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THE ULTIMATE GUIDE TO LEASE MANAGEMENT

FOR COMMERCIAL REAL ESTATE TENANTS

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INTRODUCTION

As businesses begin to return to the workplace, retailers reopen their storefronts, and manufacturers reactivate production, it is more critical than ever to safeguard your business by developing an effective real estate strategy. Foundational to any effective real estate strategy is a single source of truth for reliable lease data, accessible by all business stakeholders, and used to power decisions that can have a long-lasting impact on the business.

Real estate is often one of the largest expenses for any business, and governed by multitudes of financial and legal obligations. With lease documents typically stacking up more than 50 pages of dense text, it is easy to lose sight of critical dates, rights and obligations, as well as financial commitments; much less identify opportunities for savings and portfolio efficiency. A central, easy to access repository of lease data is absolutely essential in today's marketplace.

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CONSIDER THE STRENGTH OF YOUR REAL ESTATE PORTFOLIO

In petitioning your organization for the need of a lease management solution, there are a few questions you can consider to evaluate the strength of your accessibility to your real estate portfolio:

- Can you quickly produce a reliable report of every location your business leases or owns?
- Can you quickly access a lease document, or any piece of paper related to your occupancy of space?
- Are you confident that you have not missed any termination, renewal, right of first refusal, or any other dates across your lease portfolio?
- Are you 100% confident that your dates are accurate?
- Can you quickly respond to a request for your current portfolio's rent obligation, or produce a projection of occupancy costs in the future?
- If you left your current role at the company, would your business be able to assume control of your real estate portfolio on day one?
- Who is guaranteeing that your lease accounting compliance, bill payment, and operating expense reconciliations are accurate and handled in a timely manner?

These questions provide you with a quick insight into the transparency, and visibility into your business's lease portfolio.

COMPONENTS OF AN EFFECTIVE LEASE MANAGEMENT PROCESS

ESTABLISHING A SINGLE SOURCE OF TRUTH

A streamlined approach to lease management will provide an accurate view of upcoming critical events, ensure rent is being paid accurately and on time across your portfolio, as well as surface opportunities to negotiate savings and cost avoidance with your landlords. Without establishing a single source of truth for your lease portfolio data, it is nearly impossible to turn critical data into actionable insights that inform the broader business strategy.

The process of establishing your central repository of lease data may seem tedious and time consuming. Opting for managing your information in file folders and excel spreadsheets may appear to be the low cost path of least resistance, however, you will inevitably be left with disparate sources of information that require constant human intervention to maintain, as well as miss critical dates and opportunities that can be automated.

Step one in setting off on the right track is to gather all of your leases and related real estate documents in a central place. Components that you may consider organizing, are the leases themselves, any subsequent lease amendments, operating expense statements, utility bills, floor plans, tenant improvement work letters, among other items. Once you have organized your data in one place, you are prepared to evaluate software solutions and establish best practices for ongoing portfolio management. We will cover selecting the right software solution later in this guide.

ESTABLISHING BEST PRACTICES FOR THE LEASE LIFECYCLE

STEP 1. DEVELOP POLICIES

With your lease management system in place, you can now analyze the data that will drive your portfolio's decisions going forward. It is essential that you use the insights in your lease management system to understand which leases are working well, and which leases need to be renegotiated or removed altogether. Use these insights to develop policies around rental budgets, mark-to-market reporting, timeline leading up to expiration, and required clauses that create flexibility for future scenarios.

STEP 2: SET UP LEASE AUDITING AUTOMATION

Whether with an outsourced partner, or with internal resources, continuous monitoring of your leases will ensure policies and procedures are being followed and are driving better decisions and outcomes. With your policies in place, you can begin to develop the required reports and workflows to make sure you are calculating every payment properly, identifying overpayment, late fees, and payments that should not have been made. Because the pandemic has forced new practices and procedures around how landlords operate their billing; the resulting increased costs are inevitably being passed on to tenants. Establishing a lease auditing process will ensure you are not unnecessarily overpaying, and will also ensure that necessary changes to lease language are identified and negotiated to curb future cost escalations.

STEP 3: CREATE A LEASE REQUISITION PROCESS

To ensure your accounting team always has accurate lease data to feed balance sheets and produce the necessary reports, it is important to establish standard practices for how a lease touches every stakeholder from the very beginning. While the real estate team and its brokers are identifying space, there is plenty of time to begin preparing the rest of the organization for the incoming new lease. The same is true for lease terminations and modifications. To ease the burden on accounts payable and your accounting team, developing a process for finalizing a new lease or amendment and populating into your database will get you started in the right direction. Ideally, you choose a software solution that provides visibility into the entire lease lifecycle from planning through execution and ongoing management. The right software solution alone may provide the workflow, controls, and accessibility to data required to satisfy the needs of every stakeholder group.

STEP 4: AUTOMATE LEASE ABSTRACTION

Lease abstraction is the process of distilling the most pertinent and frequently used details of a commercial lease agreement. The end product - a lease abstract - is a concise, easy to read summary that includes the most important legal, financial, and date details of a lease. While modern lease management software may, and should, replace the need for paper lease abstracts, it is nonetheless important to maintain accuracy and accessibility for your lease abstracts. In the age of artificial intelligence and machine learning, a human touch is still required to make sure your lease management system is reliable. Built into your lease requisition process should be a step to ensure that your leases are accurately abstracted into your lease management system to produce an on screen and downloadable lease abstract.

SELECTING THE RIGHT LEASE MANAGEMENT SOLUTION

The COVID-19 Pandemic caught many businesses off guard with respect to access to real estate portfolio information. Companies that were managing their leases on paper or spreadsheets scrambled to gather information quickly in order to understand the impact that space closures and local restrictions had on their operations. Other businesses that were managing their lease portfolio in outdated, difficult to access systems reported not being able to remotely collaborate and access key information. Going forward, it is imperative that you adopt a software solution that is accessible to anyone in need of real estate portfolio data, at a moment's notice, easily.

LEASE MANAGEMENT SOLUTIONS CHECKLIST:

BELOW IS A CHECKLIST FOR EVALUATING LEASE SOFTWARE COMPONENTS:

- [ ] Web-based software available anywhere with an internet connection, and on any device
- [ ] Scalability across the organization with unlimited user licenses and data accessibility controls
- [ ] Easy-to-use interface that allows users to quickly and easily access pertinent information
- [ ] Critical dates, lease expirations, lease clauses, and rent obligation reporting capabilities
- [ ] Configurability across reporting, critical date notifications, and portfolio structuring
- [ ] Dashboard capability for tracking analytics and benchmarking real estate market comps
- [ ] Connectivity to lease accounting and transaction management workflows for transparency and team collaboration
- [ ] Task management tools with client-configurable workflows as well as process maps
- [ ] Ability to track headcount, desk capacity, percentage rent, sales figures, or any data field that informs portfolio performance
- [ ] Intuitive document management with configurability, drag and drop functionality and integration with external document management systems
- [ ] Integration capabilities with ERP systems and general ledger accounting systems
- [ ] SOC1 security compliance and audit trail for governance

Of course, the needs of businesses may vary due to portfolio complexity, size, and space type, but these system attributes will ensure that your team will avoid the time wasted and frustration that comes along with legacy systems, or worse, manual processes.