



Utilizing a Property Condition Assessment (PCA) and Phase I Environmental Report in due diligence

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Imagine after months of searching and years of saving for your first investment property you finally find it! It's the right location, it's within the budgeted dollar amount with no need to rezone for the intended end use. The equity brought forward to the transaction is larger than usual, therefore many of the soft costs related to due diligence efforts are waived and you're happy to spend less money. Closing occurs and you're now the proud owner of a 40 year old multi-story, 50,000 s/f, mixed-use building structure.

Design professionals are now engaged for the project. Heating and plumbing electrical systems are functioning, however; it is found that a substantial amount of work is required to utilize these systems. The upper floor's ceiling show concern for the roofing. The team progresses and asbestos is found to exist. The exterior of the site shows settlement has occurred against the building foundation and large rectangular sections of parking area have been removed and replaced. These sections of parking area removed, once contained underground storage tanks for a gasoline service station. Contamination still exists within the soil at action levels above standards and the issues are now placed on the new building owner.

This scenario could have been avoided had the new property owner initiated and completed his due diligence efforts placing contingencies on the building purchase based upon the outcome of two important reports. These reports may have also been utilized to negotiate a lower selling price based upon level of work identified.

To protect both the lending institution and the new building owner a Property Condition Assessment (PCA) to current ASTM standards could have been performed in addition to a separate phase I environmental report. Both are completed by a third party consultant for the purpose of developing an opinion and identifying both physical and environmental deficiencies of the property. Physical deficiencies can be conspicuous defects of material, deferred maintenance of the subject property's systems, components, or equipment as observed during the field observer's walk-through survey.

These reports include document reviews, research, signed off questionnaires, interviews with the current building owner, building department, fire department and tax assessors office to augment the walk-through survey. This gives the consultant's a clear understanding of the subject property history and physical deficiencies. The PCA report includes opinions of probable costs, remaining useful life (RUL) of equipment and where suggested, remedy's opinions of the physical deficiencies identified throughout the entire structure and land area. The objective of this report is to define to the user the expected magnitude of commonly encountered or anticipated conditions and estimated costs.

The PCA includes a walk-through survey to observe the subject property. It should provide an accurate description of material systems and components, identifying physical deficiencies to the

extent that they are observable. During the single visit to the site, the consultant should be allowed accessibility to all site and building structure areas from basement to roof inclusive of occupied and locked spaces. The report should include photographs of, but not limited to, respective finishes, structural/sub structural systems, plumbing, HVAC, fire protection, electrical, conveyance and life safety systems, façades, roofing and site areas. The report should describe components in laymen terms and provide observation/comments for each section, where required, budget costs should be detailed.

The phase I environmental identifies environmental conditions along with past/present uses of the subject property within the scope of Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and petroleum products. This practice is intended to permit the user to satisfy one of the requirements to qualify for the innocent landowner, contiguous property owner, or bona fide prospective purchaser limitations on CERCLA liability into practice that constitutes all appropriate inquiry into the previous ownership and uses of the property. The phase I should identify recognized environmental conditions which relate to the presence or likely presence of any hazardous substances or petroleum products on the property under conditions that indicate an existing release, a past release, or a material threat of the release of any hazardous substance or petroleum product into the structure on the property or into the ground, ground water or surface water of the property. This is exclusive of "de minimis" items such as asbestos, lead, etc. that are out of scope but should be outlined in the report for further investigation if they are found. There are many components that are required to be included within the phase I for the protection of the purchaser/lending institution that are too numerous to mention within this writing.

Sufficient time should be allowed prior to the closing and dollars should be allocated for the production of these two imperative reports. Not every property warrants the same level of assessment. Standard guidelines would be the type and age of the property, any improvements and the expertise and risk tolerance level of the end user. These reports are routinely utilized as tools in the evaluation of the potential purchased property and the respective dollars that should be allocated toward its purchase and repairs to insure its intended final use.

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