Integrating corporate real estate financial reporting into a single systems solution

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ABSTRACT

To identify and prioritise real estate management requirements, Accruent recently surveyed 100 real estate executives, more than half at companies with revenues exceeding US$1bn. The results indicate that the vast majority are looking for better ways to manage their real estate portfolios. Pressured by fast growth and stringent new regulatory reporting requirements, real estate professionals are turning in increasing numbers to centralised systems of record that can track and manage all financial transactions. Until recently, these systems were difficult to justify. Manual processes and spreadsheets were considered sufficient and a 'just pay it' mentality prevailed, largely because real estate was considered a fixed cost. While the concept of a centralised enterprise-wide data repository has long been a topic of discussion among visionaries, new technologies are making the vision a practical reality. It is now possible to implement viable systems of record in cost-effective stages, beginning with lease administration and extending into other business management systems. Though the effort of implementing systems of record can be considerable, many consider it well worth while because it provides companies with the opportunity to improve existing operational processes significantly.

A director of HP Laboratories once summed up the problem of knowledge management with the famous quip: 'If only HP knew what HP knows.' Today, many corporate real estate departments find themselves echoing this remark. 'If we only had a comprehensive system of record that contains all the information buried in our paper leases and related agreements, our spreadsheets, and our legacy systems!' A robust system of record not only puts accurate and timely infor–

mation at the fingertips of decision makers; just as importantly, it also places that information in useful contexts.

The idea of a comprehensive system of record is scarcely new. Since the dawn of the computer age, companies of all sizes and across all industries have turned to software applications that consolidate business information. The trouble is, many have implemented many small systems rather than one comprehensive system with a centralised database. In many cases, each department within the enterprise found and implemented its own separate solution without regard to systems implemented by other departments.

In retrospect, this route has caused as many problems as it has solved. While each department may have improved its own business processes, the task of sharing critical information between departments has remained daunting. Many companies are obliged to re-key lease information manually into financial systems for reporting purposes. And now companies are faced with a host of new challenges that make systems of record seem even more compelling.

RANKING REAL ESTATE MANAGEMENT CHALLENGES

To find out how real estate leaders define and rank their biggest information challenges, Accruent recently conducted a survey of 100 real estate executives, more than half of them at companies with revenues exceeding US$1bn. Forty-eight real estate professionals responded in detail, including 26 vice presidents or directors of corporate real estate departments, as well as executives at 22 retail companies. All those surveyed used commercial off-the-shelf lease management solutions. (For a detailed view of the survey results, see Appendix 1.)

While virtually all of those surveyed agreed that comprehensive lease management automation could yield significant bottom-line benefits, there were differing opinions about how this should be achieved. Corporate real estate professionals view real estate contract management as fertile ground for back-office cost cutting. They are also more inclined to outsource real estate management rather than increase internal spending. Real estate executives in the retail segment, on the other hand, value automation systems highly as lease lifecycle management tools and lean toward implementing internal lease management systems. Since they see real estate as a revenue opportunity and a risk reducer, owning a lease management system simply makes sense.

BASIC AGREEMENT ON LEASE MANAGEMENT SYSTEMS

Despite somewhat different perspectives and priorities, real estate professionals of all stripes are in agreement about the essential value of real estate and lease management systems. Today, companies spend up to 100 basis points of revenue trying to manage contracts — the majority of which are real estate leases and related agreements.

Lease and occupancy management costs are high because companies are using outmoded and disparate software systems that rely on manual, error-prone processes at critical stages of the process, often to re-enter the same data into multiple systems with separate databases. According to Goldman Sachs, implementation of more sophisticated solutions with higher levels of data accuracy 'can reduce this cost by 50–80 per cent or 25–40 basis points of revenue' — an enormous saving by any standard.

If the drive to save millions through occupancy cost control were not sufficient motivation, pressures to assure

more transparency in corporate governance through heightened audit accountability have never been greater. A bumpy economy and a flurry of financial reporting scandals have increased shareholder and creditor scrutiny. In response to investor concerns new federal laws, such as the Sarbanes-Oxley Act (SOX), demand greater levels of financial controls.

PRESSURE FROM SARBANES-OXLEY

SOX has put financial reporting in the spotlight and placed renewed emphasis on a concept that has been around for a while — namely, that in a perfect world companies should have one system of record to track all financial transactions. According to the real estate executives surveyed, one of the unintended consequences of SOX is that it has given new life to the concept of a system of record using a single database for all business-critical information. While a system of record with a centralised data repository may not be for everyone (small and mid-sized companies satisfied with modest growth may not be able to justify the IT expense), larger enterprises and those experiencing rapid growth prefer this route.

One real estate director at a billion-dollar company who has recently helped to implement a SOX initiative believes that the investment in a centralised system of record was actually a blessing in disguise. The project took close to ten months and involved approximately 35 personnel across the company's traditional accounting departments — Accounts Payable, Payroll and Fixed Assets, including real estate.

The real estate director is a big believer in centralised information processing, not just for SOX compliance but for all areas of real estate management. The more data

is centralised, he believes, the more control real estate and lease administrators will have, and the closer the entire company will be to achieving a single system of record.

'By centralising the processing of many types of transactions into one system, we were able to facilitate better documentation and better control,' he says:

> Basically, one system can control multiple transactions, and you can eliminate the problems inherent in having multiple systems with separate documentation and control narratives. The fact that we can centralise a significant amount of our real estate transactions into one system creates an environment that is much more accurate and reliable. Instead of having five or six controls, you only need one that does everything.

As forces on multiple fronts push for improved lease management, a consensus is forming on the basic characteristics of what an ideal real estate management solution should look like. At the very highest levels, real estate managers have defined their most important requirements. They want:

- Fast access to complete and accurate real estate information
- Centralised management of all leases and related documents
- Software applications that support best practices and company-specific business processes
- Open and flexible architectures to ensure collaboration on occupancy cost controls throughout the enterprise

These requirements demand not merely a new way of thinking about lease management, but a new class of technology solutions.

RETHINKING LEASE MANAGEMENT

Before delving into the specifics of a new class of real estate management technologies, the paper takes a closer look at the business philosophies behind real estate management. According to the executives and directors surveyed, real estate is undergoing a transformation. In the past, real estate executives, managers and CFOs categorised leases as 'fixed costs'. This led to the 'just pay it' philosophy, relating to a myriad contracts, but primarily leases and related contracts (that is, anything related to occupancy costs).

Since these costs were assumed to be immutable, the 'just pay it' philosophy held sway until very recently. The assumption was that the costs of knowing and managing the terms and conditions of leases would inevitably exceed the costs of just paying what seemed to be due. Never mind that, month after month, a 'just pay it' attitude ignores all the hard-fought negotiations that went into the lease process — potentially a treasure trove of cost-avoiding and money-saving fine print. If nothing is done to make pertinent lease information visible and understandable, revenue continuously leaks out of the back office because no one understands what is actually owed.

Nowadays, ignorance of the fine print is no longer acceptable. Real estate professionals are well aware that today's technologies are more than capable of managing enormous quantities of minute detail. Indeed, thanks to the advent of sophisticated lease management solutions, supposed 'fixed costs' are now seen as variable costs that can be transformed into strategic assets. All that is required is the right contract management solution, one designed to support specific business needs.

The real estate executives and directors surveyed have a pretty good idea about what they need. According to the survey, there are two fundamental keys to real estate contract management success: first getting complete and accurate data into the system; then managing that data on one centralised IT platform that breaks down all barriers to data sharing and supports collaboration within and external to the enterprise.

GETTING HIGH-QUALITY DATA

No lease administration system can be effective if it does not contain accurate, complete and timely information. The failure to secure quality data results in a false sense of security. Firms can purchase a superior lease management system and then render it useless by filling it with inaccurate information. Users may have a false sense of security about the information simply because it is in the system. How can the computer be wrong? But ultimately every inaccuracy will come back to haunt users, sending them in a panic back to the filing cabinet to resolve the issues.

This is why great care must be taken when placing information into new lease management solutions. To begin with, the solution selected must be robust enough to contain and effectively manage all required lease information. Then users must find the data and get them quickly and cost-effectively into the system. The information and the data are likely to come from two sources: from paper leases and from legacy systems.

Always keep in mind that the most accurate and complete information is most probably in the paper lease and not the legacy system. Even when the information is in digital form (spreadsheets or legacy lease administration systems), it can be difficult to use. The data may be contained in different IT systems scattered across the company. Often, key details

about terms and conditions are missing altogether. And the data may be in formats that defy easy comparison with the data formats used by other business systems.

To share and use lease information effectively it must first be captured, stored and managed. Capturing *all pertinent* knowledge — whether in a spreadsheet, a legacy contract management system, a scanned image or a hard-copy lease — is the first critical step when building an effective real estate contract management system.

In many cases, companies have multiple versions of the same information. For example, the legacy lease management system may contain in digitised form the basics of most agreements — but, often enough, critical details in the fine print are available only in hard copies of the contract. Consequently, if companies are about to implement a new lease management solution and want complete information in the system, a simple conversion of legacy data into the new system will fall short of the goal.

Lease management initiatives that do not start with an *efficient data extraction process* — the isolation, interpretation and uniform formatting of specific payment-affecting terms and conditions — are often doomed to failure. Conversion alone does not guarantee visibility into pertinent, not to mention cleaned-up, data.

If content is not intelligently standardised in advance, business-critical data may not be searchable. What is more, rules for reporting and action-triggering processes that fit into existing business processes used by accounts payable or other enterprise departments may be difficult or impossible to implement.

In the realm of lease management, the devil is the data points. Penalties, service level and performance clauses, renewal terms and other contractual details can all affect the cost and the recurrence of charges. Without visibility into these payment-affecting details, control of costs remains impossible.

Because these data points do not automatically select themselves from a lease, an expert, trained by a data extraction services provider, may be required to extract this qualitative and quantitative information, which typically comprises 250–350 payment-affecting data points per contract.

Finding and understanding lease data is not the last word in achieving profit enhancement goals. To provide the next level of value, these virtues must be coupled with proactive collaboration across the enterprise, such as automating the issuing of e-mail alerts when a lease is due to expire, or automatically initiating a decision process to lead to actions such as lease renewal. Benefits such as these depend in large part on the architecture of the real estate management system.

THE IMPORTANCE OF A CENTRALISED IT PLATFORM

Complete and accurate information needs a good home. The best lease management solutions manage all information in a centralised document and data repository. The structure of such a system is illustrated in Figure 1.

The best lease management systems transform the supposedly fixed costs of real estate into a strategic asset. New and existing leases are managed on a highly secure, centralised database that integrates easily with other business-critical enterprise systems and builds a foundation for a system of record that will serve the company for years to come. This provides:

- A single tool to manage all lease types
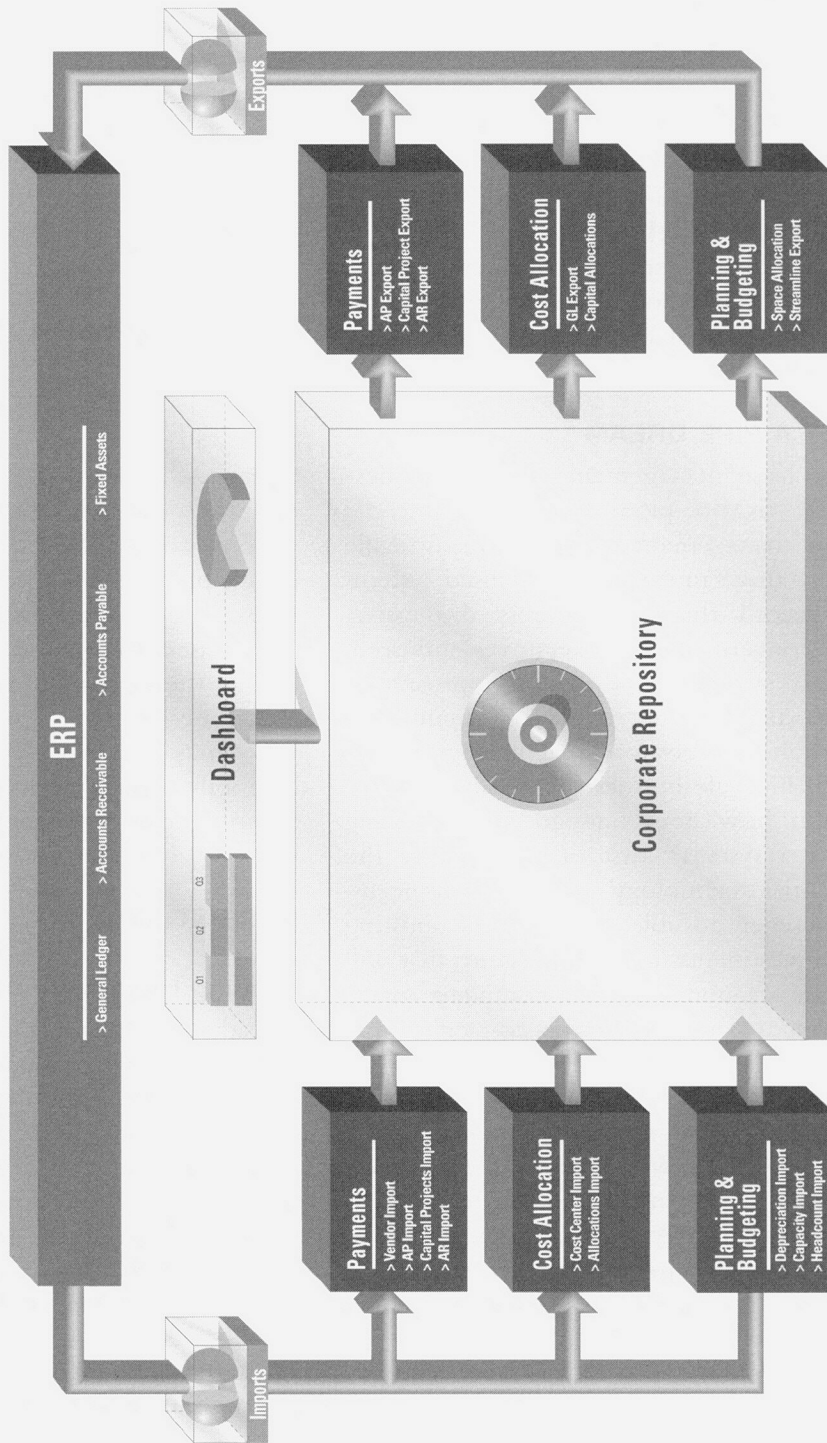- An enterprise-wide repository for all lease and contractual data

Figure 1
Centralised
document and data
repository

- Secure, centralised access to lease documents, images and related correspondence
- Automated notification of critical dates and issues
- A flexible security model that can be customised for unique needs
- Audit logs to record date, time and originator of changes
- Centralised system administration
- Advanced reporting capabilities for in-depth analysis of lease obligations

NOT A PIPE DREAM

The lease management system just described is no pipe dream. Commercial lease management packages are available today that can support centralised systems of record that will address the essential concerns of the executives surveyed. These systems offer a new approach to lease management built on a uniform centralised repository that manages common lifecycle business processes.

But how does one go about finding such a system? First of all, identify the essential technology and business needs. Wherever possible, leverage the existing IT investments. Look for systems that will create a foundation for a complete system of record and that will cost-effectively grow to support new requirements.

Do not be timid about holding software vendors to high standards. Look for solutions providers with a depth of experience in lease management and in the industry. Also ask if they have the capability to abstract data from paper leases and to convert legacy system data into formats usable by the new system.

In short, look for a total lease management solution built around these fundamental requirements:

- Unlock pertinent data buried inside lengthy, often arcane lease language.

- Move that data, from both old and new leases, into a new, uniform, centralised repository.
- Ensure that the system supports real, established operational processes of the whole enterprise.
- Execute all contract management steps rapidly and in the right order, beginning with data extraction.

OPTIMUM LEASE AUTOMATION

- Provides a system of record for managing all types of new and existing leases.
- Ensures contract compliance and operational continuity through automated best practices.
- Establishes control of the money tied up in leases and related agreements, typically the largest unmanaged part of the income statement.
- Extends contract compliance and visibility to revenue-generating areas throughout the enterprise.

CASE STUDY

Leading investment bank

A leading financial services bank with more than 600 leased properties throughout North America cut costs and improved both accuracy and strategic decision making by automating lease management across multiple departments with a centralised real estate management system. The company has more than 600 offices in 27 countries and over 60,000 employees world-wide — 14 million square feet of office space within the USA and more than 7.6 million square feet offshore.

The challenge

The company's real estate department manages leased properties at more than

500 locations, representing US$170m annually in leased properties. The New York real estate office manages approximately US$80m in leased properties, while the San Francisco real estate office manages about US$5m. Each office uses different business procedures to gather and report on real estate information. The company relies on a home-grown database consisting of several Microsoft Word, Excel and Access files. In addition, volumes of paper leases and related documents are managed manually and stored in filing cabinets.

'Before we moved to a real estate contract management system, we were doing all our lease digests in Microsoft Word and other lease information was in Excel,' says the company's managing director of real estate. 'To make sure we weren't overpaying or missing payments, we had to do a lot of manual comparing of paper documents to reconcile leases. If information was lacking in spreadsheets, our personnel were obliged to manually search through filing cabinets and reread leases. And portfolio planning and budgeting were very labor-intensive processes.'

The lease management solution

To rectify these problems, the company decided to re-engineer processes, implement an efficient and streamlined reporting solution, and automate manual information flows using a single, uniform lease management system. Business process re-engineering focused on cash management, portfolio planning and system maintenance.

The company decided to automate in manageable phases, starting with the Individual Investment Group and a focus on realising the benefits of collaborative integration. Phase two would automate Investment Management, and a final phase would address the needs of Institutional Securities.

The company's overall goal was to create a single, fully integrated lease management system that extended across multiple departments. Four factors contributed to the company's success: a clear real estate departmental focus; a cooperative IT department; a central client coordinator; and a motivated staff. With these goals and resources aligned, the firm retained the services of a leading provider of lease management software solutions.

The software provides comprehensive lease portfolio management, rent payment, capital projects, reporting and enterprise resource planning (ERP) integration. It features a Lease/Portfolio Administrator tool that enables the company to manage all its real estate commitments effectively while providing full financial control over the real estate portfolio. The solution automates the management of leases through automatic reminders and intelligent alerts for deadlines and pending-action items, while enabling remote access to critical lease information.

Although the new lease management system principally affected the real estate and facilities department, the company was mindful of its company-wide impact. In particular, the system had productively to interact with and support Corporate Administration (budgets for capital projects); Finance (rent payments); Information Technology (support systems and business continuity planning); Human Resources (master location lists); Risk Management (insurance reporting); and Law and Compliance (Securities and Exchange Commission and Sarbanes-Oxley compliance). The company's managing director of real estate says:

'You really have to think of the whole company when you implement a critical system covering real estate management. It is a long process and there is a lot of trial and

error for a company as large and geographically distributed as we are. You want to do it right, because you're going to have to live with the systems for years. And you also want to make sure that the system can handle department reorganisations or relocations, which are a fact of life for us.'

The company's New York office first got a taste of what a true lease management system could do in 1998, when it implemented a basic lease management system. Working closely with its solution provider, the company began exploring ways to expand that system after the New York real estate office lost all its records in the September 11, 2001 terrorist attack on the World Trade Center.

The managing director of real estate says:

'Obviously, we had some urgent needs after the attack, but this project is not simply about recovering from disaster. We were dealing with automation and business process issues years before 9/11. And this was not simply a matter of implementing software applications. Of course, the software had to be good. But most importantly, we wanted to have standard, company-wide business processes focused on exactly what we need to do.'

The solution provider was able to recover most of the new office records and use this information as the foundation for the new system. The proposed new system would automate both New York and San Francisco. This solution would include full real estate management capabilities including a custom 'Gray Book' Decision Support System (DSS) tool, plus ERP and Computer Aided Facilities Management (CAFM) integration. Planned functionality also included a dashboard, a datamart and web-based reporting. To ensure that the new real estate management system contained complete and accurate information presented in consistent formats, the solution provider offered a fast and accurate data abstraction service to capture critical data from existing paper contracts.

The company discovered that no lease administration system can be effective if it does not contain accurate, complete and timely information. This means that great care must be taken when placing information into new lease management solutions. The solutions themselves must be robust enough to contain and effectively manage all required information and the data are likely to come from two sources: paper leases and legacy systems. Often enough, information comes from both sources, and this can create problems. For example, many legacy systems lack the capacity to store large volumes of data. Consequently, they often lack critical lease information, which can be found only in the paper lease.

The process by which critical information is abstracted — or summarised — from paper contracts and placed in software fields is called 'data abstraction'. The process of transferring data from legacy systems to new and more robust systems is called 'data conversion'. Data abstraction focuses on both the quantitative and the qualitative information contained in leases. Since there are hundreds of pertinent data components per lease, the abstraction processes must include not only expert interpretation, but also double and triple checking of data as they are incorporated into an automated workflow process and conversion.

Business processes

Throughout the implementation, the company never lost sight of the importance of business process. 'We did not want to close the door on innovation, but frankly we had heard horror stories

about companies trying to change their business processes to fit pre-packaged software solutions,' says the managing director of real estate. 'That approach seemed completely backward to us: we did not want the software to dictate to us how we would manage our leases. We already knew a lot about lease administration and real estate; we wanted to incorporate our expertise into the new automated system.' The company and Accruent established a productive working relationship that resulted in streamlined and standardised business processes fully supported by customised software.

'Accruent's large client base and years of experience in lease management complemented our knowledge and allowed us to implement Best Practices,' the managing director of real estate says. 'They looked at everything we were doing — the Excel and the lease digests in Word — and asked us how we worked, what steps we went through, and came back to us with a system that really supported our goals.'

The new system reflected the company's basic processes and also transformed the company to new levels of efficiency. Running on a centralised database, *cm*RealEstate is much more accurate and function-rich than the company's home-grown system. 'Not only does it have more bells and whistles; it also provides reports far more quickly and easily,' says the managing director of real estate. 'To get a report using the old manual methods, it would take me a week to get the same thing I can get in just minutes.'

The system also proved critical to supporting online bill payments. As soon as a lease is signed, it is immediately entered into the new centralised lease management system and is reflected in other relevant departments, such as Finance. The system monitors the lease all the way through payment. Before automation, the real estate department prepared a lease digest, which accounting used manually in order to confirm that the lease was paid. Consequently, there were information gaps between real estate, facilities, finance and human resources.

One of the major advantages of the new centralised lease management system is its ability to give executives and managers a 360-degree view of operations. 'With the new system, not only is the New York real estate office connected to San Francisco, but all relevant departments company-wide are connected,' the managing director of real estate says. 'Like all authorised personnel, I can instantly find out how many seats we have in every location, including available square footage and project plans. Controllers know exactly what to pay and when to pay. And the system also helps HR and facilities verify how many people are in any location.'

Results

Efficiencies gained by the company include the following:

Quarterly reporting

It reduced the process from one week to ten minutes. Reports are now more accurate and complete. This cut two weeks out of the year-end report process.

Accounts Payable (AP)

The new system saved 80 hours per month in Accounts Payable. The old system required generation of a lease abstract identifying rent changes, which then had to be manually re-entered into the system. Rent information is now automatically exported to AP every night, eliminating the need for an AP data-entry person.

Departmental reorganisations

The company is now able to support

organisation changes with ease. When cost centres shift to new regions, the system automatically adjusts. Import of required data used to take a week or more. Now it takes five minutes.

Allocation reporting

Headquarters allocations used to take two days to compile and report. The old process required staff to combine rent, rentable square footage and allocation percentages in an Excel spreadsheet. The new system automatically imports allocations from the CAD system and combines this with lease values in *cm*RealEstate; users can retrieve data from the datamart, eliminating time for data delivery. A two-day process has been reduced to ten minutes.

Datamart

The system's datamart allows users throughout the company to retrieve quickly the reports they need. The company has implemented several integrations to ensure that *cm*RealEstate can access key metrics such as headcount, capacity, revenue, equipment and A&D costs. To provide key planning figures, the datamart allows values to be combined at portfolio, location, or departmental levels.

Company-wide benefits

Several departments outside real estate are seeing the benefits of the *cm*RealEstate system. For example, Fixed Assets previously combined information for the GL, AP and Corporate Services to calculate project costs. Now, all the necessary information is managed by *cm*RealEstate. A customised screen will display the information Fixed Assets needs, allowing users to enter specific codes that will then be automatically exported directly into the Fixed Assets system. This change will save Fixed Assets 80 hours per month.

FURTHER EXAMPLES

Rite Aid

Rite Aid Corporation is the third largest retail drugstore in the USA, with more than 3,400 stores located in 38 states. It expects to realise a 12-month payback and has already achieved US$400,000 in annual savings during the data extraction process.

Mellon

Mellon, with over 300 offices, wanted to update its antiquated home-grown Access-based system. Its existing solution was not integrated into other systems, resulting in errors, manually intensive tasks and limited visibility into its total occupancy costs. Accruent assisted Mellon by extracting its 450-plus leases into a scalable, integrated and automated Oracle-based solution that greatly improves accuracy and the ability to generate reports. Before implementing Accruent cmSuite, Mellon reviewed its real estate portfolio quarterly. Now the company is able to analyse its total occupancy costs on a monthly basis. This will result in cost savings, better decision making and improved business processes.

Lockheed Martin

Lockheed Martin Company found that a lot of money could be recovered in the back office. It was hidden away in leases and contracts stored in filing cabinets. Fortunately, the company was able to tap into all this value by implementing an automated real estate management system. 'Five per cent of our total costs, or about US$1.1 billion a year, goes out for facilities,' explains Jeff Troan, Executive Vice President of Real Estate for Lockheed Martin, 'And for every 1 per cent we save in cost, we generate two cents of additional saving per share to the shareholders. So we see it as a big area to

What impact has Sarbanes-Oxley compliance had on your real estate department?

Figure 2   Survey results

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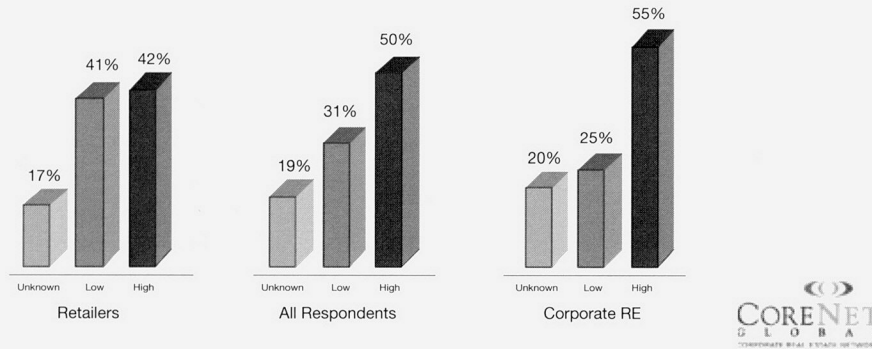
go to work to produce an additional profit.' Troan continues by saying that the goal is to reduce those costs by 5–10 per cent over the next decade, or a saving of over US$200m per year. Clearly, the money in the filing cabinet is worth looking for to reduce 'fixed' costs.

APPENDIX 1

Survey results

The impact of Sarbanes-Oxley

Figure 2 shows the responses received.

Corporate real estate executives believe existing policies and procedures are adequate, but require better documentation. In general, finance departments are taking more control of lease administration and are demanding higher levels of financial reporting.

- Reports need to be more detailed and comprehensive (centralised).
- Applications that can be too easily 'adjusted' (eg Excel) are no longer adequate.

- All financial transactions must be user/time/date stamped.
- Private use of corporate e-mail is no longer tolerated.

Retail real estate executives are looking for greater detail and improved accuracy, so that they can report more effectively and also act more strategically:

- Need higher-quality information at accelerated pace
- Need to centralise data and manage increased amounts of paperwork
- SOX has little impact on store operations, but high impact on headquarters
- Accounting is 'all over the place' and needs to be centralised.

The impact of outsourcing

For the reported attitudes of executives to outsourcing, see Figure 3.

Corporate real estate executives are more inclined to outsource everything: transaction management, facilities management, lease administration, etc. Real estate is perceived as a cost, not something that contributes to profit. The

Figure 3 Attitudes of executives to outsourcing

Do you outsource your real estate control and decision support systems?
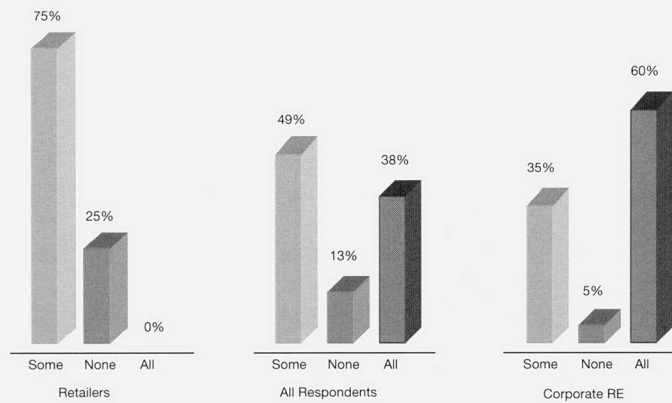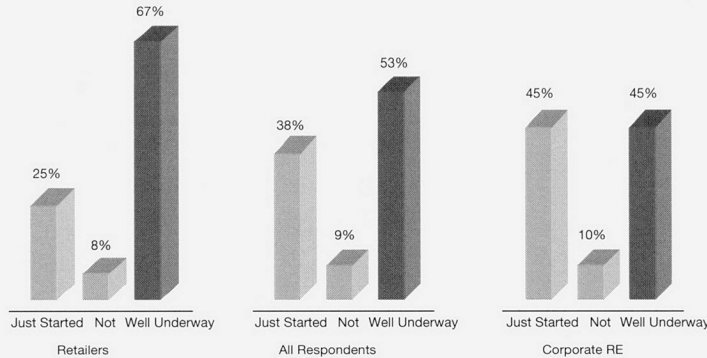

Figure 4 Reactions on the importance of centralised systems

How important are centralised systems that integrate your real estate solutions with other key business applications?

bigger the portfolio, the greater the need for centralised data management.

Retail real estate executives see real estate management as a strategic, front–office activity and as a profit centre contributing to revenue. Consequently, these functions are too strategic to outsource. Real estate is a major factor in overall corporate growth strategy. Retail CRE executives see brokers as competing for new transactions; all other functions should be done in-house.

The importance of centralised systems

For reactions on this subject, see Figure 4.

A majority of executives polled want their companies to move toward centralised real estate management, but retailers are clearly in the lead. They invest more in technology to create a centralised system of record and view real estate as a revenue-generating opportunity. They also consider real estate lifecycle management a priority.