Yesterday and Today

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Recently, I was asked the question: What is the average number of locations assigned to a lease administrator in an average lease administration department? As I began to give the standard answer of 250 to 350 locations per person, I realized that this may not be true anymore. The lease administrator’s responsibilities have increased significantly over the last 20 years. In fact, the skill set and discipline needed to be a good lease administrator is comparable to those who negotiate the lease, perhaps even more demanding.

Like everything else in our evolving life, the lease administration landscape has changed dramatically and has become more tailored to the individual company’s needs. It’s no longer one size fits all. This is what prompts me to give a bit of history and talk about today’s lease administration department.

Yesterday’s lease administration departments had simple department structures. At that time, the most important decision was who lease administration would report to: real estate, finance or even legal. It was a bit of a hot potato and resources for the department were always a sore subject. Management, not really understanding that lease administration was the 2nd or 3rd highest expense in its company, looked at it as a pure overhead cost rather than a cost avoidance or even a profit center, as some do today. Originally, a typical lease administration department consisted of one or two people for a portfolio of about 500 leases. The responsibilities were primary day-to-day lease administration and the process of paying invoices resided mostly in accounts payable. There were very few automated processes or software systems to help the lease administrator, and desk top reviews were not a large part of the lease administration process.

It wasn’t until the mid to late eighties when Real Estate Investment Trusts (REITS) became popular, that in-house desktop reviews formed a more prevalent role in lease administration.

With pressure from the shareholders, REITS started to look for ways to create more profits. Accordingly, landlords began looking for more creative ways to fill those profit gaps. Additional rent became the obvious target. Simple billing mistakes shifted to aggressive billing decisions. Pro-rata share overcharges turned into a portfolio allocation overcharges as REITS began to grow larger. Allocations embedded throughout the general ledgers were much harder to catch and additional rent increased substantially on a cost per square foot basis. Complex reciprocal easement agreements allowing owners to bill each other but stay at arms’ length also added to the increase in cost. The role of reviewing reconciliations from landlords became a critical process of the lease administration department.

Smart retailers and office tenants increased resources and deepened reviews, spending much more time on verifying landlord billings. However, management still didn’t understand the depth of the problem, and was reluctant to spend the money to hire additional resources. It didn’t see the return on investment of hiring additional people. Consequently, the responsibility for reviewing landlord reconciliations was put upon the existing lease administrators in addition to their day to day lease administration responsibilities. The reviews were deeper than in the past, but the overcharges were still paid because the overworked lease administrators could not keep up with the barrage of billings from the landlords. They just didn’t have enough time to dive deep into a review. In addition, unlike today, the information on the internet to facilitate the review process was very limited, making the review much more time consuming.

By the mid nineties, things began to progress for the lease administrator. This was about the time that the National Retail Tenants Association (NRTA) was formed. The NRTA, a premier lease administration teaching organization was born out of the frustration of several of us expressing our concern about how landlords were overcharging tenants. Moe Laliberte and Paul Kinney led the call and the creation of the NRTA, and it’s as strong today as ever. As tenants were educated about the many ways how landlords overcharge them, resources became more available within the companies. Management in some companies began to look at the lease administration department as a cost avoidance center. A return on investment (ROI) was calculated using the amount saved from desktop reviews. Investments in lease administration software systems increased as portfolios grew. Accordingly, lease administration departments began to take on addition responsibilities. Early lease administration software packages such as Lease Trac, Siteseer, and SLIM offered more efficient methods of tracking lease information and paying rent and additional rent. Accordingly, lease administration departments had the increased responsibility of maintaining the information for the software. This meant constant updating and abstracting of leases.

As tenants became more aggressive in reviewing landlord statements, many felt that reporting to the real estate department would be a conflict with the lease administrator’s ability to be tough against the landlords. Real estate departments depended on their relationships with
landlords in order to get the locations, and real estate was judged more on where and when the space was ready, than on how the cost inflated after the lease was signed. In addition, there was a growing belief that lease administration should report to the finance department because of the accounts payable and the growing importance of the desktop audit process. But finance didn’t know anything about how real estate operates. Legal even threw its hat in the ring, feeling that they had the best understanding of the lease and could accurately perform the lease abstracting. Consequently, many companies separated the lease administration department into two or three areas. However, the separation of processes so interrelated into multiple departments created inconsistencies and the potential for mistakes and oversights.

Today’s lease administration department has taken on a much more important role and it has evolved into a more dynamic structure. To begin with, many companies have changed the name of the department from Lease Administration to Lease Management, Portfolio Management or Real Estate Management department in order to get away from the stigma associated with the word “administration.” In fact, many companies are changing the lease administrator’s title to lease analyst or lease specialist. We’ll reference it as the Lease Management department from now on in this article.

Larger companies have included a transactional role such as lease renewals in the Lease Management department. This idea has been well accepted due to the interrelationship between the day-to-day lease management, the desktop review and renewing a lease. Quite often, if there’s an overcharge dispute, the transaction can be wrapped into the renewal deal. There is also a need for a lease accounting role in the overall scope of the lease management department, to be the liaison between finance and the real estate departments. The process would be responsible for accruals, straight lining, pro-forma statements, sales reporting calculations (if retail) and future lease projections.

With the increased demand for landlords to refinance, Estoppels and Subordination Non-Disturbance and Attornment Agreements (SN-DAs) have also taken on their own life in the lease management departments. Traditionally these processes were in the legal department. However, in many companies these processes now reside in the lease management department. The relationship between the landlord needing an estoppel signed and the tenant needing something fixed or resolving a disputed overcharge are directly related. The best time for a tenant to get something from the landlord, is when the landlord needs something from the tenant. In addition, many companies are charging the landlord a fee to expedite the estoppel signing process, turning it into a small profit center.

For many larger companies, a lease auditing process is part of the lease administration department. It can be an entire department with an in-house staff or just one or two people that perform internal lease audits. Even if the company contracts with a 3rd party to do its lease audits, there is still a need for a point person to be the go-between, getting needed documentation and approving audits before they go out to the landlord. It’s good practice that the lease audit department report to another department other than the lease management department to keep its independency and objectivity. However, I’ve seen it work both within the lease management department and outside of the lease management department.

Lastly, let’s not forget the long awaited decision of the Financial Standards Accounting Board regarding the classification and reporting of real property leases. The potential decision to include equipment leases as part of real property leases in the calculation and reporting of lease expenses will only add to the responsibilities of the lease administration department. Companies will be searching to find a home for this new process and lease administration will be the obvious choice.

A lease management department today may look like this (see chart at top of page).

So as you can see from the diagram above, it’s very difficult to answer the question of how many lease administrators per location one should have. It depends on the company’s size, objective, and where it is in the lease administration evolution process or I should say, lease management process. One thing can be said for certain, is that the beauty of evolution is it always makes good sense in the end.