

Welcome

How to Budget in a COVID World

2-part virtual education session

July 14 | 9:00 AM - 10:30 AM | Session 1

July 21 | 9:00 AM - 10:30 AM | Session 2



Featuring:

Kimberley Morgan, CPM
Director of Property Management
Stream Realty Partners

Brought to you in partnership by:



Continuing Education

- Licensed Agent/Broker must be present during the entire presentation
- Exam to given at end of presentation to ensure participation
- Have your Real Estate License # ready to enter at the end of the presentation
- 1 hour of TREC Continuing Education
- Course Number: 39585
- Building Owners and Managers Association of Austin - #10409

“How to Budget in a COVID World”



Kimberley Morgan, CPM®

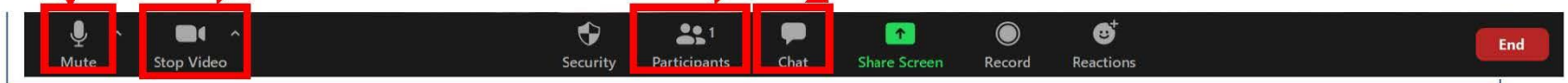
Zoom Meeting Protocols

Keep audio on **mute** when not speaking

To speak, use **Raise Hand** and wait for Presenter to call on you

Keep **video** on so we can see you

To submit questions or comments use **Chat** and select "Everyone; select (Host) to send provide message to Presenter



Pre-Course Announcement

**YOU MUST PARTICIPATE
AND HAVE FUN!**

WORKING SMART VS WORKING HARD





Purpose of the Seminar

- ✓ Discuss how COVI-19 has effected property management to date
- ✓ Enhance knowledge of the property management budget creation and administration process
- ✓ Define and clarify financial oversight concepts specific to commercial real estate properties
- ✓ Discuss how COVID-19 can effect the budget process and how we operate our properties effectively

What does a budget DO?



What Budgets Do:

- Meet requirements to “have a budget” (throw some numbers on a page)
- Show financial profile of the property for income and expenses
- Conform to ownership specifications for format and content
- Provide frame of reference for performance
- Support the higher level business plan (if one exists)

What Budgets Should Also Do:

- Be the investment property's financial outline for doing business (part of a bigger plan)
- Provide a source document for management activities (latitude for routine operations)
- Provide parameters for projects and special needs
- Answer questions

What Budgets Should Also Do:

- Serve as a guide for daily activities
- Provide detail and direction for management decisions
 - A Budget is a PLAN – not written in stone



Budget “Characteristics”

Fulfills management needs to:

- Define actions
- Establish timing
- Support the property’s strategic or management plan (if it exists)
- Document operational requirements (a dynamic “to do” list of activities to accomplish)
- Define costs – “How well?” is the challenge



Budget “Characteristics”

All things to all users -

Provides information, detail, and back-up material in simple, easy-to-understand form which may be used by accountants, senior managers, and senior corporate personnel as well as engineers and clerical staff.

OPERATING BUDGET



Types of Budgets

- Operations Budgets
 - Address day-to-day activities of a property; subject to specific timing, scope, and financial limitations.
 - Assumptions – More than just guesses
 - BUT WAIT – THERE'S MORE!

CAPITAL BUDGET



Types of Budgets

- Capital Budgets
 - Address projects and construction which add value to the premises or exceed financial limitations set for the operations budget



Budgets from different perspectives



INVESTORS AND OWNERS



Investors and Owners

- Request outline of the overall financial plan
- Is Ownership looking to sell
- They want you to maintain, improve or a little of both
- Look for value enhancement opportunities
- Manage properties as components of a portfolio
- Need to show positive performance



REAL ESTATE BROKERS



Budgets from different perspectives

- Real Estate Brokers and Analysts
 - Basis for comparison to similar properties
 - Source of information concerning operating efficiency or benchmark comparisons
 - Use operating expenses for leasing criteria - determination of rental rates
 - Source document to establish pro forma projections (for income producing real estate)

PROPERTY MANAGEMENT

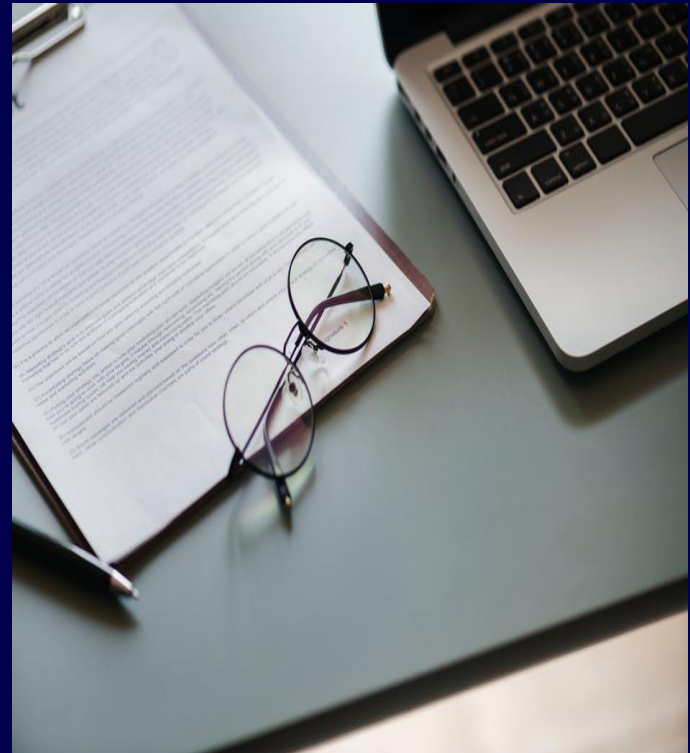


Budgets from different perspectives

- Property Managers/Teams
 - Primary planning document
 - Outline for management activities
 - Source of project justification
 - Delineation of functional authority (Operations vs Capital)
 - Historical resource for forecasting

Budgets as Performance Indicators

- Variance reports
- Income Statements
- Sample Chart of Accounts



Variance Report

515 Congress Garage
Variance Report
March 31, 2018
Location 21078100
Contract Type: MANAGED

Description	Current Activity	Current Budget	Current Variance	% Variance	Variance Explanation
Monthly Inc - Parking	\$ 105,782.65	\$ 80,655.80	\$ 25,126.85	31.15%	Favorable variance primarily due to actual billing being \$15K more than the 2018 budgeted amount as well as Clouders paying their April invoice via ACH in March which was around \$12K. Unfavorable variance due to having to limit visitor parking in order to leave space for our monthly parkers.
Paystation Revenue	\$ 9,163.27	\$ 12,831.24	\$ (3,667.97)	-28.59%	
Validation	\$ 15,238.17	\$ 12,790.99	\$ 2,447.18	19.13%	Favorable variance is due to collection on some A/R. Current billing for March was \$11K which was slightly under the 2018 budgeted amount due to limited space for visitor parking. Unfavorable variance due to closing the garage down during 903W.
Special Event Income	\$ 1,436.30	\$ 10,416.67	\$ (8,980.37)	-86.21%	
Sales Tax/Surcharge	\$ (9,980.93)	\$ (8,893.59)	\$ (1,087.34)	12.23%	
Total Revenue	\$ 121,639.46	\$ 107,801.11	\$ 13,838.35	12.84%	
Total Wages	\$ 3,928.16	\$ 3,583.95	\$ (344.21)	-9.60%	Unfavorable variance due to extending staffing during the day during 903W to screen and ensure only customers of the building were parking in the garage.
Benefits and Payroll Related	\$ 1,291.68	\$ 1,073.75	\$ (217.93)	-20.30%	
Total Payroll	\$ 5,219.84	\$ 4,657.70	\$ (562.14)	-12.07%	
Operating Supplies	\$ -	\$ 431.25	\$ 431.25	100.00%	Favorable variance due to a glitch where 1/2 of the officers invoices didn't hit in March. It will hit in April, however, we will still be fine year-to-date.
Security Services/Contractors	\$ 990.00	\$ 2,070.00	\$ 1,080.00	52.17%	
Total Operating Expenses	\$ 990.00	\$ 2,501.25	\$ 1,511.25	60.42%	
R&M Services	\$ 1,990.55	\$ 2,249.23	\$ 258.68	11.50%	
Total R & M	\$ 1,990.55	\$ 2,249.23	\$ 258.68	11.50%	
Liability Insurance	\$ 348.00	\$ 348.00	\$ -	0.00%	
Total Liability Insurance	\$ 348.00	\$ 348.00	\$ -	0.00%	
Telephone & Communications	\$ -	\$ 295.50	\$ 295.50	100.00%	
Management Fees	\$ 1,316.20	\$ 1,078.01	\$ (238.19)	-22.10%	
Incentive Mgmt Fees	\$ 3,077.00	\$ 2,780.11	\$ (296.89)	-10.68%	
Administrative Services	\$ 275.00	\$ 275.00	\$ -	0.00%	
Lanier Connect	\$ 750.00	\$ 750.00	\$ -	0.00%	
Credit Card Fees	\$ 1,296.05	\$ 1,150.65	\$ (145.40)	-12.64%	
Total Administrative Expenses	\$ 6,714.25	\$ 6,329.27	\$ (384.98)	-6.08%	
Total Expenses	\$ 15,262.64	\$ 16,085.45	\$ 822.81	5.12%	Please see comments above.
Net Income (Loss)	\$ 106,376.82	\$ 91,715.66	\$ 14,661.16	15.99%	Please see comments above.

Income Statement

St. Catherine of Siena Church
Income Statement - Summary With Budgets
For the Two Months Ending August 31, 2009

	<u>Year to Date</u> <u>Actual</u>	<u>Year to Date</u> <u>Budget</u>	<u>Year to Date</u> <u>Variance</u>
Operating Revenue			
Regular Collections	72,422.83	74,146.78	(1,723.95)
Auxiliary Receipts	75.51	150.00	(74.49)
Program Revenue & Other Income	185.74	650.00	(464.26)
Gifts/Donations-Wills/Bequests	61.00	60.00	1.00
Fundraising - Net	0.00	0.00	0.00
Interest & Dividend Income	34.77	34.00	0.77
Rental Income	1,590.00	1,590.00	0.00
Other Operating Revenue	4,981.25	4,600.00	381.25
Total Operating Revenue	79,351.10	81,230.78	(1,879.68)
Operating Expenses			
Salaries & Benefits	53,716.50	54,924.96	(1,208.46)
Property Insurance	1,527.70	1,546.70	(19.00)
Property Taxes	0.00	0.00	0.00
Other Program Expenses	913.74	970.00	(56.26)
Fees & Interest Exp.	606.69	606.69	0.00
Supplies/Expenses	6,518.77	6,446.34	72.43
Rectory Expenses	943.93	1,548.96	(605.03)
Building & Maintenance Exp.	8,507.26	8,612.17	(104.91)
Services/Outsourcing	2,665.62	2,646.62	19.00
Immaculate Conception School Assessment	0.00	0.00	0.00
Other Operating Expenses	4,132.82	3,666.47	466.35
Purchase Discounts-Operating	0.00	0.00	0.00
Donations/Gifts Other Entities	0.00	500.00	(500.00)
Total Operating Expenses	79,533.03	81,468.91	(1,935.88)
Net Operating Revenue (Loss)	(181.93)	(238.13)	56.20
Non-Operating Revenue			
Capital Fund Income	70,936.97	0.00	70,936.97
Parish Share - PIF Campaign	828.58	0.00	828.58
Total Non-Operating Revenue	71,765.55	0.00	71,765.55
Non-Operating Expenses			
Capital Expenditures	83,484.11	0.00	83,484.11
SSCF Parish Plans	200.00	0.00	200.00
Total Non-Operating Expenses	83,684.11	0.00	83,684.11
Net Non-Operating Revenue (Loss)	(11,918.56)	0.00	(11,918.56)
Total Net Revenue (Loss)	(12,100.49)	(238.13)	(11,862.36)

Sample Chart of Accounts

22000	Income
22100	Office Rent
22200	Parking
22300	Tenant Services
22400	Miscellaneous

42000	Expenses
42100	Cleaning
42200	Repairs and Maintenance
42300	Utilities
42400	Roads & Grounds
42500	Security
42600	Administrative
51000	Real Estate Taxes
61000	Insurance

Net Operating Income

Gross Revenue

-

Operating Expenses

=

Net Operating Income

Budget Preparation Timeline

- When do you start to prepare your annual property budget?
- From due date, back off –
 - 2 wks
 - 60 days
 - 90 days
 - >180 days



Recommendation

Start working on next year's budget even as you are submitting the final draft for this year.



Budget Preparation Timeline

How long does it take? Consider:

- Experience level of author(s)
- Level of detail required
- Availability of historical info
- Friendliness of format (and technology)
- Time available
- Would you believe 3 days?
- NOT THE NORM!



- Have you confirmed you have everything you need?
- What reports do you need?
- What resources do you use to gather information?

[Budget Checklists.xlsx](#)

True or False?

- It is possible to predict the future
- It is necessary to predict the future in order to build a budget
- It is possible to make educated guesses about the future

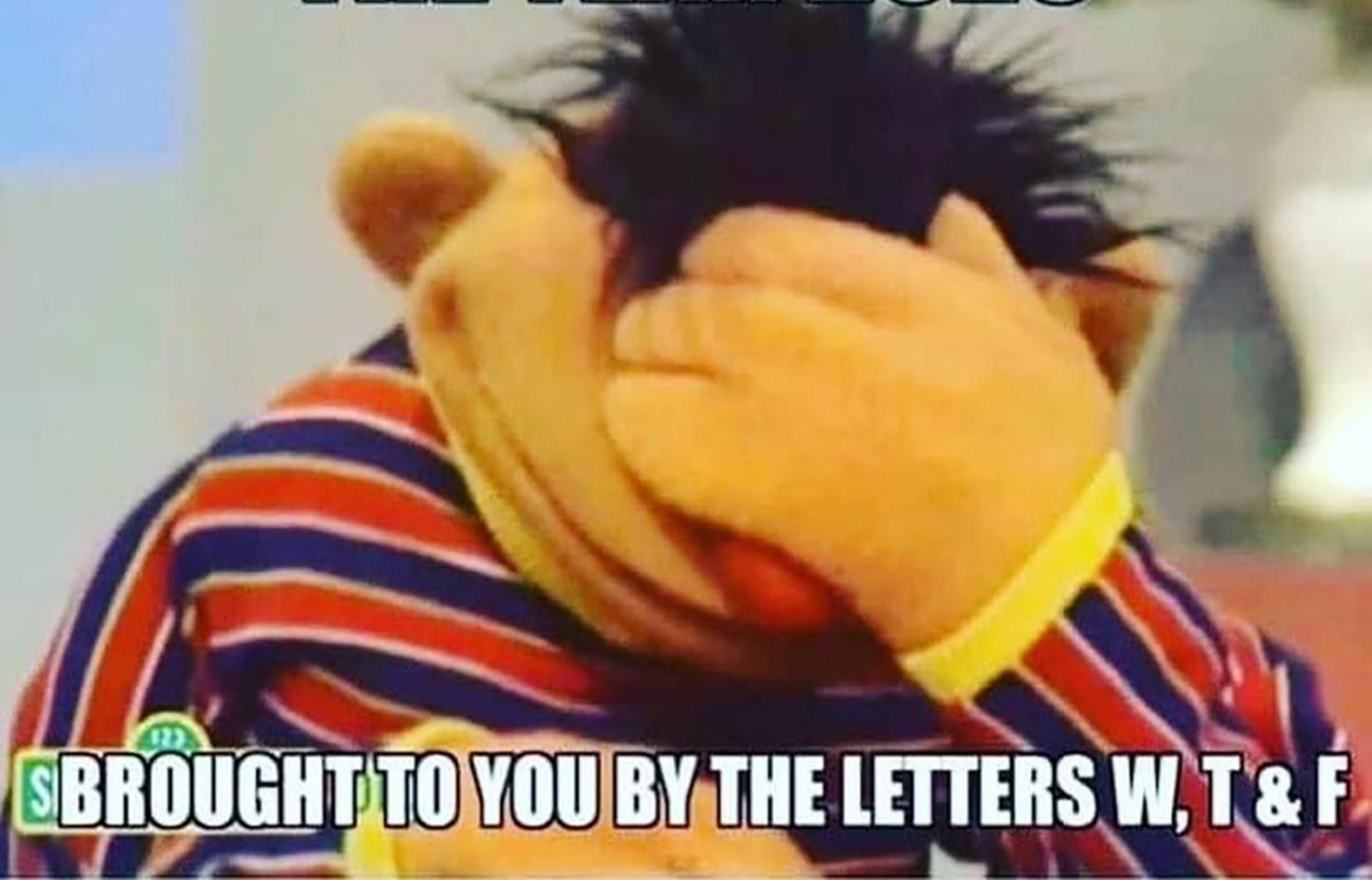


MARTY, WHATEVER HAPPENS



DON'T EVER GO TO 2020

THE YEAR 2020



S BROUGHT TO YOU BY THE LETTERS W, T & F

Rent Collection

- Rent Abatement
- Rent Deferment/Rent Waiver

Rent Collection

- Accepting Checks
- Bank Processing
- Commercial Cafe

Thomas B Anderson
Mary B Anderson
PO BOX 678
2063 Main Street
Anywhere USA 12345-6789

DATE 1/14/14 1001

PAY TO THE ORDER OF Sample Company \$ 200.00
Two hundred + $\frac{00}{100}$ dollars Dollar

MEMO MONTHLY BILL John Sample

⑆ 222370440 ⑆ 123456789123 ⑆ 1001



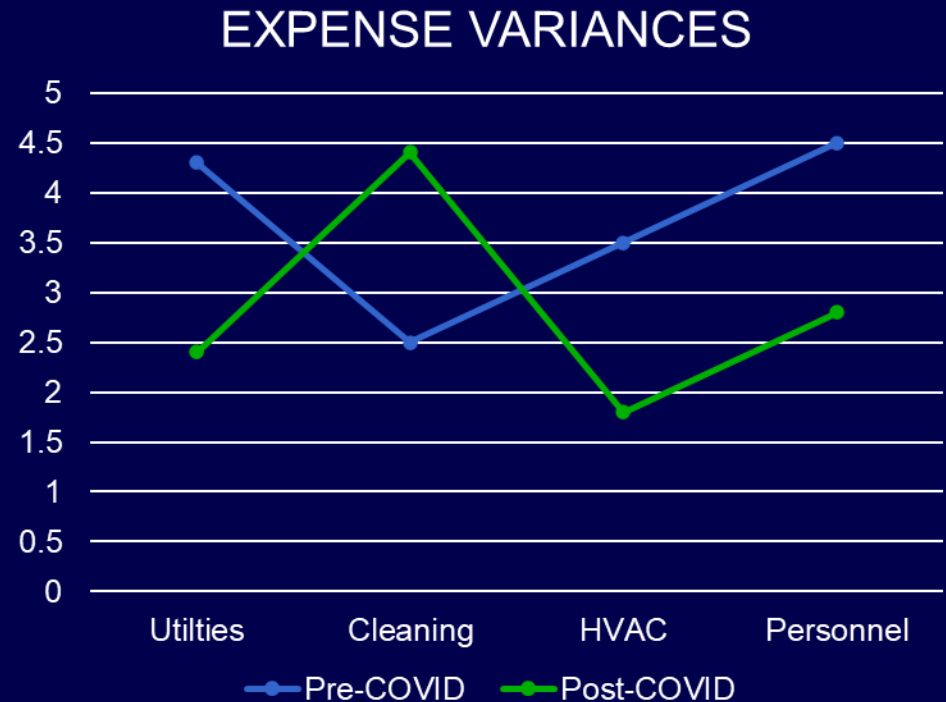
Legalese

- Signage
- Tenant Communication
- Track Rent Relief Request
- Tracking Cases
- Owner Communication



POSSIBLE VARIANCES

- Utilities
- Cleaning
- HVAC
- Personnel



Property Budgeteers who consistently predict the future accurately are known as:

PROGNOSTICATORS

Property Budgeteers who consistently *fail* to predict the future accurately are known as:

UNEMPLOYED

Part II

Welcome

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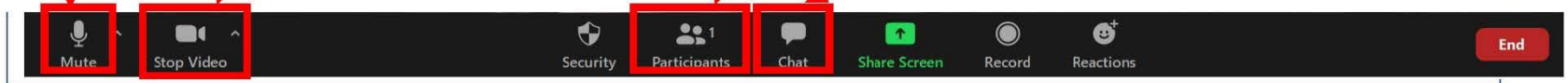
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Will the
Pandemic
Change
How
Properties
are
Valued?



The image features a central word 'TAXES' in a large, black, sans-serif font. Surrounding this word is a dense, overlapping collage of US one-dollar bills. The bills are oriented in various directions, creating a dynamic and textured background. Visible details on the bills include the portrait of George Washington, the green Treasury seal, and various serial numbers such as A89733107B, 733154B, A89733151B, A89733101, A89733108B, A89733132B, A89733105, A89733133B, and 9733153B. The overall composition suggests a connection between money and the concept of taxes.

TAXES

Taxes

- Significant affect on 2021 Values
- New legislation is quoting 3.5% cap
- Due to the pandemic, cities are asking to rewind back to 8% cap

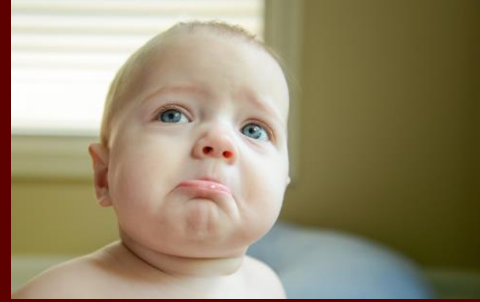
Taxes

- CBD – Projecting 75% occupancy
- East Austin Development – No leases signed
- Office building – 60% of Tenants backed out
- Tenants aren't renewing as leases terminate

PARKING



THE BAD NEWS



- Valet will suffer
- Transient #'s are down 80%-85% of budget
- Tech companies aren't coming back until Jan 1 or later
- Laz laid off 8,000 employees nationwide!
- Budget 65% of capacity 1st Quarter
- 90% by 2nd quarter

THE GOOD NEWS

- Mass transit traveling is going down
- More people are purchasing cars
- Best hiring market
- Revenues – major tenants are still paying
- 40% oversell – Great deal!
- Thank goodness for Must Takes!
- 40% oversell – Great Deal!



COMMERCIAL *CLEANING*



ENHANCED
SANITIZING & DISINFECTING SCOPE

Please provide additional price per square foot as a possible add on service.

I. TENANT AREAS

Nightly, Tenant Areas – Sanitize with EPA approved virucide

- Common use tables (conference rooms, breakrooms, entry areas)
- Doorknobs
- Light switches
- Countertops
- Handles

*Workstations/desks not included

II. RESTROOMS

Weekly, Restrooms – Disinfect weekly (in addition to daily sanitizing)

- Weekly Electrostatic Treatment - evenly apply disinfectant solution. An electrical charge is applied to the solution, allowing droplets to wrap conductive surfaces with an effective and even coverage on surfaces.

III. CORRIDORS

Nightly, Corridors - Sanitize with EPA approved virucide

- Common use tables
- Doorknobs
- Light switches
- Countertops
- Handles
- Elevator buttons
- Stairwell rails

IV. GENERAL CLEANING - LOBBY

Nightly, Lobby - Sanitize with EPA approved virucide

- Common use tables
- Doorknobs
- Light switches
- Countertops
- Handles
- Elevator buttons
- Stairwell rails

V. GENERAL CLEANING - ELEVATORS

Nightly, Elevators - Sanitize with EPA approved virucide

- Handles
- Elevator buttons
- Rails

ELECTROSTATIC DISINFECTION

As guidelines are released for re-entry, enhanced sanitation and disinfection, where appropriate and necessary, will be important to your property and tenants. To help streamline those efforts below is a fee schedule for electrostatic disinfection services as an add on per cleanable square foot at various frequencies.



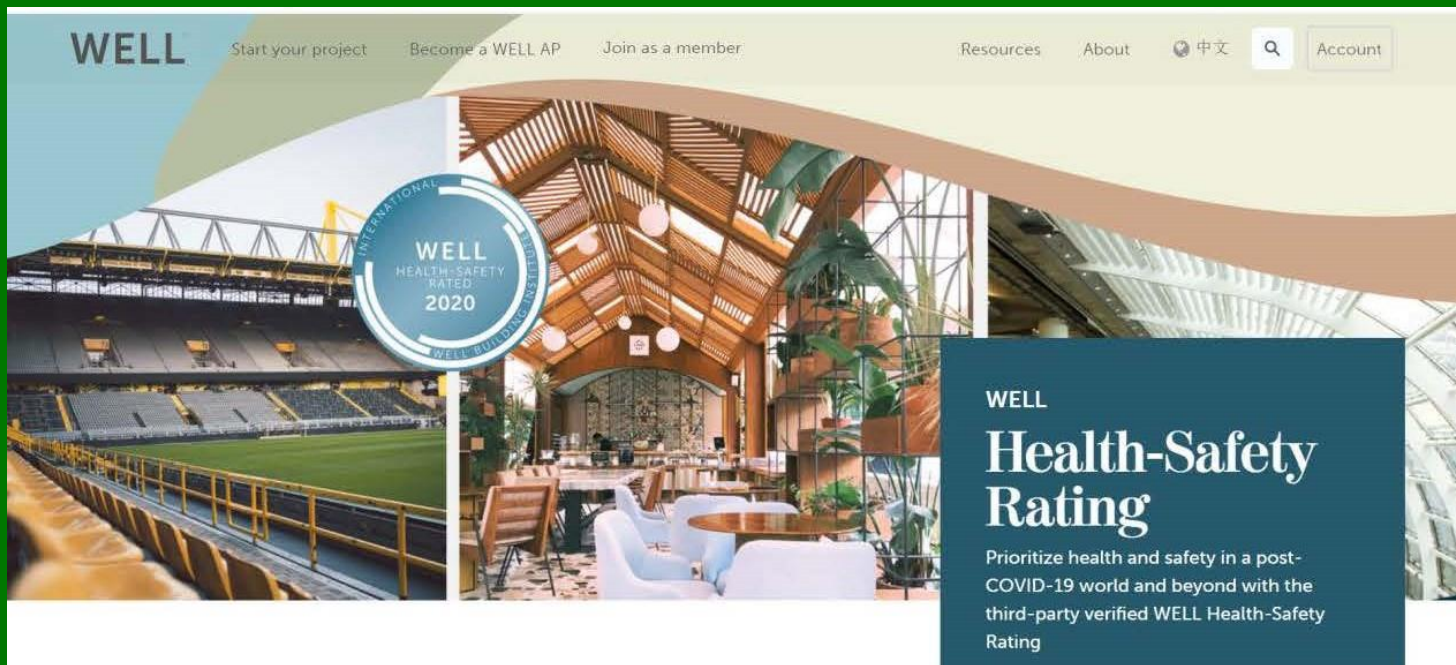
ELECTROSTATIC SPRAY DISINFECTION

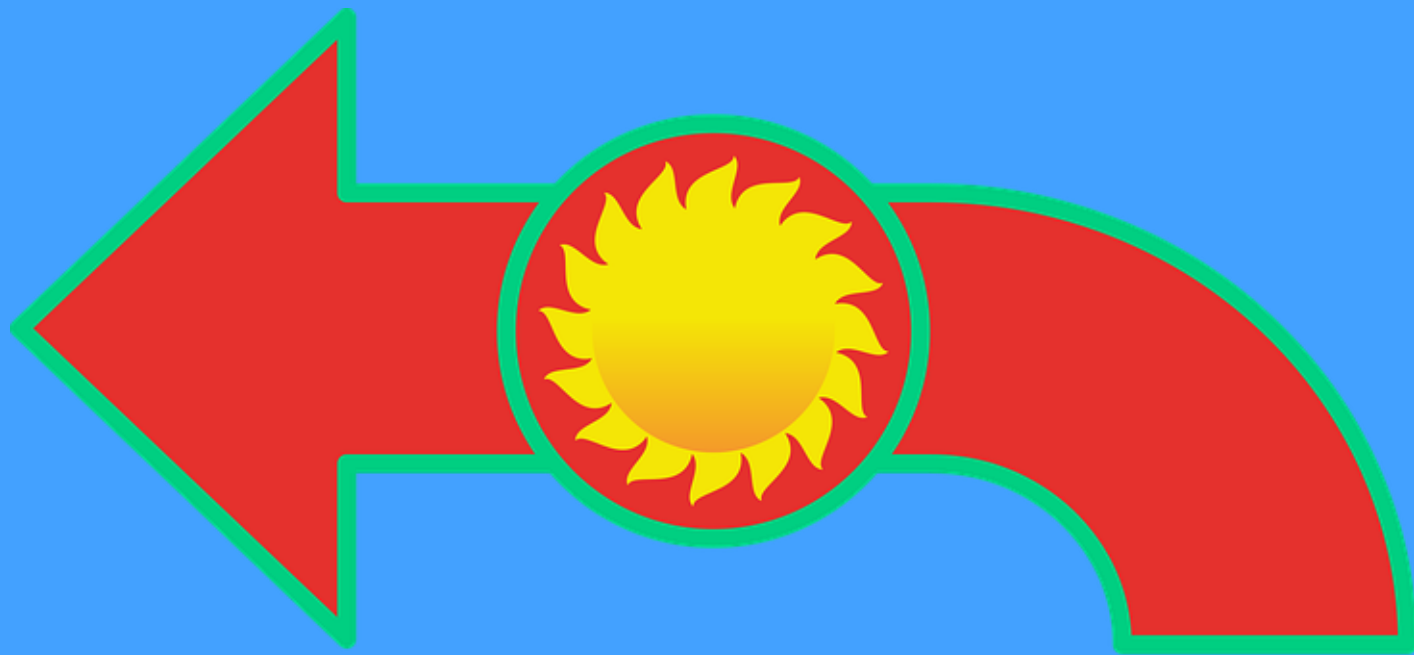
Professional cordless electrostatic sprayer is used to evenly apply disinfectant solution. An electrical charge is applied to the solution, allowing droplets to wrap conductive surfaces with an effective and even coverage on surfaces.

-  **Single Treatment - \$.06** (.065 w/tax included) per square foot
❖ \$519.00 (\$561.82 w/tax included) minimum
-  **Biweekly Treatment, 25% Discount - \$.045** per treatment, per square foot
❖ Billed per month: $$.045 \times 2 = \text{\$}.09$ (.0974 w/tax included) per cleanable square foot
-  **Weekly Treatment, 50% Discount - \$.03** per treatment, per square foot
❖ Billed per month: $$.03 \times 4 = \text{\$}.12$ (.129 w/tax included) per cleanable square foot
-  **Daily Treatment, 70% Discount - \$.018** per treatment, per square foot
❖ Billed per month: $$.018 \times 21.67 = \text{\$}.39$ (\$.42 w/tax included) per cleanable square foot

For example - 10,000 square feet would be billed as:

Biweekly - $$.09 \times 10,000 = \text{\$}900$ (\$974.25 w/tax included) per month
Weekly - $$.12 \times 10,000 = \text{\$}1,200$ (\$1,299.00 w/tax included) per month
Daily - $$.39 \times 10,000 = \text{\$}3,900$ (\$4,221.75 w/tax included) per month





EVALUATE YOUR SYSTEM

- Outside Air
- HVAC UVC
- Upgrade Filters
- Cleaning Air Ducts
- Ashrae recommendations

TENANT EVENT



Event Ideas

- Teach a workshop
- Interview an industry influencer
- Embrace your Martha Stewart
- Allow each tenant to present their business
- Puzzle Hour
- Teach a Yoga, Dance, or Art Class
- Baby Pictures

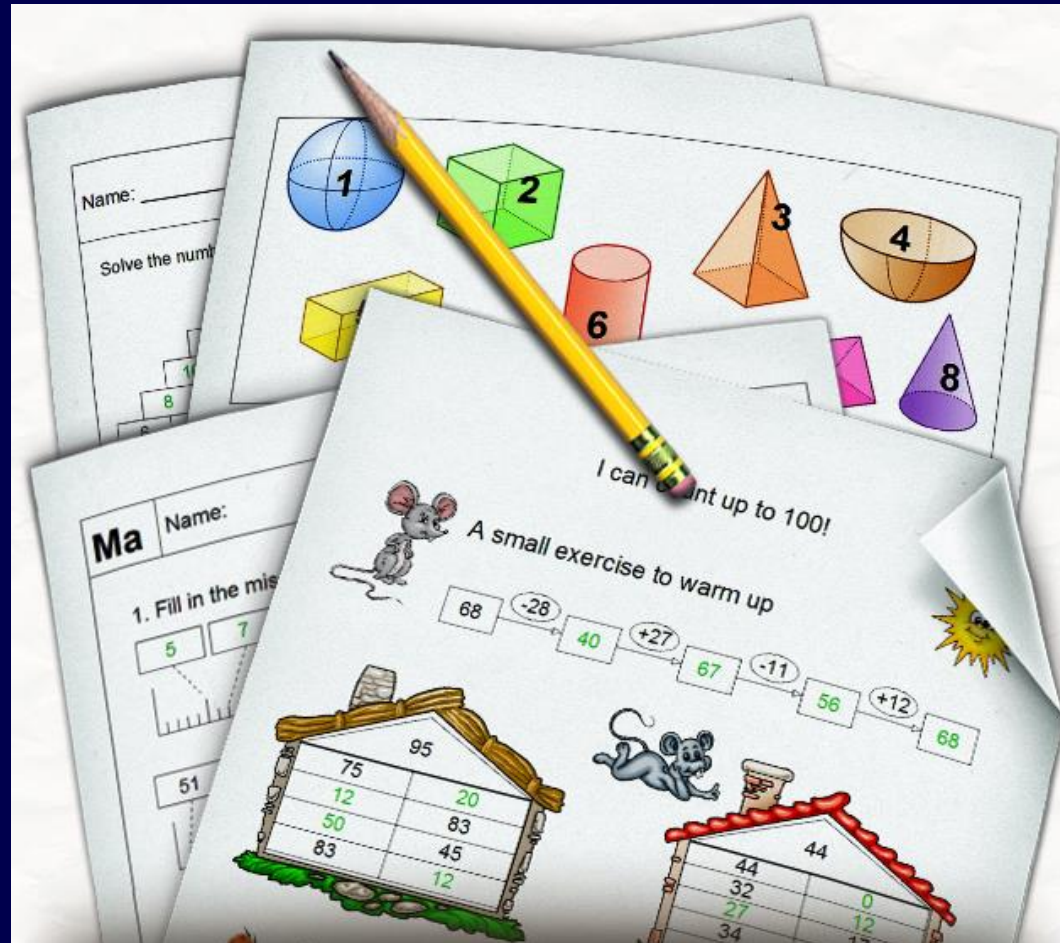
VIRTUAL TOURS



SO HOW DO WE BUDGET

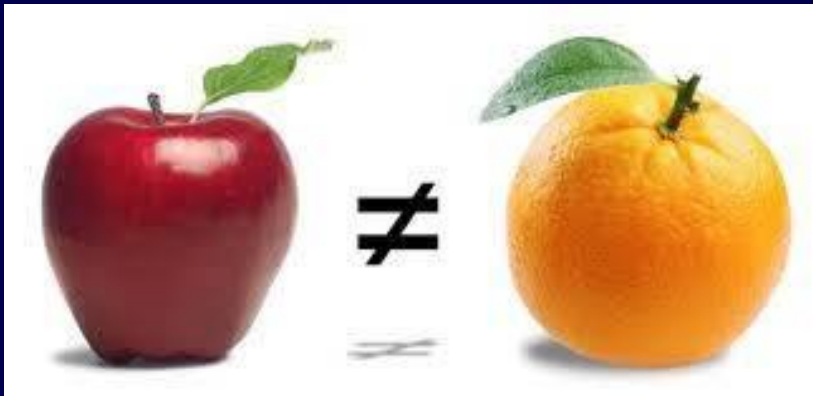


Where do we get “Good” numbers?

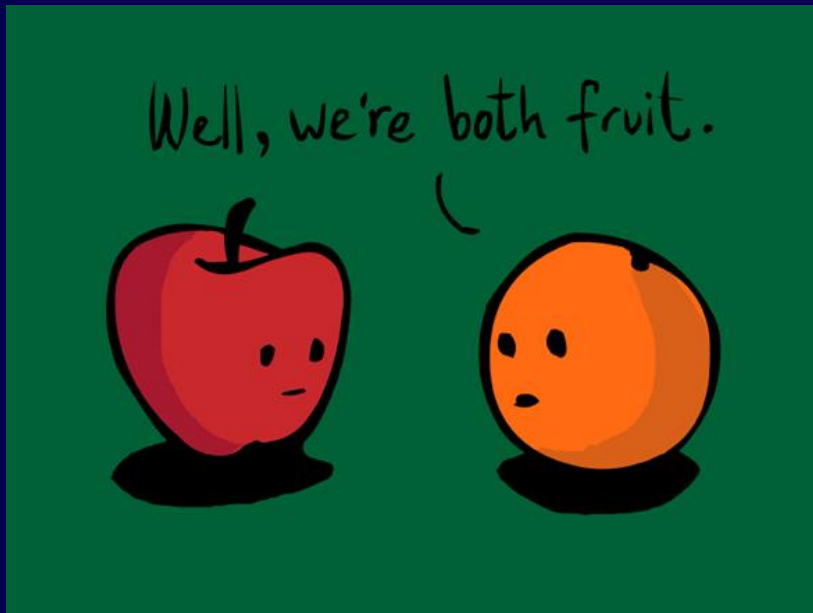


Where do we get “Good” numbers?

- Bids
 - Great source of information, but requires purification of bid specs:
 - Ensuring that all bidders are basing their estimates on the same information
 - Performance standards are clearly articulated
 - Adequate time is allowed for estimation
- Fast, cheap and good
 - Choose any 2 of the above



It's Hard to Compare
Apples-to-Apples
when you don't know what an apple should be...



Where do we get “Good” numbers?

- Dependable Resources

- Budgets for similar buildings
- Industry publications
- Industry associations
 - IREM income/expense analysis
 - BOMA experience exchange



Resource Publication:

- IREM Income/Expense Analysis
 - Established in 1955 as a survey of 200 apartment communities
 - Supplemented with suburban office building operations in 1976
 - In 1982, office building study expanded to include downtown properties
 - Shopping Center publication added in 1991
 - Published annually for 65 years

Resource Publication:

- BOMA Experience Exchange Report
 - Established in 1920 as the “Final Report of the Accounting and Exchange Committee”
 - Titled: Office Building Investment Analysis, The Experience Exchange For Year 1920
 - Published annually for 100 years

Benchmarking Example:

- | | |
|---------------------|----------------------|
| • My Building | • EER Report |
| – Cleaning - \$.97 | – Cleaning - \$ 1.07 |
| – Utilities - 1.85 | – Utilities - 1.73 |
| – Security - .46 | – Security - .52 |
| • Total \$3.28 | • Total \$3.32 |

Value and Shortcomings of the Benchmarking Process:

- Purpose is “to gauge and measure”
- If you can do it, then I can do it!
- “Similar” is not “Same”
- Age of the information when you receive it



Documenting quantified amounts with resource identification and references will add both power and persuasion to your final budget document AND your ability to present and defend it against all challenges and questions!

Mathematical Calculations

- Provides the method by which each line item is justified, timed, computed, and then funneled into the line item spreadsheet
- If assumptions are used, they are stated in this section, with source data or references provided



Organizing Backup Information

- “Because the boss told me to”, or “The Asset Manager made me do it”
- Citation of memos or conversations with dates may also serve as official sources



Exhibits & Photographs

Exhibits and photos serve to provide additional (occasionally compelling) evidence to justify commitment of resources when we need to go above and beyond other backup provided.



Control of the Presentation

Order of Information

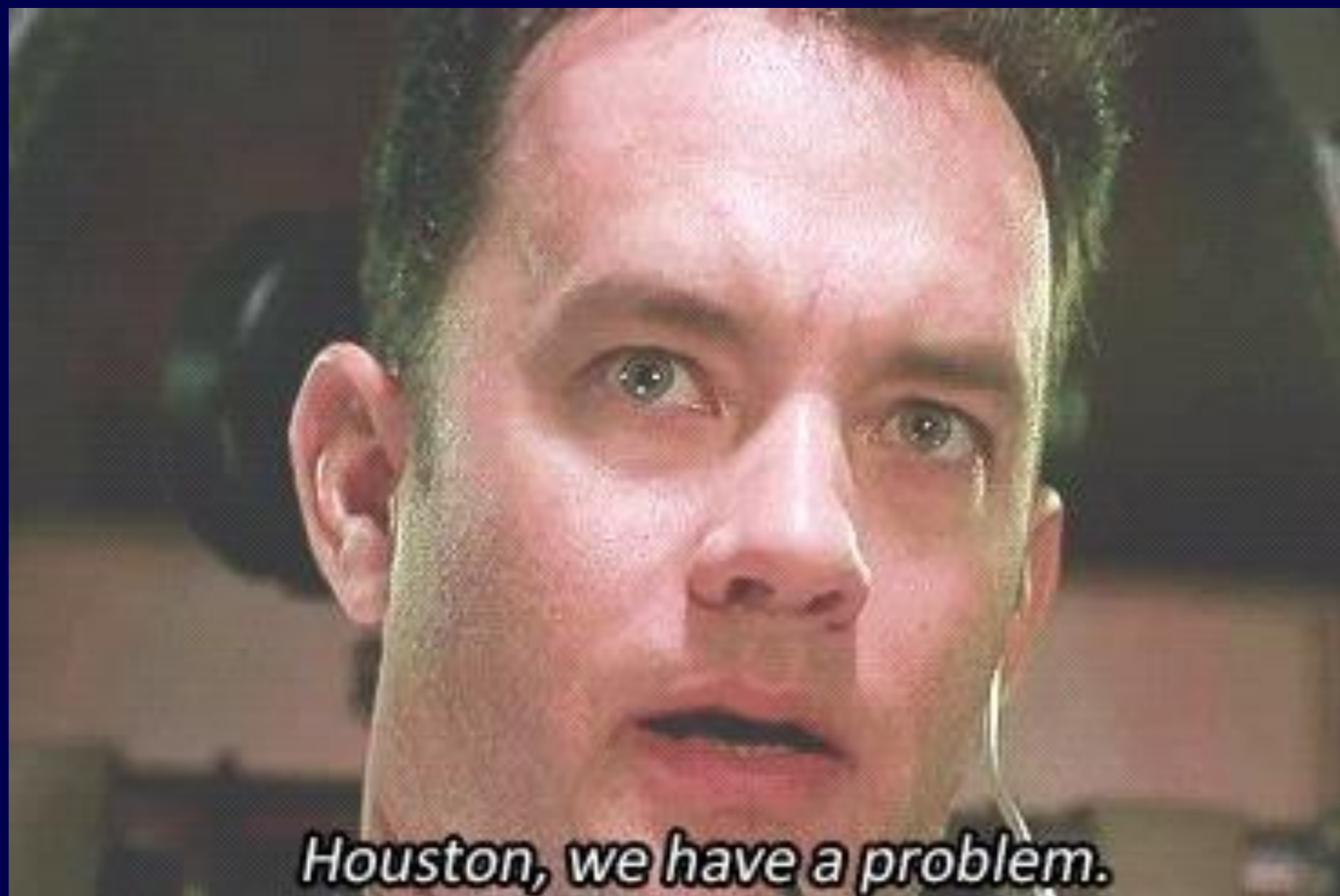
Arrange in advance to be allowed to conduct the budget brief. Whether or not the reviewer receives a copy of the budget in advance, you will want to brief in your own sequence at your own pace.

(It costs nothing to ask)

Control of the Presentation

Order of Information

- Recommendations:
 - Time permitting, brief each line item delineated on the budget spreadsheet in sequence. A natural progression is created by addressing any income or anticipated departmental chargeback estimates first, then expenses. All major sections will be touched. Note significant variances from prior years, if applicable.



Houston, we have a problem.

Common Budget Problems

- Inattention to detail (math, typo's, etc...)
- Use of unsubstantiated information or unreliable references
- Failure of budget to support the investment strategy or management plan
- Lack of appropriate exhibits or photos to support assumptions or statements

Common Budget Problems

- Unfamiliarity with major conditions and circumstances affecting the building
- Unrealistic statements and goals
- Failure to document historical (prior years) information for comparison
- Failure to compare expenses to appropriate benchmark data and address significant variances

Common Budget Problems

- Excessively “padding the numbers”
- Budget spreadsheet too small to be easily read by “anyone” looking at the numbers
- Pages are not numbered and dated for reference to most current document





**HELPFUL
TIPS**

Tips for Building an Excellent Budget

- Approach large projects by addressing their lesser included elements separately
- There is no substitute for “homework”
- Use worksheets to improve:
 - Efficiency
 - Accuracy
 - Organization



Tips for Building an Excellent Budget

- Make assumptions; then document and quantify them
- Use back-up data that is reliable and promptly accepted
- Do the math - show your work
- Use the skills and knowledge of others
- Tailor the format for those who will use it
- Organize, rehearse, and control the presentation

Use the budget as
your most important
management tool

Questions



KIMBERLEY MORGAN

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