

EXPANDING DUE-DILIGENCE... BUYING WITH CONFIDENCE

BY ALAN BRANDIES, DIRECTOR OF PLANNING AND DEVELOPMENT SEPTEMBER 19, 2014

When purchasing a commercial property, it is just as important to understand the condition and general “health” of any existing structures on the property, as it is to understand the environmental conditions of the site. We’ve all heard about the benefits and necessity of the Phase I Environmental Site Assessment (ESA), but we at Whitman caution that it may not be enough.

We have seen examples of buyers receiving a clean bill of health on the environmental assessment of a property (or at least a report establishing a manageable set of circumstances), only to find that there are substantial cost implications due to the poor condition of an existing building, or the critical systems that make the building habitable. A full service “Property Condition Assessment” (PCA) can be beneficial to identifying potential issues with structure, roofing, mechanical systems, indoor-air-quality, etc., and securing such an assessment will create the sense of comfort that a buyer needs as the due-diligence period winds down towards the closing date.

The PCA can also be a valuable bargaining tool if deficiencies exist that were not reported or disclosed by the Seller. Not to say that Sellers would intentionally omit such information, but they themselves may not be aware of the work required and the resulting expense, since many issues aren’t clearly evident. We’ve also noticed a recent trend within the lending community, where a PCA is being required as part of their underwriting process.

Having understood all this, we at Whitman have promoted to clients, when applicable, the PCA as an exercise to be conducted in parallel with the Phase I ESA as part of the due-diligence process. This two-front approach will demystify the building and property being acquired, and lead to a smooth closing with all parties confident in the true value of the transaction.

For those looking to purchase for their own business use, this assessment also serves to help the buyer understand the existing condition of building systems, anticipated life cycle of critical equipment, and can be useful in determining building energy efficiencies, or lack thereof. For those purchasing for investment purposes, it can be an invaluable tool while marketing the building

“Building Successful Relationships” is our Mission.

The foregoing information was furnished to us by sources which we deem to be reliable, but no warranty or representation is made as to the accuracy thereof. Subject to correction of errors, omissions, change of price, prior sale or withdrawal from market without notice. This article is for informational purposes only.

© 2014 WCRE All Rights Reserved

to prospective tenants. A document will exist that may state, for example, that the building is clean of airborne contaminants, that HVAC systems are adequate for their needs, and that the building is compliant with applicable building codes.

The extent of a PCA is flexible based upon what is known about the building. For example, a building that was constructed beyond the 1980's would not require an assessment of asbestos-containing materials. The present and historical uses of the property would also provide useful information in determining the breadth of service we'd recommend as part of a PCA (similar to the Phase I/ESA). Depending on these and other considerations, the components of these assessments may include the following:

- 1. HVAC SYSTEMS:** This includes visual investigations of all mechanical equipment to verify overall condition, age, code compliance, proper use and design (for instance, comparing the rating of a rooftop package unit to be certain that the current air distribution isn't requiring the unit to work beyond its capacity). We would also opine on the anticipated remaining useful life of the equipment.
- 2. PLUMBING AND SPRINKLER SYSTEMS:** Checking for code compliance and proper coverage based on applicable standards, based on size and use of facility. Code review will also determine if quantity of restroom facilities are adequate, and if installations meet barrier-free/ADA codes
- 3. ELECTRICAL SYSTEMS:** We would observe the electrical distribution system, evaluate whether the service is appropriate for the buyer/tenants needs, and also look for code violations and unsafe situations
- 4. STRUCTURE:** We would review the plans (if available), and ascertain if the building in its current condition will be able to withstand loading requirement of the buyer or their tenants, and also provide a visual inspection (if structure is exposed) to make sure no structural members or connection points have deteriorated or been undermined
- 5. INDOOR-AIR-QUALITY:** Depending on the age of the buildings on site, asbestos-containing materials may have been used for flooring, ceilings, adhesives, roofing, pipe insulation, etc. Upon request, Whitman can also conduct a visual survey and provide an opinion on whether or not additional investigations and bulk sampling of materials would be warranted. Our inspectors could also include mold and lead-based paint as part of their visual inspection

“Building Successful Relationships” is our Mission.

The foregoing information was furnished to us by sources which we deem to be reliable, but no warranty or representation is made as to the accuracy thereof. Subject to correction of errors, omissions, change of price, prior sale or withdrawal from market without notice. This article is for informational purposes only.

© 2014 WCRE All Rights Reserved

Other components of a PCA may include elevator inspection, roofing assessment, etc, and experts could be retained to opine on the status, condition, functionality, code compliance, and potential obsolescence of these critical systems. Some may argue that investigations of this level can derail the transaction, but we believe that Buyers need to be aware of potential pit-falls and associated expenses to truly understand their cost basis. We also find that most Sellers inherently understand that the building value cannot truly be accurate unless and until the existing conditions are assessed.

To learn more about these assessments, or anything regarding Whitman's specific core services and capabilities, please visit our website at www.whitmanco.com, or contact:



Alan Brandies
Director of Planning and Development
(732) 390-5858
abrandies@whitmanco.com.



Whitman is a full-service and diversified environmental, engineering, and energy-management consulting firm, serving the entire State of New Jersey, as well as many other states in the Northeast and Mid-Atlantic regions. Our services support land development, property transactions, building design, construction, and operations/management. Our environmental services range in scope from due-diligence/transactional support, to large-scale brownfield remediation and redevelopment (we have 6 LSRP's on staff). Engineering disciplines include MEP, structural, civil/site planning, surveying, and geotechnical. We are also active in design, development and implementation of solar/PV, cogeneration, and combined heat and power systems. We provide real estate advisory, owner/agency representation, and integrity monitoring and investigation services.

“Building Successful Relationships” is our Mission.

The foregoing information was furnished to us by sources which we deem to be reliable, but no warranty or representation is made as to the accuracy thereof. Subject to correction of errors, omissions, change of price, prior sale or withdrawal from market without notice. This article is for informational purposes only.

© 2014 WCRE All Rights Reserved