

OUTSOURCING OF FUND ADMINISTRATION WITHIN THE REAL ESTATE INDUSTRY

March 2026



Benefits and risks



Real estate fund managers are increasingly turning to the outsourcing of fund administrative functions - back-office tasks, such as accounting, investor reporting, compliance, secretarial functions and valuation - to external service providers to manage rather than hiring in-house staff. This article outlines the benefits and risks of the outsourcing process.

BENEFITS OF OUTSOURCING

- **Operational efficiency and scalability:** Outsourcing can lead to improved efficiency as external providers often have streamlined processes and can operate at a larger scale. It also provides flexibility to scale operations up or down as needed. This is particularly beneficial for businesses with fluctuating workloads or seasonal demands. Outsourcing to administrators in different time zones can enable round-the-clock operations and guaranteed operational cover, improving service availability and responsiveness. The additional cover allows peak periods without hiring additional staff.
- **Focus on core activities:** By outsourcing non-core functions, businesses can concentrate their resources and efforts on their primary activities, enhancing productivity and efficiency.
- **Access to jurisdictions and expertise:** Outsourcing allows organisations to tap into specialised skills and expertise that may not be available in-house and in jurisdictions where managers might not have a substantial presence, or a presence at all. This can lead to improved scope, quality and innovation in services or products.
- **Access to evolving technology:** Businesses may also benefit from sophisticated technological solutions, implemented by external providers, without the need for research, time spent testing or parallel running and significant capital investment.
- **Improved accuracy and risk mitigation:** Specialist firms typically provide established methodologies and automation technologies that may replace manual processes, improving the accuracy of outputs. By distributing responsibilities across external partners, organisations can strengthen their risk management frameworks.
- **Improved governance and independent oversight:** External administrators create a natural separation of duties, reducing the risk of management override and strengthening governance structures.



- **Data security:** In general, service providers will have engineered a more robust and secure data platform than is widely used by managers. There should also be stringent processes and training to further minimise risks.
- **Enhanced competitive advantage:** Leveraging the strengths of outsourcing partners can enhance an organisation's market responsiveness and overall competitiveness, enabling faster adaptation to evolving customer and industry demands.
- **Faster adoption of industry best practice:** Administrators are serving many different managements and can identify emerging trends, and regulatory changes more quickly than in-house teams – accelerating improvements.

Overall, outsourcing can be a strategic move for businesses looking to optimise their operations, reduce costs, and enhance their service offerings. However, it is important to carefully evaluate potential partners and manage the outsourcing relationship effectively to maximise these benefits.

RISKS OF OUTSOURCING

- **Loss of control:** Outsourcing can reduce organisational control over key processes, making it harder to maintain internal standards. Once functions are transferred externally, reversing the arrangement or switching providers can be costly and disruptive. Dependence on third party vendors also introduces risk, as any failure to deliver or instability on their part can interrupt operations and affect service delivery. Some outsourcing contracts may require long-term commitments, which can limit flexibility and adaptability to changing business needs.
- **Transition and onboarding risks:** High risk of errors, as historical data, processes, and system integrations are migrated and re-established under time pressure. Mistakes in this period can create long-lasting reconciliation issues and operational disruption that takes months to fully unwind.
- **Quality issues:** There is a risk that the quality of work provided by an outsourcing partner may not meet the company's expectations. This can result in subpar products or services that can harm the brand's reputation.



- **High staff turnover:** Administrators can have turnover that is significantly higher than in-house finance teams. This can lead to frequent loss of institutional knowledge, resulting in inconsistent outputs and repeated onboarding cycles. This increases the likelihood of errors and often requires the fund manager to spend additional time overseeing the administrator's work.
- **Communication barriers and cultural misalignment:** Differences in language, culture, and time zones can create communication challenges. Misunderstandings can lead to errors, delays, and frustration on both sides. Differences in corporate culture between the outsourcing company and the vendor can also lead to conflicts and misunderstandings, affecting collaboration and productivity.
- **Data security risks:** Sharing sensitive information with third-party vendors can expose businesses to data breaches and security vulnerabilities. Ensuring that outsourcing partners have robust security measures in place is essential but can be difficult to verify.
- **Intellectual property concerns and regulatory compliance issues:** Outsourcing to partners, particularly in different jurisdictions, can create both intellectual property risks and regulatory compliance challenges, as cross border information sharing complicates legal protections and increases exposure to varying regulatory requirements.
- **Turnaround time:** Outsourcing can introduce a slight lag in the delivery of services, and an in-house service may be more flexible than a process-driven service provider.

To address these negatives, organisations should conduct thorough due diligence when selecting outsourcing partners, establish clear communication protocols, and implement strong contracts that outline expectations and performance metrics. Regular monitoring and relationship management are also crucial to ensure that outsourcing arrangements are successful and aligned with business goals.



OUTSOURCING: IS IT COST EFFECTIVE?

There is some debate regarding the cost effectiveness of real estate funds outsourcing their fund administration. There should be cost efficiency as outsourcing reduces overhead costs associated with hiring, training and retaining specialised staff.

For small organisations, it delivers strong savings by removing the need for domestic or foreign offices, in house staff, and technology investments. Savings may be more pronounced if outsourcing staff are based in regions with lower wage rates. As an organisation grows and builds its own finance function and governance structure, these savings diminish and the cost of outsourcing becomes comparable to internal operations. For larger organisations, however, the financial advantages can re emerge, as outsourcing provides scalable capacity and easier access to foreign markets through globally established providers.

While outsourcing is often seen as a cost-saving measure, there can be hidden costs associated with managing the relationship, such as oversight, training, and potential legal fees. Fees and the fee structure can be renegotiated to the benefit of the manager over time, such as changing from fixed to variable fees as the fund grows.

Initially, the saving would have been a primary consideration for outsourcing whereas data security, consistency of service, access to technology and enhanced deliverability make the appointment of a service provider more about delivering a premium service and satisfying a more demanding investor base rather than cutting costs.



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