

Making Your Budget Work For You

In a recent survey, 30% of property owners/managers responded that they did not prepare budgets for their properties. A further 40% stated that even though they prepared budgets, they did not feel that their budgets provided positive results.

If you are in the 70% that do not prepare or see a benefit from budgets, then maybe you need to rethink the purpose, preparation, and use of budgets. When done and used properly, budgets will be a powerful tool in your efforts to achieve cash flow and value for your property.

Purpose

The first purpose of a budget is to provide you and your staff the opportunity to plan your property's future operations. As a planning tool, your budget will project expected income, expenses, capital improvements and replacements. In projecting your property's operations, you will be able to foresee those steps that will be necessary to achieve the financial and operational results you desire.

The second purpose of a budget is its use as a measurement tool. Your budget will give you the ability to measure your actual results in comparison to your plan (budget). As a comparison tool, the budget will allow you to make changes in your on-going operations to fit the actual results you have been achieving.

Preparation

The first step in preparing your budget is to project the normal operating income and expenses of your property for the upcoming year. In projecting your expenses and miscellaneous income, you will often use past results as a guide to your projections. Adjusted for inflation, expected rate/price increases, and changes in operations, these projections should give a fairly good estimate of what you can expect from your operation for the budget year.

The second step is to project future rent increases. This can be a difficult because the future economy will have a direct impact on the feasibility of your projected increases.

The third step is to project the need for capital improvements and replacements. This is probably the hardest step of all, although past results may provide some guidance. Roofs, siding, windows, appliances, concrete, asphalt, and landscaping are just some of the items that you will need to project.

The fourth and final step is to analyze the projected results of your budget-plan. Is it realistic? Does it achieve the results you desire? Are changes needed? This is where you fine-tune your budget. Are there sources of funds for your capital improvements and replacements? Do you need to adjust your operations? Do you need to increase your marketing efforts to achieve the rent levels you desire? When you finish adjusting your budget you will be ready for the final step of implementation.

Implementation

Use of your budget starts with the comparison of the budget to your cash flow or profit and loss statement. This is normally done on a monthly basis. Seasonalizing your budget can provide an additional degree of sophistication to your budget comparison. Because it can be difficult to accurately seasonalize a budget, it is recommended that seasonalization is done only when you are experienced with budgets and you have a good historical record of past operational performance.

As you proceed through the year, you will observe that your budget is rarely "right on the money" when compared to your actual operations (variances). This is normal. At a minimum these variances should provide good feedback for you property's future budgets.

Your analysis of the variances provides you with two important pieces of information. The first is the identification of your operations that are not working according to plan and need to be adjusted. The second is the knowledge of whether your plan is on-target, and whether major adjustments or changes are needed to accomplish your goals.

The final step for you and your budget is to start the process over again for the New Year. Only with a consistent budget system can you expect your property to meet your goals.

Current News...

Midwest Management Presents Awards for Excellence!

Midwest Management - West Division held their Annual Seminar at the Holiday Inn Express & Conference Center in Okemos and presented awards for excellence in the multi-family housing industry to the following team members:

Employee of the Year - Linda Manning
Executive of the Year - Mary Howell
Associate of the Year - Natalie Lyon
Property Manager of the Year - Angela Glazier
Leasing Agent of the Year - Shelly Hazzard
Maintenance Person of the Year - William Meddaugh
Property of the Year - Benson Hills Apartments
Team of the Year - Lansing Financial Team

Midwest Management continues to remain one of the largest property management companies in the Midwest. To learn more about Midwest Management Company visit our website at www.midwest-mgmt.com.



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