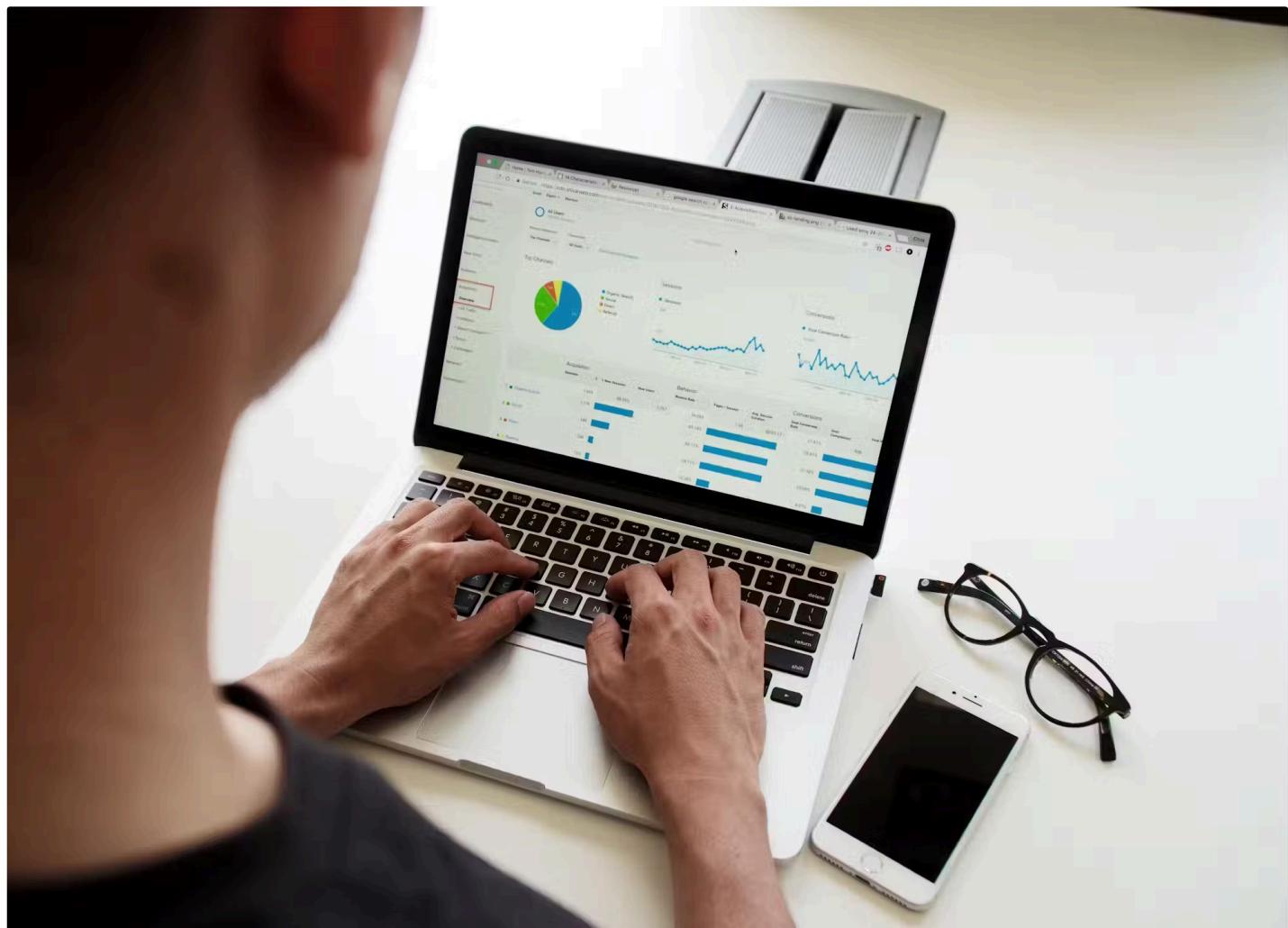


# What is the Step-By-Step Process of CAM Budgeting?

As a commercial real estate owner or property manager, you likely encounter common area maintenance, or CAM, frequently. You have probably heard terms like CAM charges, CAM reconciliation, various [types of net leases](#), and more. With so much information, handling CAM processes can feel intimidating, leaving you unsure where to start.

The first step to making sure that CAM goes smoothly all year, every year, is to master CAM budgeting. Below, we'll break down the budgeting process in simple steps to set you on the path to success.



# What is CAM?

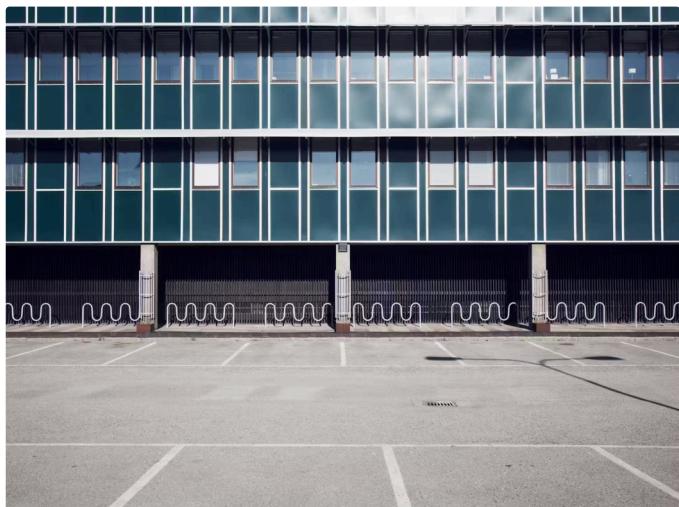
Common area maintenance (CAM) charges or fees are the expenses that all tenants of a building share to pay for the upkeep of common spaces on the property. Examples include:

- Lobbies
- Parking lots
- Elevators
- Landscaping
- And more

The exact list will vary from building to building and lease to lease.



Tenants usually contribute to CAM expenses based on the amount of space they lease in the building, their pro-rata share. Each year, landlords estimate how much they will incur in CAM fees and spread those charges out monthly for tenants. Then, at the end of the year, they must compare their estimation with how much they actually spent. This is called CAM reconciliation, and it determines if the tenant owes extra to the landlord, or if the landlord must reimburse the tenant.



# What is CAM Budgeting and Why is It Important?

CAM budgeting is the estimation part of this process. Budgeting involves reviewing budgets and actual expenses from past years, factoring in inflation and market costs, considering renovations and repairs, and even trying to predict unpredictable expenses.

While it's unlikely that your CAM budget will always be perfect, it's crucial to strive for precision. Take a look at a few of the major reasons that an accurate budget is important.



## Understanding Operating Costs

Reviewing and planning your expenses each year gives you a clear and detailed understanding of what your property needs. This information allows you to catch cash flow issues, plan better for big expenses like renovation, and create a tighter, more profitable budget each year.



## Building Trust With Tenants

Having a well-planned budget allows tenants to see exactly where the money you charge them goes, building trust in the process. A more accurate budget will result also in fewer bonus charges to your tenants at the end of the year. Otherwise, landlords may discover that they have not received full payment in the past, leaving them in the awkward position of invoicing tenants for past CAM expenses or taking a financial loss.



## Profitability for All Parties

Budgeting well means that everyone pays their fair share to keep the property in good condition. By avoiding overcharging tenants, or taking on unnecessary costs as the owner, you improve profitability for everyone. This creates additional cash flow that can be put towards business growth.



# Step-by-Step CAM Budgeting Process

How do you create a strong CAM budget? The secret is that budgeting isn't a once-a-year chore. It's a constant process of tracking financial data and analyzing it to find improvements. This guide takes you through each phase in CAM budgeting:

## Find Historical Data

Review past budgets and actual expenses to identify trends and establish baselines.

## Categorize Expenses

Properly classify costs as reimbursable vs. non-reimbursable and controllable vs. uncontrollable.

## Forecast Annual Costs

Estimate expenses considering inflation, market changes, and planned maintenance.

## Allocate Costs

Distribute expenses among tenants based on their pro-rata share and lease terms.

## Track & Adjust

Monitor actual expenses throughout the year and make necessary adjustments.

## Reconcile

Compare estimated vs. actual expenses and settle differences with tenants.



# Find Historical Data

Analyze your budgets and expenses from previous years. Analysis helps you identify trends for each property and serves as a good starting point for estimations. Be sure to take note of any specific needs for each property (snow removal, renovation, etc.) and to account for any outliers, such as unexpected damage.



## Review Past Budgets

Examine previous years' budgets to establish baseline expectations for each expense category.

## Analyze Actual Expenses

Compare budgeted amounts to what was actually spent to identify areas of consistent over or under-budgeting.

## Note Property-Specific Needs

Account for unique requirements of each property such as seasonal maintenance or planned renovations.

## Identify Outliers

Recognize one-time expenses that shouldn't influence future budgets, such as emergency repairs from unexpected damage.

# Properly Categorize Expenses

must pay for. This clarity helps avoid disputes and makes future planning easier. There are a few different ways to categorize expenses. As an owner or property manager, the most important distinction is reimbursable vs. non-reimbursable expenses.



## Reimbursable Expenses:

Costs that the landlord can pass onto tenants, such as expected repairs.

## Non-reimbursable Expenses:

Costs that the landlord must handle, including market fluctuations.

It's very important to track reimbursable and non-reimbursable expenses in detail so that you don't miss anything when it's time for CAM reconciliation. The most effective way to do this is by having a thorough, organized chart of accounts. This way, you can clearly see all of your expenses and don't end up overpaying for costs that should be reimbursable.

Another category that appears in some leases is controllable vs. uncontrollable expenses.

## Controllable Expenses

Are relatively predictable and can be managed to some degree. This includes things like maintenance, janitorial services, and repairs.

## Uncontrollable Expenses

Are unpredictable or fluctuate widely. This includes things like unexpected damage and some utilities.

Usually, this distinction appears because tenants want to negotiate a cap on controllable expenses. Controllable expense caps can be limiting for landlords, so it's a good idea to be careful of including controllable and uncontrollable expenses in lease agreements.

# Forecast Annual Costs and Allocate Among Tenants

## Forecast Annual Costs

Using the data you've already collected, it's time to make an estimate. Take into account market fluctuations such as inflation rates and changes in utility or labor costs to ensure you don't underestimate. For best results, use a [property management software](#) like STRATAFOLIO that can help you track financial data. Having all this information on hand will make calculations for next year much more straightforward.



## Allocate Costs Among Tenants and Account for CAM Caps

Once you know your total estimation for the year, it's time to spread the costs among tenants. You can calculate their pro-rata, or proportional, shares based on what percentage of the building they rent. Remember to check each lease for special circumstances, as some tenants may negotiate for exceptions from some CAM expenses.

At this point, provide each tenant with a detailed breakdown of their CAM charges. Again, transparency is crucial to building strong relationships and preventing disputes at reconciliation time.

When allocating costs, it's also crucial to be aware of CAM caps. Caps limit the amount of CAM expenses a tenant is responsible for each year, and can be negotiated individually by each tenant, so it's important to know the terms of each lease. Additionally, it's a good idea to plan to spend as close as possible to the cap amount each year. This way, you don't end up taking on extra costs yourself, but can justify where the cap is placed for next year, or even move it higher. If you don't spend enough, tenants may believe the cap is unnecessarily high and push to lower it.

# Track and Adjust Spending & Reconcile On Time

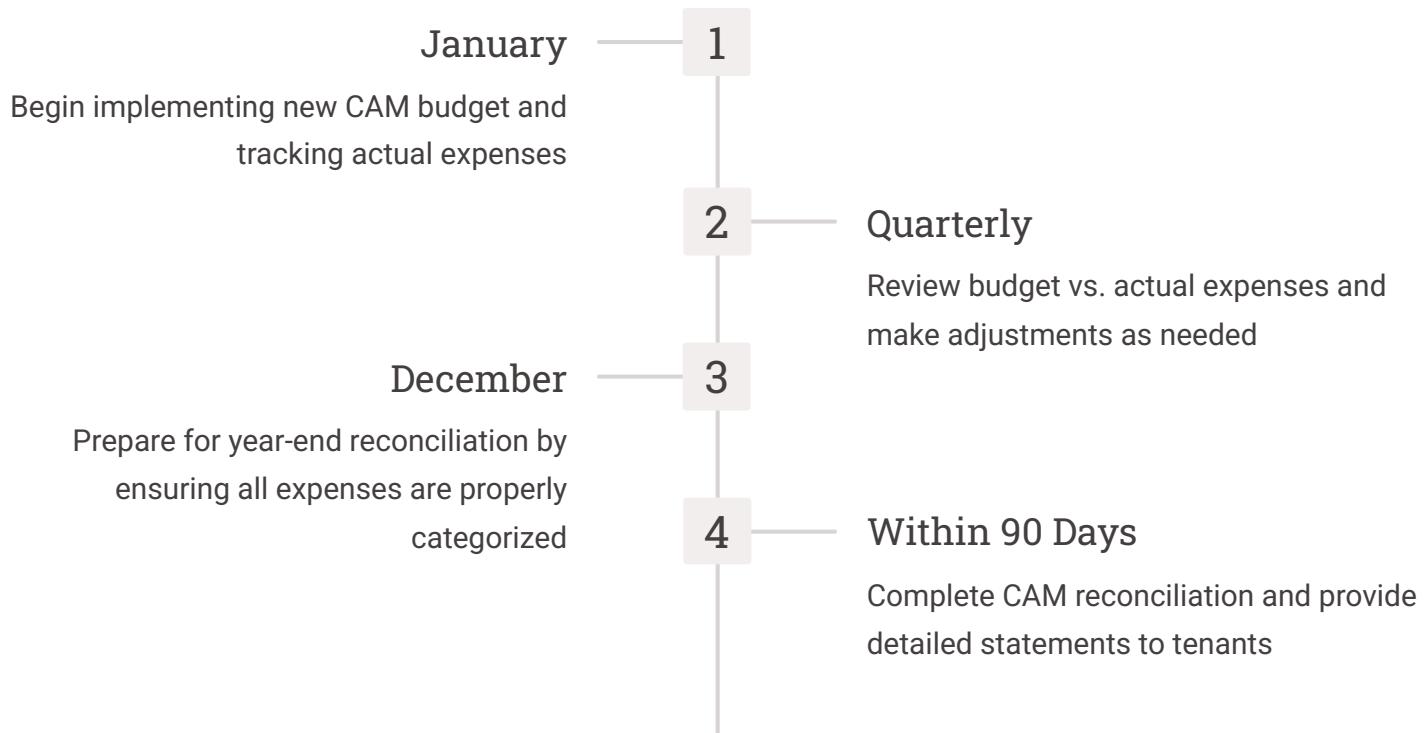
## Track and Adjust Spending

Throughout the year, use a property management software like STRATAFOLIO to track your actual expenses thoroughly. Having complete information ensures you are prepared for CAM reconciliation and can provide an accurate, detailed explanation of your calculations to tenants. Note any necessary budget adjustments for future years.

## Reconcile On Time, Every Time

At the end of each year, it's time to perform [CAM reconciliations](#). Some businesses perform reconciliation each month out of fear of missing something. However, this is an unnecessary amount of work if you have successfully budgeted and tracked expenses throughout the year.

Most leases require reconciliation within about 90 days. Plan ahead to ensure you can complete CAM reconciliations accurately and on time to avoid tenant disputes. It's also smart to read up on how reconciliation works and property management tools that can help you perform it accurately.



# Perfect CAM Budgeting with STRATAFOLIO

If you're still feeling overwhelmed by CAM budgeting, you're not alone. It's a complex process, but there are specialized tools to help you. STRATAFOLIO is a commercial property management software that helps you work through complex processes like CAM budgeting. Complete, two-way integration with both QuickBooks Desktop and Online means that all your data is always right on hand. STRATAFOLIO even offers automations to ensure your key calculations are efficient and accurate every time.



## Commercial Real Estate Focus

STRATAFOLIO property management software is built specifically for commercial real estate businesses.



## Track Data & Adjustments

It tracks all your financial data so you can easily spot issues and make budget adjustments.



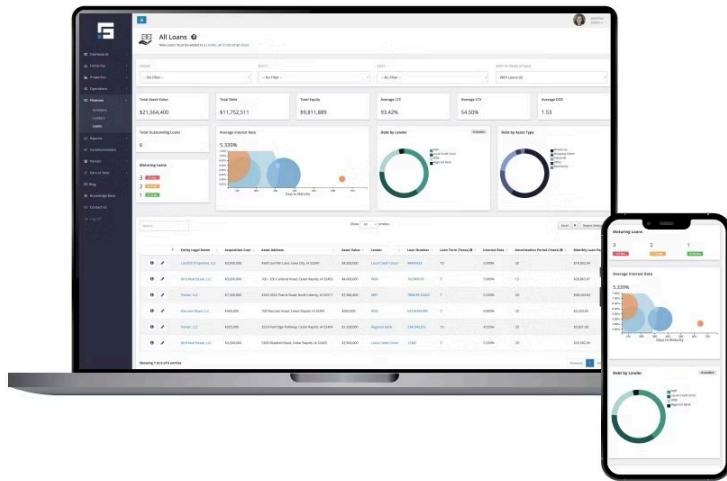
## Automated Reconciliation

And when it's time to reconcile, STRATAFOLIO automations allow you to complete the process in just one click.

To learn more about why STRATAFOLIO could be the commercial property management software for you, [schedule a 1:1 demo today.](#)

[\*\*Schedule a Demo\*\*](#)





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### Frequently Asked Questions

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