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The Definitive Guide to Managing Commercial Real Estate Due Diligence Projects

Expert Insights, Guidance and Best Practices To Help Make Your Next Due Diligence Project An Unqualified Success



10,000+

UNDERWRITING
AND DUE DILIGENCE
PROJECTS COMPLETED

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PROJECT MANAGEMENT DEFINED

Commercial real estate due diligence is a thorough and detailed process involving multiple activities, including lease abstraction, financial modeling, closing support, financial diligence, estoppels, underwriting and more. For the purpose of simplification, and because it's often the most critical, complicated and time-consuming component, we're going to focus on lease abstraction. However, the basic principals we share in this guide apply to any aspect of commercial real estate due diligence, or even non-real estate projects.

The term “project management” can mean different things to different people. So, a good first step for any guide to effective commercial real estate project management would probably be to provide an official definition of the term. According to the Project Management Institute, or PMI, the leading not-for-profit association for project management professionals, with nearly 3 million members, “project management” can be defined as “the application of knowledge, skills, tools and techniques to project activities to meet project requirements.”¹ While technical, this unambiguous definition is a good starting point for managing any project successfully and effectively, no matter how big or complex.

When it comes to lease abstraction for commercial real estate due diligence, this definition certainly applies. To complete due diligence projects accurately and on-time, it takes the right combination of deep commercial real estate knowledge, experience, tools and technique.



“In commercial real estate, managing projects effectively, especially large due diligence projects involving the abstraction of dozens of complex leases, requires not only strong general project management skills and the ability to closely track individual tasks, but also refined due diligence and abstracting skills sets and in-depth commercial real estate knowledge. That way, as a project manager, you know what industry-specific issues to look out for and can spot and prevent them before they even arise.”—Gail SanFilippo, Director, Due Diligence, Realogic

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

5 STAGES OF SUCCESSFUL PROJECT MANAGEMENT

PMI, a definitive source on project management, has identified the five stages of successful project management², which not so coincidentally go hand-in-hand with the commercial real estate due diligence process. Knowing and progressing through these five stages will assure even the most complex commercial real estate lease abstraction and due diligence projects are completed accurately, successfully, on time and within budget.

STAGE 1: PROJECT INITIATION

Initiation means determining whether a due diligence project is feasible, then formally starting to work on it. This critical first stage requires key stakeholders to identify and discuss their needs, then deciding whether to move ahead with the project. Other activities in this stage include identifying the resources needed to complete the project and establishing clear end goals. If working with an outside partner, like a consultant, contractor or law firm, this is the stage where you and the partner would collaborate to build a project timeline and determine pricing, ensuring both parties are in agreement about the overall scope and cost 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 objectives are finalized. Both milestones and final objectives should be concrete, measurable and precisely stated. Roles should be clearly defined and articulated so everyone on the project team knows and understands their responsibilities and what is expected of them. During this stage, a professional commercial real estate due diligence team would begin sorting leases for abstraction and assigning specific tasks to project managers.



STAGE 3: EXECUTION

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

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 to 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>

Other critical tasks that should be completed during the execution stage of a commercial real estate due diligence project include:

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

"The longest, busiest and most challenging stage of any due diligence project is Stage 3, Execution. Because it's the busiest stage, the project manager needs to stay focused and engaged, otherwise little things could start to slip and eventually snowball into bigger issues. Better to be overly vigilant and ensure the project runs smoothly then to ease up and have something go awry." — Gail SanFilippo, Director, Due Diligence, Realogic

STAGE 4: MONITORING PERFORMANCE

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



Project managers can and should measure project performance a variety of ways³. Progress should continually be checked against the project timeline to ensure the lease abstracting and all other components of the due diligence project are proceeding according to schedule. This will reveal any potential delays, which can then be addressed early and quickly to keep the project on track.

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

³<http://www.smartsheet.com/blog/demystifying-5-phases-project-management>

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

Finally, another way commercial real estate project managers can measure overall performance is by monitoring the changes and adjustments made throughout the due diligence project's lifecycle. Analyzing the issues that arose over the course of the project, noting which were unforeseen and how they came about, and determining how quickly they are being resolved also can be very telling of how well the lease abstraction component of a commercial real estate due diligence project is progressing.

STAGE 5: PROJECT CLOSE

If utilizing an outside partner or resource, like a commercial real estate consultant or contract lease abstractors, this is the stage where the partner might deliver the completed lease abstracts, any relevant data and project summary reports. The quality, accuracy and integrity of this work is crucial to the overall success of the due diligence assignment, so it's critical to choose a consultant or contractors carefully. Experience, relevant expertise and reputation within the commercial real estate industry are the most important factors to consider.

At a project's conclusion, it's important to review and note both what went well, and what didn't, so improvements can be made. Top performers and key contributions should be recognized and all work, especially lease abstracts and other critical documents, including project plans and meeting notes, should be saved for future reference. It's also a time to objectively evaluate whether the goals of the due diligence project were achieved and, if not, determine what work remains and when and how it will be completed.

This is also the stage when the results are compared to the KPIs that were set during the initial stages. Assessments should be honest and as objective as possible. 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 results of the due diligence project have been assessed, it's good practice to hold a post-project meeting with the entire project team, including outside consultants, contractors, lease abstractors or other resources, to review the results together and collect feedback and input from individual team members. This will help identify opportunities for improvement and potential solutions, and potentially help sharpen and improve one's own project management and commercial real estate due diligence skills. In addition, hearing the perspectives of experienced lease abstractors and other commercial real estate experts will help all team members gain new knowledge and perspectives.

Finally, it's essential to prepare a summary report for the post-project review, highlighting key results and findings. Include relevant back up, including individual lease abstracts, for reference. Provide copies of the summary report to all due diligence team members and use the summary as the foundation for the meeting. After the meeting, add any important feedback from the team and create a final version of the project summary report. Distribute it to everyone on the project team, as well as any key project stakeholders.

LEVERAGING THIRD-PARTY COMMERCIAL REAL ESTATE EXPERTISE

Depending upon the size of your due diligence team and the backgrounds and expertise of the individual team members, as well as the size, scope and complexity of the due diligence project, you may want to leverage the skills, knowledge and experience of a reputable commercial real estate consulting firm. Finding and hiring a commercial real estate consultant with the right background and skill set will help ensure your team is not overwhelmed by the additional work and lease abstracting, and that the work will be completed accurately, on-time and within budget. Utilizing a commercial real estate consultant also will allow the due diligence project manager to maintain a wholistic view of the project, versus focusing on the individual tasks.

Commercial real estate consulting and advisory firms that offer commercial real estate services and solutions vary considerably in terms of experience, skills, people, knowledge and expertise, so be sure to choose a firm that has the right background and skill set for your particular due diligence project. Whatever you do, don't sacrifice quality to save money. Your project will inevitably suffer. If cost is a concern, request a detailed quote and scope of work. In most cases, there's relatively little difference in cost between consultants with decades of commercial real estate experience across a wide range of projects and assets, and firms that outsource their work overseas. Also, never be afraid to ask for references and work samples, or to research the backgrounds of the consultant's team members. Also, be sure to spend some time reading what the company has to say about itself on its web site.



BEST PRACTICES FOR SUCCESSFUL PROJECT MANAGEMENT

After abstracting hundreds of thousands of leases and other commercial real estate documents and acing countless commercial real estate due diligence, underwriting, lease administration and valuation projects since Realogic was founded in 1992, the expert consulting team at Realogic has compiled a short list of project management best practices that apply not only to due diligence, but to any type of commercial real estate project. Following these proven best practices will help ensure that your own real estate projects are completed on time, within budget and that the target objectives are achieved.

1

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

- Start by identifying and specifying the project objectives and KPIs. These will help guide the real estate project team over the entire course of 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 project team knows exactly how much is available to spend on each 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 due diligence project and meet all of the objectives. These include people, lease abstraction and commercial real estate accounting software, leases and other documents, and outside help, including consultants and contractors. It's better to start with a long list and pare it down than with a short list and have to ask to add to it later.
- Create a detailed timeline that not only has start and end dates for the due diligence project as a whole, but start and end dates for each individual task within the project. 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 lease abstraction team to see how individual tasks impact one another and the consequences of delays.
- Be sure to convey any general or commercial real estate 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 due diligence project.

2 **Track the due diligence project's progress very closely. Consistent tracking helps identify potential obstacles early, allowing the team to intervene and resolve issues quickly, before they 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 the project's entirety is essential.**

- Hold regular meetings with the lease abstraction and larger due diligence teams, 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 at the very start of the project with email addresses for all team members.
- Update project plans, budgets, timelines and essential documents, including lease abstracts, in a timely manner. Distribute the new files to everyone involved with 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 lease abstracting and other due diligence-related 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 a due diligence project. If a best practice is interfering or proves to be ineffective, modify it accordingly or just discard it completely.
- Rigorously review all due diligence work. Double check numbers and lease abstracts. 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, especially when it comes to details in lease abstracts.
- 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 due diligence project will mainly be judged by whether it met its primary objectives. But, a project that falls short of its objectives can still serve as a valuable learning experience.**

- Before starting any review or analysis, confirm that all lease data collected 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 major headaches. The analysis of the lease data should reflect the true outcomes and results of the due diligence project. Creating and following a project plan, identifying and following best practices and rigorously reviewing the lease abstracting and other work being done will help ensure the integrity of the due diligence data.
- The most important measure of a due diligence project is whether it met the objectives and KPIs that were established at the outset. For this reason, it's wise to 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, and especially when comparing results to KPIs, be sure to include any contextual information that helps explain the outcomes, regardless of whether the project met, exceeded or fell short of targeted KPIs. Oftentimes, the supporting information is as insightful and valuable as the actual results.

- Informal measurements also should be included when summarizing and analyzing the results of any component of a commercial real estate due diligence project, especially lease abstraction. These are the types 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 were made and when. While these measurements are not as precise and scientific as pure statistical analysis, they still offer a great deal of insight into why a due diligence project met or failed to meet its objectives.
- Be sure to solicit feedback at the end of the due diligence project from everyone on the project team, including consultants or contractors. Hearing different and diverse perspectives often reveals new insights and even opens new avenues of thinking. Plus, it makes everyone on the team feel valued and recognized, fostering goodwill.

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

- Make identifying opportunities for improvement a formal step in the post-project review process. This will force analysis beyond the topline numbers and KPIs to identify even small opportunities for improvement and for individuals to hone their due diligence project management skills—all of which will help the team with its 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 for 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 due diligence 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 that all the obstacles were identified and communicated accurately, and whether they think the proposed solutions will be effective.

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.

ABOUT REALOGIC

Realogic is a best-in-class commercial real estate consulting firm based in downtown Chicago. Our company was founded in 1992, and in the nearly 30 years since, has developed a well-earned reputation for our unmatched commercial real estate knowledge, experience, skills and expertise, as well as for the unrivaled quality, integrity and accuracy of our work.

We offer a wide range of services, support and insights to help commercial real estate organizations of any type or size maximize the returns on their investments, including due diligence, underwriting, lease abstraction, lease administration, financial modeling, loan abstraction, closing support and commercial real estate training.

Our clients range from some of the largest, best-known names in institutional commercial real estate to individuals who invest in commercial property on their own. We work with everyone in the commercial real estate ecosystem- brokers, owners, managers, appraisers, lenders, funds and investors- and at every stage of the commercial real estate life cycle, from acquisition to asset management to disposition. Regardless of their size or focus, we are dedicated to helping each of our clients achieve their long and short-term goals and know how to work quietly behind the scenes when discretion and confidentiality are essential.

For more information about Realogic or any of our services, visit www.realogicinc.com, email us at info@realogicinc.com or call us at 312-782-7325.