



Back office Accounting: Doing the Math

Back-Office Accounting: Doing the Math

By [Paul R. Bergeron III — March 2016](#)

Apartment owners and management companies are seeing a trend in outsourcing some of their accounting and back-office functions.

When it comes to accounting, of course it should come down to numbers. Apartment management firms choosing to outsource many of their tactical accounting duties reportedly pay as little as 33 cents on the dollar. But cost is not the only factor to consider when choosing whether to keep these functions at the property, in the corporate office or to hire a firm. Among the growing management operations trends today are firms that specialize in "managed services" or "business process outsourcing (BPO)."

Outsourced accounting is not uncommon in commercial real estate. But some say that the apartment industry, not known for management risk-taking, has only recently begun to warm to the idea of outsourcing.

Those not convinced by the potential savings cite reasons for keeping these functions inside the company:

- Fear of change
- Reluctance to give up control
- Unease about having work done by staff working off shore
- Belief that property management has unique quirks that not all certified public accountants (CPAs) fully understand.

Firms that offer such services and the clients who use them can refute much of this resistance.

Software to perform accounting features is part of most every apartment industry property management software supplier. Only a few offer actual staff who will perform the duties. Because the market for such services is currently small, it is not necessarily worth their time and effort to offer such comprehensive services.

Some do. And a few others are in business to do just that, and see potential growth in these type of services. One estimated that less than 5 percent of apartment owners or management companies use such services, but anticipates that the number could grow to 20 percent in the next several years.

Forbes in June wrote that BPO was accelerating in many industries as a result of "rampant innovation in technology."

Mary Herrold, Vice President of Marketing and Business Development, JVM Realty, Oak Brook, Ill., says she has seen a trend of "more outsourcing companies entering our space, but I haven't seen it stick yet.

"Apartment owners and managers are in the business to create and maximize value. So if there is a way to do that by outsourcing, then I see it as a widely accepted service. I predict it will gain a stronger market share as owners and operators become more educated on what the outsourced work product 'looks like,' and they have something to benchmark against."

That time might be coming sooner than some think, says apartment industry consultant Mark Copeland, who was an Executive Vice President and COO at Alliance Residential from 1996 to 2008.

"The apartment industry is peaking right now," Copeland says. "But like any industry, it's cyclical and there will be a downturn. At that time, there will be more focus on cutting costs. Managed services is one way to do that."

Mike Ballard of Ascent Multifamily Accounting, based in Las Vegas, says his company regularly is contacted by larger software firms to do that business for their clients. His company does not provide software, but is able to work with the most common systems used in the apartment housing industry.

NWP launched its BPO offering in July 2012. It offers back-office and IT support. It has staff who handle accounting on the property level—not operations—such as financial reporting, account reconciliation, and accounts payable. It helps to generate month-end reports that include not only financial reports, but rent rolls, trailing-12 month reports and budget variances, says its Managing Director of Operations Kim Kowalski.

Ascent and NWP do not use staff who work abroad. Accenture is the largest company in the BPO space, and it has thousands of staff who work abroad, which helps perpetuate the belief that choosing it will involve potential complications from working with accountants who are based in countries such as India and Romania.

Ballard says companies such as his, founded in 2008, can help owners and management companies save money because he bases his employees in cities such as Las Vegas, which has a lower cost of living standard compared to a full-time hire who might be working in Dallas, New York, Chicago, Boston or California.

Maintaining Control

Having control over the accounting process is something that some apartment owners and managers hold dear, many say.

"This is especially true for companies that are growing," Copeland says. "They start out with a chief financial officer and a staff of five, six, seven or more employees. The department is a 'kingdom' and most CFO's will not want to give that up."

Copeland says technology today makes it easier to do so. "There is greater online transparency in operations today compared to five or 10 years ago," he says. "You can log onto a site and see all the numbers, the dollars. You can track it all much easier now."

Copeland says in 2005 at Alliance Residential he began a five-year transition of the accounting and payroll department to an outsource partner.

"At our peak, we had 65,000 apartment homes and an accounting staff of 30 or 40 people," he says. "We retained a Controller, someone who could analyze our numbers, but we cut costs by 30 percent to 40 percent-and that was in the years just as the economy hit its downturn later that decade."

The decision on how to handle back-office accounting often is a personal one. Knowing that "Joanne" has been with the company a long time, and is just down the hall and can answer any accounting questions an executive or regional manager might have right then and there is a comfort, Kowalski says.

"But today's apartment management processes, especially as the apartment industry grows in size and portfolios expand geographically, are advancing right along with technology.

"In many cases, the person who handles accounting no longer is in the same building as the person who needs those answers. Maybe they are at the corporate level or in the regional office, so moving to an outsourced team doesn't necessarily change the proximity of the person providing the answer."

Alan James, Senior Vice President, RealPage, says some outsource firms are coming to the major software solution providers and are seeking to license their products on behalf of the customer. He says BPO is more common in commercial real estate, but that the multifamily sector is becoming more comfortable with BPO.

"There's enough momentum in outsourcing accounting services today that software companies should entertain the idea of providing solutions to BPO firms," James says. "We need to listen to what our clients are saying, because ultimately, it's the customer who drives our solutions."

In the end, though, James says that owners are realizing that the capital saved by outsourcing the tactical functions in accounting can be spent on more strategic initiatives.

Billi Jo Suiter, ARM®, RAM®, Business Manager, Management Consultants of Tennessee, says her company chose to outsource accounting and human resources to a firm about five years ago after struggling with its hire of a local accountant.

Suiter manages Diamond Realty Management, which builds, stabilizes and sells apartment communities. Currently, it has two properties, totaling approximately 500 apartment homes.

"We had brought in a CPA, but ended up spending a ton of our time explaining to them, line by line, what the revenue and expense lines meant in relation to apartment management," she says.

"They wanted to just lump all revenue into one category or all expenses into one. It didn't track well. We needed more detail. If our expenses were too high in utilities, maintenance supplies or some other specific category, we wouldn't know it.

"We do use property management software, but this is the accounting side of the business. When you have a business strategy like ours, often turning over properties, the financials are key when the time comes to sell a property."

When It's Time to Sell

Ballard says BPO is growing in popularity as the apartment housing industry is being pushed to get more margin out of every asset.

James says outsourcing the accounting function can be more important to companies that are buying and selling, especially those transacting large chunks of property. At that point, for them, it's all about speed and execution, so outsourcing it all to one firm could make more sense.

When firms see what money can be saved by outsourcing accounting's tactical steps, they realize that they could use that capital on "more strategic" things they need to operate their properties.

Great Recession Lesson

Head count is another key factor used when deciding to outsource services.

As for hiring accounting and IT staff, Ian Mattingly, President, LumaCorp., Dallas, says his company has a history of "loading the work onto their accounting team until they squawk before they make an additional hire.

"We haven't yet forgotten the hard-won lessons of the Great Recession and don't want to get caught carrying excess payroll," Mattingly says.

He adds that because available accounting professionals can be scarce in the marketplace, "we separate functions within the accounting team by skillset rather than by community general ledger."

This allows LumaCorp to hire less-qualified and less-experienced (and therefore less expensive) talent to perform tasks such as bank reconciliation and payable processing. This then frees up the more senior people to prepare financial statements and the like."

One mid-sized apartment management firm says that fluctuating workload and changes in technology make it difficult to gauge how to appropriately staff in-house.

"The challenge is on the accounting side when we have dispositions and acquisitions," the company says. "It seems like that's always the last department to get any strategic oversight or planning. I would imagine that the bigger companies have a fancy formula they use to determine what is most efficient."