

Outsourcing Your Property Accounting: Shift Your Focus to Higher Value Activities with the Right Partner

Real Estate is a complex asset class and is relatively labor-intensive in relation to other investment vehicles. However, it has significant attractions to Fund and Asset Managers as part of their portfolio of assets and usually represents at least a 5-10% holding, even with those investors who focus almost exclusively on equities and bonds.

Clearly, for Owner/Occupiers of properties or Real Estate Investment Trusts, the problem is far more acute due to their almost exclusive focus on the real estate asset class.

Real Estate clients often have operating models that have evolved over time. They have a higher cost base than they would like on low-value, back-office activities. Such activities also require significant management time. Solving this problem can lead to enhanced agility in the market and a greater focus on the areas which add value and financial benefits.

Real Estate clients have historically chosen to outsource to more mature markets (e.g., property managers and construction). However, in the last decade, there has been an increasing trend in outsourcing to property accounting providers as significant benefits can be gained.

What Are Your Options?

These are typical options that can be applied irrespective of the actual organization model itself:

- A fully internal model where all the accounting and bookkeeping activities are undertaken by a team based in the office;
- A hybrid team where some activities are handled by a third party, but the senior financial team is internal; or
- A fully outsourced function where all accounting activities are undertaken by a third party.

Various factors may determine the best option at any time and is a bespoke solution for each organization. The right choice is often emotive as it involves people, not just financial drivers.

What Are the Benefits?

The main benefit of any form of outsourcing is that you, in effect, transfer the risks and issues of operating an internal function to a third party. In simple terms, you specify a service level and only pay for what you need. This eliminates the complexity of running and maintaining an internal workforce for the task which can absorb a large amount of senior management and executive effort. It also means that the infrastructure (IT,

property, payroll) of running an internal operation, with associated risks (e.g., cyber) can be handled by the Business Partner.

It should also be noted that, following the pandemic, the historical position where back-office functions attended an office every day has changed, perhaps forever. Therefore, the perspective on where accounting functions operate, and the need for them to be on-shore or even near-shore has also changed.

What Factors Should You Consider?



Relative Cost



Data



Technology



Transition



Knowledge

Relative Cost

It seems obvious but if the cost of change and new operating cost is not economic then, unless there are other non-tangible benefits, the business case may not be supported. Finding providers that have sufficient scale and levels of efficiency to deliver some operational arbitrage may not be easy. It is also important to factor in the full cost (e.g., future IT investment) and risk (e.g., having to procure and manage the delivery of the new IT Finance system) into any equation.

Data

If a client has a major issue with the quality of their financial or lease data, then it is sensible to factor the cleansing of one or both elements into any outsourcing arrangement. If the Business Partner can offer such services at an economic rate, this can provide benefits in terms of ensuring the front office holds accurate information. In turn, this leads to more insightful decision-making on asset strategies.

Technology

Any internal workforce requires technology in terms of laptops, networks, and software to perform their roles. Moving roles externally eliminates the need for clients to budget for ongoing and new technology for these staff. However, in most cases, the core financial system will remain with the client. It is therefore essential that the Business Partner uploads data accurately and in a timely manner to the client's core financial system. Several techniques can be used for this data transfer, and the client must have confidence that the Business Partner possesses the right knowledge and capability to make this transfer efficiently and effectively.

Transition

The transition between the current operation and the new operation needs to be clearly defined. Understanding the processes, roles and responsibilities and data volumes helps ensure there is no ambiguity between the client and the Business Partner. A Business Partner who can clearly articulate the tasks between each party is required to support a successful transition. The additional support of an experienced Account Manager

ensures the change and adoption management of the new arrangement operates smoothly.

Knowledge

Property Accounting is a complex and specialist area with differences between jurisdictions in accounting treatments. It also has several complimentary areas such as Lease Administration, Construction Fixed Assets, Portfolio Accounting, and Cash Flow modeling. Some Business Partners will cover one or two of these areas, but it can be beneficial to have a Business Partner who offers a range of services. This allows clients to start with a more focused contract and then expand as required into other areas as the relationship develops. This flexibility reduces transition risk and allows the client to embark on a multi-year program of change whilst minimizing the impact on the business.

How Can You Find the Right Partner?



Identify the problem(s) you are trying to solve.



Determine the right level of expertise.



Confirm the ability to scale.

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Does the client have an issue with data, recruitment and retention, operating models, process technology, space, or some other factor? The client needs to determine what their needs are and articulate them to the Business Partner. Often this requires an iterative process where the client and Business Partner meet with their respective teams to develop a bespoke solution using templates to accelerate the process. Such sessions can help build trust and relationships between the parties.

Determine the right level of expertise.

The Business Partner needs to have the necessary expertise to undertake the tasks allocated at the correct level of service. However, it is also important to ensure that they have the right level of expertise in Account Management and that the proposed personnel for that role have the right ethos to work with their counterparts within the business. Friction in such a key role can harm any service irrespective of the expertise of the Business Partner.

In addition, the Business Partner must have the necessary domain knowledge of Real Estate to support the client. They need to be able to connect with the business and understand the drivers that deliver value to the front office and not just back-office accounting processes.

Confirm the ability to scale.

Ideally, both parties want to develop a deep, long-term business relationship that focuses on key problem areas for the client. If the Business Partner is limited in its offerings to point solutions, then the client would need to procure other Business Partners to cover the gaps which creates interfaces and complexity. Finding a Business Partner who has the breadth and depth to scale their operations in support of the client is extremely advantageous in 'future proofing' the contract.

Conclusion

There is little doubt that with the right Business Partner, clients can reduce their focus on back-office functions and create bandwidth for the core business to drive value from their funds and assets.

However, there are several factors to consider before embarking on such change. Finding a Business Partner who can help a client navigate such a change requires careful selection and, although price is clearly a factor, the level of expertise, scalability, and domain knowledge is also vital in driving value from the relationship.

Real Estate is a specialist area, so the market of suitable Business Partners is relatively small when compared to the more generic accounting outsourcing Business Partners. Despite this, the complexity of Real Estate means there is considerable scope to add value for clients and this is a key potential area of competitive advantage within the real estate industry.

As such, all Real Estate clients should have this on their agenda for consideration.

ABOUT THE AUTHOR



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[Andrew Carey](#) has over 35 years of deep expertise advising 'blue chip' clients across Europe, the US, and the Middle East. Andrew's career is founded on leading transformational programmes involving Real Estate technology, organisational change, and business process improvement from initial concept through to successful implementation. He is highly experienced in assisting management teams with the alignment of business strategy to operational execution and has served as a trusted business advisor regarding delivering complex and leading-edge real estate technology solutions internationally. Andrew has a market-leading reputation for his thought leadership around strategic technology solutions and operational improvements to owners, operators, occupiers, and investors in real estate.