

REPORT

2022 Lease Market Analysis:

Lease Accounting Readiness

New data and insights to help you
take control of your lease portfolio.

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Executive Summary

Aside from people expenses (a.k.a. all headcount-related costs), do you know what the next highest expense line item in your organization's budget is?

For many, the answer to this question is the cost and value of your **leases**.

When you consider commercial real estate, vehicles, equipment, land and more, this reality isn't surprising. What is shocking, however, is that although most organizations have robust financial controls in place to monitor people-related expenses (salaries, benefits, T&E, etc.), the same can't always be said for their lease portfolio-related expenses.

For 25+ years, we've been in the business of helping organizations manage, track and report on their leases, and we've seen firsthand just how detrimental inadequate controls can be. Despite industry or size, the outcome is always the same: poor visibility across your leases results in significant amounts of time, money and potential business gains lost.

To grasp just how much is at stake here, consider that a lease can cost businesses hundreds of millions of dollars, which begs the question: **why wouldn't you pay closer attention to such a large percentage of your operating expenses, particularly as your business needs and the market continues to change?**

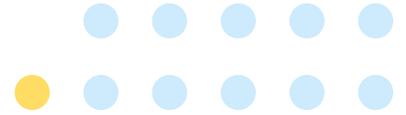
What's more is that proper lease management is the key to confident, ongoing lease accounting compliance, which is critical for public and private companies, in addition to government entities, all

of which are now required to record leases on the balance sheet in accordance with the ASC 842, IFRS 16 and GASB 87 lease accounting standards. If they fail to do this correctly, they risk increased audit fees and fines, potential legal action and damaged credibility.

While the advantages of investing in sound lease management and accounting processes are clear, getting there requires successfully navigating competing business priorities, such as inflation, talent shortages and the ongoing struggle to adjust in a newly post-pandemic world.

In this report, you will receive the insights you need to get a handle on your lease portfolio, including:

- 1** Common lease accounting challenges and roadblocks experienced by the two largest markets that are moving to adopt the new lease accounting standards: **private companies** and **government entities**
- 2** Benefits of strong lease management and lease accounting processes
- 3** How to leverage your leases to make faster, smarter business decisions



Common Challenges Impacting the Private and Government Markets

Private companies



Since the introduction of the lease accounting standards, impacted private companies have been **slow** to make the transition.

This was apparent in July 2021, when [The Visual Lease Data Institute](#) reported that 75% of surveyed private companies were not yet fully compliant with ASC 842, and 40% said they were underconfident in their ability to comply with the new lease accounting standard because they didn't have all the necessary lease data gathered.

Accounting Standard	Audience	Impacting	Effective Date
ASC 842	Public Companies	Leases	12/15/18*
ASC 842	Private Companies	Leases	12/15/21*
GASB 87	Government Entities	Leases	6/15/22*
GASB 96	Government Entities	Subscription-Based Information Technology Agreements (SBITAs)	6/15/22*

* Refers to annual disclosures submitted after this date, regardless of the fiscal reporting calendar of the organization.



33%
of private companies are not fully prepared to adopt ASC 842

Today, nearly all private companies (**98%**) have started the transition to ASC 842, but **one-third (33%) are still not fully prepared to transition to the new standard**, which points to the massive pressure organizations are under as they attempt to retroactively learn and organize the details of their leases in advance of their initial reporting period under the new lease accounting standard.

Despite the private market making progress toward lease accounting compliance, many companies are not yet where they should be in order to successfully achieve and maintain compliance. This opens them up to the very real risk of misreporting their lease information.

***In fact, a staggering 99% of senior finance and accounting professionals surveyed at private companies acknowledge real fears in potentially misreporting company lease information, including:**

51% Increased audit fees and fines

48% Risk of legal action

49% Damage to a company's credibility

44% Damage to their own professional reputation

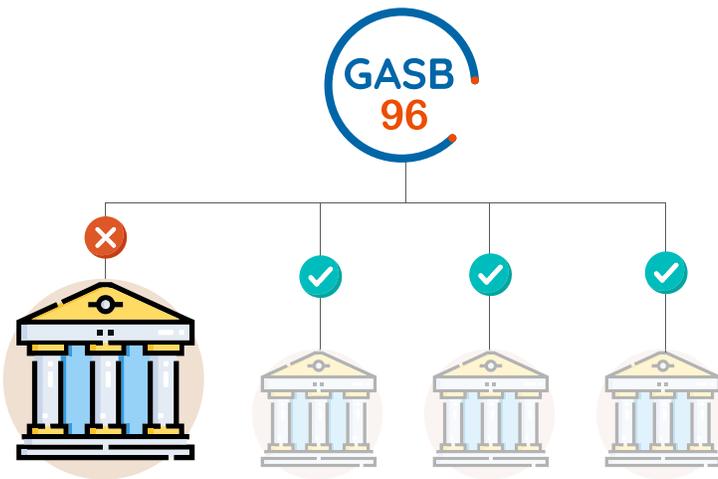
* According to 2021 Lease Market Analysis

Government entities

Despite the GASB 87 effective date being six months earlier (June 15, 2021), an even larger portion of the government market (44%) is not fully prepared to transition to GASB 87, and only 18% are at a point where they're considering the maintenance required beyond initial compliance.

In addition, GASB issued Statement No. 96 (GASB 96), which has similar implications for how impacted government entities account for their Subscription-Based Information Technology Agreements or SBITAs for fiscal years beginning after June 15, 2022. **Regardless of the timeliness of this new standard, nearly one-fourth of government entities are unaware of it.**

GASB 96 Awareness



Of those that are in the know, 95% have concerns around adopting GASB 96 – the biggest one being that they're first focused on trying to comply with GASB 87.

This data reinforces the notion that organizations tend to underestimate and procrastinate on moving forward with the work required to comply with new accounting standards, a trend which was also evident in [The Visual Lease Data Institute's 2021 Lease Market Analysis: The Road to ASC 842 Readiness](#).

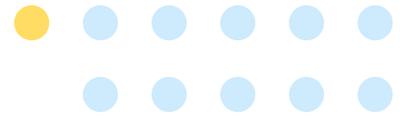


Impacts of GASB 96

GASB Statement No. 96 Subscription-Based IT Agreements (SBITAs) establishes standards for accounting and financial reporting for software agreements, as well as any associated assets or payments included in the contracts.

This is the first guidance that GASB has provided for SBITAs. GASB 96 defines a SBITA as a contract that conveys the right to use another party's (SBITA vendor's) IT software, alone or in combination with tangible capital assets for a period of time in an exchange or exchange-like transaction.

GASB 96 instructs accounting teams to treat their software agreements the same way they would treat their leases under GASB 87.



What's causing companies to delay their transition to the new lease accounting standards?

There are several competing business concerns that are impacting the adoption of lease accounting standards for both private companies and government entities, such as:

Potential talent shortages and retention issues

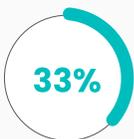


Ninety-three percent (**93%**) of private companies say their team is already stretched thin, making the transition to compliance with ASC 842 even more overwhelming. And nearly 40% cite concerns over employee burnout as they face the work required to achieve proper lease controls and accounting across their portfolio.

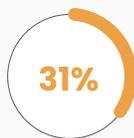


Similarly, (**86%**) of government entities say their team is already stretched thin, making the transition to compliance with GASB 87 even more overwhelming.

The demands of ongoing education



Knowledge maintenance ranked as a top obstacle that private companies (**33%**) had to overcome throughout their lease accounting processes.



One-third (**31%**) of private companies ranked knowledge maintenance as a top obstacle they had to overcome throughout their lease accounting process.

Digital transformation



Thirty percent (**30%**) of private companies reported adopting new technologies as a leading obstacle in their lease accounting projects.



Nearly forty percent (**38%**) of government entities cited challenges in adopting new technologies into the lease accounting process as a top concern.

Among other concerns and obstacles are the ongoing effects of the pandemic, facilitating interdepartmental collaboration/coordination and developing new processes, policies and controls.

Both private companies and government entities have found that without defined roles and processes in place, it is difficult to efficiently identify all lease agreements and embedded leases, abstract lease data and accurately classify and validate all leases. Incomplete lease data not only delays the lease accounting process, but can also create additional stress when it comes time for an organization's year-end audit.

How much time is spent preparing for lease accounting success?

The global economic climate is creating widespread concerns about the resource constraints with respect to getting this work effort done in preparation for the first round of audits now that the standards are in full effect.

For the second consecutive year, The Visual Lease Data Institute's Lease Market Analysis illustrates just how time-consuming lease data collection – one of the first and most important steps – really is.



Private companies that are not using third-party software **expect to spend 1,582 hours** gathering all necessary lease information.*

**According to 2021 Lease Market Analysis*

While gathering all lease documents and abstracting data can undoubtedly be a time-consuming process, it is essential for lease accounting compliance, as companies are unable to accurately report on their leases until they have a firm handle on the details within their agreements.

Having a centralized system of record can help businesses organize and maintain control over their leases, while simultaneously creating many efficiencies along the way. In fact, both private companies and government entities have reported that third-party lease accounting software has helped them:

- Replace and streamline essential, manual tasks and improve accuracy through automation
- Keep employees in the know of rules and regulations
- Introduce a new level of customer service and support available to their internal teams, while simultaneously reducing the risk of misreporting company lease information

Because of these many advantages, **private companies** were able to **save an average of 600 hours** and **government entities** were able to **save an average of 765 hours** by using third-party lease accounting software.

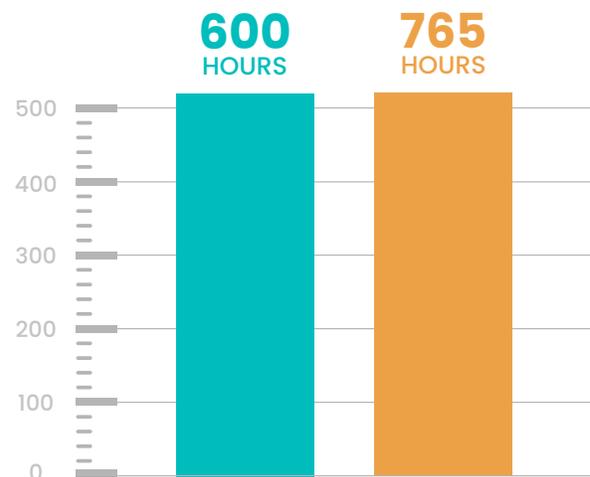


"Saving time is important to us, given we don't have a lot of people on our team. Visual Lease has made us at least 50% more efficient."

Dru Ingram

VP Corporate Controller

Bassett Furniture



Est. Hours Saved Using Lease Accounting Software



The Benefits of Strong Lease Controls and Accounting

As organizations continue to grapple with the aftershocks of the pandemic, many are prioritizing the ability to remain flexible to be able to pivot when the business climate changes. **However, 98% of private companies are concerned that they will not be able to react to unforeseen circumstances, such as supply chain disruptions and inflation.**

The inability to make quick, strategic decisions often stems from a lack of knowledge – and **71% of private companies are not completely confident that they know how much all of their current leases are costing them.**

Thankfully, the new lease accounting standards encourage organizations to adopt a centralized view of their lease portfolio, providing them with an opportunity to prioritize a proper lease management strategy. In turn, this provides them with much of the information they require to remain adaptable.

Using lease data to gain greater visibility into expenses

Using a centralized system of record for leases provides companies with the ability to quickly and easily access crucial terms and clauses, such as the ability to exit, extend or change a lease.



“It is common for our clients to leverage their lease accounting system to analyze spend on leased property and equipment.

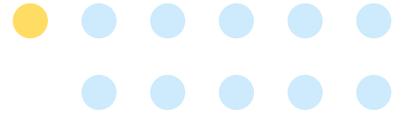
They perform this analysis not only to maintain compliance with the new standard, but also, to make strategic decisions like whether to lease vs. buy or to negotiate early buyouts of existing leases.”

Troy Sheehan,
Director



“We basically had an Excel spreadsheet – it wasn’t very practical for such a large organization with several leases and several options. It just didn’t make sense. It was a very manual process to run reports. I was asking other people what software they use, and how they track their leases, and Visual Lease kept coming up. I was told how simple it was to use and how easy, so that was very attractive.”

Ken Skierski,
Global Real Estate Manager

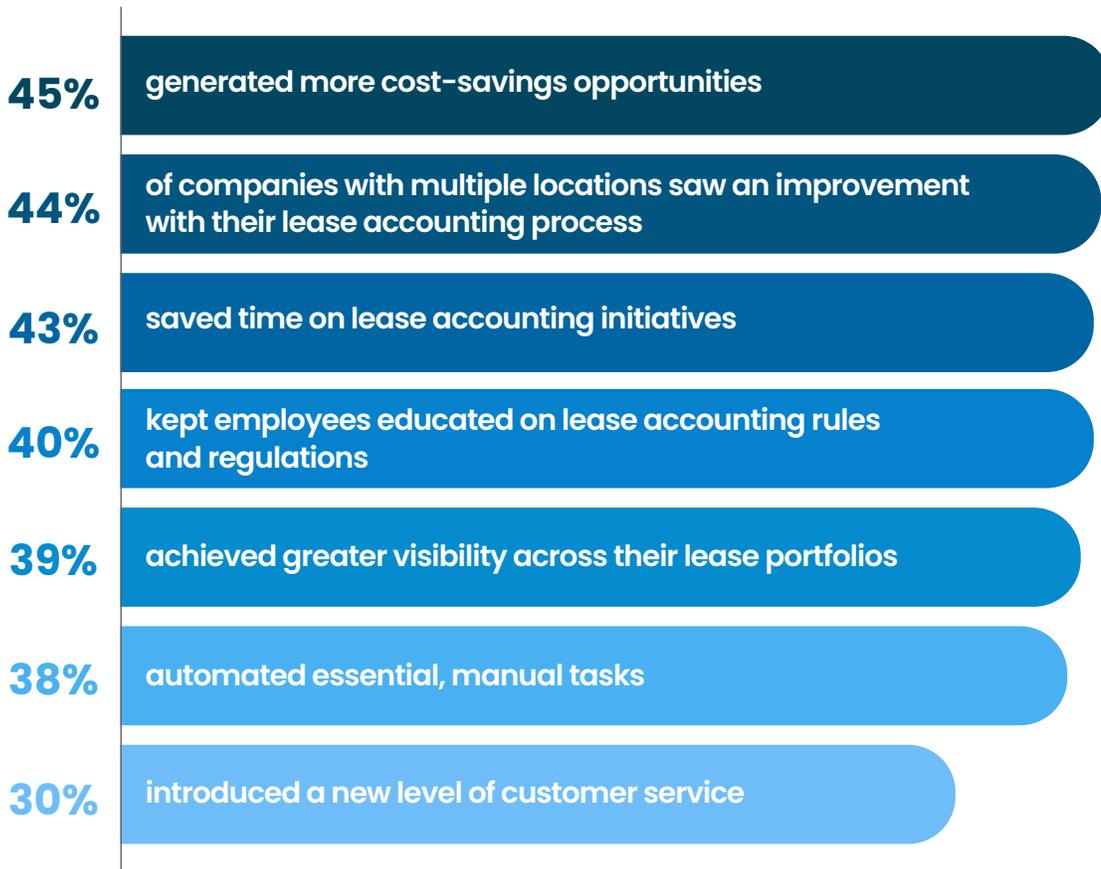


With this newfound visibility, companies can respond to unforeseen circumstances strategically, such as a retailer needing to shutter brick-and-mortar locations or exercise an exclusivity or force majeure clause to protect the future of its business.

While some organizations manage and report on their leases using Excel, research has repeatedly shown that 90% of spreadsheets contain errors with 50% of processes enabled through those spreadsheets having “material defects.”

Not only can these errors be destructive to a business’s internal controls and operations, but poor lease accounting can also lead to failed audits, fines and reduced credit ratings.

In fact, the private companies surveyed identified the following benefits of using third-party lease accounting software:



Similarly, 100% of government entities recognize there are benefits to using third-party lease accounting software. Just as it was for the private market, the most coveted benefit was the ability to generate cost-saving opportunities due to increased visibility across the lease portfolio.



How to Leverage Your Leases to Make Smarter, Faster Decisions

Despite how complicated the lease accounting process is, **71% of private companies believe ASC 842 presents an opportunity for their business.**

Conversely, just over half of government entities feel the same way about GASB 87. This disparity is a result of the government market being slower to adopt dedicated technology, and therefore, unable to realize all the benefits associated with the lease accounting process.



1. The first step toward leveraging your leases to make strategic business decisions is to implement a centralized system of record

Through the years, we’ve heard many organizations complain about the same issue when transitioning to the new lease accounting standards: the inability to handle ongoing lease changes and subsequent remeasurements while also maintaining important internal controls and auditability. **This all stems from poor lease management, and it has major implications as leasing needs will continue to evolve, particularly in today’s environment where companies must be able to adapt to survive.**

Once you’ve decided to invest in dedicated technology, prioritize a solution that facilitates cross-departmental collaboration and is flexible enough to handle complex leasing scenarios and reporting requirements. This will empower you to successfully adopt the new standards and maintain visibility across your portfolio.



“One of the things that I love about Visual Lease is that not only can you plug in and house a wealth of data in the platform, but you can also easily export this data when you want to do a deep dive or when you want to collaborate with other teams without having to have them physically log into the platform.”

Angel Chavarria,
Corporate Real Estate & Facilities Manager



“What I like best about Visual Lease is that it does all of our accounting lease calculations for us. So, it makes it really simplistic and provides a single source of truth for all that lease data. From an auditability standpoint, it gives our auditors a lot of comfort that we are utilizing the right figures to get the right results.”

Anthony Cacchiani,
Senior Manager of Global Finance



2. Adding new systems will only take you so far, so make sure your tech solutions are speaking to one another

Review your tech stack to understand how you can integrate your lease data with your ERP systems. Ideally, this will enable you to schedule, monitor, manage and automate data imports and exports between systems.

By streamlining data flows across your technology ecosystem, you'll have a clearer picture of how the terms of your leases are impacting different areas of your business.

For example, consider the many businesses that were impacted by the onset of COVID-19. Those who had access to centralized lease data were in a much better position than those who didn't. With the ability to assess the terms of their agreements, they could quickly make the decisions they needed to stay afloat, such as seeking someone to sublease their property or exiting an agreement early.



3. Once you've implemented and integrated a new solution and automated data flows, prioritize ongoing lease management

Don't just collect and organize your lease data and then let it be.

You must consult with all involved internal departments (accounting, real estate, legal, etc.), as well as any third parties, to ensure those who are accountable for inputting and updating information are aware of their specific responsibility.

Facilitating cross-departmental collaboration will empower you to create strong and repeatable processes, which will:

- ✓ Make for easier audit prep with easy-to-access and readily available lease information for your team to provide to your auditor(s)
- ✓ Ensure easy and sustained lease accounting compliance, powered by accurate and complete lease data
- ✓ Mitigate the risk associated with misreporting or overlooking important lease information



4. Have the foresight to use your lease data as a guide

Once you have accurate and complete lease data, and have implemented a centralized system that integrates with your existing technology, you will have the opportunity to leverage your leases to make better business decisions.

Create dashboards and data visualizations to understand where opportunities lie – with this newfound visibility into what is likely your second largest operating expense, you will identify ways to save money.

Consider [Newmark](#), a commercial real estate advisory and services firm, who utilized its lease data to create customized dashboards for its clients, which provided real-time insight into:

- ✓ Critical dates per their lease agreements
- ✓ Space occupancy
- ✓ Data errors and resulting areas of opportunity
- ✓ Possible impacts to leased locations as result of dangerous weather



NEWMARK

“The whole mentality of the workplace is changing, and that means that businesses are looking at their portfolios. With Visual Lease, organizations can understand their options and act on them in a timely manner.”

Executive Managing Director and GCS Head of Technology



Conclusion

It is evident that while private companies and government entities are working to transition to the new lease accounting standards, there is still significant progress to be made.

If impacted organizations fail to recognize the implications of today's economic climate and resource constraints, they not only risk their ability to meet and sustain lease accounting compliance, but also, the opportunity to exercise strategic foresight.

Media Contact

Erica Bonavitacola

Visual Lease

T+1 732 770 2270

ebonavitacola@visuallease.com



About The Visual Lease Data Institute:

The Visual Lease Data Institute is a collection of market-leading data, trends and insights on lease accounting, management and optimization created and curated by Visual Lease, provider of the #1 lease optimization software. The Institute was founded on 35 years of experience managing lease data and financials, and was created to arm organizations with the knowledge required to achieve and maintain lease accounting compliance and leverage their leases as strategic business assets.

2022 Lease Market Analysis: Lease Accounting Readiness Methodological Notes

The Visual Lease Government Survey was conducted by Wakefield Research (www.wakefieldresearch.com) among 100 US financial management professionals, with a seniority of Director+ or equivalent, at local, state and federal governmental organizations, including a requirement that their organization needs to adopt GASB 87, between May 26th and June 3rd, 2022, using an email invitation and an online survey.

Results of any sample are subject to sampling variation. The magnitude of the variation is measurable and is affected by the number of interviews and the level of the percentages expressing the results. For the interviews conducted in this particular study, the chances are 95 in 100 that a survey result does not vary, plus or minus, by more than 9.8 percentage points from the result that would be obtained if interviews had been conducted with all persons in the universe represented by the sample.

The Visual Lease Private Company Survey was conducted by Wakefield Research (www.wakefieldresearch.com) among 200 senior Finance and Accounting Professionals, with seniority of Director+, at Companies of 1,000+ employees, between May 26th and June 3rd, 2022, using an email invitation and an online survey.

Results of any sample are subject to sampling variation. The magnitude of the variation is measurable and is affected by the number of interviews and the level of the percentages expressing the results. For the interviews conducted in this particular study, the chances are 95 in 100 that a survey result does not vary, plus or minus, by more than 6.9 percentage points from the result that would be obtained if interviews had been conducted with all persons in the universe represented by the sample.