

How Teamwork Makes Annual Budgeting an Effective Process for Apartment Owners by Clifford A. Hockley

Julie worked full time as on site property manager at Evergreen Acres Apartments - a fifty unit apartment property. She kept the property full and took care of all of the tenant problems as they came up. She was an employee of Highest Caliber Property Management. Her direct supervisor, Heather, was a regional manager. Heather was responsible for over 600 units located in the Metro area.

Heather and Julie worked as a team. Every year, Heather would prepare an annual budget with Julie's help. They had income and expense goals they wanted to meet and spent a lot of time gauging the market place and the economic conditions. Annually, Julie inspected all of the units to assess the condition of the property to help give comprehensive insight to Heather for the management plan and the budget.

Once they drafted the budget, they would contact Al and Lydia the owners of the Evergreen Acres to review. Usually Al just signed off on the budget. But this year, Lydia wanted to get involved. Al had not been feeling well and they discovered that Al had a heart condition, it was treatable, but was sapping his energy level.

Heather and Julie planned a one day meeting with Lydia. Lydia had never been to the property and neither of them knew what to expect. The morning of the meeting Lydia and her son Max met Julie and Heather at the property. It became clear right away that Lydia was a tougher taskmaster than Al. Items that were not important to Al were very important to Lydia.

She wanted new plants in the beds, new flags at the entry to the property, new signage on all of the buildings, the trim painted, and the manager's office totally renovated. By the end of the day Heather and Julie were exhausted.

Budget? Why Budget?

Lydia had great ideas and left town expecting all of her ideas to be implemented. Heather asked Lydia to get bids for all of the improvements so that they could update the budget. Within two weeks they had all of the numbers in. The budget now ran at a loss.

Heather called Lydia to share the information. Lydia told her she needed to cut other things out of the budget to make it balance. It became clear to Heather that there was a change in goals in place that occurred with the handoff from Al to Lydia. She went to her supervisor and asked for help.

Randy, the President of Highest Caliber Property Management, called Lydia and asked her to meet with him to review the budget. Lydia was a little miffed that her regional property manager didn't just do as she asked. She asked for another regional manager.

Randy calmed Lydia and explained to her that all of his regional property manager's prepared budgets for properties in order to plan ahead and plan for capital projects in particular. Lydia was not satisfied. She figured she was in charge and she wanted it her way. Randy called Al to explain, but Al was not available.

Randy decided that Lydia did not really understand the implications of her decisions. He prepared two alternate budgets to show her the other options that might exist without a chance for negative cash flow.

Lydia Wants It Her Way

Lydia still was adamant she wanted it her way, all those years of living with Al, who gave her everything she wanted, had made her used to getting her way. Randy got back together with Julie and Heather and tried to come up with options to manage the property.

"We could raise the rent" he commented. Julie pointed out that their rents were the highest in the market place, she also pointed out that utility pass-throughs were helpful to the bottom line but were making it more difficult to fill vacant units. Finally Julie said, "Let me try out an idea, but I need permission to call Lydia". Randy and Heather agreed.

Julie called Lydia and invited her to the property. Lydia showed up at Evergreen Acres and Julie proceeded to take her on a tour. She toured the whole property and met with a sample of the tenants. They were very happy with their home and with the job that High Caliber was doing, especially Julie. They had even written a letter complimenting Julie.

Julie then drove Lydia to the five closest competitors. Lydia was shocked by what she saw. She finally realized that Evergreen Acres was already head and shoulders above the competition, and that the extra expense, while beneficial could better be phased in over three years. Julie pointed out that the economy was weak and that the tenants would not be able to tolerate the \$100 a month rent increases that were necessary to offset the cost of the improvements that Lydia wanted to make to the property.

It also became clear to Lydia that Julie was an incredible on-site manager that she did not want to lose. The tenants loved her; all of her units were rented. This could not be said for the competing properties. Lydia capitulated, but did get a commitment from Julie that she would stay at the property for an additional 24 months. Julie then asked for health insurance coverage. She pointed out that without health insurance she could not stay and would have to take a job somewhere else.

Lydia called up Randy and Heather, and agreed to the first budget with an alteration for health insurance for Julie, a much smaller increase. But she insisted that her ideas be incorporated into a three year plan for the property.

Heather and Randy were glad to accommodate Lydia, and were even happier that Julie had committed to staying for an additional two years. They knew what a great onsite manager Julie was and did not want to lose her. She was the one that made the annual budget actually work.

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