

**Property Management
Budgeting for the 21st Century
“It’s Not the Money...It’s the Money!”
by Jackie Ramstedt, CAPS, CAM, CAS**

I remember when I first started in the property management industry over 22 years ago. Things were so different then. The basic concept of “getting the money in the bank” and keeping the residents happy seemed to be the only real challenges. There were no budgets to speak of, or they were just basic “guidelines” that the company or owner gave you to follow. There was generally sufficient money to use for the routine necessities of running a property. Resident functions were the “highlight” of the month’s activities. Other than the occasional “hot tempered resident”, life seemed relatively simple.

As the years progressed, and real estate laws changed, the owners and management companies were now faced with losing valuable tax deductions for those apartments that in the past had sat empty, but were still “profitable” through those deductions. Realizing that occupancy was the “key” to success, the urgency of quickly turning the apartment and releasing them again became the focus of daily operations because empty, the unit had no cash flow. It was during those late ‘80’s and early ‘90’s, where the new thrust of property management began to utilize the phrase...“It’s not the money.... It’s the money!”

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In-depth marketing and business plans, analyzing multiple areas of property performances began to emerge. Monthly competitive surveys, closing ratios, conversion and renewal capture rates; all were part of that expression of, “If you can’t measure it, you can’t manage it”. In addition, there were new positions created on site to help with this new trend. Marketing Directors, in charge of advertising and marketing plans, Lease Up Specialists, to speed up the process of closing those sales, and Corporate Suite Directors, who would lease fully furnished apartments, including maid service, as “short term” leases to companies and large corporations who were bringing in personnel for contract work. Life as an on site employee began to change and exponentially speed up to what would be ultimately our vision for the new millennium.

Today the entire culture of on site property management has taken a huge turn toward “The REIT business”. As much as we strive to concentrate on the customer service aspect, (people side) of the equation, the real focus is on the potential of cash flow, which converts into the profit line for owners and investors. Although the Wall Street influence has always been a part of the property management industry in one form or another, the REIT business has brought this philosophy to the forefront of operations. Community Managers must now be serious professionals, with that business savvy to produce results...not excuses. Driving rents and revenue with creative marketing plans, as well as reducing or maximizing expenses, is the goal.

I know this paints a pretty bleak picture of “high stress and no nonsense” approach to running our properties. Actually, it isn’t as bad as you might think. There are advantages to running a business AS A BUSINESS. Going by the rules, staying “firm” on decisions, and making the operations a “lean, mean, fightin’ machine”, takes away those gray areas that might otherwise cause problems, such as in Fair Housing issues.

The key to the success of a property is in the ability of its Community Manager and Maintenance Supervisor to change the way they think about their owner’s or management company’s goals for that asset. Keeping “too many” personal opinions out of decision-making is a good start.

Making decisions with too much “heart” and not enough “logical business mind” can be detrimental. Understanding all aspects of the legal paperwork including the application, Resident Selection Criteria, credit reports, the lease agreement and all addendum, and your company’s policies and procedures, gives you the tools to run your property strong. It’s just like juggling.

Your ability to keep as many “balls” in the air when you are managing a multi-million dollar asset will add to your value and credibility as an industry professional.

No better time to start fresh than during the budgeting process. As a business, we sometimes forget that making a profit for the owners/investors and/or management companies should be foremost in our minds...daily. It's that delicate balance of dealing with two sides of the equation: the “human side” and the “financial side”, both paramount in the success of your performance. Every decision has a price tag attached to it: if it's a \$5.00 decision...make it! But if it is a \$5,000 decision ...better get some council and do your homework!

It all comes down to your ability, as the Manager, to make a profit without jeopardizing the integrity of the operation, while maintaining a good reputation for your residents and prospective residents. There, then, are two main areas of concern that have a direct effect on your property's success and cash flow; income and expenses.

Here are some important points to remember when settling in to create the New Year's goals and budgets:

- **The importance of doing your homework before you start!**
Research, previous budgets, market and sub-market conditions, and variance explanations will be crucial information in the preparation for your budgeting process. Get clarity in areas you don't understand, and prepare to make a commitment. Getting everyone on your team involved in “their” portion of the plan, because these are the figures you have to live up to! *If you can't measure it, you can't management it!*
- **Creating a business plan for the 21st century: Are you ready?**
Providing the “reader” with a concise overview of the performance expectations of the asset's operation for the next year; providing the on-site staff with an operational tool for “day-to-day” guidance; providing upper management and owners/investors with benchmarks to assess monthly, quarterly, and annual performance results; provide a history of operating results for ownership, management, and future investors.
- **Income Effectiveness: How to achieve the most dollars for your property**
Beginning with an overview of the “budget” numbers through a better understanding of how much money do you REALLY have each month. Defining GPR (gross potential rents), Vacancy Loss (concessions, management units, down units, bad debt), and NRI (net rental income). Creating a “value added” approach to market values for each floor plan or unit type, and examining “other income resources” to maximize your income dollars.
- **Expenses: Creative ways to reduce your costs and increase cash flow**
Where are you today? What categories are in the “red”? Reviewing your basic categories that are *in your control*, including personnel costs, administrative, marketing, repairs & maintenance, cleaning & re-decorating, contract services, utilities, and capital & extraordinary expenses, where can you cut the “fat”? Are you getting the “best competitive pricing” for services and products?
- **Tracking your progress: How do you really stack up?**
Keep “visual” images of progress, such as charts, graphs, photos, etc., making it fun for your whole team to participate as well as driving their performances through creative award programs for achieving budgeted goals, and defining daily, weekly, monthly and quarterly goals, enabling you and your team to react to veering off budget and get back on track quickly!

Now more than ever the development, implementation, and execution of a GOOD BUDGET not only means the operation of the business is running according to the owner /investor/ management company goals, it gives YOU and your reputation, credibility and value as an industry professional.

Get started by MAKING YOUR PLANS for the New Year, making that COMMITMENT TO THEM, and to YOURSELF! Remember, that to make a real difference in your career and to your organization, you have to get a real *"Passion for Performance"*. YOU DECIDE. *And remember...* "It's Not The Money...It's The MONEY!!!"

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