



Real Estate: Using FP&A to Increase Profits



Inside this document

Chapter One	Introduction	3
Chapter Two	Tackling FP&A Challenges Specific to Real Estate	4
Chapter Three	5 Ways to Increase Profits	7
Chapter Four	What's Ahead for Real Estate	11
	About Prophix	14



Introduction

Economic uncertainty affects every industry. Organizations are worried about a potential recession in the not-to-distant future. Real estate companies are no exception as they deal with inflation, increased costs on projects, and high interest rates that are diminishing the value of their ongoing investments.

Financial planning and analysis (FP&A) can be a time-consuming, manual process for real estate companies, especially when there are multiple projects, buildings, or developments. Even in an age where technology can streamline manual processes, many real estate companies still use cumbersome and error-prone spreadsheets. If companies wish to see more profits from their current ventures or in-service properties, they will need to become more agile to quickly pivot and address market changes.

Let's break down the steps you can take to plan for different scenarios so you can improve your forecasting abilities, resulting in a more agile and profitable business model.





Tackling Financial Challenges Specific to Real Estate




Tackling Financial Challenges Specific to Real Estate

Many real estate companies, particularly those with multiple development projects or properties under management, struggle with FP&A because they haven't implemented procedures to make budgeting, planning, forecasting, reporting, and analysis easier, more accurate, and more efficient. When you rely on manual reporting, capital planning, rent planning, and property profitability analysis can be challenging and labor-intensive.

Challenges specific to real estate include:

- Prolific use of spreadsheets to track rent planning and property profitability can impact decision-making and profitability. This is compounded when there are multiple properties and property managers relying on the data in the spreadsheet. Sharing spreadsheets via email can result in broken or deleted formulas as they are passed from building to building. Because accurate forecasting is at the heart of effective decision-making, decisions made using spreadsheets are at risk for using incorrect data due to changed formulas or broken links.

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- ❖ Lack of technology to streamline processes. The right technology in place can simplify FP&A processes and act as a single source of truth (SSoT) for the entire organization. A single platform that caters to analysis and planning will make analysis and decision-making easier and more accurate.
 - ❖ Risks associated with data security and protecting data integrity that can lead to incorrect planning of costs. How can you ensure that the data you are using is accurate so every property manager or stakeholder is using the same data for analysis? Without integrated and centralized data sources, it is difficult to get a complete view into all areas of your company.

Effective cost, revenue, and profitability management requires a foundation of understanding, awareness of the problem, and the ability to act based what your data is telling you. There are measures that you can take today to increase your profits in real estate.



Why Spreadsheets No Longer Work for FP&A

- ❖ Lack of agility with time- and labor-intensive manual review and consolidation
- ❖ Higher margin for error as formulas can break or be deleted while sharing
- ❖ Stale data that can impact the ability to be agile and make decisions quickly
- ❖ Hinder the data analysis needed for sound decision-making

A man and a woman are standing on a balcony, looking at a tablet held by the man. The image has a blue tint and is overlaid with large red and blue geometric shapes. The text "5 Ways to Increase Profits" is written in white on the left side.

5 Ways to Increase Profits



5 Ways to Increase Profits

There are several ways that you can increase the profitability of your real estate company that center around careful planning.

1. Scenario Planning

Scenario planning is a strategic planning model that helps you forecast different outcomes and trends while reducing errors. By looking at different scenarios, you can avoid under- and over-predictions of costs associated with development projects and in-service properties.

Trends are particularly important in scenario planning. You'll need to look at situations such as:

- Interest rates and inflation that raise the cost of debt and materials
- Overtime costs associated with developers that self-perform work
- Uncertainty that may be associated with unpredictable events such as a pandemic

Looking at possible scenarios can help you understand the potential challenges, warning signs, and even opportunities, such as potential acquisitions. You can easily pivot from one outcome to another with scenario planning and “what-if” analysis so you can make better decisions.

2. Collaboration

Collaboration between the properties that make up your community is important to ensure that all property managers have a SSoT in terms of workflows, data entry, and forecasting.


For each property to be profitable and for overall community profitability, every property manager needs to be working with a single version of a report or template versus multiple versions to ensure accurate data.

Collaboration among communities also builds trust, encourages group problem-solving, and helps multiple locations become more efficient, thereby increasing productivity and profitability.

3. Market Leasing Assumptions

An accurate and agile rent planning process can maximize profits across the business. Increasing the accuracy and frequency of rent planning allows you to adjust your leasing assumptions as market and regulatory conditions change. When it comes to commercial lease planning, everything starts with the tenant – the type of lease they currently hold, the probability they renew, the type of industry they operate in, and the relationship you've had with them since they first signed their lease.

Analyzing your data from multiple angles helps to pinpoint trends that may improve your ability to predict whether a tenant is more likely to renew.



Moreover, incorporating many external variables into your plans like potential rent increases, the future rise/fall in demand for commercial rentals, and economic cycles can increase accuracy and help you become more agile. The goal is to have a set of assumptions that are reliable and that can be robust if changes need to occur.

4. Cash Flow Planning

Real estate companies thrive when they can accurately plan their cash inflows and outflows. In the face of inflation and higher interest rates, it has never been more important to know exactly where your company's cash position stands. There are several ways to better monitor and manage your cash flows, including:

- Providing property and project managers with a dashboard showing their outstanding receivables and payables
- Setting internal benchmarks that encourage managers to turnover their receivables faster and receive more favorable terms on payables from vendors or subcontractors
- Leveraging 13-week detailed forecasts to plan future cashflows
- Integrate existing cash forecasts with balance sheet planning to ensure covenants and other obligations are being met
- Create discounted cash flows more frequently to account for changing rates and how they are impacting the return on your assets
- Using technology to increase cashflows

The bottom line is that to increase profits, you need to collect cash as quickly as possible and only deploy it on the most value-adding investments. This can be achieved through better cash flow management standards at your company.

5. Use of Technology

You may not even be aware that technology exists to help streamline your organization and drive efficiency. Technology can help you to make decisions quickly and confidently, and better manage the costs and profitability of your business.

Understanding the profitability of each property or asset while minimizing costs and risk are paramount to longevity in the real estate industry. As we mentioned earlier, manual processes and spreadsheets limit visibility and agility because they are difficult to manage and update on a regular basis.

The use of technology to increase profitability for property or asset managers can:

- Centralize your workflows that facilitate the planning process by using only one data-entry template for all buildings and properties.
- Centralize modeling to reduce or eliminate overly complex spreadsheets
- Run different scenarios to assess various potential outcomes
- Combine historical data with market data to intelligently plan for the future

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- Facilitate collaboration among property management and corporate administrators to build more profitable plans
 - Frequently track and manage data across all systems so you can see vital KPIs related to profits, ROI, average rent per unit, tenant turnover rates and cash flow
 - Daily analytics that help to identify cost increases and issues early on
 - Bring data together from all sources to minimize switching between systems
 - Create dashboards that help you run your properties or projects more effectively
 - Integrate data sources for a complete view across all areas of your operation, including:
 - Financial health by property
 - Maintenance costs
 - Tenants assumptions
 - Staffing levels (past and future)
 - Modeling potential outcomes
 - Regulatory changes
 - Pay increases
 - Material and equipment cost increases

Maximizing tenant satisfaction, rent, and ROI are critical to running a sustainable real estate enterprise. Because the industry is very competitive and susceptible to

economic conditions, gaining even the slightest edge from technology can help you find success.

Prophix's financial performance management platform empowers effective decision-making because it facilitates accurate forecasting, which is critical to achieving greater profitability.





What's Ahead for Real Estate



What's Ahead for Real Estate

There are several challenges and opportunities ahead for real estate companies coming out of a challenging few years. In the near future, companies will continue to feel the economic pressures created by high inflation and rising interest rates. Development projects will slow down due to tighter funding constraints by the banks and supply chains will continue to restrict the flow of materials to job sites.

Environmental, Social, Governance (ESG) will play an even bigger role in the years to come as well. IFRS and other reporting standards require public companies to disclose climate initiatives and address environmental concerns. Companies that showcase a heavy commitment to ESG will most likely benefit from added investor interests that would like to support these global causes. Despite this breakthrough, according to a [2022 Global CEO Survey](#) from PWC, only 19% of real estate executives said their organization had commitments to net-zero greenhouse gas emissions.

One thing is for sure, innovative technology platforms will be a critical and worthwhile investment to help reduce the cost of your operations, optimize return on investment and tenant satisfaction, and reduce the need for spreadsheets and manual tasks. Improve your profitability with the right platform for forecasting, scenario planning, and revenue planning and analysis. The right technology will help you plan for tomorrow, today, so you can be agile and meet the needs of your real estate community.



Benefits of Using a Technology Solution to Increase Profitability

- ⬡ Standardize your operations across finance and accounting
- ⬡ Streamline your FP&A and financial close activities
- ⬡ Standardize your data and workflows
- ⬡ Increase user productivity
- ⬡ Self-serve capabilities for each operator and location
- ⬡ Increase efficiency
- ⬡ Have a single source of truth (SSoT) to drive your decision-making
- ⬡ Improve business agility to make decisions faster
- ⬡ Increase profitability

Ready to get started?

See how you can improve your agility and resiliency with Prophix.

[Try it now](#)

About Prophix®

Ambitious finance leaders rely on Prophix® to plan smarter, move faster, and lead with greater control. Prophix One™, a Financial Performance Platform, connects planning, budgeting, forecasting, reporting, reconciliation, and consolidation in one unified experience.

With a complete suite of scalable solutions, AI-powered automation, and data you can trust, Prophix helps teams eliminate manual work, improve accuracy, and deliver insights that drive business results. Backed by nearly 40 years of experience, more than 3,000 active customers partner with Prophix to simplify complexity and stay ready for what's next. www.prophix.com

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