CLIENT ALERTS & INSIGHTS

Leveraging AI in Commercial Real Estate

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In the ever-evolving landscape of commercial real estate, artificial intelligence (AI) is not just a buzzword; it is a transformative force reshaping the industry. As real estate companies explore methods to harness AI and maintain a competitive edge, it is critical to be cautious of potential pitfalls and choose a strategy and suite of AI software that aligns with their specific needs.

As a real estate attorney, my focus has traditionally been on navigating the complex legal terrains of property transactions, the purchase and sale of property, financing of such transactions, and commercial leasing, as well as structuring joint venture agreements. The advent of AI in commercial real estate compels us to broaden our horizons and understand how this technology influences legal practices, transaction efficiency, property management and investment strategies. While there is no "one-size-fits-all" approach in this area, for those in the trenches of property investment, development and management, AI is a practical tool reshaping how we do business. From streamlining transactions, managing documentation for current assets, to predictive market analysis, AI is rapidly revolutionizing the real estate industry.

Streamlining Transactions: Enhancing Due Diligence

One of the most critical stages in any real estate transaction is due diligence, where both legal and business teams dive deep into the property's details and ensure everything from the chain of title, property condition, and zoning compliance checks out. AI-driven tools are revolutionizing this process by aggregating and analyzing vast amounts of data more efficiently than ever before. For example, we are seeing quicker turn-around times in the issuance of title commitments as more and more states, counties and municipalities move toward online databases. In turn, title companies' use of AI and underwriter review provides quicker identification of potential title discrepancies, such as issues with chain of title or outstanding assessments or taxes. This not only speeds up transactions but also minimizes the risk of costly oversights.

Streamlining Transactions: Lease Abstraction

Lease abstraction - the process of summarizing key information from detailed lease documents - is another area where AI is making significant inroads. AI algorithms, trained on thousands of lease agreements, can now extract critical data points, such as lease terms, renewal options and termination rights. Many times, this permits high level lease abstracts to be reviewed, verified or revised, and finalized by legal counsel in days instead of weeks, with critical business terms pulled and summarized even faster. Existing AI systems are being trained with new leases daily, to further expand the documents and provisions that the AI systems are able to scan and pull. Over time, this technology will continue to become more and more accurate. This not only allows business teams to discuss lease deficiencies earlier during the due diligence stage, but after closing on a property, enhances compliance monitoring and tracking critical dates, ensuring that all contractual obligations are met.

Managing Documentation

Moreover, AI-powered contract management systems can alert stakeholders about upcoming deadlines, rent adjustments and other key milestones, thereby reducing the risk of missed opportunities or breaches of contract. Additionally, many contract management systems have word search functionality, which allows business teams to extract data from their entire database of contracts (such as the landlord or borrower entity, the rent terms in leases and the amount of term remaining on loans), and can generate the results in different formats, such as Word charts, Excel or PDF. The amalgamation and packaging in company tailored format then allows business teams to quickly examine and present the information compiled.

Predictive Market Analysis

AI's capability to process and analyze large datasets extends to market analysis and investment forecasting. By leveraging historical data, current market trends and even social media sentiment, AI models can predict future market movements. This predictive power is invaluable for investors and developers looking to make informed decisions about where, when and what to build or invest in. Identifying potential hotspots and trends with the help of AI before they become mainstream means a competitive edge in the market.

Navigating Ethical and Legal Considerations

While AI presents numerous opportunities for the commercial real estate industry, it also raises ethical and legal questions that must be considered. Issues around data privacy, bias in AI algorithms and the impact on employment are issues that need careful attention. Moving forward, it is crucial to ensure the responsible use of AI, adhering to legal standards in each jurisdiction the company operates, as well as ethical practices to protect the interests of all parties involved.

For the commercial real estate industry, AI represents a significant opportunity to enhance operations, offer better services to clients and make more strategic investment decisions. Skilled real estate attorneys can play a pivotal role in guiding the industry through this period of transformation, ensuring that the benefits of AI are realized while navigating potential legal and ethical complexities.

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