

Minto: Streamlining Expense Recovery Across Complex Commercial Leases

Company

The Minto Group Inc.

Headquarters

Ottawa, Ontario, Canada

Industry, products, and services

Real estate development, construction, and management

Web site

www.minto.com

SAP® solutions

SAP® ERP application, SAP Common Area Maintenance Expense Recovery application

Creating Safe and Pleasant Workspaces for Thousands

Every morning in Canada's cities, thousands of people arrive to start their daily routine in office buildings of all sizes and shapes. The luckiest workers pursue their tasks in clean, comfortable, well-lit spaces designed for minimal ecological impact. The common-area maintenance expertise of the Minto Group Inc. (Minto) makes office life more pleasant for countless people – and **keeps distribution of shared costs efficient and equitable.**

From a small, family-owned construction firm in Ottawa in the 1950s, Minto has grown into an international real estate development, construction, and management company. Today Minto has built over 70,000 homes and manages 17,000 residential units, 900 hospitality suites, and nearly 3 million square feet of commercial space in Canada, Florida, and London. The Canadian federal government leases about 60% of the office space, and fully half of Minto's industrial and commercial square footage is certified green space.

Minto employs nearly 1,400 people and entered the new millennium with separate best-in-class solutions for financial processing, rental management, and land development. But it has since consolidated diverse legacy systems into a single software infrastructure using the SAP® ERP application. Recently, Minto leaders wrestled with new challenges related to negotiating and implementing tenant-specific rules for recovery of common-area maintenance expenses in commercial space.

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Building for profitability and accountability

An automated expense reconciliation solution topped Minto's list of business priorities in commercial real estate management – an industry that demands timely return on investment. Manual distribution of real estate taxes, administrative expenses, and metered expenses for electricity, water, and gas was slowing down common-area expense settlement. Meeting the needs of savvy individual tenants meant dealing with a portfolio of 700 leases in which no leases were identical. And stricter government regulations added requirements for ease of audit to the already complex rules and time-consuming tasks of expense recovery.

Functionality in SAP ERP had already helped Minto standardize systems and processes across business functions, deliver consistent real-time information to decision makers, and increase cost efficiencies. Steering reconciliation operations more efficiently would add even more value and directly benefit commercial and industrial end customers.

Minto wanted to base the implementation of new software for recovery of common-area expenses on industry best practices and the overarching goals of flexibility and scalability. The ideal solution would raise a strong foundation for current processes while retaining the flexibility to accommodate future growth and diversification smoothly.

“We needed to streamline common area expense recovery processes to shorten our reconciliation cycles and improve our confidence in overall cash flow.”

Robin Garvey, Vice President of Project Management and Delivery, The Minto Group Inc.



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Finding a trusted partner with a robust, integrated solution

When Minto chose to consolidate its legacy systems into a single software infrastructure, it assembled a diverse selection committee of 20 stakeholders who looked carefully at a number of possible solutions. Only a few of the candidates were part of world-class integrated solutions in which back-office financial and administrative functions aligned cleanly with client-facing business processes. Of the companies with robust solutions, only SAP could offer solutions with complete enterprise functionality and nondisruptive implementation, with a viable road map to the expansion and diversification Minto projected. Minto selected SAP ERP and later added more software from SAP for real estate management. When the time came for Minto to invest in new software for the recovery of common-area expenses, the SAP Common Area Maintenance Expense Recovery application was the logical and best choice.

“Several members of the evaluation team were concerned about how dated our legacy solutions had become. By choosing a world-class SAP solution, we could be sure of keeping our software current through regular upgrades.”

Robin Garvey, Vice President of Project Management and Delivery, The Minto Group Inc.



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Aiming for rigor with flexibility

The implementation team first addressed the setup of master data related to common areas. The charges they arranged to recover and distribute included purchased services, as well as goods, taxes, allocations for corporate overhead, management assessments, and administrative fees. The key objective was full integration with financials processing and the SAP Real Estate Management application. The project road map also called for processes to accommodate seasonality, early lease termination, and separate distribution methods for offices within one building, along with extensive testing before the solution went live.

About midway through the implementation, the diversity of Minto's lease portfolio demanded extra attention, and SAP proved itself responsive to the evolving requirements. To extend the functionality for recovery of service charges, the SAP team for SAP Common Area Maintenance Expense Recovery worked closely with Minto. Soliciting input from a number of real estate companies, the team designed comprehensive support for the types of site expenses and settlement calculation methods in play in Minto lease operations. To recover the roughly 30% of costs represented by shared utilities, the team developed a new metering functionality and integrated it into the base software. The application testing was adjusted in partnership with Minto to take into account the change in schedule and the additional functionality.



~30%

Costs represented
by shared utilities



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Organizing expense settlement step-by-step

Minto has now ramped up SAP Common Area Maintenance Expense Recovery across Canada. The team has integrated the solution with functionality in SAP ERP for materials management, real estate flex, plant management, fixed-asset management, business planning and consolidation, and business intelligence. Currently, the team is adapting the solution to additional business processes. The back office interfaces smoothly with functions for business users, keeping calculations, postings, and invoices consistent across functional boundaries. Reliable real-time information arms all stakeholders for quick and informed decision making.

The solution automatically identifies expenses to recover and provides an automated step-by-step expense settlement process across leases. Manual study of tenant provisions and duplicate entry of detailed data are relics of the past, since the process imports information directly from leases. Users can display an existing settlement or simulate a settlement for display only or with the intent to review and settle. They can stop and restart the process at any point or undo it to any specified step. The process helps recover property taxes, utility costs, and operating expenses separately for visibility and compliance. And to boost flexibility in negotiations with future clients, the software has built-in support for variations in charges and methodologies in new leases.

“With the SAP Common Area Maintenance Expense Recovery application, we gain both an ongoing trusted partnership with the provider and a beautifully integrated tool whose possibilities we are just beginning to explore.”

Robin Garvey, Vice President of Project Management and Delivery, The Minto Group Inc.



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Reaping the benefits

Minto expects to realize substantial benefits from the SAP Common Area Maintenance Expense Recovery application. Processes to calculate expenses and distribute each tenant's share will be almost fully automated. Execution times for reconciliation are expected to drop by over 75%, from months to weeks, and the accounting staff has been able to concentrate on tasks that add greater value. Because they can run quarterly simulations, managers can judge earlier how successful lease negotiations have been and project corporate cash flow more accurately. They have greater confidence in day-to-day business results, even as the number of complex leases for mixed-use buildings increases. Account managers can simulate expense recovery up front rather than finding out later on from back-of-house analytics that they need to increase rates per square foot to cover consolidated expenses.

Costs for managing leases have decreased with the implementation of monitoring and control of expense

types for common areas. Minto can rely on steady income against common-area invoices, using the resulting funds to optimize investment planning. And when new distribution rules arise from tenant demands or government regulations, fine-tuning process streams to incorporate them while maintaining transparency is a straightforward matter.

In short, effective recovery of expenses helps secure the sound performance of the property management portfolio and the whole real estate enterprise.



75%

Reduction in time
expected for the expense
recovery cycle



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Anticipating continued success

The Minto team is currently expanding its set of analytics documents, adding a slippage report to forecast potential shortfalls in expense coverage. In the short term, the company plans to implement functionality for lease-level budgeting and to automate accruals for utility charges and period-end recoveries. The corporate strategy is to make continuous improvements in the environmental and technical superiority of all new homes, workspaces, and rental properties. And the commercial real estate organization hopes to double its square footage of managed space by 2016.

Minto's specialists in operations, leasing, and fit-up continue to embrace a team approach, quickly assessing and addressing change. And the company looks forward to leveraging an ongoing collaboration with SAP in the drive to fulfill that mission.



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