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Budgeting during periods of high inflation - by Robert Marcus

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Robert Marcus

While on its face, the process of budgeting for condominium and apartment buildings should be simple. First, ascertain the goal of financial planning. Next, interpret and compare historical revenue and expense data. Then, formulate a rough budget to direct the actions towards the objective. Refine the findings to drill down to a final budget. Then prepare and submit a budget report. The budget should be reviewed every thirty days to see if modifications are needed. Review the financial plan from time to time. And then, figure out how to absorb unexpected expenses.

The typical budget process begins later in the year when we have gathered historical data. We take that data and apply a cost-of-living increase typically taken from the CPI Home: U.S. Bureau of Labor Statistics <https://www.bls.gov/cpi/>. We use those figures to project our annual expenses, and based on different financial models, we are able to recommend increases in the monthly condominium fees. We also assemble data for our apartment buildings to provide suggested rental rates. All the while, our objective is to keep the revenue line above the expense line.

Fast forward to today.

Over the past year, I've seen the effects of the increased cost of gas, oil and labor and related ancillary items for residential properties. The slope of the expense line quickly crossed the income line, turning the budget upside down. To correct the budgeting issue for 2022, it was necessary to request a supplemental fee from all unit owners to pay for the increased cost of heating oil.

How will we budget for FY 2023?

In addition to the recommended increase based on the CPI, one suggestion is to create a flexible budget, rather than a fixed budget. During the heating season, when we anticipate expenses to be high, we increase fees. Since fuel is the largest percentage of the overall budget, condominium fees are raised in proportion to the increased expense during heating season to accommodate the high cost of fuel.

I do not anticipate near term relief for fuel cost because of what's happening in the world economy, but I do believe that with thoughtful planning and budgeting, both condominium associations and apartment building owners, will benefit from improved bottom lines by proactively planning for the high cost of fuel.

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