



## Wrapping Up 2015

*End-of-year checklist can please your employees, community and bottom line.*

*By Laura Williams-Tracy*

To start the new year off right, you've got to make sure 2015 ends on strong footing.

December can be a hectic time for your personal life, but storage operators say it can be a perfect time to make strategic moves that position the business for the coming year.

"The end of the year is a good time for thinking. It's not the busiest season," said Mitchell Danzis, president of Storage Station in New York and New Jersey, who recently completed the sale of his six-store portfolio. "As a small-to mid-sized operator, we were very big on planning. If I didn't sit down with our director of operations and have a meeting with our facilities manager, we couldn't function in the next year."

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*Left to right: Alex Patterson, Darlene Hughes, Sandy Jermann, Shari Moore, Vanessa Moore*

Year-end brings thoughts of bonuses, budgets and big tax deductions. Those and other housekeeping tasks can boost employee morale, elevate the business's profile in the community, and position the owner for a better tax outlook come April.

Here are some facets of the business that shouldn't fall through the cracks at year-end.

### **Employee Bonuses and Thank-Yous**

Bonuses for high-performing employees, along with a sincere expression of appreciation, are obvious ways to retain valued employees. Many owners follow a formula to provide employees with a bonus, often equivalent to about a half-month's pay.

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David Milam, owner of Highway 5 Self Storage in Marietta, Georgia, and a certified public accountant, said bonuses should always be paid through the payroll system and reported on the employee's W-2 form, never "under the table." A grateful owner who wants to ensure a valued employee doesn't feel the sting of tax withholding from their bonus can increase the bonus to cover the withholding, Milam said.

Danzis said his approach to bonuses evolved over the years. Most recently, he did away with end-of-year bonuses in favor of quarterly bonuses for meeting goals on units rented, retail sales, and increases in net operating profit.

"I felt it was good motivation for employees and gave them multiple opportunities to earn extra income," Danzis said. "People seemed to respond to it and it was an enticement when we were out trying to hire new employees."

Bonuses are nice for valued managers who are crucial to well-run facilities, but the bonus alone might not communicate all the appreciation a manager wants to show, said Magen Smith, a CPA in New Iberia, Louisiana, who focuses on serving the self storage industry. Smith's first job out of college was managing a new storage facility, and she applies that knowledge to bookkeeping, auditing, manager training and consulting to the industry.

"Every manager I've ever talked to says they wish they were appreciated more," Smith said. "If you are an owner, go sit with your manager, buy them lunch and tell them what they are doing that you like. A manager can make or break your business."

## Spend Money on Needs

It's the season for shopping, and it's a good idea to think about purchases for the business.

Needed capital improvements can be completed before the full force of winter hits and be depreciated in the following year, while other purchases can be expensed in the current tax year. Purchases of items that are financed—such as a new golf cart—can be taken as a deduction for the full price of the asset even if payments will be made over several years.

"Don't buy anything just for the tax deduction," Milam said. "Only do it if you actually need something."

Likewise, businesses operating on a cash basis should pay all of the bills they are able to pay at year-end in order to take a tax deduction for those business expenses.

## Charitable Contributions

Giving to charity by December 31 enables the business to take a deduction on the coming year's tax return. Financial advisors suggest getting a receipt for all contributions.

Marc Smith, president of Personal Mini Storage in Orlando, Florida, has for years conducted a toy drive at year-end to benefit children. This year the company is conducting its first coat and blanket drive to help those in need.

Smith said it's important to him that the business engages in the community, and he said employees enjoy being part of the giving. This year the team added Breast Cancer Awareness to its charitable endeavors.

"We have an employee who faced a breast cancer diagnosis, and the team wanted to do something to support her," Smith said. Fellow employees joined in October to wear pink Personal Mini Storage t-shirts on Fridays to raise awareness of the disease.

At Pegasus Group, a real estate investment and management company specializing in self storage, individual properties participate in local charities, but the company as a whole supports an annual Toys for Tots drive, said Bob Dailey, a partner with the California-based company operating 60 properties throughout the U.S.

"We also try to donate one unit per property to a local community organization," Dailey said.

Self storage units can be a valued donation to charitable organizations such as churches or Boy Scout troops that might have supplies, gear or donated goods to store.

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Milam said he donates space to a local animal shelter, but there's not much tax benefit.

"You have to be careful, because if you are very benevolent you'll find yourself with no units to rent," Milam said. "For many of us, occupancy is so high it's hard to give away space."

If a storage operator is looking to earn good will in the community, Milam recommends sponsoring other groups, such as a billboard at a local high school or t-shirts for a soliciting organization.

"We always try to make that connection that would put our name in front of potential renters."

### Strategic Planning

Year-end is a good time to review vendor contracts and expenses, review the property management model for appropriate pay rates, examine technology improvements, training procedures and promote successful employees.

It's also a time to think about the structure of the business. Milam and his partners created EDM Holdings, a C corporation that owns the building and land. Milam then leases the physical property to his business, Highway 5 Self Storage, which pays monthly rent.

The structure adds a layer of protection between the self storage business, which has few assets, and the investment in the real property. The arrangement doesn't necessarily offer significant tax savings, Milam said, but it clearly delineates what are operational issues for the self storage company and who controls the hard assets. Milam said if he ever decides to sell the storage business he could maintain ownership of the building.

"I personally think that's the way everybody ought to be set up," Milam said.

### Checking the Numbers

Magen Smith recommends owners check their accounts receivable to determine if any debts can be declared bad and thus be written off.

"If you are on an accrual basis, that's income that you never got in your bank account. If it's not going to be collected it takes it out of your income," she said. "If you are on a cash basis, then you want the money off your report."

Checking the numbers also means reviewing rents and checking your performance against the competition, Smith said.

"Are there a lot of people paying less than street rent? If you haven't shopped your competitors, now's the time. Make sure you are competitive in the market and that things haven't changed." ♦

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