THE CARLSON REPORT

Straight Talk on Environmental Issues July/August 2002

The Property Condition Assessment:

A vital companion to the Phase I Environmental Site Assessment

Examine the Property

Prospective buyers of real estate need to evaluate the condition and value of each property they intend to purchase. It is only prudent; certain evaluations or in-depth examinations of a property may reveal problems or potential problems that aren't obvious at first glance. As such, the buyer is given an opportunity to conduct those evaluations independently. This is known as "due diligence," and is an integral part of the buying process.

Follow Commercial Practice

To bring some structure and uniformity to this process, standards have been devised, and systems and procedures have been adopted for performing condition assessments and reporting on the findings. Buyers typically hire professionals to look at the two areas that are most likely to cause problems and cost them money: the *physical* condition and the *environmental* condition of the property. To verify that there is a uniform procedure in place that ensures all important areas of consideration are covered, the American Society for Testing and Materials, an independent organization founded in 1898, has developed standards and procedures for each of these two areas of concern. Due to improved methods and changing business needs, the standards for conducting both the property condition assessment (PCA) and the environmental assessment have been modified in the past two years.

In a previous edition of *The Carlson Report* we examined how the **environmental assessment** works[1]. In this issue we look at the **property condition assessment**, how it works, and how the two may fit together in the future, as business needs and priorities change.

What PCAs Do

Buyers have always been keen to make sure that what they are buying is worth the money. No one likes to write a check and then find out they need a new roof, or the basement walls are cracked. That's where the PCA comes in. The PCA provides a snapshot of a property's condition in the present moment, and forecasts what level of expense a buyer might expect to incur in order to maintain the property and keep it in compliance. Thus, a potential buyer can estimate not only current costs but what level of capital reserve to establish for future expenses.

When you hire an organization to perform a PCA, they can customize the scope of services to cover special concerns associated with your location or industry. Most assessments will examine the property from a variety of angles including:

- The building's exterior size and shape
- Fire and wind hazards due to the location
- Condition of floors, roofs, walls, windows, stairs, and doors
- Appliances, conveyance systems, dock equipment, cranes, etc.
- HVAC, plumbing, electrical, telephone, security, fire and safety systems
- Outside concerns like landscape, lighting, fences, drainage, parking, pavement, and access
- Compliance issues

Drawing on the expertise of architects, engineers, construction and maintenance experts, the PCA helps the buyer evaluate the risk of their purchase before committing. "We're in business

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[1] "ASTM 1527-00: Update and Improved Phase I Standards," December 2000. All editions of *The Carlson Report* are available on the web at: www.carlsonenv.com.

to eliminate surprises," states Andrew Kuby III, Carlson Environmental's PCA consultant.

The purpose of having a common, voluntary standard of assessment is to define good commercial and customary practice. "The standard is only a baseline," says Kuby. "Most assessments far exceed the baseline requirements by including many non-scope items or expanded coverage of specific areas." Buyers always want to keep apprised of the possibility of new risks, and as times and situations change, inclusion of various non-scope issues in a typical PCA may increase or drop off.

Comments from the Field

Laura Artus, who manages the due diligence program at CenterPoint Properties in Oak Brook, says that CenterPoint relies on the PCA to assess the cost of "deferred maintenance," those repairs that have to be made soon after a property is purchased in order to make it suitable for a new tenant. Artus explains "We often supplement the PCA by bringing in a team of specialists to examine in detail the sprinkler system, the HVAC system and the roof, just to make sure we have good numbers for them."

Valerie Baxa of First Industrial sums it up this way: "We need to know all significant costs up front, whether they're structural or environmental, so we can determine the ultimate return on our investment. And we do these two assessments to figure this out."

Recent Amendments to the Standards

The current edition of the *ASTM Standard Guide for Property Condition Assessments,* (E-2018-01), published in March 2002, reflects such changes in focus and concern. This version has evolved past its predecessor in two areas: seismic issues, and implications of the Americans with Disability Act for building owners.

Seismic issues are crucially important in some areas of the country but not of high concern in others. The new standards remove seismic issues from their minimum requirements list, leaving this to be dealt with as a non-scope issue handled in a separate report where warranted.

The original standard also recognized that most PCAs included some level of assessment of ADA compliance as a non-scope issue. Because of the numerous acceptable levels of ADA compliance, the scope of this review was determined by the mutual agreement of the user and the consultant. The new standard does not change this: ADA compliance is still a non-scope issue. However, the new standards include an appendix that defines three levels of investigation into compliance to make it easier for the buyer and their consultant to understand the extent of investigation required or desired.

Indoor Air Quality Concerns may Create a Hybrid Assessment

An interesting twist to this discussion is the role of indoor air quality. This burgeoning issue may prompt further changes in standards as well as in practice, and could result in a combined report. Problems with indoor air quality are usually thought of as an "environmental" issue caused by poor ventilation, sloppy maintenance, or new building materials or furnishings. While the concern for indoor air quality is often thought of as an environmental issue, the standard environmental assessment will not typically address it, except as an unusual non-scope issue. Moreover, the solution to indoor air problems often rests with modifications to the heating, ventilation and air conditioning system. These systems are looked at during the property condition assessment, but not during a typical environmental assessment, and they are examined from an operational perspective, not an indoor air quality perspective.

Rich Carlson, President of Carlson Environmental, Inc., believes that "as concerns for the quality of the indoor environment escalate, we may see the formation of a sort of hybrid assessment, where the environmental professional teams up with the property condition professional to assess the potential air quality impact of the building's mechanical systems. We already look at some aspects of building materials for environmental concerns, such as asbestos and lead-based paint. We could expand the assessment to look more broadly at indoor air quality issues and provide that added protection for prospective buyers before they experience trouble."

Resources

For a discussion of the ASTM Standard, Go to their web site: www.ASTM.org.