ACCOUNTING INSIGHTS FOR REAL ESTATE COMPANIES

Although the real estate industry is facing challenges such as high mortgage rates and growing retail and commercial property inventories, those well-versed in both the industry and the complexities of accounting can help companies identify plenty of opportunities for tax savings and efficiency. In the below Q&A, our Real Estate specialist, Joseph Perotta, Director of Anchin's Client Accounting Advisory Services (CAS) group, highlights which CAS services are most relevant to the real estate industry and how proactive financial management can help real estate companies navigate their current pain points and transform these challenges into business opportunities, avenues for growth, and areas of fiscal advantage. A proficient accounting team can help steer a company toward sustained profitability and resilience, identifying potential means by which it can maximize its cash flow and increase its net profits.

Q: How can real estate companies better prepare for their future?

Real estate companies should prepare forecasts that will help them plan out not only the next year, but up to the next five years based on market assumptions. By reviewing budgets to actuals for the upcoming year and beyond, a healthy cash flow analysis can be developed.

Q: What needs to be done or taken into consideration to assist a client with budgeting?

As we are preparing the forecast, we look at the client's historical data for trends and areas for cost savings in future years. We might look at various factors, but for real estate in particular, key line items would be rental income, insurance (especially since this has seen a spike recently), utilities, payroll, management commissions (which is usually a function of rents collected), and repairs and maintenance.

Q: What if clients want something more in-depth than basic budgeting and forecasting?

In addition to forecasting, we can assist clients with scenario planning. We can work with them to set up different scenarios based on where we see the market going. This enables real estate clients to face uncertainties and prepare for a range of possible outcomes by considering various circumstances unique to the industry. We use a variety of assumptions and metrics common in the industry, such as rental income (especially during periods of high turnover) and potential occupancy rates, to help clients assess what might happen in the future and come up with different plans or adjust their strategies accordingly. Additionally, our team factors in market trends, economic indicators, and regulatory changes that could impact property values and rental demand.

Q: Are there any specific issues you are currently encountering within real estate, and if so, how do you work with your clients to prepare them with the necessary information to address those issues?

In our discussions with clients, we analyze debt coverage ratios to ensure compliance with mortgage covenants and mitigate the risk of default. Usually, we review this on a quarterly basis because failure to maintain the ratios for the amount of quarters stated in the mortgage agreement can lead to a lender assigning a management company with operational oversight of the building. We prepare regular computations and work with management to come up with areas in which they can improve their finances and the steps needed to do so. These may involve adjusting operational expenses, refinancing options, or exploring alternative financing solutions. By proactively managing debt coverage ratios, clients safeguard their financial stability and maintain lender confidence, optimizing their long-term financial health.

Q: You also help real estate companies review key KPIs. How does this enable you to advise them?

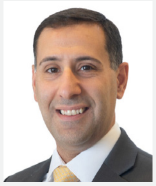
We look at clients' key performance indicators (KPIs) to see where they stand against industry norms, providing insights into performance benchmarks. Our real estate group has immense real estate expertise and through that, we have a solid pulse on what is going on in the industry. Some examples of indicators that we are keeping an eye on include revenue growth, occupancy and vacancy rates, average arrears, tenant turnover, rent ready costs, net operating income, and repair and maintenance costs per square foot. By being aware of industry standards, our clients can assess their operational efficiency and financial health more effectively, informing sound decision-making and strategic planning.

Q: How frequently do you look at a client's financial information and what are you looking for?

We analyze costs monthly to help ownership see where they are potentially overspending and implement measures to manage expenditures. We commonly see real estate clients overspending in repairs and maintenance, where unforeseen expenses can arise. We also pay close attention to payroll costs and insurance premiums, periodically evaluating and comparing them to look for areas where improvements can be made. For instance, the client may need to shop around for better insurance options.

By embracing innovative solutions and staying aware of market trends, real estate companies can not only weather current challenges, but also emerge stronger and more resilient in the ever-evolving economic landscape. Through strategic planning, scenario analysis, and proactive financial management, companies can identify areas for cost savings, optimize operational efficiency, and ensure compliance with financial covenants. You may be missing out on opportunities for tax savings and enhanced financial planning and analysis.

Your CAS Team



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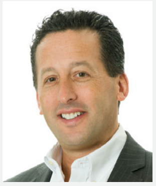

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