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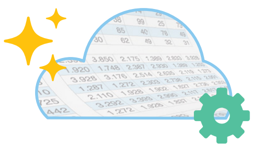
2025 Lease Accounting Outlook

How lease tech consolidation, AI and other trends will shape the year

6 Minute Read

Overview

This ebook will examine four prominent lease accounting and financial reporting trends in 2025, and what can be done to mitigate their impact.



1

CFOs Leading the Charge for Automation and AI

Accounting teams are on the front lines of empowering CFOs with AI and Cloud-enhanced data collection and analysis.

2

Expanding Sustainability Compliance

Much more stringent reporting across supply chains – known as Scope 3 compliance – is finally coming to the US.

3

Addressing the Accounting Talent Shortage

Advisory boards are finally putting concrete proposals into action to combat this critical issue.

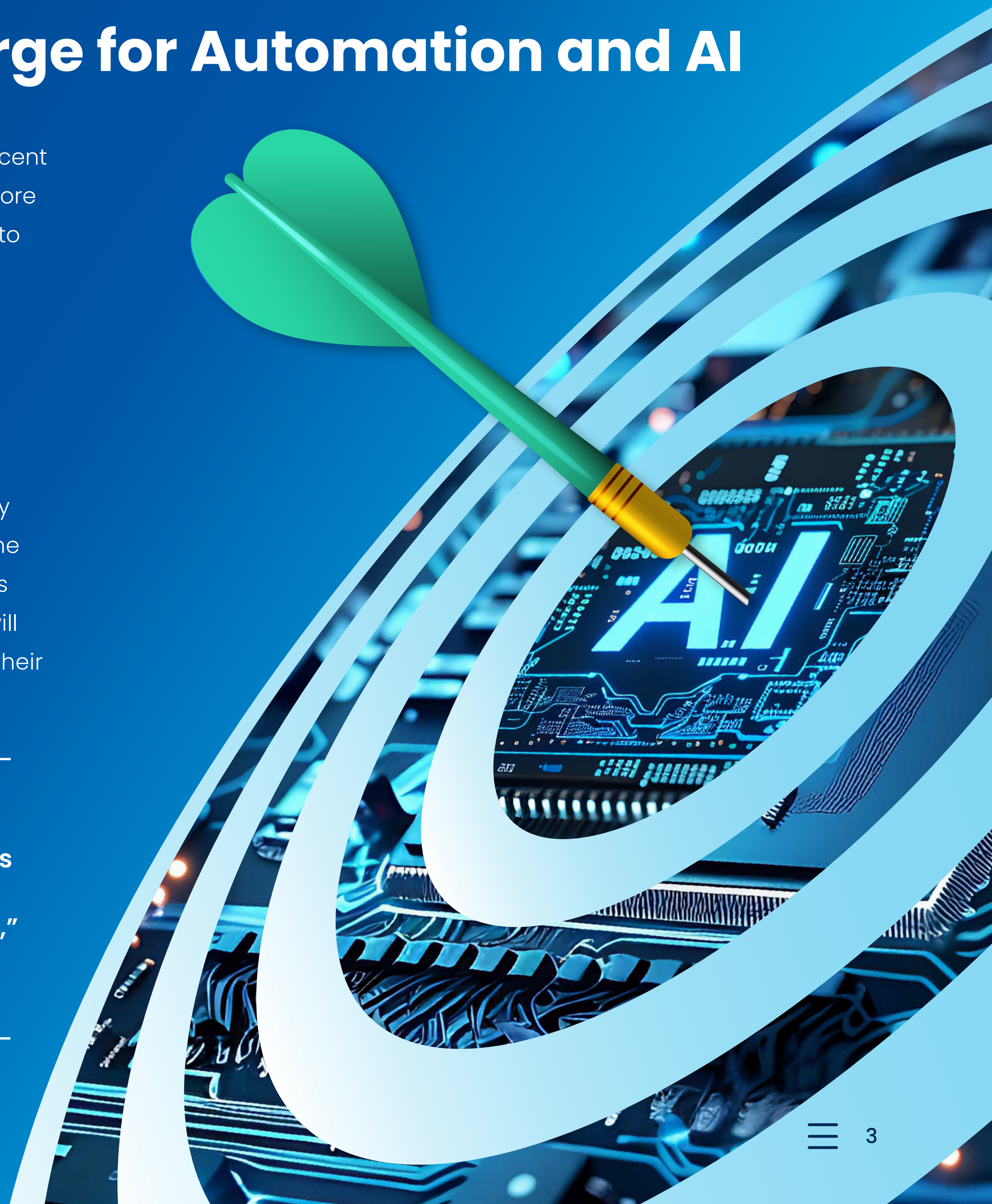
4

The Shrinking Lease Tech Landscape

As lease tech acquisitions continue, it's paramount to leverage well-developed platforms.

1. CFOs Leading the Charge for Automation and AI

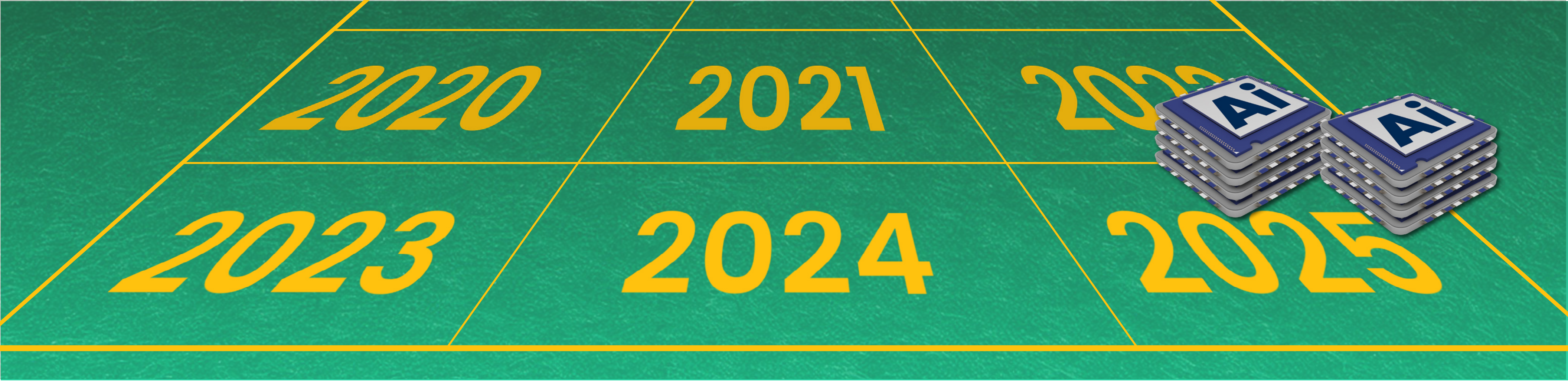
In a recent study from Tipalti, a leading fintech company, 72 percent of financial executives agree that CFOs are tasked with doing more with less, and the same percentage indicated that they're likely to look to implementing AI and prioritizing digital transformation to achieve their business goals.



What's changing in 2025?

In the same study, almost 2/3rds of executives rated their organization's readiness for this digital transformation as moderate or less. Where past CFOs were able to focus primarily on the bottom line, today CFOs are facing more internal (e.g. the accountant talent shortage, which we expand upon later in this book) and external investor pressures than ever before. 2025 will be a banner year for them becoming key-decision-makers in their organizations' AI readiness.

> **As CFOs want to lead their companies in building efficient back office teams, it's imperative they harness the transformative power of digital technology to streamline workflows and eliminate manual processes,"**
>
> **- Sarah Spoja, CFO of Tipalti Research**



How will it impact lease accounting?

This won't strictly concern the platforms, technologies and providers who are answering the call for modernization and digital transformation. It will require change and evolution on the part of the people working with this every day.

Accounting teams must evolve to adopt more sophisticated compliance frameworks and risk assessment tools, upskilling themselves with continuous learning and innovative approaches. This will involve discerning which platforms truly offer AI functionality powered by machine-learning models that don't require tedious manual reviews to validate data.

Data security and integrity must not be compromised as capabilities expand, either. Accounting teams must pivot to systems that do not share data with outside sources, introducing risk and uncertainty. As we mention in other chapters, rampant consolidation amidst platforms means it is paramount to align with stable, well-capitalized providers who aren't at risk at being sold off or combined to unknown operators.

The accounting teams of today must identify these providers and work together with their CFOs to lead their organizations on a united front in embracing and implementing this rapid change.

This will determine the direction and success of revenue operations for their respective enterprises for years to come.

LEARN MORE
Watch The Lease Alert Podcast how AI will make a difference in Lease Accounting.

2. Expanding Sustainability Compliance

US-based compliance discourse around carbon/sustainability/ESG accounting standards have lagged compared to global initiatives. California, however, is on the verge of enshrining stricter standards into a new law.

> **Companies can no longer delay fully engaging in detailed ESG accounting.**

What's changing in 2025?

Companies doing business with the largest US economy will now have to account for carbon data from their partners and suppliers as well as their own.

This California legislation (SB 253) would force companies with over $1 billion in revenue, even if privately held, to detail greenhouse gas emissions according to the most stringent reporting frameworks used globally: Scope 3. This goes even beyond regulations recommended by the Securities and Exchange Commision (SEC).

How will it impact lease accounting?

It will become more important than ever for corporate real estate ESG data – such as utility consumption, energy certificates and varying lease structures to not only be tracked, but also verified and auditable.

Most organizations are ill-suited to meet the moment. A survey from advisory firm KPMG found that only 29% of companies consider themselves ready to subject their ESG data to an "assurance" process. Lease accountants will be responsible for the veracity of this new flood of data. If they're not prepared with solutions that leverage automation and alerts to help them avoid costly manual errors, the impact to their organization's bottom line could be seismic.

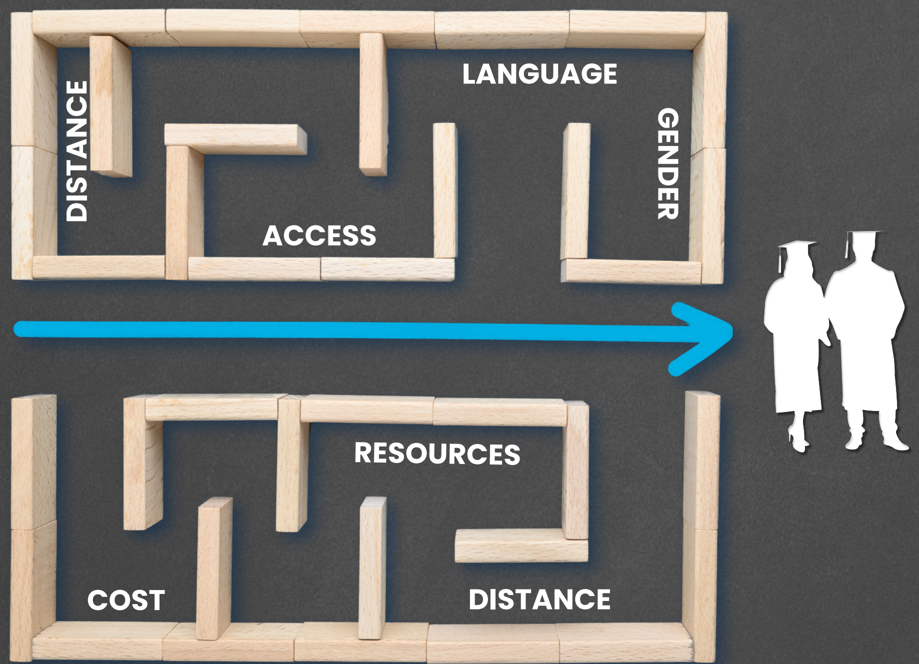
LEARN MORE
Read more about ESG Initiatives & Lease Accounting on costarmanager.com

3. Addressing the Accounting Talent Shortage

A recent report from the National Piepline Advisory Group (NPAG), the leading accounting advisory board, not only outlined just how far new accounting degree completions had fallen (17 percent from 2017 to 2022), but also outlined a series of reforms to lower the barriers to entry for this most critical profession.

What's changing in 2025?

The accounting industry is looking to implement a wide series of initiatives from lowering the time and cost of education to expanding access for underrepresented groups and increasing outreach to grade school students.



> **Today's – and especially tomorrow's – labor market requires innovation, and what we've done in the past is unlikely to move the needle in the future.**

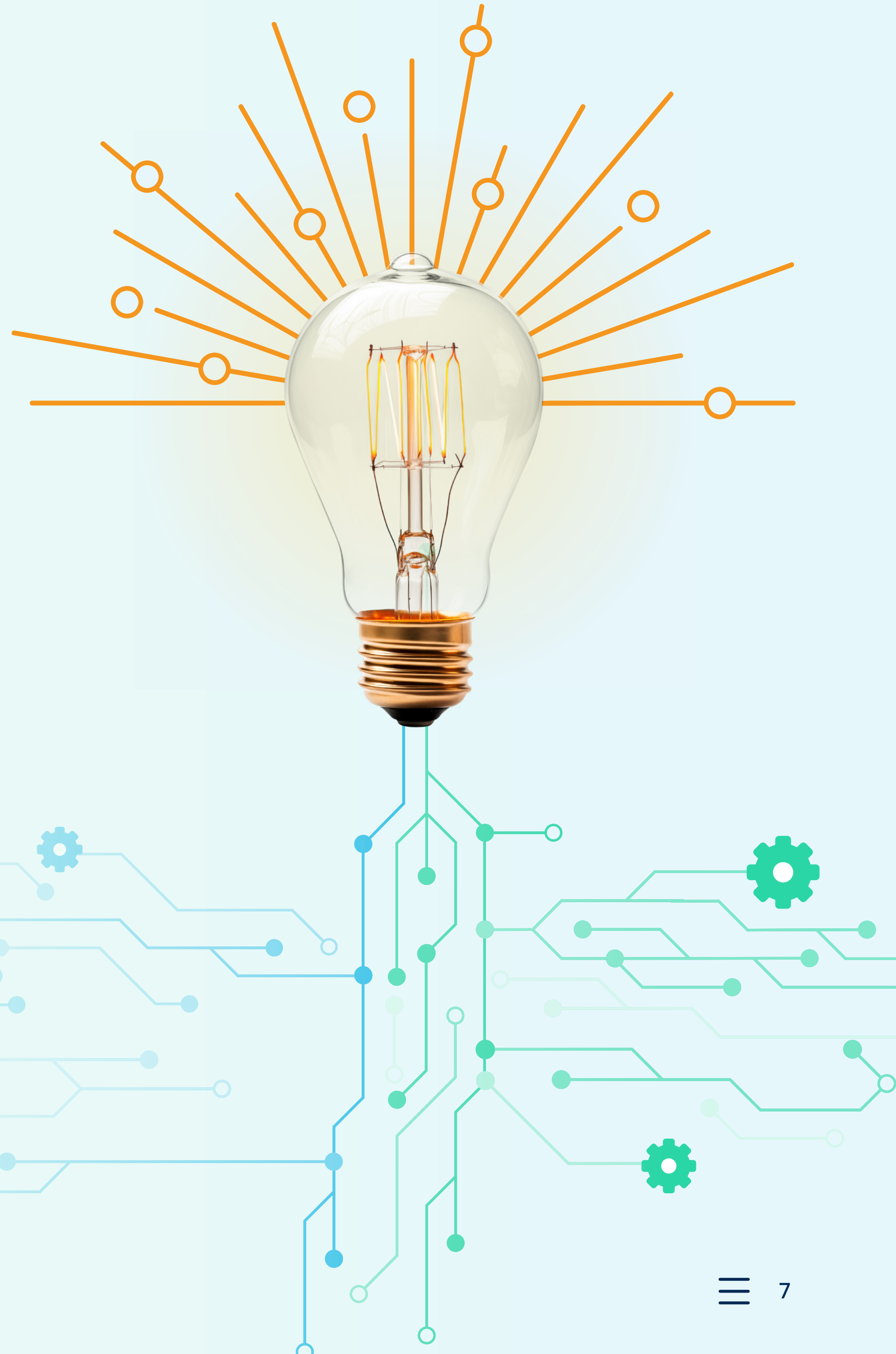
How will it impact lease accounting?

ASC 842 created and continues to offer a significant opportunity for accounting teams to engage in data analysis and offer more value to the business.

There are several KPIs explicitly outlined by the NPAG that would indicate that these reforms are successful. They include everything from increasing the number of students selecting accounting as a major to the retention rate of accounting professionals within firms and finance departments. This is a clear indicator that addressing this shortage cannot rest solely on bringing in new talent, but also it must involve prioritizing the satisfaction of accountants still in the field.

Companies must recognize that a crucial part of incentivizing accounting staff to engage in higher-value projects is to invest in the most advanced tools to automate repetitive, mundane tasks while simultaneously enabling detailed analytics.

And, as mentioned in the ESG section, lease accountants are well suited to take on the ESG/sustainability carbon accounting challenge, and much of the data collection effort will be similar.



LEARN MORE
Watch The Lease Alert Podcast to learn more about Accountant Burnout & Lease Accounting.

4. The Shrinking Lease Tech Landscape

Stop us if you've heard this one before.

In a specialized technology space that experiences a major event – something along the lines of the ASC 842 standard redefining compliance – several new competitors emerge with tech platforms that promise to solve whatever issues your enterprise may be facing faster than anyone else. What starts as an unknown frontier of growth and possibilities soon becomes a well-defined and mature market.

It's a very familiar curve, and what comes next is an industry-wide contraction that could very well determine the effectiveness of your lease accounting capabilities for years to come.

For organizations that rely more than ever on lease accounting tech, this isn't just an interesting story to page through in a trade publication. It's a very real depiction of the uncertainty and rampant change happening with the tools they need every day for their financial operations. The last 18 months alone have seen lease accounting providers acquire competing platforms only to then be acquired themselves by a larger, generalized software purveyor.

For lease accountants, that means realizing that the platform that you invested in on promises of support, active development and security may be an entirely different one if it's acquired by a venture capital firm or a mega software provider that simply wants to add another notch to an already-too-big portfolio of offerings. Even if the name of the product stays the same for now, can you be entirely confident that your platform's new owner has your interests in mind before theirs?

Can you be entirely confident that your data will be secure when you didn't vet the new acquiring body at all?

That bait-and-switch feeling doesn't have to be a reality. Lease accounting continuity and stability should be a priority for any enterprise, and that means aligning with lease accounting software providers who have an established track record of customer retention and support.

As combinations and consolidation continues in the lease accounting space, your business very well may depend upon it.

LEARN MORE
Read about Visual Lease being acquired by CoStar Real Estate Manager on costarmanager.com.

What Can Be Done Now?

If issues discussed in this eBook are troubling, perhaps it's because your organization isn't already managing lease accounting with the most advanced, most automated software system available.

A system that's been in development years before ASC 842 became the new standard. A system developed by experts who are looking ahead and already prepared for what's next.

Tackling the new ASC 842 lease accounting standard was challenging enough. But now after just a few years of using under-developed systems, many companies are closing the books on their initial lease accounting solution in favor of a more automated platform.

They're aiming to save their accounting staff hundreds of hours of performing manual work in spreadsheets – even after they bought software.

Learn more about the software system that's ready for all these issues and more at costarmanager.com.

Switch to CoStar Lease Accounting

Spend less time on ASC 842 and focus more on higher-value projects.

Matt Waters, CPA, Director of Lease Accounting & Sustainability

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The most advanced lease accounting solution from CoStar Real Estate Manager is already prepared to handle these evolving issues.

Automate your lease accounting and management operations with the most trusted and recommended software for ASC 842.

Get started now with CoStar

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