Commercial Real Estate Consulting

Due Diligence

Manage CRE Due Diligence Projects Like A Seasoned Pro

Due Diligence
Lease Abstracting & Administration
Strategic Planning & Analysis
Underwriting

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Project Management Defined

Before taking on the challenge of managing a complex commercial real estate due diligence project, it is always beneficial to start at the very beginning and clarify exactly what the term project management means. As the Project Management Institute (PMI) defines it, “project management is the application of knowledge, skills, tools and techniques to project activities to meet the project requirements.”

When it comes to the due diligence process in commercial real estate, this definition certainly holds true. With strong knowledge of the industry, coupled with the skills, tools and techniques for performing complex lease administration and abstraction, due diligence projects can be completed accurately, efficiently and on-time.

“Effective project management in commercial real estate requires not only strong general project management skills and the ability to closely track tasks, but also refined due diligence and abstracting skill sets and in-depth CRE industry knowledge. That way, you know what industry-specific issues to look out for and can spot and prevent them before they even arise.”
- Sejal Gandhi, JD-Vice President, Due Diligence, Realogic

1 https://www.pmi.org/about/learn-about-pmi/what-is-project-management

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5 Stages of Successful Project Management

PMI, the leading not-for-profit association for project management professionals with over 2.9 million members working in nearly every country, identified the five stages of successful project management, which happen to go hand-in-hand with the CRE due diligence process. Following these stages will assure even the most complex commercial real estate due diligence projects are completed successfully.

STAGE 1: PROJECT INITIATION

Initiation means determining whether a due diligence project is feasible, then formally starting to work on it. This stage requires key stakeholders to identify and discuss their needs then decide whether to move forward with the project. Other activities include identifying the resources needed to complete the project and establishing clear end goals. If working with an outside partner, like a consultant or law firm, this is the stage where you and the partner would collaborate to build a project timeline and pricing, ensuring both parties are in agreement about the overall scope of the project.

STAGE 2: PLANNING

During the planning phase, it’s critical to identify a series of milestones to achieve over the course of the project. This is also the stage where the project’s final objectives are set. Both milestones and final objectives should be concrete, measurable and precisely stated. Roles should be defined and articulated at this point so everyone on the project team knows and understands their responsibilities and what is expected of them. During this stage, a professional CRE due diligence team would begin sorting leases and assigning project managers to specific tasks.

STAGE 3: EXECUTION

Execution is the longest and busiest stage in a project’s timeline. During this phase, most of the work is done and the bulk of the activity takes place. Consequently, it’s critical to check in with the team regularly for updates, quickly address any potential roadblocks that have emerged and to make sure the project is progressing according to plan.

During the execution stage of a commercial real estate due diligence project, a professional, experienced partner will coordinate with the team closely and communicate continually. Key tasks that should be completed during this stage include creating a centralized project database that can be accessed by all team members, confirming that all leases have been received and identifying any important documents that are missing and need to be obtained.

2 https://www.smartsheet.com/blog/demystifying-5-phases-project-management
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Other critical tasks that should be completed during the execution stage include:

- Assigning resources
- Managing procurement, if needed
- Directing and managing project execution
- Setting up tracking systems
- Confirming assigned tasks are completed
- Scheduling and holding status meetings
- Updating the project timeline
- Modifying project plans as needed

“The execution stage is the busiest stage of any CRE due diligence project. It’s when the project team — and their outside resource if they’re using one — performs all the individual tasks in the project plan. For CRE due diligence, that might include collecting, organizing and reviewing documents, abstracting leases, generating reports or maybe even visiting the property in person to conduct physical due diligence. Since so much is happening during this phase and the quality of the work done has a direct impact on the final deliverables, it’s absolutely critical to stay on top of every individual task to make sure it’s done right. You need to maintain a perfectionist’s mentality.” - Beth Anderson, Director, Lease Abstraction Services, Realogic

STAGE 4: MONITORING PERFORMANCE

In order to gauge whether a project was successful, the results need to be measured. By setting key performance indicators (KPIs) upfront, the project’s progress can be charted, from start to finish. KPIs can vary greatly, but they should be clear, concise, measurable and, most importantly, relevant to the project and its desired outcomes.

Project managers can and should measure project performance in a variety of ways. Progress should continually be checked against the project timeline to ensure the project is proceeding according to schedule. This will reveal any potential delays, which can then be addressed early and quickly to keep the project on track.

The cost of resources used should be tracked and monitored closely to ensure the project stays on budget. As with potential delays, looming cost overruns can be spotted early and future expenditures adjusted accordingly, before any potential budgetary issues escalate.

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3 https://www.smartsheet.com/blog/demystifying-5-phases-project-management

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Revisiting the project’s objectives on a regular basis helps a project manager maintain a broad, long-term perspective. It also serves as a reminder of the main purposes for the project and of the end goals the team is ultimately working towards. This is especially relevant for longer term or more complex projects, when it’s easy to become focused on the individual tasks and lose sight of the bigger picture.

Finally, another way project managers can measure overall performance is by monitoring the changes and adjustments made throughout the project’s lifecycle. Analyzing the issues that have arisen over the course of a project, noting which issues were unforeseen and how they came about, and assessing how quickly they are being resolved also can be very telling of how well a project is progressing.

**STAGE 5: PROJECT CLOSE**

If utilizing an outside partner or resource, this is the stage where the partner would deliver the work they have completed. In the case of a CRE due diligence project, the partner might deliver completed lease abstracts, relevant data and summary reports. The accuracy and integrity of this work is crucial to the overall success of the due diligence project so it’s important to choose a CRE consultant carefully. Experience, relevant expertise and industry reputation are the most important things to look for.

At a project’s conclusion, it’s important to review and note both what went well and what can be improved upon in the future. Top performers and key contributions should be recognized and all work, especially documents, project plans and meeting notes, should be saved for future reference. It’s also a time to evaluate whether the project’s goals were achieved and if not, determine what work remains and how and when it will be completed.

This is also the stage when the project’s results are compared to the KPIs that were set during the earlier stages. Assessments should be objective and honest. In addition, final expenditures should be reviewed and compared to the individual line item and overall project budgets. Any cost overruns should be noted and the reasons for the overruns identified and recorded. Once the project’s results have been assessed, it’s good practice to hold a post-project meeting with the entire project team, including outside consultants or resources, to review the results and get feedback and input from the team members. These will help identify opportunities for improvement and potential solutions, and potentially help sharpen and improve one’s own project management skills. In the case of commercial real estate, hearing the perspectives of experienced subject matter
experts will help team members gain new knowledge.

Prepare a summary report of the project for the post-project review, highlighting key results and findings. Include relevant backup for reference. Provide copies to all team members at the meeting and use the summary as the foundation for the meeting. After the post-project meeting, add any important feedback from the team and create a final version of the project summary. Distribute the final summary to everyone on the project team as well as any key stakeholders.

**Advantages of Supplementing Staff**

Depending upon the size and expertise of one’s team, and the bandwidth and the size, scope and complexity of the CRE due diligence project — or any CRE project for that matter — one may want to utilize the services of an experienced CRE consulting firm. Hiring a CRE consultant with the right experience and expertise will help ensure the team is not overwhelmed by the additional work and that the work will be completed accurately and on-time. It will also allow the project manager to focus on managing the broader project versus completing the individual tasks themselves.

CRE consulting firms and other companies that offer CRE services vary in their level of experience and the breadth of their CRE expertise, so be sure to choose a firm that has the right skills and experience for a particular CRE project. Don’t sacrifice quality to save money; the due diligence project will inevitably suffer. If cost is a concern, request a detailed quote. In most cases, there’s relatively little difference in cost between consultants with decades of CRE experience and firms
Benefits of Having an Experienced Attorney Oversee Projects

The more qualified CRE consulting firms have experienced commercial real estate attorneys on staff to oversee projects and manage work teams. Without a licensed attorney involved, the risk for errors is much higher. A professional, experienced CRE attorney has a trained eye for spotting critical information in a lease that the average person might miss or mistakenly skip over. When it comes to meticulous lease abstraction and CRE due diligence projects, where even small mistakes can impact long-term revenue by millions of dollars, it pays to have an experienced, educated commercial real estate attorney supervising to ensure no detail goes unnoticed.

Remember that CRE leases are legal documents. They were drafted by experienced CRE attorneys, contain many legal terms and by nature are extremely detailed, lengthy and complex. Furthermore, individual leases often vary substantially, even among tenants in the same building. Who better to review, analyze and accurately interpret complex contracts and oversee lease abstraction and due diligence projects than a licensed CRE attorney with extensive experience with leases and other CRE legal documents?

"Experienced real estate attorneys are aware of what the legal concerns are, know what to look for in leases that will affect transactions, and understand what to highlight for other attorneys. They have been thoroughly trained and have extensively studied the proper way to do due diligence legal work. That’s what their background is, that’s what they specialize in, and that’s what they train their employees on."

- Sejal Gandhi, JD- Vice President, Due Diligence, Realogic
Best Practices for Successful Project Management

After abstracting hundreds of thousands of leases over the past 26 years and successfully completing countless due diligence, valuation and underwriting projects for many of commercial real estate’s most recognized and respected companies, the consulting team at Realogic has compiled a short list of best practices for project management. These best practices were originally developed for CRE projects but will help ensure the timely and successful completion of any project.

1 Start by laying a solid foundation. As with any commercial real estate building, all successful projects must have a strong, stable foundation.

• Start by identifying and specifying the objectives and KPIs. These will guide and direct the team throughout the project, providing purpose and a sense of direction.

• Establish a total budget for the project. Then, allocate it to specific line items so the team knows exactly how much is available to spend on every aspect of the project. Track and monitor expenditures closely and adjust line item expenses as needed to ensure the overall budget is not exceeded.

• Identify all the resources the team will need to successfully complete the project and meet all the objectives. These include people, technology and software, documents, data and outside help, including contractors and consultants. It’s better to start with a long list and pare it down if need be, than to start with a short list and ask to add to it later.

• Create a detailed timeline that not only has start and end dates for the project, but start and end dates for each task. This will allow close tracking of the team’s progress and adjustments to be made to ensure the project is completed on time. It will also enable the team to see how the individual tasks impact one another and the consequences of delays.

• Be sure to convey any best practices the team will need to follow. Establishing best practices upfront helps ensure everyone follows them from the very start, which in turn helps ensure the quality and success of a project.

2 Track progress very closely. Consistent tracking helps identify potential obstacles early, allowing the team to intervene and resolve issues quickly before they can delay the project.

• Set milestones throughout the project’s lifecycle and measure progress against them.

• Track individual expenditures against the line item and total budgets, reallocating funds as needed.

• And of course, track against the detailed project plan and established KPIs to keep the project on course.
3 Communication is key. While it may seem obvious, communicating effectively and throughout a project’s entirety is essential.

- Hold regular meetings with the entire project team, including consultants, to provide updates and allow the group to share feedback. Take detailed notes and distribute them to the team afterwards to avoid miscommunication.

- Alert team members immediately to any new developments or changes to the project. Don’t wait until the next team meeting. Send an email update as soon as possible. Or, if necessary, schedule a face-to-face meeting. To make sending emails and scheduling meetings faster and easier, create a group address book with the email addresses for all team members at the start of the project.

- Update project plans, budgets, timelines and essential documents in a timely manner; send the new files to everyone on the project and alert them to the changes.

4 Implement quality control measures. There are easy, proven, common-sense steps to take to ensure the quality and integrity of the work being done.

- Follow the best practices that were established at the outset of the project. They were chosen for a reason — because they can help ensure the success of the project. If a best practice is interfering or ineffective, discard it.

- Rigorously review all work. Double check numbers. Proof text. Confirm assumptions and conclusions. Have team members review each other’s work. Often a fresh set of eyes will catch things that the person who did the work will miss.

- Spot check continuously. This will help catch errors early on before they have a significant impact or are duplicated, and it will make full reviews faster and easier.

5 Review and analyze results. A project will mainly be judged by whether it met its primary objectives. Projects that fall short of their objectives can still serve as valuable learning experiences.

- Before starting any review or analysis, make sure all data is accurate. Working with inaccurate data will skew the results of the analysis, for better or worse. Neither case is good; both are misleading and can cause big headaches. The analysis should reflect the true outcomes and results of the project. Creating and following a project plan, identifying and following best practices and rigorously reviewing the work being done can help ensure the integrity of the data.

- The most important measure of a project is whether it met the objectives and KPIs that were established at the start. For this reason, focus the analysis on these first. Statistical KPIs are objective and easy to measure against. Non-statistical KPIs, such as increasing awareness or customer satisfaction, are more subjective and can be more difficult to measure without conducting before and after surveys. When summarizing results, especially against KPIs, be sure to include any
contextual information that helps explain the outcomes, irregardless of whether the project met, exceeded or fell short of target KPIs. Often the supporting information is as insightful as the actual results.

- Informal measures should also be included when summarizing and analyzing a project’s results. These are the type of measurements taken during Stage 4 of a project and outlined above, such as comparing individual expenses versus line item budgets and noting the adjustments and changes to the project that occurred and when. While these measurements are not as precise and scientific as pure statistical analysis, they still offer a great deal of insight as to why a project met or failed to meet its objectives.

- Be sure to solicit end of project feedback from everyone on the project team, including consultants or outside vendors. Hearing different and diverse perspectives will often reveal new insights or open new avenues of thinking. Plus, it makes everyone on the project team feel valued and recognized, fostering good will.

**Never stop seeking to improve. Even if a project exceeds all expectations and objectives, there are always opportunities to improve the next time around.**

- Make identifying opportunities for improvement a formal part of the post-project review process. This will force analysis beyond the topline numbers and KPIs to identify even small opportunities to improve processes and tools and for individuals to hone their project management skills-- all of which will help the team with the next project.

- Don’t just identify and document the obstacles the team encountered or the flaws they discovered during the project management process; come up with practical, realistic solutions on how to address them. While knowing where to improve is helpful, knowing how to improve is even more important. After all, the end goal is to not make the same mistakes again. The best time to address process improvement is immediately after a project concludes, while it’s still fresh in everyone’s minds. Share the list of challenges and corresponding solutions with everyone on the project team. Since they were part of the project too, they can provide valuable feedback, including confirming that all of the obstacles were identified and are being communicated accurately, and whether they think the suggested solutions will work, or how they can be improved upon.

- Follow this same process after every project to create a continuous loop of feedback and process improvement. The end goal is to create and sustain consistency and excellence.