\$ 361	\$ 580	60.7%
Pacific	\$ 279	\$ 518	85.7%
Southwest	\$ 419	\$ 664	58.5%
Rocky Mountain	\$ 316	\$ 462	46.2%
Midwest	\$ 371	\$ 515	38.8%
Southeast	\$ 312	\$ 540	73.1%
Northeast	\$ 525	\$ 775	47.6%

<b>State</b>	<b>2020 PU Expense</b>	<b>2023 PU Expense</b>	<b>% Change</b>
California	\$ 300	\$ 524	74.7%
Florida	\$ 533	\$ 1,187	122.7%
Louisiana	\$ 829	\$ 1,542	86.0%
Texas	\$ 392	\$ 701	78.9%





Thank you!

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