

EPISODE 1551

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Whitney Sewell (WS): This is your Daily Real Estate Syndication Show. I am your host, Whitney Sewell, where you are going to hear about a topic today that may not seem very exciting, and you're gonna hear us talk about that, as well. However, you need to be excited about it. And you need to learn more about it. If you're operating a business or if you are an investor. If you're passive, or whether you're active, you need to know more about accounting, you need to know more about your P&Ls and what that means. I've had to personally dive into this more and more over the last year or so in our business.

But our guest today is an expert in this. He's helping lots of people do this well in their businesses. His name is Mark Kappelman. Mark has 16 years of accounting operations, real estate experience with the company Real Estate Accounting. Over the past 10 years, Mark has acquired greater than 15 million in real estate across 40 units, providing him with hands-on experience across all types of real estate transactions. He's also an active investor across numerous real estate deals as an LP. He and his wife, as you'll hear through the conversation, have flipped numerous homes; his wife is also a CPA.

It's an interesting conversation just because we've been in the process, which you will hear more about in this conversation of hiring a controller so we can gain more control at LifeBridge capital over this process and bring it in-house. And really, so I can push it more, right? I can drill more into the process and take more third-party people out of the equation, however, Mark is here to talk to us about it, you know he does this third-party. And they seem to do very well. And so I enjoyed this conversation specifically because of what we are going through right now as we speak as we go back into tax season again. And as we are pushing as hard as we can to get those K-1s out on time this year for our investors, which is so important to us this year as every year.

But Mark's going to help you to do that better today. Something that has become near and dear to my heart over this last year is property accounting as exciting as that sounds to everyone, right? Man, it needs to be exciting, I can just share from personal experience, you better get excited about it. If you're dealing with, you know, thousands of investors, right? It's so important. And it has become more and more important on our end or for me personally, and our guest today is an expert in just that. Mark. Welcome to the show.

MK: Hey, Whitney, thank you. Thanks for having me,

WS: Honored to have you on. I'm looking forward to this conversation as I've been in the hiring process now for months for a controller and really just to bring more control in-house right of this process. And so I'm looking forward to talking to you Mark about this and getting some tips and help the listeners to do a better job at this as well.

We've overhauled this process over the last, I would say six months now as we brought management in-house as well, man, a lot of big changes and good changes, big changes, but really good ones for Life Bridge over the last six months in this degree. Mark, welcome to the show, give the listeners a little more about your background. I know you've done a lot in real estate also. And now you are hyper-focused on property accounting, you know, what does that mean exactly? And how did you get there?

MK: Yeah. I'll try to simplify it. You know, the last I guess, 20 years now, it seems we've been going at it a little less. But you know, I went to college, and wanted to be a business major. Didn't know what I wanted to do. I had some uncles that were CPAs and said, "Hey, go into accounting, get your CPA, you at least have this concrete designation coming out. And it's the language of business. So you could go to anything after that at least you have that concrete trade."

So I'm like, okay, so I went and did that. I went to Arizona State, got my undergrad, got my master's. And then as I'm, you know, looking and trying to be, I'm now in public accounting at Ernst and Young, I'm trying to be a partner. And I get introduced this little book called "Rich Dad, Poor Dad." And I read this book, and you know, there's a quote in the book that says, "Why climb the corporate ladder when you can own the ladder?" You know, that statement changed everything for me. And I realized, oh, man, you know, I'm maybe going about this all wrong. And of course, that book, he's all about real estate.

So I just started diving into real estate. And then I became convinced, hey, I want to get into real estate. So fast forward about five years, you know, I'd gone from Ernst & Young, actually went into PwC because I'd moved to Chicago, my wife and I started flipping houses. And that was back, this is like, 2013 when it was all those shows on TV of flip this house and, you know, make all sorts of profits, flipping houses, and we were like, Yeah, look, we're both accountants. My wife actually is a CPA also.

And so we were like, I think this could be our entrepreneurial kind of side hustle. And so we started doing that. And what we quickly realized was we flipped the house, then we got a couple of going and then we bought a six flat. And all of a sudden, this side hustle was kind of growing. And, you know, meanwhile, I'm still working full-time, and as she and accounting became nights and weekends and early mornings. And it was like, man, I just don't have the time to do this. So we outsourced our own accounting two different times, and it came back horrible.

People didn't understand NOI, they didn't understand what to capitalize versus R&M. They didn't understand the presentation, GPR, all these things that I guess I was maybe taking for granted

that I thought they should know. The communication wasn't good. And so that was kind of where we got the idea for, and who's just focused on property accounting, who was just focused on real estate. Started looking out there and couldn't really find anybody. Fast forward a couple of years, my now business partner, who was a college roommate, came to me and I started telling him about this problem.

And he's like, "Well, let's just start a sort of bookkeeping company." I'm like, really? Well, if we're gonna start a bookkeeping company, we need to focus on real estate. He's like, "Let's do it." And that was about four years ago. And fast forward, we now have over a hundred accountants, and you know, we're running our EA today.

WS: Wow, from being frustrated about your own bookkeeping, right? So you're having over a hundred accountants employed. It's incredible. I love the growth mindset, right and striving to do it well, but then hey, seeing a problem that you can go fix, and seeing a niche really to dive into where you can create a ton of value for a lot of people and a great business for yourself. It's neat how you got there.

Why focus? I guess so you know, niche down why niche down on property level, versus being able to say anybody, any business or do you?

MK: Yeah, so I mean, look, I think just if I take a step back, and just about business, and you know, there are those cliché lines, but I really like it, which is, "The riches are in the niches," but it's really about even when I was at PwC, and Ernst & Young, they wanted us all to specialize. If they wanted you to specialize in oil and gas, you can be an oil and gas guy or girl, because it's the same issues over and over again. You become a subject matter expert, and you become super valued to the layman client that doesn't know and hasn't seen these same issues.

So you know, it became obvious that we said, hey, look, let's become the best property accountants possible. It's a huge industry, we love real estate. I didn't really get into my background. But you know, a big reason why we always thought we would have a competitive advantage was that in my process of flipping some houses and doing these deals, I have syndicated, I have raised money, I've done operating agreements, I've done all these different things and managed property.

So I not only understand, you know how to do the accounting, debits, and credits, assets, liabilities, all that stuff, but I've actually operated, so it becomes a lot easier for us to empathize with our clients.

WS: Yeah, for sure. Are there specific areas of the business in accounting, or bookkeeping that you handle for clients, or how does that look like?

MK: Yeah, good question. So accounting, and bookkeeping can be broad. There are K-1s, there are 1099s, there's a host of different things, generally speaking, and we support both of those, I'll get into that. But really, we kind of break it down into three key areas, which is bank

recs, AP, and the financial statement close process. So bank recs are just what it sounds. Every single month, you need to make sure that all the activity that happened in your bank is reflected in your accounting system.

If you're a third-party property manager, you know, your local state, real estate department of real estate, DRE, is going to require it if they ever come on to you. It's going to send me your bank recs, that's the first thing they're going to ask you. So we do that for 99.9% of our clients. We literally have one client where we don't do bank recs. So always do bank recs.

The next area is AP. And so that is all the bills that your vendors are sending you -- maintenance, you know, could be anything cleaning, those bills need to get added into the system, and they need to get paid. And so that's a big area of what we do. And then finally, it's just the financial statement close process. And you know, maybe we're gonna get into it.

But that looks a lot different for the type of client we're working for. If it's an owner/operator that has a bunch of LPs, that reporting package might be a P&L or balance sheet, and a cash flow compared to a pro forma because now we're reporting out to LPs and people want to know, hey, you said you were gonna do this, what did we do versus if you're a third-party manager and you're managing properties for John Doe or Jane Doe that owns a couple of single-family homes, that's going to be an owner statement that says beginning cash balance, rents received, expenses, distribution, ending cash balance.

And so that's kind of how we see the world of accounting: AP, bank recs and reporting the one thing that I guess I didn't say was accounts receivable and that's all the tenant charges and the reason I didn't say that is really at this point, and I'd be curious to know you know, in your business, Whitney, but most of our clients at this point, greater than 90% of their tenants are paying online through the portal.

And then the actual process of recording the accounts receivable and the tenant receipt, and the deposit in the bank is automated by the software. It only becomes super manual, if you've got the people that are still sending you in checks. And I see you smiling.

WS: I would say 90%. And if it's, you know, that 10% as we're still pushing to help them to do it, electronic right, it just man takes up guesswork for everybody involved in that process. And then there's so many other people involved just by that one thing being manual, right instead of electronic.

MK: So, you know, if people are sending in checks, and that becomes part of the bank rec process, but bank recs, AP and reporting are really the big areas that require a ton of time, I would say.

WS: Yeah, that's helpful as you break those things down. Because each of those things have to be thought about right, who's responsible for each of those things, if you have a number of employees, you're gonna have all those things to deal with, right, one way or the other. And

what I do know about numerous parts of our business is that at one time or another, my business partners have and I've had to do everything in the business.

But anything that we are not an expert in, man, I just tried to quickly outsource it right, or hire somebody that's an expert in that thing, or that's what that's how we've grown as fast. I think, you know, one of many reasons that we have is that we've just tried to find experts in places where we are not as fast as possible. And this is one of those areas that we've never had any expertise in, right? I mean, never right? But I know the importance of it.

You know, I'm not a CPA, and some of you even list these things off. And I'm like, oh, boy, yeah, I need to think about it. So I want to dive in, though, too, because we've done this as well, you know, it's like the benefits of outsourcing, versus hiring in-house. And let's talk through that a little bit. Because it's something we've been dealing with. And I'll share with listeners, I know we have a number of our investors that listen to this show as well.

And so I'll say, hey, Life Bridge has, we have worked so hard to try to get these K-1s out on time this year. And we've not had the best success at that the last couple of years. And, and I know that is a major pain point to many of our investors. But for one reason or the other, and some of it is completely out of our control.

However, it's still my responsibility. We're trying to improve that process. One way, actually, we've made many strides as already this year. One big way we've done that this year is to bring management in-house, which has allowed us to have so much better or cleaner books, right from the very beginning that it's software, we've I mean, all these things, all these processes that we never had before that are giving us so much better books, faster, cleaner, all these things like you're talking about, even from that process, we're being able to automate so much. And it's done faster.

But I would love to hear your opinion on outsourcing versus hiring. And I'm happy to share what we've done and are doing as well.

MK: Yeah. So we get this question a lot, as I love this question. And there's pros and cons to both, right? I'm not just trying to make this so one-sided. Few things, one is speed of implementation. If you have an account and quit, or you're the owner, operator, or entrepreneur, that's just doing all the work and you need to make a change.

If you call REA, we can be up and running and working on your account in days, not weeks. If you go within sourcing, you need to post a job, you need to interview people, you need to buy a laptop, we'll get to that. We need to do all these different things. And I know you said earlier, you're trying to hire a controller. So that's a process, right versus you hire us, we have a call, we can get up and running very quickly. Because like I said, we're hiring four people per month.

Scalability is one of the other really big ones that our clients that we've been working with awhile, just love with us just because you know, they just have the confidence because we're

growing at the rate we're growing. If they are at 300 units making that up, and they buy a 200-unit building, they don't need to go hire another accountant, they can just say, "Hey, guys, we just added this building. Can you allocate more staff to the team and more hours to the account each month?" Yep, no problem. This is all we do. Send us the closing statement. And that kind of dovetails into some of the expertise which would be what I always say to people is property managers, owner-operators, you don't need accountants, you need accounting outcomes, you need timely bank recs, need the financials done, and you need all your bills inputted. And that's kind of where we excel.

Couple other things I would say is there's no single point of failure. So if you hire a person in house, and let's say that's Mark, if Mark gets sick, or Mark goes on vacation, the accounting stops. Whereas if you're working with us, we have almost always two if not three, depending on the size of the client, four different people working on it. So it's highly unlikely unless we've got a company vacation or holiday that all people are going to be out. So the accounting kind of always keeps going. There's no single point of failure if somebody missed an email because multiple people are working on the account.

Turnover is another big one, you know if you have an accountant in house and that person quits now all of a sudden you have to go out and rehire, retrain this person. Whereas on our side, since we have multiple people working on your accounting, if one person decides to leave REA, we've got all the documentation, we record every call with our clients, we take copious notes, and it's pretty easy for us to just kind of slot somebody in, and the client doesn't really feel that turnover.

And then I would just say, generally speaking, we're cheaper, because we're a 1099 contractor, so there's no payroll taxes, there's no laptop, there's no unemployment. If for some reason you have fired us, you know, we usually say it's about 30% cheaper to outsource versus insource. And you know, the pushback, maybe we get as well, hey, you know, we want you just working on our account, or we want to be able to walk down the hall and just make sure when we call, you're going to pick up the phone pride ourselves on quick email response times, everybody's got a cell phone, email signature, we all pick up the phone that to me, and those are kind of the big benefits to outsourcing.

And of course, you could always find a rockstar in-house. But I mean, as you probably know, and I don't even know what software you use, each one of these software are very specific, they have a bunch of intricacies. And you got to go find somebody that understands that software at a deep level, and can play all the positions of adding a bill, which is the entry-level stuff to recording a purchase and sale and a 1031. And that stuff gets super complex. And those are not easy people to find.

WS: Yeah, I am in the middle of that you're talking about the hiring process. And as you mentioned, that you and I were talking about before, and I have been in the process for months or for a few months on hiring a controller and just bring as much of that in-house as possible. So I have more control over this process and more vision or you know, sign into the process and

where we're at specifically for a spin K-1s, like I mentioned earlier, but because we want to improve that for our investors as much as we can. And that doesn't mean we still want to outsource some things.

MK: Yeah, k one, just to touch on that, it almost becomes now you've got the tax CPA involved, right? Because now you need to get your books closed, timely, they need to be right now you got to send it to your tax CPA and you got to give that person a pretty good lead time if you want to get the K-1s out by March 15th.

So I think that's always a challenge but the way you overcome that is just clean books, getting them closed quickly, then you can send it to that CPA, and then that guy or girl kind of has less of an excuse to say, well, I couldn't get it done on time. It's all about getting them the financials quickly. And having them tie out to the prior year and just give them a clean file to work with.

WS: Yeah, for sure. Yeah. And we've learned that the hard way and braving that. So you know, you mentioned different softwares, I want to go to that in a minute but I also want to ask you, you know, you talked about outsources versus hiring, and I've briefly mentioned it also, but just combining the two, you know, do you have clients who do have in house, you know, bookkeepers, or accountants, or, or something, but then they also use you all for part of the process.

MK: I don't know the stats, but I would almost say that's more common and the perfect example would be, you know, we've got this client that they came to us, they had a controller on staff, right, just a controller. And the owner came to us and was like, "Look, my controller isn't controlling my controllers."

Being a bookkeeper, my controller is adding bills, reconciling banks, spending no time on the financials, never talking to our owners, and LP reporting, and all these types of stuff that they want that controller, that high-level person doing, and they get stuck doing the weeds. And that's why we staffed the way we do is, you know, I'd be curious to know, you know exactly why you want the controller, but it's like, if you have a controller, you need more than that, because controllers don't want to add bills and reconcile banks. I mean, I just know, for a fact, I've spoken to many, many, many of them.

And so they ended up hiring us to do it, hey, we want you guys to effectively come in and be the staff, senior accountant to this controller. And so now we report it into this controller, we add the bills, we reconcile the banks, and she's doing the financial statement reviews at month end. And now she's kind of up-leveled. And that client had the choice, they could either go out and hire a staff accountant, or they get outsourcing.

And I think they would say that they're happy with the choice domain. You know, it's nice to have an accountant in-house. You know, as you get big, when you're smaller, you probably don't need it. I don't know the exact level when you need it. But you need multiple levels, you need the

junior person and you need the senior person, especially if you're scaling. And that's why it can be super compelling for us to play both of those roles, or us to play one or two of those roles.

WS: Well, Mark and I are just getting started in discussing accounting and discussing why it's so important that you're doing this well in your business. I appreciate you sticking around for another interview with him tomorrow where we continue the conversation on how to do this well in your business, whether it's third-party, whether it's outsourcing, I mean what his top clients are doing this well, you're gonna hear that tomorrow.

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