

Three Steps for Creating an Effortless Property Management Budget System

By Ernest F. Oriente, The Coach

This time of year is when leading property management companies begin their budget process. Having a detailed and well-planned budgeting system is critical to the success of your company, and this article will outline the key steps for creating a powerful and effective budget. In addition, this budgeting system provides an accurate method of measure revenue and expenses for the coming year, and it's a great tool to be used on daily basis. Ready?

Establishing Budget Goals

As a property management executive, begin each new budgeting year by outlining for your management team a clear set of expectations, goals, and priorities. This outline should consider economic trends, the age of your portfolio, occupancy trends, your pricing strategies, property expense percentages, and a forecast for anticipated revenue. By establishing the budget goals, up-front, you will benefit from greater accuracy. In addition, the detailed information you receive when your budgets are completed will be worth the pre-planning efforts. Plus, your pre-planning step will send a clear message to your management team that you are very focused on the vision you have for your property management company.

Tip from the Coach: The best property management budgets are developed by companies who start early enough in the year to give themselves time to think about their business for the upcoming year and future years. By starting the budget process early, you will also have the time to review the budget steps from the previous year and make any necessary improvements for the next year. To streamline communications, build a detailed timeline outlining the exact dated when each part of the budget is due.

Building Expense/Revenue Plans

Begin the expense/revenue part of the budget process by making certain that the people on your team "closest" to an expenditure are involved in the process. Then, have them review the expenses/revenue from the previous year looking for any trends, new expenses, or surprises so these items can be included in the new budget. Next, property management budgets should be "zero-based," meaning each expense item is built from the ground up and the expense/revenue item is carefully justified. Specially, the amount of an item in this year's budget is not based on last year's budgeted or expended amount for that item. Lastly, compare the new budget to last year's budget, looking for major variances from the previous year. And by starting the budget process early, you will have the ability to request multiple bids for any major expenditure, based on your anticipated annual volume.

Tip from the Coach: It is important to have your team carefully detail and document any financial assumptions, calculations or formulas used during the budget process. This information will allow you to really "dig" behind the budgeted dollars, which is critical

when justifying the expenses/revenue for the upcoming year. Plus, if budget revisions are required, it is much easier to reduce a few specific items rather than requesting a flat percentage of reduction, covering all categories. As an added benefit to requiring this type of detail from your team, your budgets will be much easier to manage over the next twelve months because the budget notes will provide a clear outline of the exact expenses/revenue month-by-month.

Having the Right Tools

First, provide for your property management team the financial reports from the previous twelve months including the general ledgers. Second, have the best hardware and user-friendly software to accomplish this important task, as technology will minimize the time spent inputting the data and proofing it. Third, provide your team with a detailed list of any major contracts, leases, or anticipated major expenditures. Last, provide your team with a summary of personnel including salaries, benefits, and tax information, which should be linked by computer formula directly to the main budget. Remember, by giving your team these tools, they can spend more time analyzing the budget and not hunting for the numbers to build it.

Tip from the Coach: At the start of the budget process, give each person who will be building a budget a three-ring binder with a tab for each expense/revenue item. Behind each tab, include any historical information related to that particular expense/revenue so it's readily available throughout the budget process, and include quarterly/year-to-date revenue/expenses averages. When the budget is complete and has received your approval, provide for each person on your property management team a clean printed budget sheet to insert behind each tab. This will give them a "working" budget and a powerful tool to use throughout the year.

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