

5 Pitfalls of a Lease Abstract Project

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No matter the size of the portfolio, the one common misconception is that lease abstraction is an easy task. This is not true. Abstracting a lease portfolio can vary in complexity and duration depending on the size and requirements of the project. Summarizing paragraphs of information from the lease to accurately communicate the critical points to the reader is in fact very difficult. Aside from the critical information, what is important to one company may not necessarily be important to another. However, when used as a tool, the abstract adds value to a company's informational arsenal by giving it the ability to analyze, compare, and report key information across its portfolio. The following are five common pitfalls that a company can expect to face when embarking on a lease abstract project.

1 Designing a Lease Abstract:

In today's ever changing commercial real estate environment, the lease abstract must be designed to fill a company's needs, both today and in the future. As an example, the strategy for abstracting renewal options has recently changed due to required information from Sarbanes-Oxley and new GAAP rent mandates. Possession dates and buildout information have suddenly become important data to capture, when a few years ago, they weren't. However, there is a direct relationship between the amount of information a company captures on its abstract and the cost to populate and maintain it on an ongoing basis.

The key is in the design of the abstract. The design process should include planning ahead to help expense reduction initiatives going forward. For example, the abstract design should include detailed lease audit information that can dovetail an aggressive lease audit program to reduce the cost of the abstraction process. Most often, the design process begins by inviting all departments that utilize the lease information to give a wish list of what they would like to see on an abstract. This usually results in either an overload

of information that requires major deletions, or worse, a lack of enthusiasm when no one responds. It is essential to have a strong point person to choose what information should be utilized. Politics can sometimes play a large role in data selection as each department lobbies to include its own information.

2 Using Old Information:

Often a company is moving from an older lease administration software system to a new system. The second pitfall of an abstract project is the decision to merge older abstracted information into a new system when the older information may not be accurate. This choice is usually driven by the project's budgeted cost or timeline. In most cases, information that has been populated into an old system was done so by employees that have come and gone in your company. Even with the best of documented procedures, this information usually has errors and inconsistencies with new leases and amendments, or is just missing information. If there is any doubt about the accuracy of the old information, it is recommended to take a sample and perform an independent validation on the data before making a decision of whether to use the old data or

to abstract from scratch.

Another factor to consider is how the old information fits into the new system. A detailed field-to-field mapping process is needed from the old system to the new system to understand if the fields are compatible. The decision of merging or abstracting is not always a yes or no answer. Sometimes a hybrid approach of merging the critical date and dollar fields while abstracting the clauses from scratch is the best approach. Just remember, the quality of the lease administration software is meaningless if the data isn't accurate.

3 Choosing an Abstract Company:

Choosing the abstract company will be the most critical decision in the abstract process. Some abstract companies utilize legal temps or people with little commercial real estate experience to abstract leases. This is usually the beginning of an abstract project going sideways.

When hiring an outside abstracting company it is important to check references as well as to understand its detailed abstracting process, from the people it uses to how it performs its abstract review. The review process of lease abstracting is

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the most important factor in obtaining a quality abstract job. Some abstract companies will try to push the review process on the client or give them a short time frame in which they must review the abstracts, thus releasing themselves from liability. The client should be reviewing the abstracting company's work internally or hiring an additional abstract company to validate the information. It may sound like overkill, but the more review, the higher the accuracy of the information.

4 Common Abstracting Input Mistakes

The 4th pitfall is comprised of an aggregate of common abstracting mistakes made by inexperienced abstractors or an inferior abstract design:

5 Life After the Project:

Once the abstract job has ended and the data has been populated into the system, many companies think the project is complete and they move on to other projects or lose focus. This should be just the opposite. Once the project is completed, it is very important to have in place a qualified person ready to maintain and abstract on a day to day basis. In addition, procedures must be written to document the abstract process and methods, including the data dictionary for future abstracting continuity. If this does not happen, it will jeopardize the entire job and limit the life of accurate reliable data in your system.

Happy Abstracting!

Issue	Reason
Lack of consistency:	Result of not utilizing a data dictionary with consistent phrases
Calculation errors on dates and dollars:	Not using an Excel spreadsheet, software or calculator to determine critical terms
Missing critical lease clauses:	The abstractor is abstracting from the input form to the lease instead of from the lease to the input form
Does not abstract enough information:	Abstractor (may be experienced) but lacks the level of detail, direction, or concentration needed
Abstracting too much (Copying entire clause):	Result of an inexperienced abstractor that doesn't know what is critical so she/he includes everything
Consistent errors:	Lack of a solid review process and/or poorly trained abstractors
Re-abstracting a missed field halfway into abstracting a project:	Result of poor planning and abstract design in the beginning of the project