



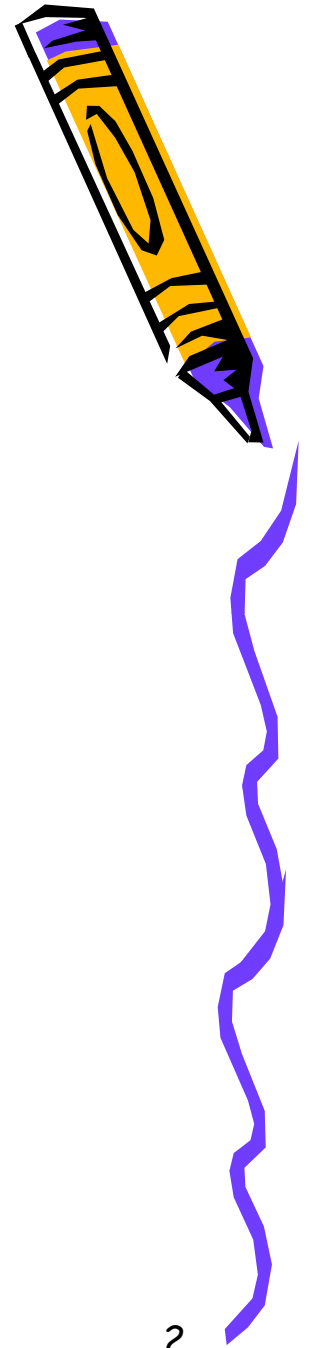
# BUDGETING 4 ENGINEERS

Don Tait CPM<sup>®</sup>, RPA, FMA

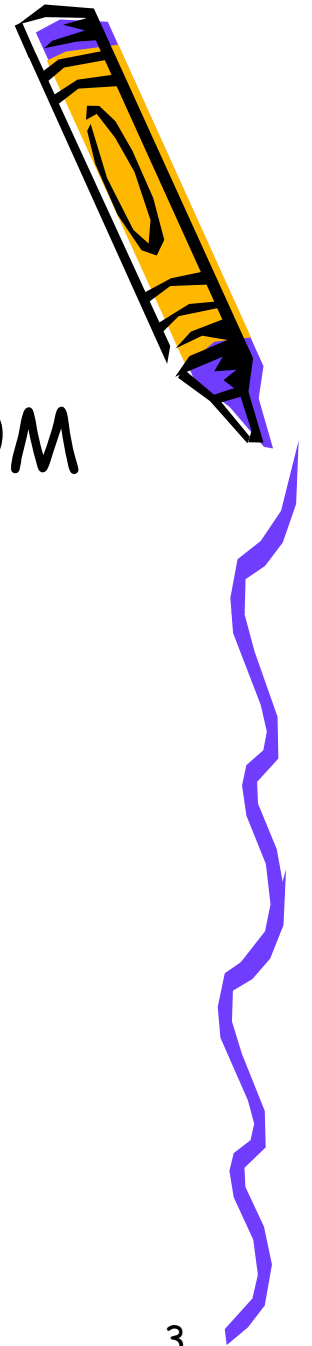


# BUDGETING 4 ENGINEERS

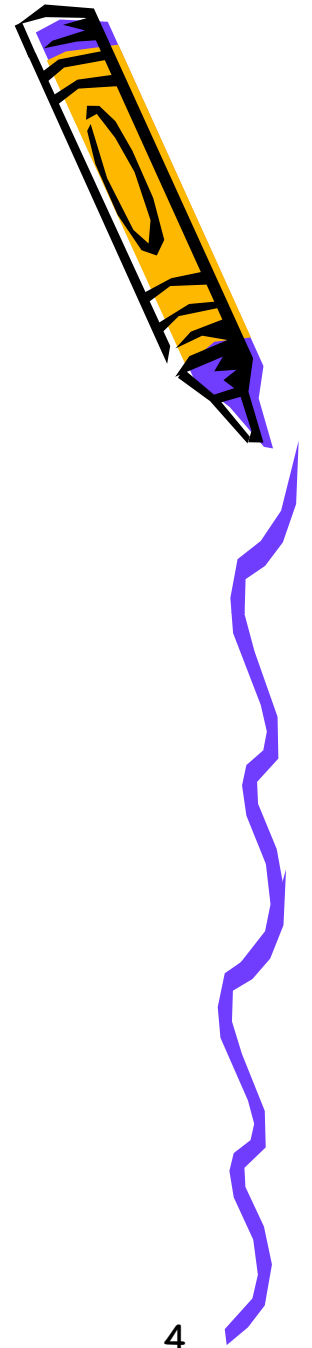
- DEFINITION
- THE FORMULA
  - Income
  - Expenses
  - NOI
  - Debt Service
  - Capital Expenditures
  - Cash Flow



- ENGINEERS' AFFECT ON BOTTOM LINE
- CAPITAL EXPENSES
  - Definition & Determination
- GENERAL BUDGETING CONSIDERATIONS

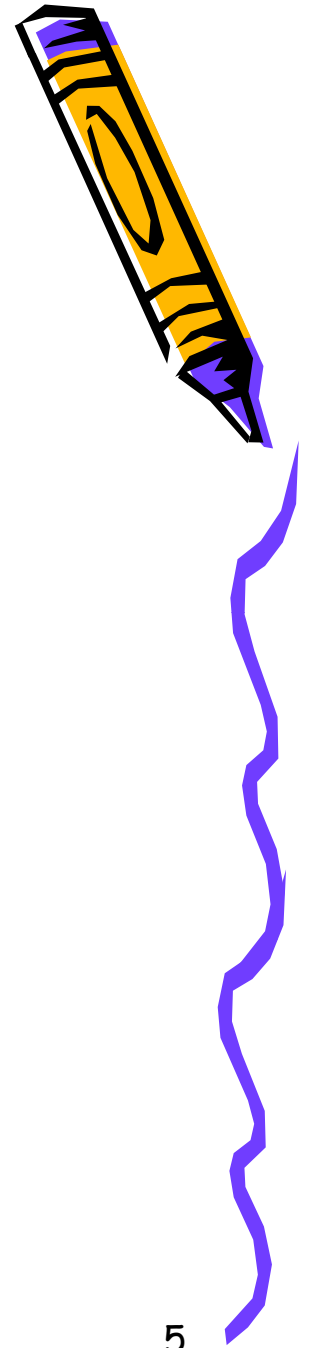
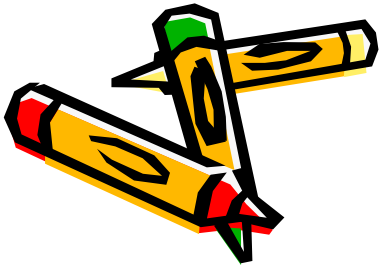


- THE EER
- CPI INDEX
- LEASE & SERVICE CONTRACT ABSTRACTS
- TCAD & PROPERTY TAXES
- GLOSSARY OF TERMS



# BUDGETING

The process of planning for the coordination of income and expenses



## THE Real Estate Formula

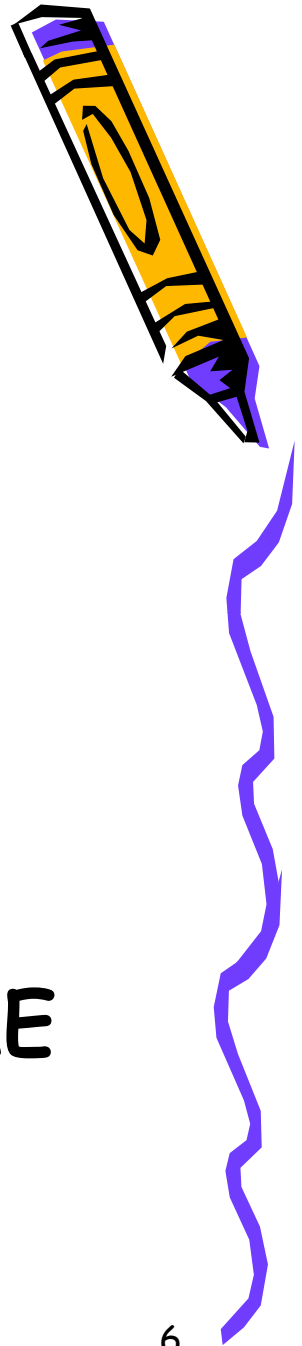
TOTAL INCOME

Less: Vacancy & Credit Loss

Equals: Effective Gross Income

Less: Operating Expenses

Equals: NET OPERATING INCOME



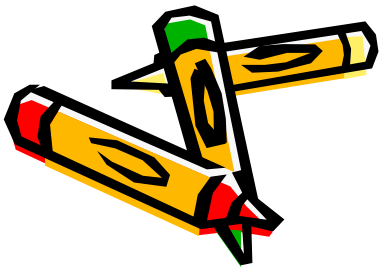


**NET OPERATING INCOME**

**Less: Capital Items**

**Less: Debt Service**

**Equals: CASH FLOW**



# INCOME

Base rent

Operating Expense Reimbursement

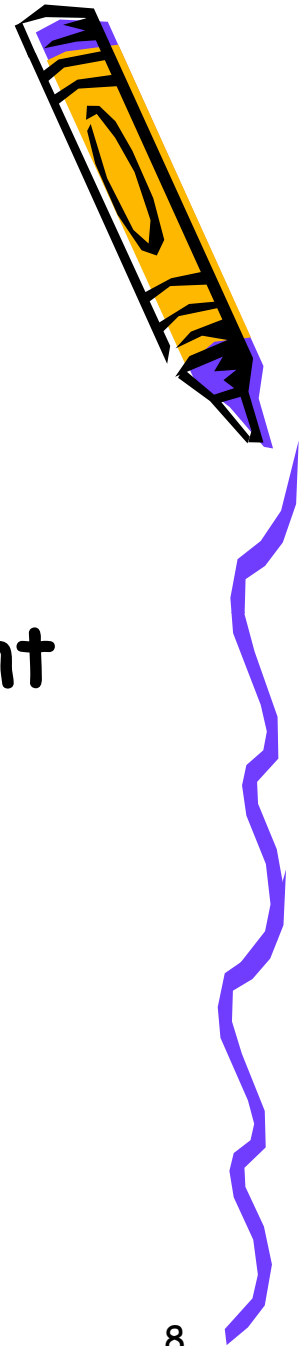
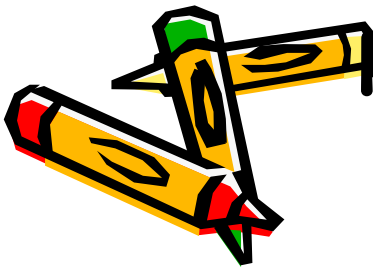
Parking Income

Miscellaneous Income

Vending

Tenant Services

Roof / Riser Rent



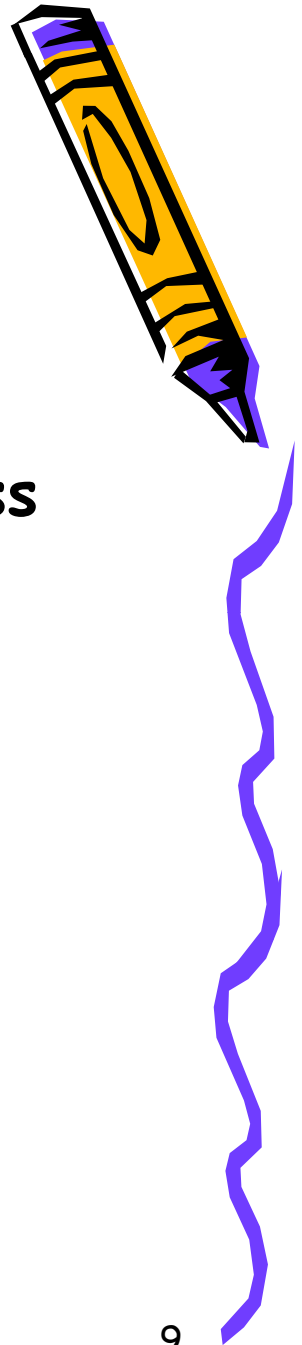
**OPERATING EXPENSE  
REIMBURSEMENT (AKA Escalations, Pass  
Throughs [PTI], Additional Rent, CAM)**

**TYPE OF LEASE determines escalation**

Gross lease

Expense stop lease

NNN lease



GROSS LEASE - Owner pays all expenses

EXPENSE STOP LEASE - Owner pays up to amount of stop. Base Year - Year in which lease signed

TRIPLE NET LEASE (NNN) - Tenant pays prorata share of ALL expenses

Taxes (Net) Insurance (Net)  
Maintenance (Net)



# KEY COMPONENTS OF EXPENSES

## Ad Valorem taxes

Assessed value

Mill rate

Actual tax



Determine rate per square foot for your  
bldg.

## Utilities

Energy charge

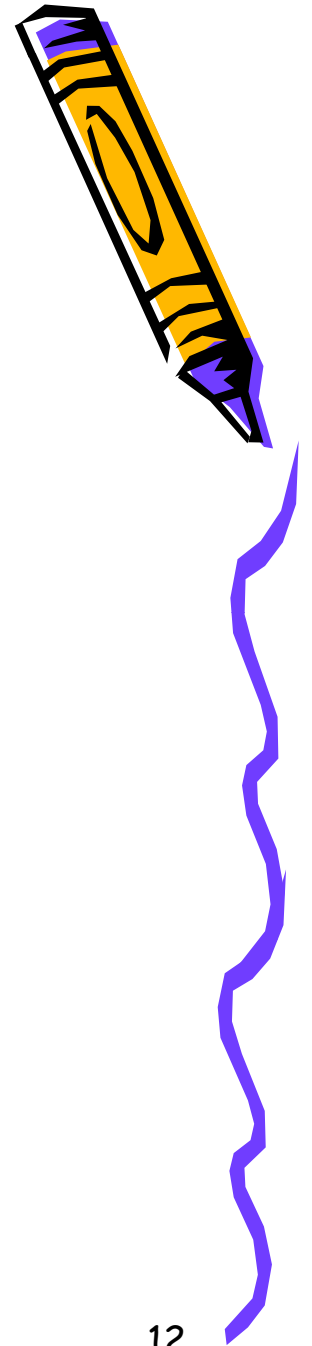
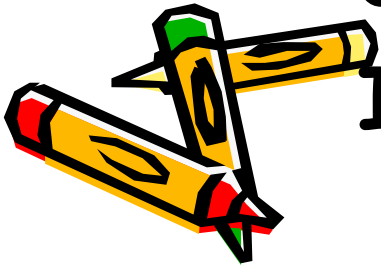
Fuel charge

Demand charge

## HVAC Operations

Contract

In-house



# CONTROLLABLE EXPENSES

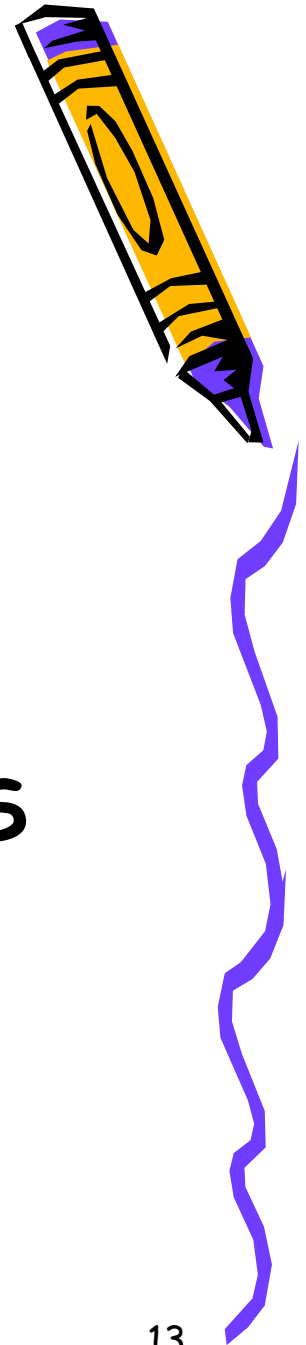
Contract services

# NON-CONTROLLABLE EXPENSES

Taxes

Insurance

Utilities



# NET OPERATING INCOME (NOI)

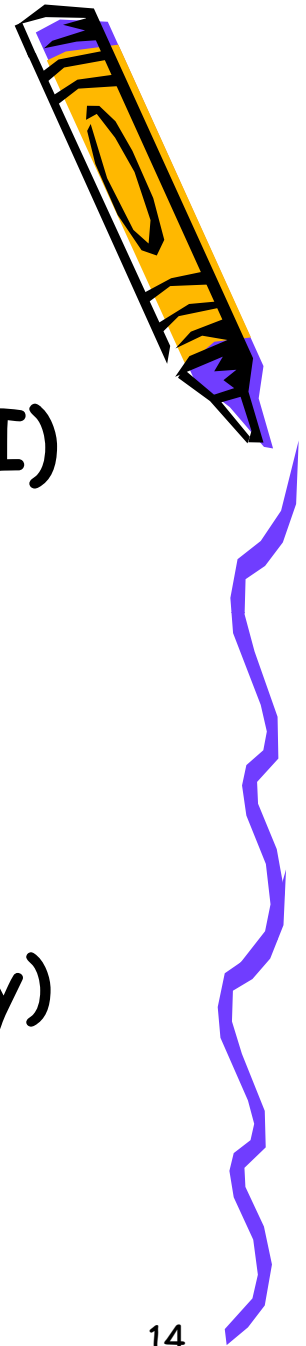
## ESTIMATING VALUE

Formula

Income (NOI)

Rate (Capitalization rate)

Value (Estimated value of property)

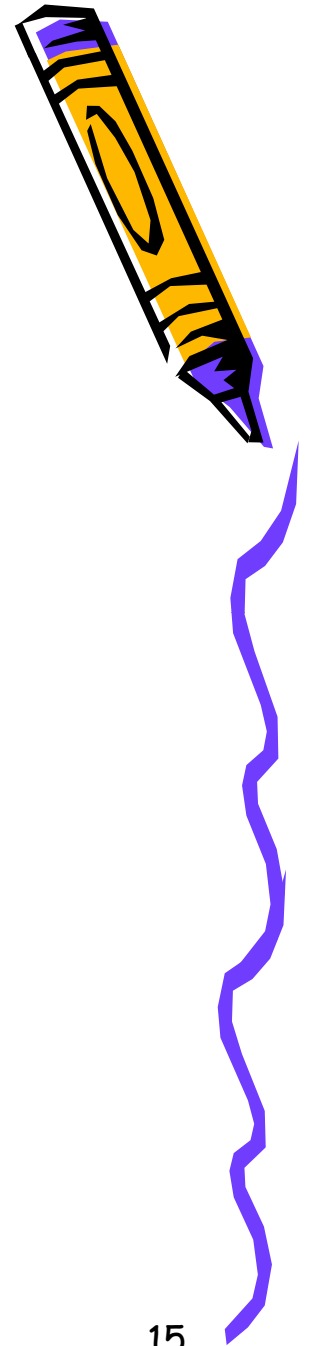
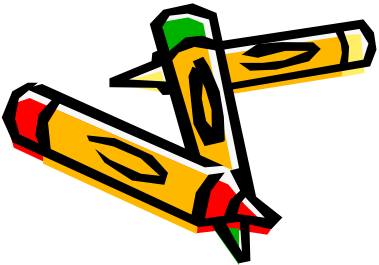


# The Formula

$$I / R = V$$

$$I / V = R$$

$$I = V \times R$$

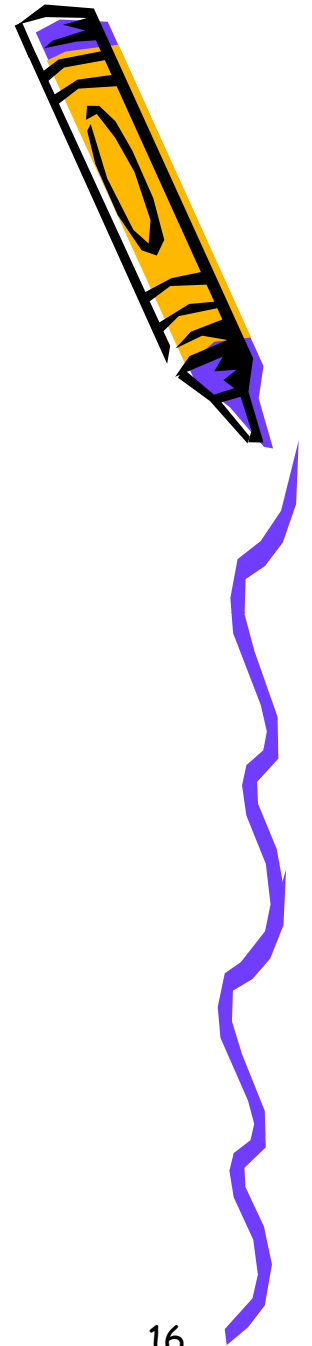
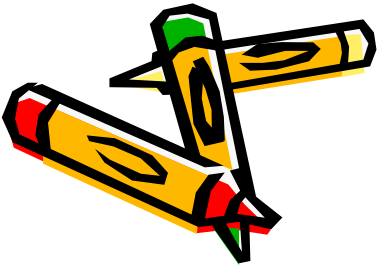


# HOW DO WE AFFECT VALUE? (HOW DO WE INCREASE NOI?)

Increase income

Reduce expenses

Increase/decrease in NOI =  
Increase/decrease in VALUE





Which is more effective?

"Mr. Owner, I saved \$1,000 per month on the HVAC contract this year." OR

"Mr. Owner, I saved \$12,000 annually on the HVAC contract."  
OR

 "Mr. Owner, I increased the value of your investment by \$120,000."

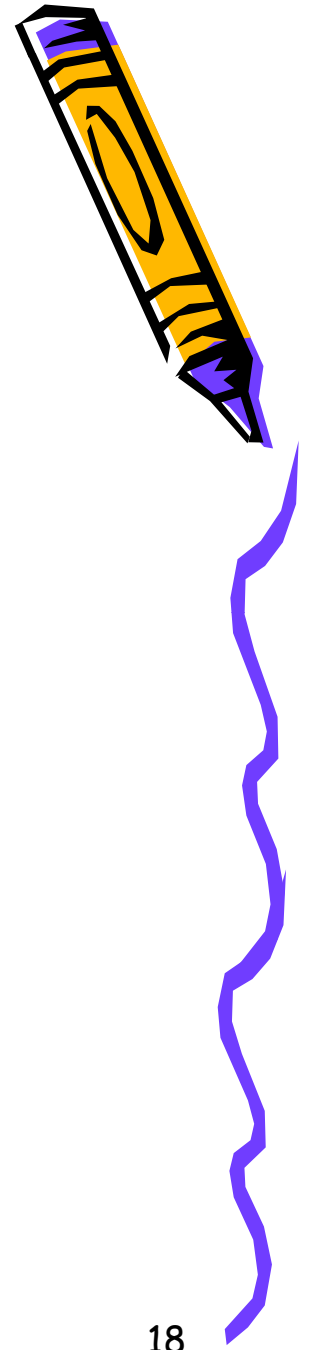
# HOW DO YOU INCREASE INCOME?

Raise base rent

Step rents, rent bumps

CPI increases

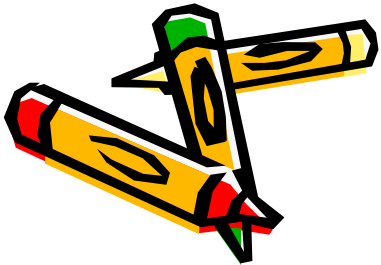
Gross up expenses



# HOW DO YOU DECREASE EXPENSES?

Negotiate agreements fairly.  
Make/Treat vendors as partners.  
Read invoices thoroughly-match to agreements.

**NO SURPRISES!!!!!!!!!!!!!!!**



## DEBT SERVICE

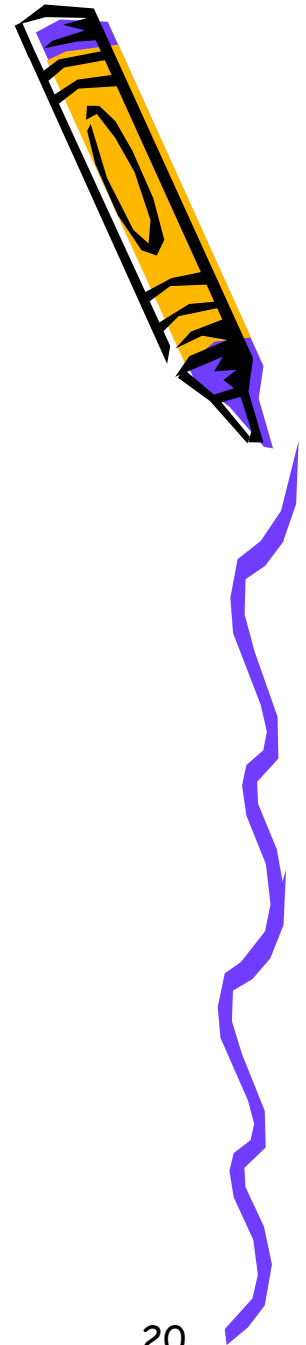
Principal & Interest repayment of loan

## CAPITAL EXPENDITURES

Leasing commissions

Tenant improvements

Major replacements - Extend life of asset

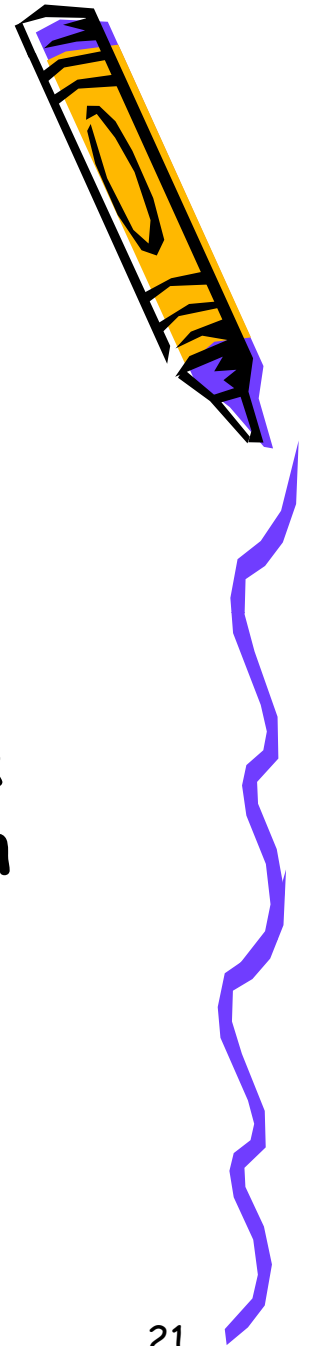


# CAPITALIZE VS. EXPENSE

Subjective - Owner/CPA decision

Timing of expenditure (year end & beginning of next) = Mgr. Decision

Partial vs. complete replacement



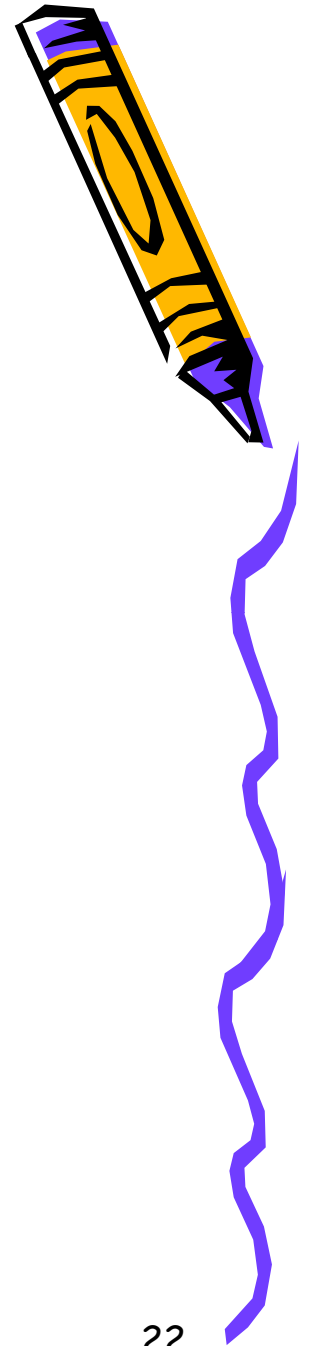
## **CAPITALIZE:**

**Depreciation**

**Life of the improvement**

**Leasehold improvements - 30%,  
39 years**

**Not subject to pass through  
Owner's objectives**



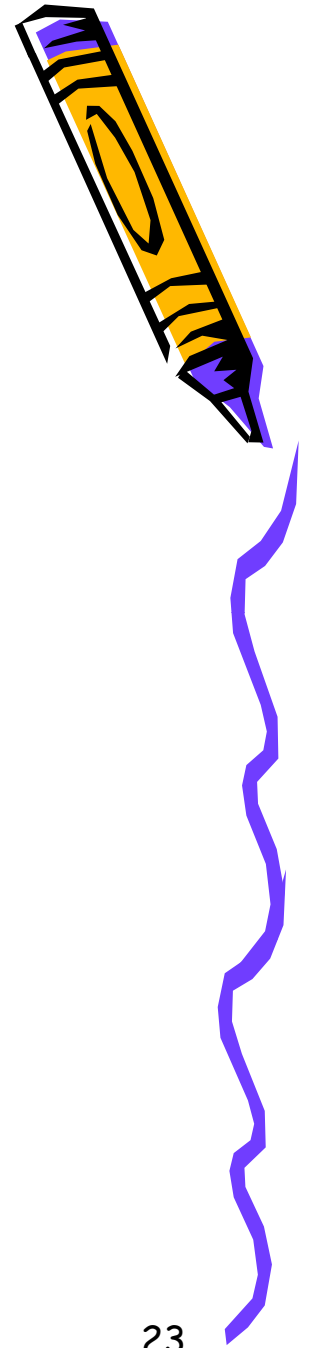
## EXPENSE:

"Above the line"

Passed through to tenants

Must be defensible in face of  
tenant audit

Owner's objectives

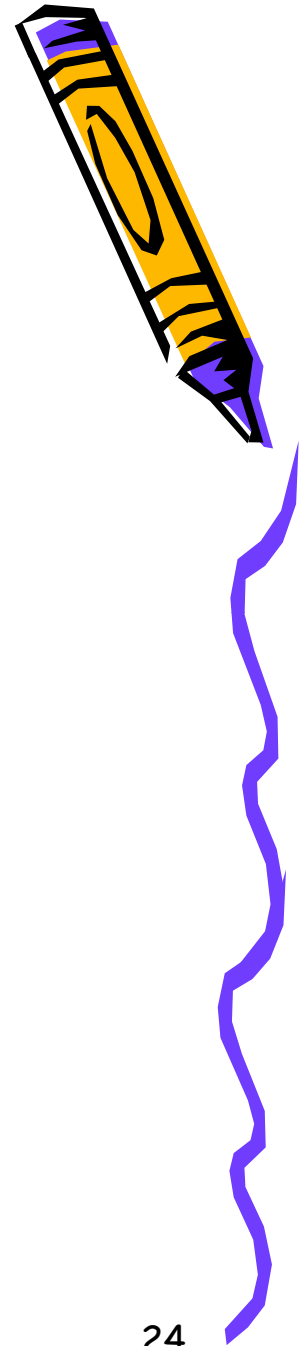


# OWNER'S OBJECTIVES

**Long vs. short term hold**

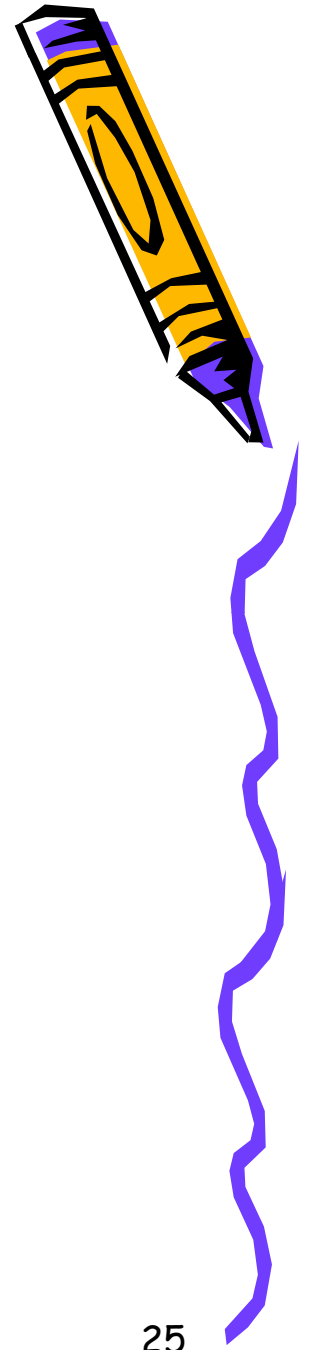
**Long: Invest now to save \$ on operations**

**Short: No investment, increase NOI for pending/near-term sale**



# GENERAL BUDGETING CONSIDERATIONS

Confirm sales tax  
Mid-year price increases  
Overtime/holiday wages  
Consider the ENTIRE process



## Annual Fire Criteria Inspection Cost:

COA/AFD fee(s)

Elevator test/inspection

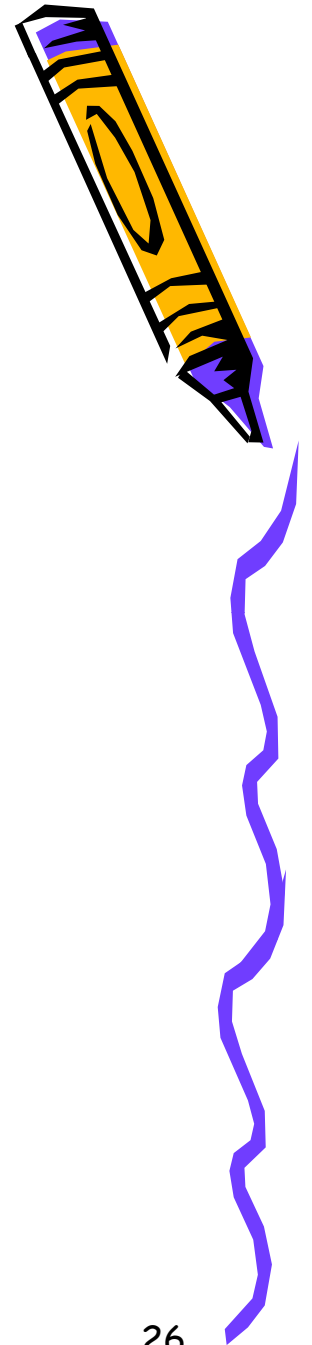
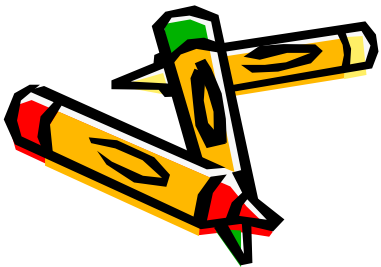
Generator test/inspection

Fire panel test/inspection

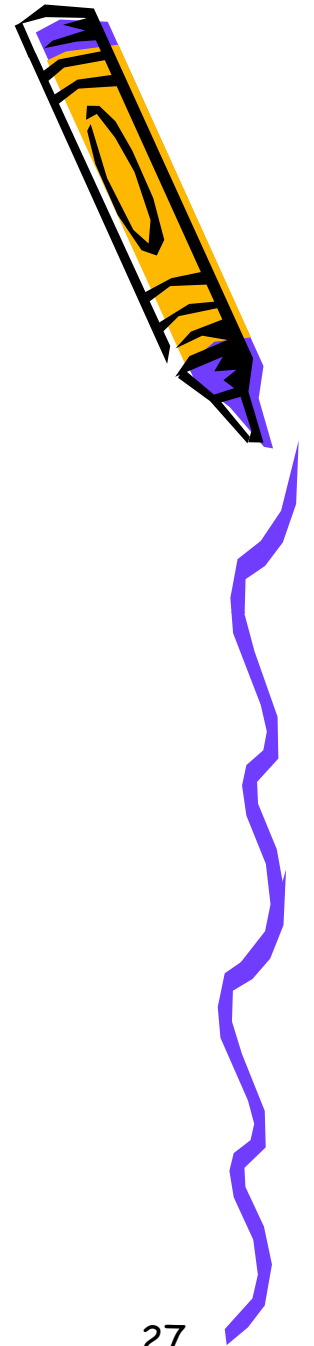
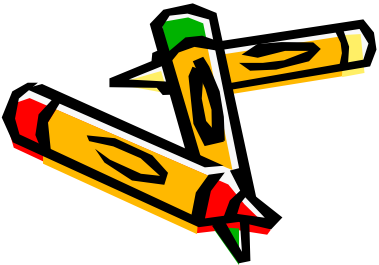
Peripherals

Extinguishers

Standpipes



Fire pump  
Sprinklers  
Stairwell pressurization  
Fire hydrants  
Overtime pay  
(Extra) building personnel



## QEI Inspections

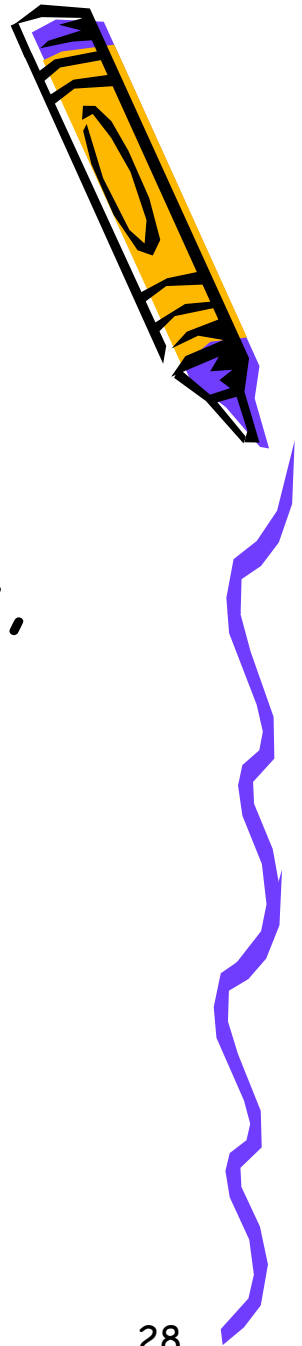
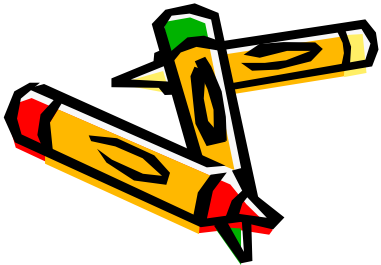
Inspector's fee

TDLR licensing fee - waiver, delay,  
late (60 days)

Compliance repairs

Are fees per cab or per building?

Any difference for hydraulic vs.  
traction?



Schedule annual, quarterly, monthly events

EXACTLY when? Who? Where?

Eddy current test / Infrared survey- electrical/roof

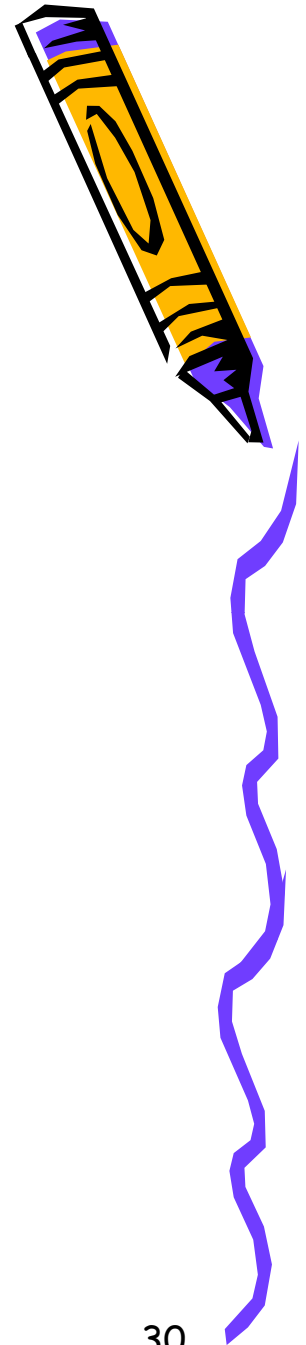
Roof inspection / Window cleaning / Landscape color changes



## INVOICES

Correct entity & service address  
Description of product / service  
Can the 'ol property manager  
understand what you bought?  
Can boss explain it to superior?

***NO SURPRISES!!!!***

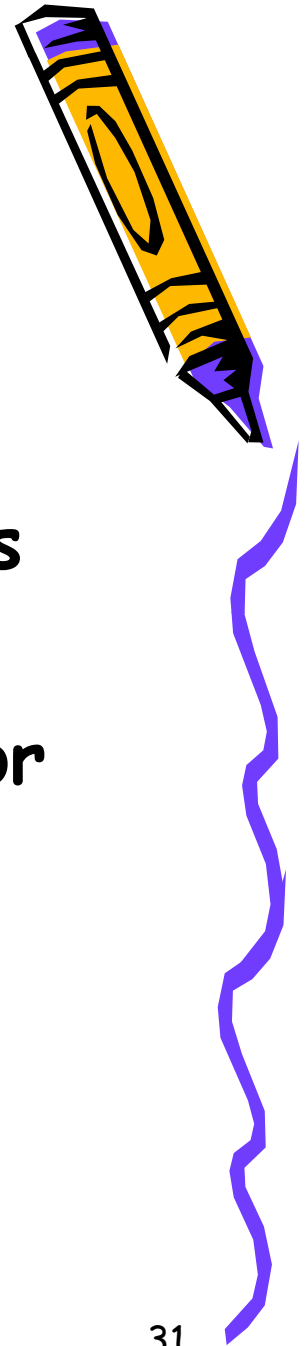
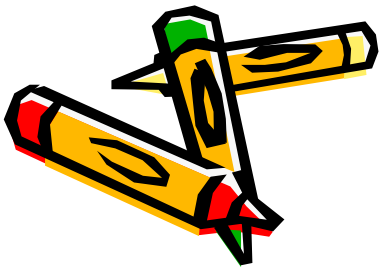


## VARIANCE EXPLANATION

Details, dates, description, dollars  
in budget

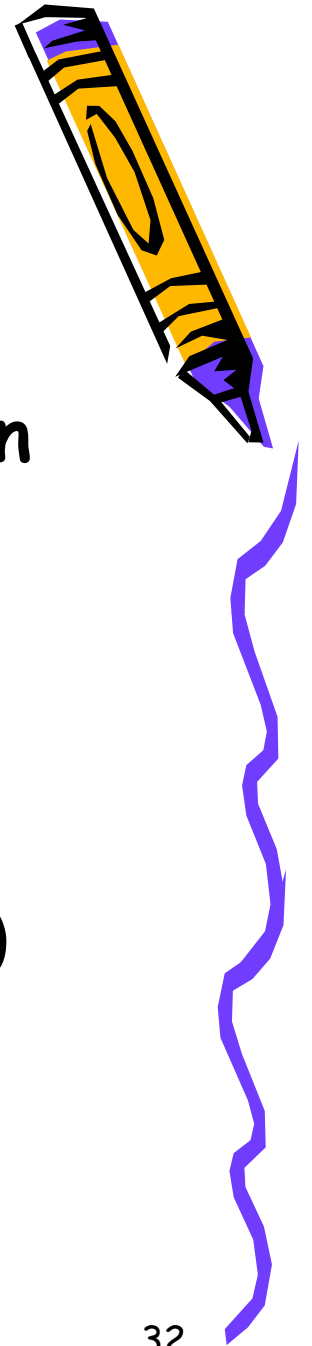
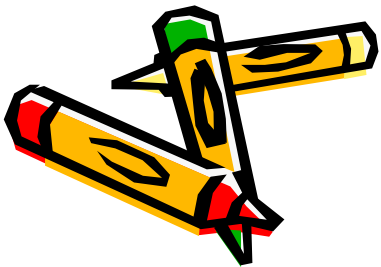
Avoid timing variance, surprises, or  
make conscious decision & tell  
Manager.

MAKE YOUR SUPERIOR SMART

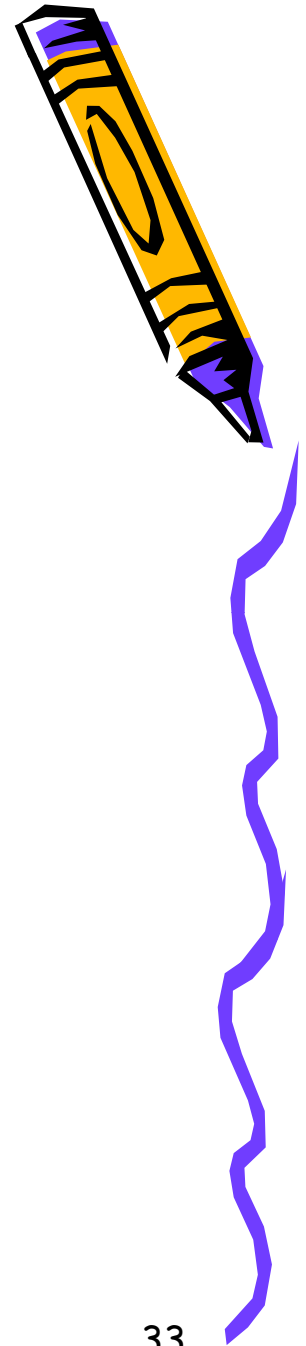


How do you know your expenses are in line with the market, industry standards?

ASK you peers, comparable bldgs.  
Experience Exchange Report (EER)



**QUESTIONS  
AND  
(HOPEFULLY SOME)  
ANSWERS**



A PROBLEM WELL STATED, IS A  
PROBLEM HALF SOLVED.

[SUBORDINATES] ARE LIKELY TO  
LIVE UP TO WHAT YOU BELIEVE  
OF THEM.





What is the problem?

What is the cause of the problem?

What are three solutions to the problem - one doesn't cost anything?

What is **YOUR** recommendation?

Answer all before going to your boss!

