

# Due diligence in the **VIRTUAL** era

**Despite Covid restrictions, ‘walking the ground’ remains a critical part of the due diligence process. New technologies and practices have enabled managers to push on.**

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I had the invaluable opportunity to attend NAREIM’s Executive Officer Meeting as a Barclay Fellow in October 2020. The Covid-19 pandemic was raging on and our meeting, like many others, was held virtually. A major part of the discussion centered around coping with the disruptions brought on by the pandemic, including restrictions on travel and in-person presence.

As ‘walking the ground’ has been a critical, tried-and-trusted part of the due diligence process, how would managers navigate the new constraints to ensure they understand the assets? Would any new practices and innovations become a permanent part of due diligence? I spoke with four NAREIM members from major investment firms to hear their perspectives, and a few interesting themes emerged from our conversations.

## **There is no substitute for walking the ground**

All four interviewees stressed the importance of touring the properties in person as their teams tried to maintain on-the-ground visits whenever possible. Although the frequency and number of

employees per visit were inevitably reduced, firms tried different ways to conduct critical property visits, such as relying on employees in the local markets or driving to the sites instead of flying. Cost efficiency was a consideration, but secondary to maintaining due diligence quality.

Virtual tours were seen as complementary, not as a substitute, to in-person tours. Firms leveraged brokers, partners or other local contacts to film videos and conduct virtual tours, usually before the in-person visit. The virtual tours were employed to a varying degree: some firms used virtual tours more extensively than others. The interviewees noted that virtual tours were likely to remain as part of the due diligence process going forward.

## **Increasing importance of having strong partners**

Uncertainty in many markets, coupled with limitations to in-person visits and meetings, encouraged many investors to focus on existing partnerships. This resulted in more deals being done off-market, as shared in NAREIM’s

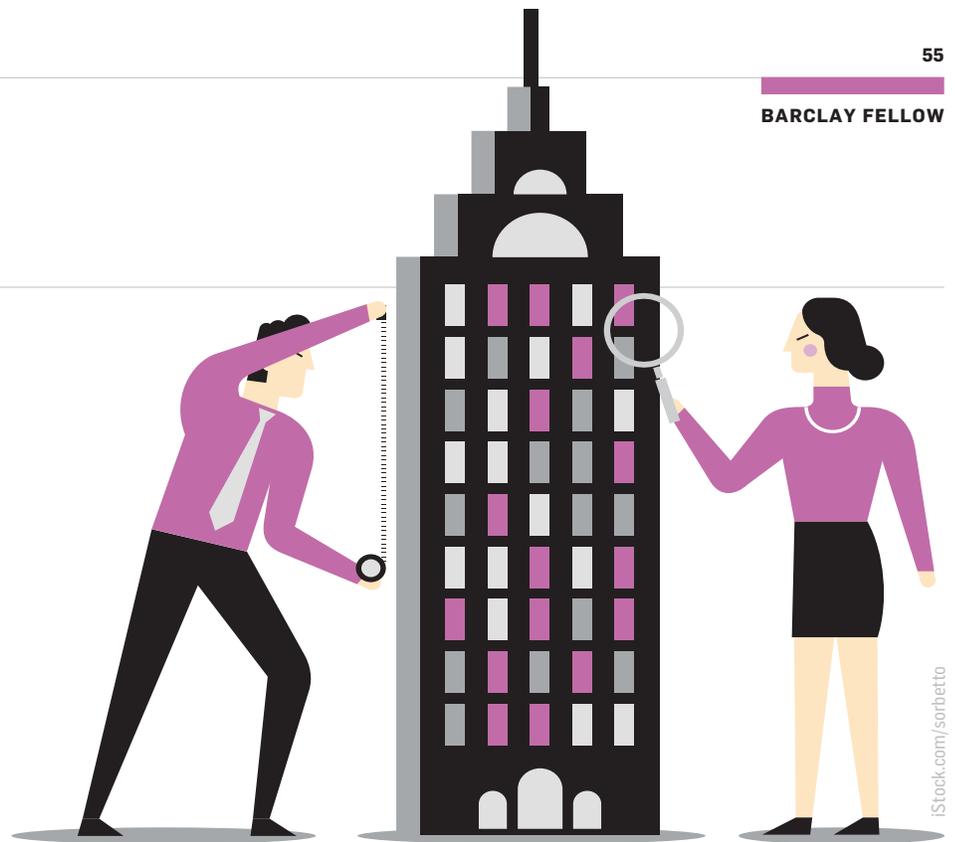
Acquisitions Meeting in January 2021. Investors with long-term experience in markets and strong existing partners were able to push forward with many projects in 2020, as strong relationships became an even bigger advantage to access quality deals. Efficiency was an additional advantage — an interviewee noted that having partners who understood their due diligence process and requirements eliminated a lot of inefficiencies and extra hours.

While not as common, several interviewees noted how they were looking to bring in new partners to their platforms. These include brokers, property managers and, for firms looking to expand in specialist sectors, expert life science and data center operators. One interviewee shared that her team reviewed their approach to underwriting and selecting partners while reflecting on how to attract quality partners to pursue more deals with them. The inability to meet in person was not an obstacle — an interviewee noted that there was no issue for his team to connect with new vendors and investors through phone calls or video conferences.

### Increasing focus on data management and adoption of technologies

Another common theme in our conversations was the increasing focus on data management. Firms are collecting and managing more information on each due diligence process; an interviewee mentioned how his team dived much deeper into prior documentation, reports, 3D models and interviews with vendors and engineers to cover for the limitations in physical touring.

The pandemic increased the urgency for firms to develop a stronger data



integrity standard and a more efficient data management system. Some interviewees shared that their teams had been working on upgrading internal data systems before and during the pandemic, with an eye towards leveraging predictive analytics and a deeper statistical approach to drive better decision-making. One interviewee believes that more data analytics initiatives will be pursued as industry players move on from pandemic uncertainty. Data security also came up in one conversation as a critical consideration for remote access, and the interviewee noted his firm was suitably prepared due to their experience in collaboration across many regional offices.

Besides data sharing and management tools, the pandemic hastened the development and adoption of new technologies, especially those that enable remote working. Drone technology and 3D modeling were mentioned several times in our conversations, in addition to more widespread adoption of virtual tours.

Covid-19 also raised the bar for air filtration and HVAC technology, particularly air freshness and ventilation

quality. Health and wellness technologies and initiatives emerged as a key area during both the due diligence and asset management processes. Two interviewees from big asset management platforms noted that their teams were working to adopt and roll out green technologies across their portfolios and to newly acquired properties.

### Conclusion

The Covid-19 pandemic provided an opportunity for reflection and review. While walking the ground remains a critical part of the due diligence process, new technologies, like virtual tours, data sharing and management tools, have been adopted and facilitated due diligence. Many of these tools will likely stay as complementary aids to the core due diligence process. ♦

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